



A CFO's GUIDE TO CRAFTING **THE ULTIMATE BOARD BOOK**

Company directors need clear, concise, and accurate information. Here's how to present it.

INTRODUCTION

Corporate boards of directors have moved beyond their time-honored responsibilities of providing oversight and governance. Boards are now charged with helping management successfully navigate risks and capitalize on opportunities, often in an environment of rising stakeholder scrutiny.

According to the most recent *Top Priorities for Boards* report by the EY Center for Board Matters, priorities such as understanding the impact of

technology on strategy and business models, and overseeing culture and talent, will be top of mind. To meet the expanded scope of the board's duties, the standard annual board strategy session is being augmented with more frequent interactions to chart the company's course and identify opportunities to quickly change direction when warranted.

As board members are tapped more often to provide insights into business strategy, organizations need to maximize their value. To



make quality decisions, board members often rely on board books, which can run 200-plus pages. These books are packed with financial results but often lack sufficient analysis for members to assess underlying trends and make informed strategy recommendations.

Objective nonfinancial data is also critical to the work of the board but that information is lacking in most board communication. According to *The National Association of Corporate Directors 2017–2018 NACD Public Company Governance Survey*, industry and business-model disruption, changing global conditions, and cybersecurity threats topped the list of concerns for corporate directors. Yet, many board books either skim over those topics or ignore them completely.

This eBook will examine ways to transform the traditional board book into a useful tactical tool for board members.

WHAT'S LACKING IN TRADITIONAL BOARD BOOKS

Typical board books are chock full of financial results, but they don't always put the numbers into context for busy board members. Traditional board communication is focused on presenting current financial performance rather than diving deep into the key drivers of the business.

Sales by product, division, or customer type are compared to the previous quarter or the same period the prior year, but the underlying reasons for the changes are often given little attention if they are addressed at all. Context, such as performance against the market, is critical to understanding what is causing a sales shift. While sales growth above budget is welcome news, it is less impressive if it coincides with a loss of market share or a slowing of the company's long-term rate of growth.

Overreliance on historical financials also slows down the process of compiling the board book,



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Positive Venture Group**

eating into finite resources of an already stretched finance team. It can take up to two weeks to pull all the financial reporting data together to communicate to the board.

“What is lacking in most board books is forward-looking indicators, such as customer engagement and retention data, that show where the business is headed,” said Katya Forsyth, C-Suite Advisor, Positive Venture Group.

Boards get about two-thirds of their information from management, rather than from external data

sources, noted Stephen Klemash, EY Americas Leader, EY Center for Board Matters, Ernst & Young LLP. “If the board is only hearing the positive news that leadership wants them to hear, they aren’t able to effectively challenge leadership on strategy and the impact of market changes on the business model.”

When internal and external information is funneled through the biased lens of leadership, the board has an incomplete picture of business opportunities. The board book does not often include things such as a discussion of IT trends or results of employee engagement surveys, which can have a huge impact on the business. The CIO or HR leader may be asking for new systems or processes based on trends they are seeing in the industry or feedback from employees, but those requests may not always rise to the board level.

These gaps in board communication make it difficult to effectively tap into the expertise of the board for the intended purpose: to provide insight to steer the company toward a profitable future. Without concise and unfiltered information — rather than just the rosy picture that leadership wants to put forward — the role of the board member is diminished.



BEST PRACTICES FOR REVAMPING THE BOARD BOOK

Leveraging automation to streamline data gathering is essential to reduce the time needed to compile the board book. Many organizations still use manual processes and spreadsheets to manage budgeting, forecasting, and reporting. CPM tools typically combine these processes and provide stakeholders with access to a broader view of performance. “It shouldn’t take two weeks to compile the board book,” Forsyth said.

The board book should provide enough detail and analysis to answer questions so that the board can focus the meeting on high-level discussions, while avoiding information overload. “You want the board book to be a springboard to meaningful conversations around important issues,” said Ellen Richstone, Board Director, National Association of Corporate Directors. “If most of the time in board meetings is consumed by walking through the board book, you’re doing something wrong.”

A board book template can help streamline the process and provide consistency, Forsyth said. “There should be a reasonably standardized presentation template that leaves room for modification to adjust for changes in the narrative.”

The top-level summary should be fluid and address three to five top issues that the board needs to focus on, Forsyth said. These should go beyond the current trends reflected in the financial report, and should include nonfinancial information such as technology and staffing shifts. “Issues such as IT and HR should incorporate data from multiple sources, including external data,” Forsyth added.

A board dashboard should be a part of every board book, EY’s Klemash said. “The dashboard should include the top metrics that the board wants to review, and indications as to where the company stands on those KPIs. There should also be a discussion about the risk appetite around the most important KPIs, so that the board can spend time discussing when performances are out of tolerance.”



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A modern board book should focus on the data that is relevant to the business, not everything that the finance team might think the board is interested in knowing. “The information communicated to the board should align with the data that is critical to your business,” said Richstone from the National Association of Corporate Directors.

THE BENEFITS OF A MODERN BOARD BOOK

Revamping the structure and content of a company’s board book can improve the board’s and management’s strategic decision-making capabilities and ability to execute. When the board books are well organized with the top-level details of the company’s business position, the board can zero in on the data and analytics that need attention.

The result: a greater understanding of unit or segment profitability, better allocation of investments, more timely insights into the ineffectiveness of the current strategy, and stricter accountability for performance.

Board members are brought on for their high-level expertise — be it marketing, operations,



sales, or other skills they bring to the table. A concise and comprehensive overview enables board members to have a quick snapshot of the business and offer their best advice where it will have the greatest impact on profitability.

A streamlined board book provides information in context, making it easier for board members to assess the company's current financial state and identify paths to greater profitability. When the board has a clear picture of performance based on the key drivers of the business, they

can make the best decisions about strategy, as well as personnel. Executive compensation can be tied to long-term performance goals, for example. This helps recruit and retain top talent to move the company forward.

Going forward, greater use of data visualization and analytics will enable the board to see the impact of market trends and business decisions on profitability. This will elevate the board's ability to provide forward-looking strategy and risk management assessments.

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CONCLUSION

Today's boards are providing more than a quarterly review of company performance and regulatory oversight. They're strategic partners to help the company align strategy and business goals by understanding trends in business and making recommendations on how they should respond.

Current board book formats, which can run hundreds of pages, tend to highlight current company performance metrics without diving into the reasons behind the changes. This hampers the ability of busy corporate directors to perform their critical role of helping to chart the company's future.

To better leverage the expertise of board members, companies are transforming communication to provide insight into the key drivers and trends to fuel better decision-making that supports long-term growth.

Key takeaways from this white paper:

- ▶ The typical board book format focuses on financial reporting and governance and doesn't provide details behind the numbers. Objective insights are necessary for the board to offer advice on how to approach business and market challenges.
- ▶ By standardizing processes and focusing on key metrics upfront, board books can become valuable tools in plotting the company's course. Easily understood dashboards can put information into context and provide a quick visual guide to focus the discussion.
- ▶ A revamped board book provides more timely and relevant data that will help leverage the expertise of directors. An organization with an agile, data-driven strategy is better positioned to navigate risks and seize on growth opportunities.

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