

## North American Board Services Practice

# Board Ruminations



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### Introduction

*Several weeks ago my colleague, Sarah Stewart, and I were having lunch with Michael Greenberg, the Director of Rand Corporation's Center for Corporate Ethics and Governance.*

*During the course of our conversation, Michael asked an interesting question. "What would you do," he wondered, "if you could start from scratch?" The subject he was addressing was corporate governance and the question was: What if you had a clean slate – no corporate governance model, no Sarbanes Oxley – only owners, managers and, of course, the federal government? It is an interesting challenge and one worthy of a fellow whose credentials are so impressive that his bachelor's degree isn't important enough to make it on to his Rand biography. We talked about it, agreeing the benevolent dictatorship may be efficient and therefore intriguing, but not viable in the long term. We agreed to continue the conversation after we'd all given it more thought.*

*Michael's question led to our consideration of a series of pieces on governance that would ruminate rather than pontificate, offering possible solutions to vexing questions rather than decrying onerous regulations. Our intention in this series is to help boards become more effective by asking provocative questions, putting forth creative solutions to every day problems that boards encounter and challenging the members of our board services practice, as well as our reading audience, to address real issues that confront boards on a daily basis.*

*The first piece in the series deals with getting critical company information to directors on a more timely basis and cutting down on the volume of materials they receive in their board packages. One of the complaints we commonly hear from directors is that they simply cannot assimilate the amount of information they receive before committee and board meetings in the short time between receipt of materials and the actual meetings. We have some suggestions that we think are worthy of consideration and we also invite your comments.*

*We hope you find the series to be useful and provocative and that you will share your thoughts with us as we explore ways in which corporate boards can turn their attention back to a role which seems to have been lost under the sheer weight of compliance pressures – that of adding value to an enterprise.*

### What information do boards really need, and what's the best way to get it?

Most directors we know have the same lament: "How am I supposed to get through this six-inch thick board packet when there's only a week before the meeting?"

A cynical person might say, “You’re not.” But not being cynical, we think that board meeting information is presented a week prior to the board meeting not just to keep it current but because that’s the way it’s been done for years. Never mind that we’ve had Sarbanes Oxley, mandatory new committee structures, expanding disclosure requirements and the perception of more risk than anyone needs in the markets, all driving an increase in information that directors are asked to read, evaluate and approve.

The question we’re asking is: Shouldn’t every board take the time to analyze the meeting packages to see how much of the information is of real value and critical to the director’s role as board and committee member? We have several suggestions that might be helpful:

- **If the information the board is getting isn’t useful, speak up.** Committee Chairs, Board Chairs or Lead Directors may want to ask how reports can be altered, edited, condensed, or eliminated in order to provide more concise and meaningful information to the directors. Designing an executive session or two around the subject of what information the board really uses – and what takes up time without adding value – is a good start toward improving information flow.
- **If you aren’t getting something you need, ask for it.** The board might also consider requesting new kinds of information (we’re thinking about how the company is doing vis-à-vis the competition, for example), especially if it allows directors to offer feedback and input on both opportunities and risks.

Most of the information boards receive addresses the past. What would be really compelling is to spend more time looking at the radar screen that shows what lies ahead. Managers should be telling the board not just what they’ve done, but what they’re thinking of doing...and what the risks are.

A board’s collective experience is invaluable to the CEO as he or she contemplates how to deal with a prospective acquisition or the potential disaster. This would help to eliminate the “We wish you had brought us in earlier,” syndrome some boards we know have complained about.

- **What if management could stream at least some of the information to the board on an ongoing basis rather than sending it out all at one time?** We know that important issues are being handled by phone calls and emails between meetings, but if the board were to receive regular, frequent briefings on important strategic, financial and operational issues, the meeting packages would certainly be more meaningful (i.e., directors would have seen the numbers before) and possibly less voluminous.

On the surface this may be viewed as disruptive, but much of what would come to the board would be information that is already being reviewed by the CEO and senior management every day (or should be). That leaves more room in the packages for analysis rather than raw data and gives directors a chance to see more clearly how management is interpreting the data. Management’s interpretation shapes strategy and that is something most boards want to spend more discussion time on.

The point is to put the right information in the hands of directors in a way they can really use...so they can ask concise, worthwhile questions and give more informed counsel at every board and committee meeting.

Let us know how you feel about the ideas presented here. We welcome your comments, both positive and negative, as well as your own experience with what works and ideas about fruitful subjects for future ruminations.

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