

Board Reporting Trends and Best Practices in the Digital Age

Written by Joseph Howell

When things go terribly wrong at a public company, one of the first things investors, regulators, plaintiff's counsel, and the public ask is *Where was the board?*

Understandably, expectations of board performance have increased significantly in the wake of financial reporting scandals and the financial crisis. New laws, regulations, and stock exchange requirements have put more responsibility on:

- Audit committees related to financial statements and internal controls
- Compensation committees related to management's compensation and the compensation discussion and analysis
- Risk committees related to key operational and financial risks

These changes all serve to reinforce the board's oversight role, not to supplant management.

To perform their oversight role properly, "We have found that board members prefer to be actively engaged in the company's data, the company's competitors and industry in general, and the processes that management goes through to analyze the data and manage the data," says William Kearns, Director of Financial Reporting at Alaska Air Group.

Kearns is responsible for external and internal financial reporting at Alaska Airlines and participates in the preparation

of reports to the Alaska Airlines Board of Directors. He recommends that management should help the board understand the critical information available and the process that management goes through to make key decisions.

"Board members are seeking candor and insight from management on the key challenges and opportunities facing the company. In turn, management should look to and take advantage of the experience, diverse perspectives, counsel, and input of the members of the company's board," says Robert Herz, former Chairman of FASB, current Board Member of Morgan Stanley and Fannie Mae, and Senior Advisor to Workiva.

Here is what experts advise as the best way for management to help the board fulfill its role.

Get on the same page

Effective oversight begins with an effective agenda. Setting the agenda should be a partnership between senior management and the board of directors to ensure the board is discussing correct issues—those most important to senior management and those that increase efficiency and effectiveness.

When the board sees what management sees in context, it may understand the information differently. The issue does not lie in distrust of management, but rather in understanding what is important to both parties.

In a [Financial Executives International Daily](#) article, writer Dave Pelland quotes Mary Jo White, chair of the Securities and Exchange Commission:

Ensuring the right ‘tone at the top’ for a company is a critical responsibility for each director and the board collectively. Setting the standard in the boardroom that good corporate governance and rigorous compliance are essential goes a long way in engendering a strong corporate culture throughout an organization.

The board is responsible for and is involved with strategy, cybersecurity, hiring the CEO, senior management compensation, succession planning, talent development processes, as well as board effectiveness and major company events. It needs to make decisions on key issues based on the information obtained from senior management and, sometimes, a third-party perspective.

In addition to diversity of representation on the board from multiple skillsets, genders, and races, diversity of perspective is important.

Management’s perspective on the following topics should be shared with the board:

- What management reports internally
- What’s on management’s dashboard
- What constitutes success
- What keeps management up at night

Understanding senior management’s perspective benefits not only the board of directors, but also senior management. Bringing another perspective to the table allows for greater and deeper conversations about the information and strategies in question.

Important developments and key issues that management sees should be built into the conversation with the board. Strategic issues should be addressed early and often to ensure the right decisions are made. Awareness of the current business and future challenges and opportunities can increase the board’s confidence in management.

Be complete and consistent

Keeping a complete and consistent focus is a best practice with the board. In order to tell the complete story of a portfolio, there must be consistent methodology, objectives, and reporting against those objectives. For example, board members frequently complain that managers sometimes give glowing reports of their individual business units, although consolidated results are less glowing than the sum of the parts.

As the metrics of the whole business are examined, they should roll up and make sense. If they don’t, there is an issue that should be discussed with the board. If a reporting methodology changes from a previous reporting period, board members perceive this to be a red flag.

It all comes down to a complete and consistent story from management to the board. A great board book is meant to be a catalyst for discussion. Without a complete picture painted by senior management, it can be difficult to start a discussion around the right topics.

“A leading practice is to share the reports with the board that management uses to assess performance and allocate resources. This ensures efficiency, effectiveness, and accuracy, and allows management to focus on one story,” Kearns comments.

Analysis is crucial in getting the conversation started—sparking the conversation around the right topics results in better meetings, better discussions, and better overall position of the company.

Create analysis that informs

“Financial statements and financial reporting are very important, but they don’t present a complete picture. You need to know what is driving those numbers,” Herz says.

Just providing the board with financial statements is not enough—statements are an end product. What really matters is how you got there. Going beyond the numbers at face value tells a story. The analysis the board is looking for will show not only the strategy and other important metrics, but what has happened, what the key value drivers were, and what the sensitivities were.

Teams preparing board books should focus on using numbers, graphs, charts, and tables to tee up issues for discussion. It is imperative to build the right foundation for the conversation. Senior management cannot expect for the board to have the right discussion without all of the right information and analysis.

“The key is striking a balance—management should provide the board with enough information to provoke an active discussion, but they want to be sure not to provide too much information, at too low of a level, that it stifles discussion or wastes the time of the directors,” says Kearns.

For guidance in preparing material for the board, managers can look to *The Economist Magazine* and Warren Buffett.

The Economist immerses readers in issues with carefully structured narratives that present different sides of complex

problems in a concise fashion. The articles are clearly written and accompanied by numbers, graphs, and charts that key up issues for discussion, which is precisely what a good board book should do.

Another excellent example (SmartPros 2014) is the style legendary investor Warren Buffett uses when he writes his annual letter to shareholders. Buffett often explains that he writes for an audience of one—his longtime partner Charlie Munger. Buffett writes to bring Munger up to speed on the important issues and challenges that their businesses have faced in the past year, including:

- What's gone well
- What's not gone well
- What the key issues, challenges, opportunities and risk are

Using that format, Buffett is able to drill down with clarity of purpose and provide information and context that is lacking in most investment reports. This is exactly what digital technologies enable teams to create: clear and concise reports that present the greatest issues and challenges at the forefront of the conversation.

Beyond financial information, soft information should be top of mind and addressed by management in the agenda. Soft information includes hiring rates, turnover, productivity, employee morale, and culture. Many leading organizations use systems and processes to gather this information and then benchmark it against external resources, such as surveys and industry analysts.

Go paperless

Until now, managers at large corporations have spent much time and effort preparing the board books that provide detailed information for directors in advance of meetings. The time needed to compile complicated reports often meant that facts and figures were outdated by the time board meetings actually occurred.

Ensuring the board of directors has the current information is key to the right conversation. Most board members will review the board book up to a week prior to the meeting, digesting and studying the information in order to form questions and determine the direction of the conversation. How often is the information up to date, to the minute, in antiquated printed copies?

Steve Rosston currently serves as Senior Advisor to Glynn Capital Management and Workiva and has also served as an

investor or observer of board meetings for over 60 technology companies. Rosston explains that he and other corporate directors often begin reviewing their board books when they have time in busy schedules—sometimes as soon as they receive them, often a week or so before the board meets, followed by reviewing the materials the night before board meetings.

Rosston and other corporate directors make notes and jot down questions. At times, however, they discover that when they get to the meeting, corporate executives are working from information that has been updated since the director received the original board book. Last-minute changes are frustrating. Rather than engaging in a productive discussion, directors often find themselves flipping back and forth between the information they were sent and the new data they just received.

The move to digital technology

The new wave has arrived—the move to digital technology, which now allows corporate executives to distribute more high-quality information later than was ever possible before. The best board books created today are by those organizations that employ digital board portals, such as Diligent Boardbooks, BoardVantage, Directors Desk, and Wdesk, to deal with the time crunch, allowing more time for analysis.

Teams don't have to struggle to get the board to go paperless. "The old picture of the board member who is very passive and comes to the board meeting and flips through the paper book is passé. Most board members are comfortable, sometimes with a push, using electronic technologies for board books," Rosston says.

Going paperless increases collaboration between the board and management—allowing the board to go back and forth easily between presentations and other documents, make digital comments and share them with the entire group, highlight and take notes, and get sign-off. Board portals are:

- **Secure**—Board portals eliminate the need for paper-based board books and the horror stories that accompany them. Who hasn't heard about the board member who accidentally left a board book on an airplane where it was picked up by a competitor, or the confidential material that disappeared after someone other than the intended recipient signed for it? Should devices be stolen or lost, the appropriate technicians can remotely scrub the board-related information they contain.

- **Accurate**—Embedded links back to the source of the information and other analytical tools make it possible for businesses to share complex information with directors in presentations that always have the most up-to-date information.
- **Consistent**—Board portals make it possible for companies to construct dashboards for board members that are identical to the ones that top managers use to monitor key metrics. This allows both senior management and the board of directors to get on the same page.

Technologies allow board members to get behind the numbers quickly, understand what is happening, and offer more meaningful advice for executives as they reach for higher profits and look for ways to expand operations with quicker, wiser decisions. They produce more comprehensive discussions at board meetings, and ultimately, better decisions.

Board portals are becoming the new best practice in board reporting, making it possible for businesses to share complex information between management and members of the board of directors in presentations. Best-in-class teams leverage board portals that extend these reporting benefits beyond board reporting to management reporting as well.

The benefit is mutual

Not only does the board of directors benefit from the use of digital technologies like a board portal, but management does too. “Better systems allow for more analysis, less information gathering, and the use of some of the same reports for management and the board,” said Rosston.

Board portals provide a consistent framework for sharing that will only increase the ability of individual board members and senior management to work together and make strategic contributions—ultimately resulting in a better business through better allocations of capital, manpower, and intangible resources.

The bottom line is this: To fulfill its oversight role properly, boards must understand the critical information available to management and the process that management goes through to make key decisions.

Management must do its part to help the board fulfill its oversight role. They must do more than report the facts. They must help the board understand what’s driving current performance and what key performance indicators will help predict future financial performance, including significant non-financial and soft value drivers.

About the author



Joseph Howell is Co-Founder and Managing Director at Workiva. Prior to founding Workiva, he served as Chief Financial Officer for a number of public and private companies. Joe is also Co-Founder, Organizer, and Community Moderator for the SEC Professionals Group. A Certified Public Accountant (inactive), he earned a bachelor’s from the University of Michigan and a master’s degree in accounting from Eastern Michigan University.

About Workiva

Workiva, formerly WebFilings, is a leading provider of complex business reporting solutions used by more than 60 percent of the Fortune 500. The company’s Wdesk cloud-based product platform brings ease and control to compliance, management, risk, and sustainability reporting. You may learn more at workiva.com.

Reference:

SmartPros (Producer). (2014). Course number: FMN1069-FM Audit Committee and Board Reporting: Current Trends and Best Practices [Video File]. Retrieved from <https://ecampus.smartpros.com/modules/Catalog/CourseDetails.aspx?CourseGroupID=2478&productgroupid=14962>