



BOARDPACK: Information Overload

Effective Boards And Committees In Financial Services

* Zsuzsanna Schiff



Increasing pressure

In recent years the length of board packs has significantly increased. They are often more than a thousand pages long (without the annual report) and board members frequently have a very limited time available for reading, absorbing and challenging the content. Board members have been just about managing, but current practices may not allow for unexpected events or further demands. Regulators have also expressed concern as to whether it is humanly possible to successfully absorb and challenge what is presented to the non-executives in the time given.

A marked step up in the length of board packs could be seen after the introduction of the Senior Managers and Certification Regime (SMCR) in financial services in 2016. This, alongside an increasingly complex economic environment, led to a significant expansion of reporting on regulatory, compliance and risk matters. One-off events (for example the introduction of IFRS 9 and ring-fencing) have also contributed to longer board packs.

In our report we investigate what information board members currently receive and how board packs are prepared. We examine what intellectual and practical challenges board members face and what solutions they are offered when encountering difficulties. We interviewed non-executive directors, company secretaries and executive management responsible for preparing board and committee packs, as well as companies providing services to boards for the electronic management of board information. A desktop review of existing research gave further context to our interviews.

We have seen that the increasing size of board packs creates significant dangers. Apart from the obvious time constraints, it can make board members feel that they are looking for 'the needle in the haystack'. They spend a long time finding key charts in endless PowerPoint slides from management information where a short summary of the essential information would be more helpful in understanding the big picture.

Some boards have increased the duration of their meetings but in most cases the length and frequency of meetings have not changed and boards may not have sufficient time to discuss everything on the agenda. Board members are often based in geographically diverse areas and to help with travel, meetings are frequently clustered together; a lot of material needs to be crammed in for efficiency. Most frequently, discussing strategy is what is neglected in these circumstances even though most board members think that should be their number one priority. Digitalisation hasn't necessarily helped either. Up until a few years ago printed, bound packs were the norm. Now as companies are switching to electronic format the discipline from printing deadlines goes away.

Time pressures affect executives as well as boards. Presentation of unfiltered information is often easier and more expedient than producing tailored material designed for the needs of the board.

During our interviews we have come across some practices that have counterproductive effects on the efficiency of the operation of boards.

- Unfiltered management information (MI) being provided to the board. While this might make executives more comfortable about 'not hiding' anything, it is unhelpful as board members and it can make them feel out of control.
- Indiscriminate sharing of papers with committees other than the one they were specifically written for demonstrates that lines are blurred between responsibilities.
- Overly long, technically sophisticated papers which may not be read by board members due to lack of time and they may feel unable to process the detail.
- Duplication of reports prepared specifically for audit and/or risk committees that often make their way to the board for a second round. Mostly a short summary would suffice.

Aspirations

Expectations of board members in financial services are high. The UK financial services regulator the Prudential Regulation Authority (PRA) introduced the SMCR to introduce clarity, simplicity and ownership of responsibility and added personal liability to those board roles classed as Senior Management Functions. Since the introduction of these board members make more effort to understand and challenge business decisions management recommend.

While there is a clear shift towards personal accountability, the board still retains overall collective responsibility for decisions. Individual responsibility is critical but it must not be to the detriment of the collective responsibility. In order to discharge this responsibility effectively boards need to be able to consider strategy. However, the volume of information and variety of subject matter that boards must deal with may mean that little time is left for strategy and the future business due to a focus on governance and compliance.

We believe that, to be effective and efficient, boards need to build on both individual and collective responsibility and adhere to their social licence by being diverse and inclusive, making sure that decision-making is a true team effort. They must be able to rely on a robust support system provided by executives and company secretaries.

Companies need to invest in training for new and existing board and committee members to help fill gaps in knowledge and experience. More training would help boards avoid relying on a few functional experts and practice true collective accountability. Managing current and prospective board members' expectations would also help remove the barriers to a more diverse and inclusive pool of non-executive directors.

This diversity however needs to be genuine. There is a need for a robust process that enables different views to be expressed, heard and

considered. Boards need to work as a team, serving the interests of the company and sharing the responsibility for its decisions. It takes effort and commitment from the chair and the board members to develop mutual respect and recognise that an open exchange of diverse views can help the board reach better shared conclusions.

Practical Recommendations

Most companies interviewed are aware of the effect of information overload on their non-executives and the ramifications it has on board effectiveness. Information overload is a real problem, but boards are perfectly capable and equipped to control it. They are not inert, so they do not have to accept what is given to them. Concentrated effort needs to be made between the chair, board members, executives and company secretaries. Three overarching principles will help establish practical steps to overcome the challenges. This requires the commitment of board members, executives and company secretaries.

1. Boards need to define their needs and communicate and pursue those persistently

A framework with a clear objective and reference points (including limits and deadlines) should be communicated by the board to preparers. Until adherence to the framework becomes second nature, each meeting should allow enough time for an assessment of the pack, whether it achieved what it had set out to and whether the papers supported this.

2. Responsibilities for board papers must be well defined

Responsibilities need to be set out very clearly so that everyone understands them. An alternative approach to current practice, if the CEO is responsible for ensuring that board packs are fit for purpose, could help non-executives to perform their duties more efficiently.

3. Non-executives need to be vocal about their need for good board papers

When boards are sufficiently committed to creating appropriate board packs and all participants are fully aware of their responsibilities, non-executives will be adequately prepared to do their job. Information overload or poor quality of papers should not be used as an excuse. NEDs have to take full responsibility for managing their own commitments.

Proposals for Board Chairs and Non-executives

1. Contents page will give the pack a coherent order, provide better context for non-executives and it will help the pack to be more intelligible.
2. A time plan will help prioritise important issues at board meetings.
3. Proportionality should be taken into consideration when producing papers.
4. Minutes should reflect the wisdom of the board not all unnecessary detail.
5. Educational papers should be provided separately.
6. Escalation needs to be carefully considered. Not everything needs to be discussed by the board.
7. Expectations should be clearly set out to place responsibility on specific individuals.
8. Feedback should be regularly given by the board and encouraged by the chair

9. Deadlines are of critical importance.
10. Pre-meetings are helpful for NEDs as they allow discussion of the issues without the presence of executives.

Proposals for Executives and Management

1. Papers should have a clear purpose.
2. Greater focus is needed. More concise papers, and a more coherent pack without unnecessary repetition
3. Perspectives and priorities of the board must be understood by preparers.
4. Emphasise future events, exposures and high risk areas like IT and cyber risk. As well as looking at the past, boards need to look ahead.
5. Quality of writing is important. Board papers must be well written.
6. Rules are helpful. Setting hard limits to the length of papers and sticking to deadlines will concentrate preparers' efforts.
7. Templates increase efficiency. They help distinguish routine and specific reporting and reduce orientation time.
8. Exception reporting is sufficient for routine matters.
9. Electronic packages are a good way of using digitalisation. They allow papers specifically written for the risk committee to be opened up and made available for others.
10. NEDs should be provided with briefing papers. They (or 'The Reading Room' in electronic packages) provide background information on a matter only described at a high level in the actual pack.
11. Presentations promote discussion. They provide an opportunity for board members to ask questions of subject matter experts or specialists.
12. Executive committee meetings can act as an efficient filter and provide an internal challenge to the information sent to board members.
13. Presentation of the board packs can make a huge difference. Charts, illustrations, and tables, not just blocks of text, are helpful as are summaries, cover pages and lists.

Conclusion

We have concluded that boards need to build on both individual and collective responsibility by being diverse and inclusive, as well as encouraging decision-making as a team. Importantly, we have outlined practical recommendations in the form of detailed lists of proposed actions. These recommendations should be understood according to three overarching principles. Essentially, board packs and their contents are within the remit of boards. This responsibility also applies to non-executives individually, who will be better prepared once they take our proposed actions.

For the full report, visit the ICAEW website: <https://www.icaew.com/technical/financial-services/inspiring-confidence-in-financial-services/information-overload-effective-boards-and-committees-in-financial-services> ■

A Brief Report Prepared By
Zsuzsanna Schiff, ICAEW Financial Services Faculty for
'Director Today'