INSIGHTS FROM THE BOARD ROOM

CREATING EFFECTIVE BOARDS

By Paroon Chadha, Anthony Dunkley and Atif Malik

PASSAGEWAYS

INTRODUCTION

This report will provide the insights and strategies required by any enterprise to assess and improve the effectiveness of their board. In our study and interviews with board members, we found consistency in the key opportunities that organizations need to examine:

- Making the board meetings efficient and effective.
- Streamlining the board book compilation and access process.
- Conduct effective board planning meetings.
- Improve conflict of interest management in the board meeting discussions.
- Improve accountability among board members.

This report has been created using our personal interactions and data that we have collected from surveys that were sent to board members and administrators who work with board of directors on a regular basis. The survey was conducted in early 2013.

We worked with a variety of organizations including: public companies, private companies, for-profit and non-profit firms and even not-for-profit firms. Our access to this wide array of organizations has helped us look for some early trends and validate our findings across different types of organizations.

ABOUT US

Passageways was founded in 2003 with the vision to "Make our World more Collaborative". Today, we are an industry-leading provider of Board Portal solutions serving several hundred organizations. We also provide other Collaborative Portal Solutions, such as Employee Intranet Portals and Community Portals. We continue to impact organizations of all sizes across the United States, Canada, Caribbean Islands, and Europe. We are headquartered in Indiana, USA.

ONBOARD - OUR BOARD PORTAL SOLUTION

OnBoard is an industry leading solution for achieving excellence in the board room. From the Corporate Secretary to the Board of Directors, Passageways helps companies, build, distribute and access board books to increase the performance in a board meeting. OnBoard comes with the industry's most intuitive interface for Directors using an iPad Application allowing for secure and streamlined experience.

To find out more about Passageways OnBoard - please visit www.passageways.com or email us at sales@passageways.com.

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TYPICAL DUTIES OF THE BOARD OF DIRECTORS

Throughout this report, we would like our readers to keep the key roles of the board of directors in mind.

A board of directors is a body of elected or appointed members who jointly oversee the activities of a company or organization. Typical duties of a standard board member are as follows:[1][2]

- Governing by way of establishing broad policies and objectives for the organization.
- Reporting to stakeholders to keep accountability paramount.
- Selecting, appointing, supporting and reviewing the CEO performance.
- Approving annual budgets.
- Ensuring the availability of adequate financial resources.
- Setting the salaries and compensation of the company management team.
- Ensuring effective organizational strategic planning.

Source – www.Dilbert.com
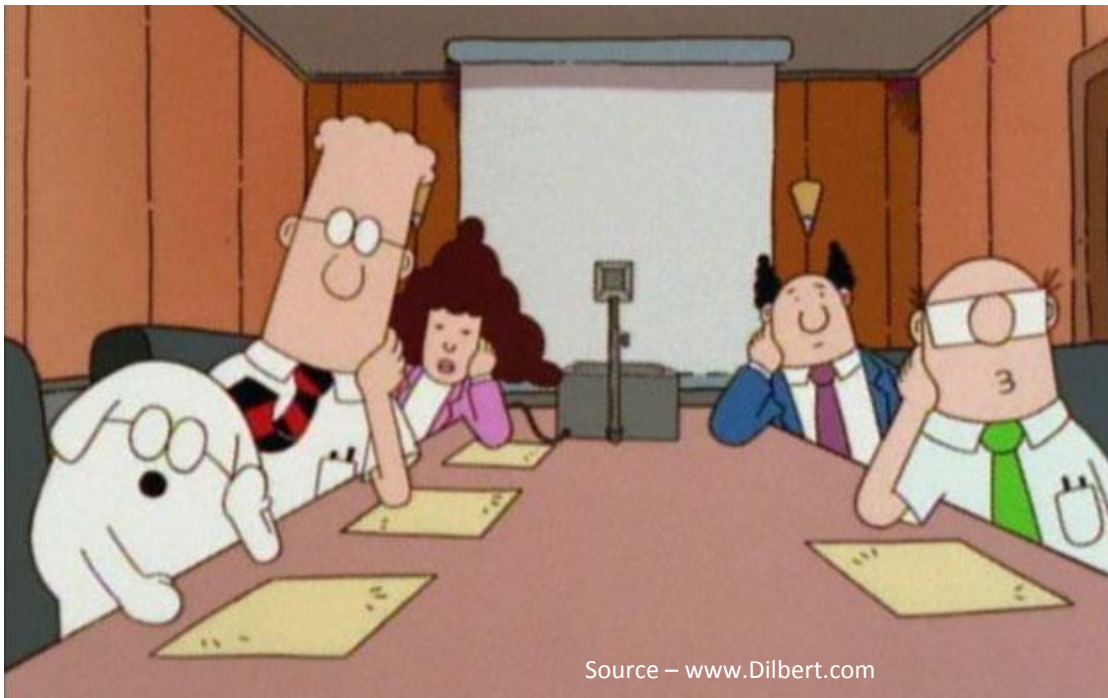
[1]McNamara, Carter. "Overview of Roles and Responsibilities of Corporate Board of Directors". Free Management Library. Authenticity Consulting, LLC.Retrieved 2008-01-26.

[2]"Basic Role of the Board".Governance Basics. Institute on Governance (Canada). Archived from the original on 30 December 2007.Retrieved 2008-01-27.

BOARD COMPOSITION

You can make the biggest impact by having the right mix of people on the board. The two key categories of Board Composition are Board Size and Board Member Diversity.

SIZE OF THE BOARD

Not surprisingly, we observed that the average size of the board was 9.9, which is close to the average board size indicated by the Corporate Library study[3]. While there is no statutory procedure, nearly all boards have an odd number of board members in order to break the deadlock in a voting scenario. Interestingly, Wall Street Journal analysts think the ideal size of a board of directors group is seven, including the board chairman.[4] . Right sized board can really make a difference in improving the quality of discussion and the speed of execution at the board level.

DIVERSITY

According to "2012 Catalyst Census: Fortune 500 Women Board Directors" published by catalyst.org[5], the average representation of women at the board level in 2012was 16.6%, a slight increase over the previous year. Companies with products targeted towards women have more female board members than those without. As per the recent article by an expert in (Wealth Strategies at Ameriprise Financial)[6] of, the companies with greater gender balance outperformed their sector in terms of return on equity (11.4% vs. an average of 10.3%), operating result (EBIT of 11.1% vs. 5.8%), and stock price growth (64% vs. 47%).Companies that are targeting younger demographics have board members that are younger.

INSIGHTS ON BOARD COMPOSITION

Figure 1

Women Representation on boards
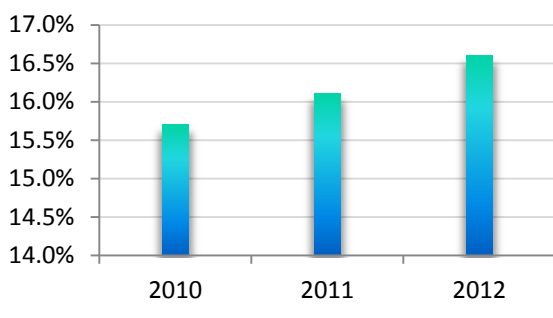
In our survey, in the Mid-West region, women represent 18-28% of the board, exceeding the national average of 16.6%. However, in the Southern region women represent only 11% of the board, below the national average. As shown in Figure 1, we can infer that the board composition is trending towards greater diversity.

BEST PRACTICE

Your board should have members from a diverse set of background: age, race, gender and education.

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[3]http://www.2020wob.com/learn/20-questions-about-boards

[4]http://aapa.files.cms-plus.com/SeminarPresentations/Jaramillo.BoardofDirectors.pdf

[5]http://www.catalyst.org/knowledge/2012-catalyst-census-fortune-500-women-board-directors

[6]http://www.huffingtonpost.com/suzanna-de-baca/women-better-at-managing-investments_b_2878941.html

TECHNOLOGY USE

Technology has made a significant difference in the way board meetings are now being conducted. Our study on technology use is broken up into three aspects: choice of hardware, board book characteristics, and technology improvements required in the boardroom.

HARDWARE USE

Organizations either deliver their board books electronically or in print. Increasingly, boards are using different forms of technology to distribute board materials and moving towards a paperless solution. As shown in Figure 2, the directors often use laptops or mobile tablets including iPads. Further discussions with board members revealed that an iPad is the preferred device among board members.

Board member's hardware of choice


Paper 39%
iPads 35%
Windows laptop 13%
Mac Books 13%
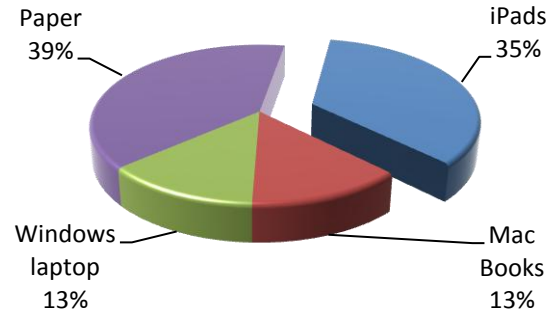
BOARD BOOKS

Board books or board packets are board materials that are shared with the board members prior to the meeting. As shown in Figure 3, two thirds of the organizations limit their board book size to 50 pages or less. Depending on the complexity of the business, board books may exceed this size. However if you are exceeding 50 pages regularly, we recommend distribution of the board books at least 5 business days in advance of the meeting to allow sufficient time for review, though some board books exceed 50 pages due to the inclusion of appendices, which may not require as rigorous a review.

It was established that the board book size may vary from meeting to meeting, largely depending on the amount of new business to be discussed. We also saw a noticeable consistency on the average book size within various industry verticals with Financial and Healthcare leading the pack with the largest packet.

Board Book size (pages)

101-150 8%
151-200 4%
76-100 8%
0-50 67%
51-75 14%
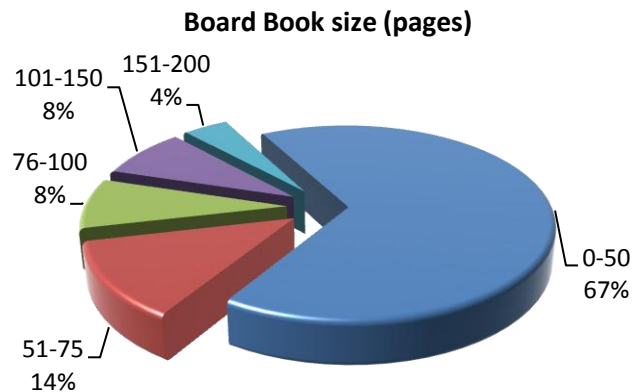
TECHNOLOGY IMPROVEMENTS

On the technology front, organizations can be categorized into two groups: those that use free tools to manage the distribution of board content and those that use commercially available solutions.

Our discussions with directors who invested in board portal technology led to a few conclusions about the reasons for adopting this technology:

- Speed and reliability of content
- Assured accessibility of content
- Security of content

As a result, increasingly, organizations are either already using board portal technology or are looking to implement board portal technology. This practice meets the requirements outlined above. Moreover, board portal or online board governance software facilitates collaboration among the various board administrators and board members. Given the efficiency gain and diminishing cost of implementing a board portal or online board governance software we predict that the trend for instituting an online and paperless solution will continue.

Figure 4

Technology Improvements required in Board Meetings
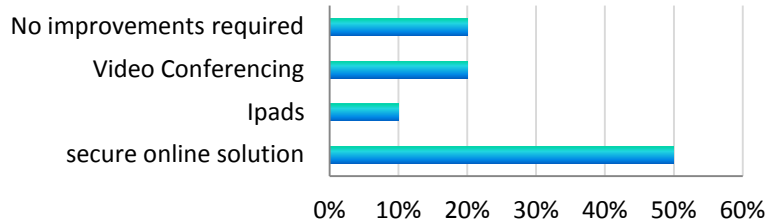
The cost of delivering board books or board packets electronically through a board portal is offset by avoiding printing and shipping costs while reducing the time administrators require compiling the packet. Moreover, ease of access, timely addendums and annotation capabilities are benefits your board members will experience with a board portal. The cost of board portal or online board governance software can range from a few hundred dollars to a few thousand dollars per month. The cost depends greatly on your choice of platform, board size, the number of committees you maintain and the level of support you require. Upon careful review you will find that the free electronic tools available on the web lack basic security and support elements that most organizations require.

Organizations that have geographically dispersed board members have considered the use of videoconferencing to facilitate board and committee meetings. Not surprisingly, 10% of the senior managers surveyed suggested the use of videoconferencing capabilities for the board meetings would be valuable (refer Figure 4). Videoconferencing capabilities like GoToMeeting, WebEx or Skype, etc., make this an inexpensive option.

INSIGHTS ON TECHNOLOGY USE

- A majority of the organizations would prefer to move to a secure online and paperless solution to view board materials.

BEST PRACTICES

- Progressive boards use Board Portals to access board materials.
- Effective boards restrict the size of their board books.

EMERGING TRENDS

- Most senior managers are using electronic solutions and want to move to a more secure portal for board members.
- The iPad is the device that board members prefer for reviewing board materials.

"Using board portal technology, the directors can make annotations and highlight sections in their board book using their iPad, reducing the clutter of paper in the board meeting. Board meetings will be further streamlined as technology advancements such as video conferencing and access requirements continue to evolve. Board portal technology changes the board meeting forever and leads to better governance."

- ***Paroon Chadha, CEO, Passageways, LLC.***

"The use of an online Board Portal allows for several advantages and should be widely adopted even outside of financial services industry. It allows for greater agility, transparency, conflict of interest management and Board book security. Predictably, in future, Board portal technology may even allow for greater participation of shareholders in relevant matters."

***Harvard Law School** on Corporate Governance*

BOARD TRAINING AND EVALUATION

We researched multiple organizations on the processes they use to assess the performance of board members and the strategies they use to address any gaps. Our findings are broadly categorized into several groups: board member evaluation, training, orientation, and CEO performance evaluation.

BOARD MEMBEREVALUATION

Figure 5

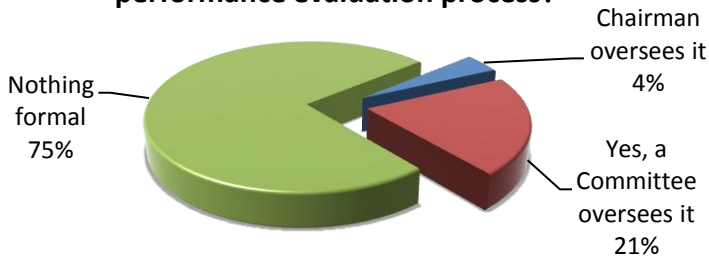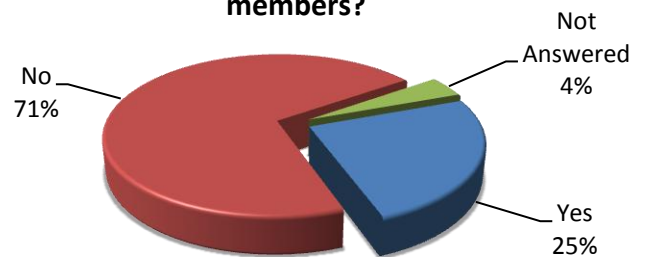**Is there an individual board member performance evaluation process?**

Chairman oversees it
4%

Nothing formal
75%

Yes, a Committee oversees it
21%

Figure 6

Is there a peer review process for board members?

Not Answered
4%

No
71%

Yes
25%

Board evaluation is an emerging trend among organizations. The board should regularly evaluate the performance of its board members to identify gaps in its performance and skill sets. This helps increase the efficacy of the resulting training plan. Increasingly, organizations are seeking guidance from a consultant for evaluating board member performance.

BOARD MEMBER TRAINING

Most organizations have a training plan and ongoing education plan for board members. In determining training requirements, it helps have board members with good educational background.

The high percentage of board members with a master's degree, shown in Figure 7, is due to an increase in the number of MBAs represented on the board. The members with only a high school education are mostly individuals with a significant holding in the company.

The increased focus on board member training is necessitated by complex regulatory requirements and technology changes. Some of the institutions that provide training to board members are mentioned in the section titled "List of institutes that offer Board Education Services." Our survey indicated that 46% of the board members do not undergo any formal training. We expect this percentage to reduce considerably over the next five years.

Figure 7

What is the average education level of your board members?

Masters
35%

Not sure
12%

High-school
6%

Bachelors
47%
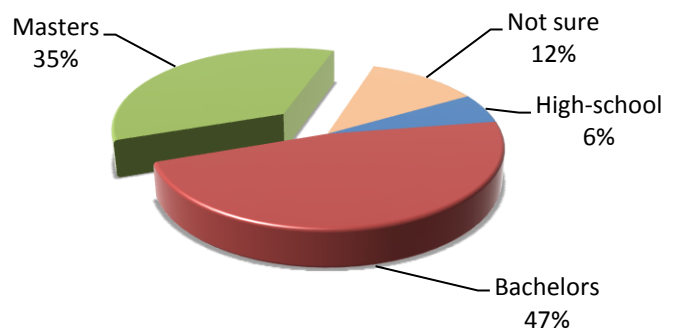
BOARD MEMBER ORIENTATION

Our research indicates that a thorough orientation program for new board members saves time on getting acquainted with their role and responsibilities, the board's fiduciary duties, industry trends, important milestones of the organization's history, technology use, financial statements, and strategic plan. Board member orientation and training should be a key focus area.

CEO'S PERFORMANCE EVALUATION

As shown in the section titled "Typical Duties of the Board of Directors", evaluating the performance of the CEO is one of the primary responsibilities of the Board. From the organizations surveyed, the board regularly reviews the performance of the CEO in only 46% of the organizations. Among Fortune 500 companies, this figure rises to 90%, indicating that CEO evaluation is a potential area of improvement for many organizations.

Figure 8

Frequency of evaluating CEO's performance

INSIGHTS ON BOARD TRAINING AND EVALUATION

- All of the respondents who have not yet invested in board portal technology coincidently have neither board effectiveness evaluation nor board performance evaluation processes.
- All of the respondents who did not have a systematic approach to evaluate the CEOs performance did not have a board portal.
- 75% of the organizations did not have a formal on-boarding process for new board members. We expect this to change in the future.
- From Figure 5 and 6, peer review and individual board member performance evaluations are not performed in 67% of the organizations.

👍 BEST PRACTICES

- Effective boards undergo ongoing training on topics that are most important and relevant to the organization.
- There should be a rigorous self-evaluation process for the board members where board members can hold each other accountable for performance.
- Effective boards conduct a review of the CEO's performance annually to evaluate the achievement of their annual goals.
- All new board members should participate in an orientation process shortly after election to the board.
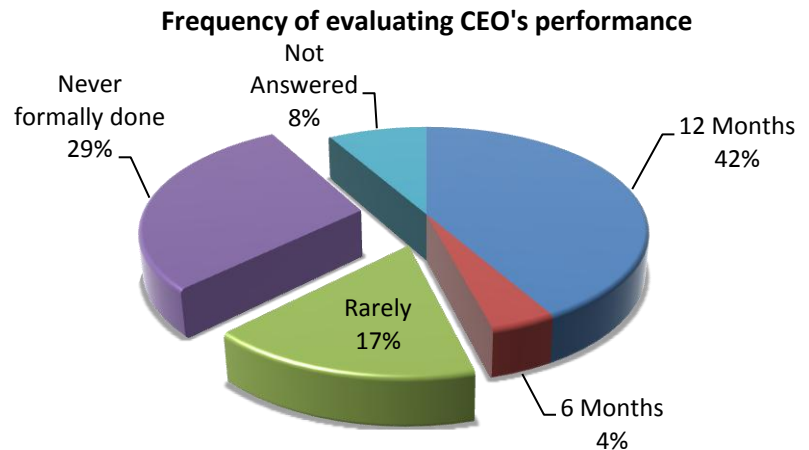
More than one-third of companies with less than $100 million in revenue do not periodically evaluate their director performance. Approximately two companies out of 10 require their board members to attend some type of continuing education programs to remain abreast of regulatory and compliance developments.

*Harvard Law School on Corporate Governance*

BOARD MEETING FORMAT

In order to learn about the efficiency and effectiveness of board meetings, we interviewed the board members to understand the frequency of meetings, timeliness of concluding a meeting, and the completeness of the meeting.

BOARDMEETING FREQUENCY

As shown in Figure 9, most of the organizations conduct board meetings monthly, which may be too frequent for some organizations. Frequent board meetings add significantly to the overhead of the board members' duties. As per the article by Dave Parker titled "Board Meeting Frequency and Schedule"[7], a monthly board meeting for some For-Profit company may not be sustainable as a significant amount of time is spent preparing the board book or board packet. Holding fewer but longer board meetings would be more sustainable. Monthly meetings should/could be reserved for special circumstances, such as when an organization is going through a merger. Quarterly meetings keep a focus on urgency, accountability and helps build relationships& trust among board members and the CEO.
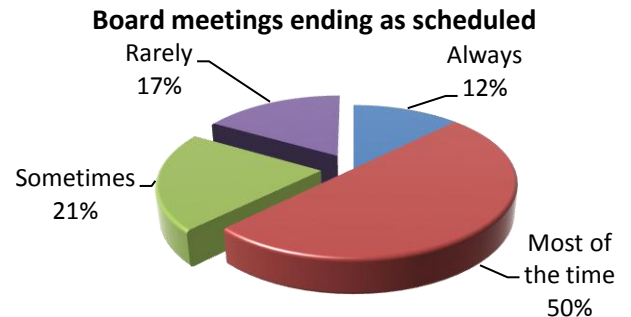
Figure 9

Board meeting frequency
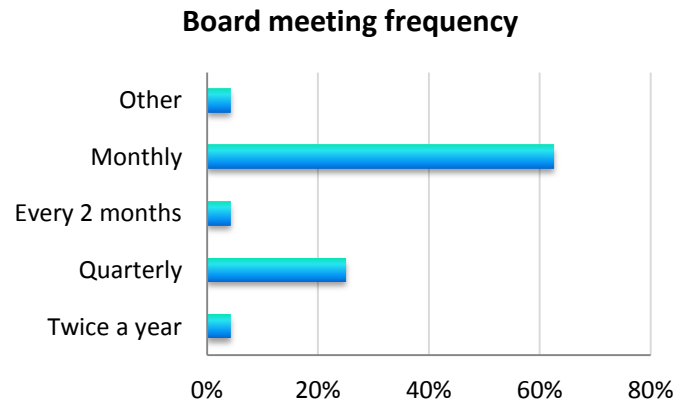
BOARD MEETING TIMELINESS

Not surprisingly, board meetings 'always' end on scheduled time in only 12% of the organizations as shown in Figure 10. In our research we found that a significant percentage of the companies (38%) regularly do not end the board meetings on time. We were expecting most of the organizations to end their meetings as scheduled, most of the time. Clearly, there is an opportunity for these companies to tighten their meetings to end on scheduled time.

Figure 10

**Board meetings ending as scheduled**

COMPLETENESS OF BOARD MEETING

Ideally, all organizations should cover all agenda items, every meeting.

As per Figure 11 , 38% of the organizations surveyed cover all agenda items most of the time, and use the prioritization scheme to ensure they always cover the most important items.

Figure 11

Are all items on the agenda covered by the board?
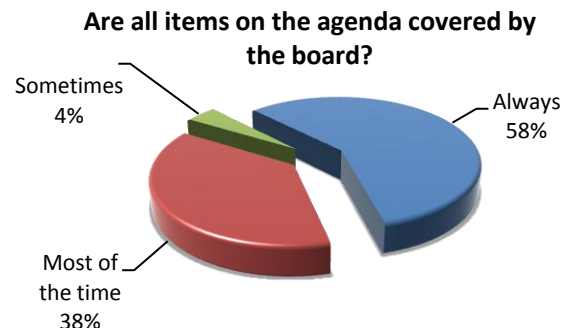
[7]Board Meeting Frequency and Schedule, Dave Parker, February 22, 2013, http://corpboardbuilder.com

The minority of organizations that are not covering all items on the agenda regularly are discussing them through email or other platforms around the meeting. However, organizations should not rely on outside platforms, as board discussions are a legal record and need to be secured and succinct.

INSIGHTS ON BOARD MEETING FORMAT

- Considering the 42% of the organizations where board meetings do not end on scheduled time, we conclude that the majority of these meetings are delayed due to a lack of tracking mechanism for each agenda item.
- 88% of the organizations that have not invested in board portal technology either did not cover all items on agenda regularly or end meeting on scheduled time.

Best Practice

- Board meetings should be held at least quarterly. Increasing frequency of board meetings during a crisis or when the organization is going through a major change is considered best practice.
- The board meeting should always cover all items on the agenda. Some overflow items can be identified ahead of time.
- Progressive boards review and add notes to the board book in an electronic format.
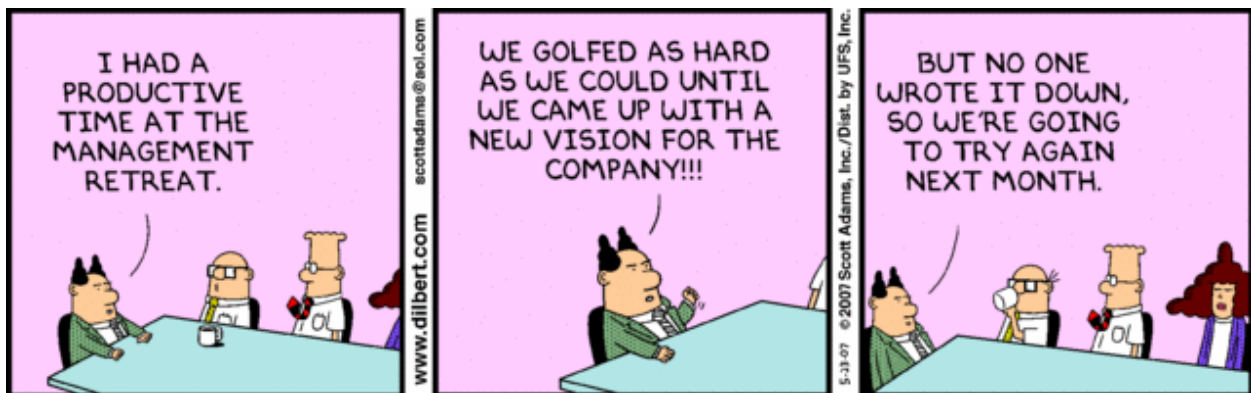
BOARD POLICIES

Our findings in board policies and compensation can be divided into three broad categories: accountability to shareholders, CEO succession plan, and conflict of interest management.

ACCOUNTABILITY TO SHAREHOLDERS

The directors are the stewards of the company that are accountable to the shareholders and should hold an annual general meeting (AGM) with the shareholders. In our study, we found only 48% of the companies hold an annual meeting with shareholders.

CEO SUCCESSION PLANNING

Surprisingly, a very high proportion of organizations do not periodically review CEO succession plans, as shown in Figure 12. In general, when a succession plan is in place the CEO does not take his position in the company for granted. Furthermore, the average tenure of a Fortune 500 CEO in 2012 is 6.8 years, down from 8.5 years in 2011. High volatility in the CEO's tenure indicates that a CEO succession plan is valuable.

BOARD POLICIES AND BY-LAWS ACCESSIBILITY

The board members are governed by the board manual and the by-laws that are instituted by the organization. Unfortunately, in some cases this critical content is not readily accessible to the board of directors. In that sense, a secure online repository or resource center would facilitate simple, secure distribution of these procedural details. Updates to these procedural items, typically updated semi-annually, can be more efficiently managed through a secure and paperless board portal solution.

CONFLICT OF INTEREST MANAGEMENT

Board members often face circumstances where members have a conflict of interest. In this scenario, the board member must recuse themselves from the discussion.

Managing conflicts of interest is an important element of operating an effective board. Our analysis indicates that 80% of board of directors rarely recuse themselves when a conflict of interest arises. (See Figure 14).Surprisingly, in some cases directors who have signed a conflict of interest document continue to participate in discussions even when a conflict of interest exists. This indicates that an effective mechanism to exclude

Figure 12

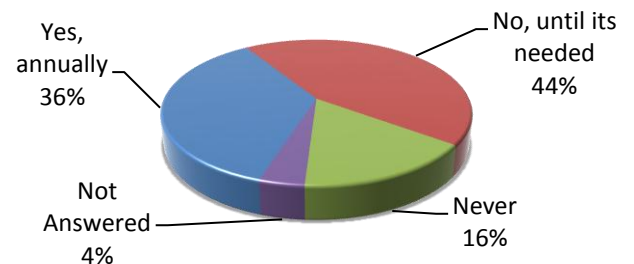**Do you periodically discuss CEO succession plans?**

- Yes, annually 36%
- No, until its needed 44%
- Never 16%
- Not Answered 4%

Figure 13

How often are there changes made to the board policies and by-laws?

- Not sure 5%
- Rarely 39%
- A few times a year 56%
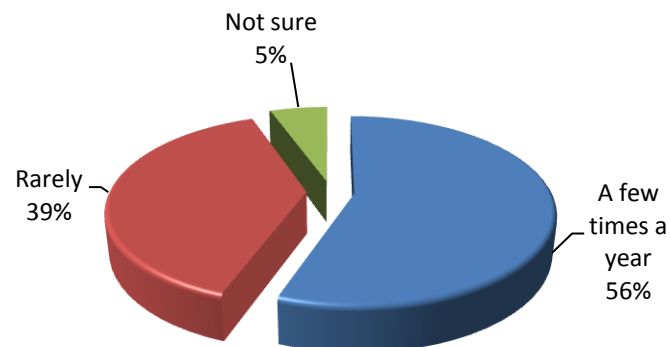
Figure 14

Do board members recuse themselves from discussions with potential conflicts of interest?

- Rarely 82%
- Not sure 18%
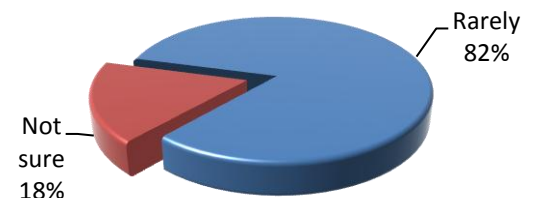
board members from discussions with potential conflicts of interest is required.

The organization must ensure that content is restricted from any board member where a conflict of interest may arise. Accordingly, the board member must be diligent in recusing themselves at this stage of the board meeting. This helps maintain the director's pledge and maintains the integrity of the discussions

INSIGHTS ON BOARD POLICIES AND COMPENSATION

- Knowingly or unknowingly, several board members that sign a conflict of interest document participate in discussions with potential conflicts of interest. A board portal solution can help mitigate this risk by providing a simple and effective way to manage such situations.
- Out of the 56% of the organizations that make changes to the board policies and by laws semi-annually, the updated board manual is available in only 30% of the organizations.

BEST PRACTICES

- The board manual and by-laws are easily available to the board members.
- Advanced boards have a formal CEO succession plan and review it annually for adequacy.
- Board members participate in the annual meeting with the shareholders.
- All board members sign a conflict of interest policy document and recuse themselves from discussions with potential conflicts of interest.
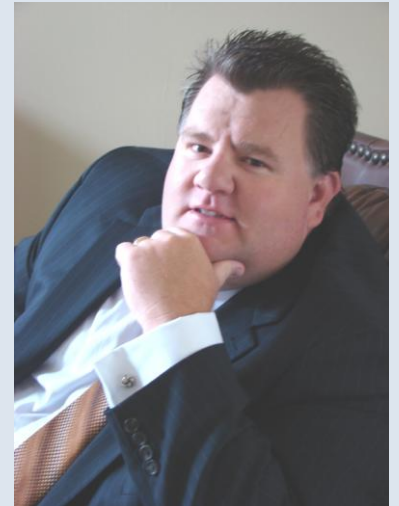
"A board portal solution should provide a perfect balance between security and ease of use while offering paperless cost efficiencies that are compelling."

Anthony J. Dunkley, Director of Sales - Passageways, LLC.

STRATEGIC PLANNING OVERVIEW

Most organizations involve their board for discussions on strategic planning. These sessions often last longer than a day and take place at an off-site location. Strategic planning initiatives may include the discussion of a future product roadmap or setting a new goal or a new vision for the company.

Frequency of strategic planning can vary. After planning, a periodic review is setup to track the progress of the strategic initiatives that were established.

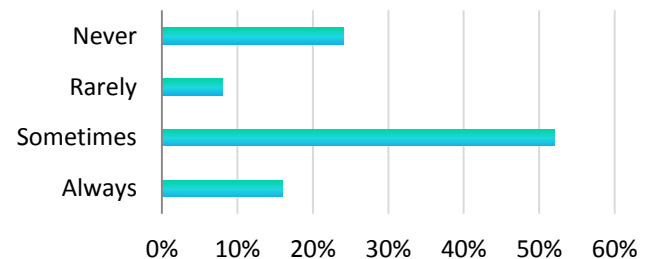## STRATEGIC PLANNING FACILITATORS

As per Figure 15, most organizations have used an independent facilitator for strategic planning discussions. The reasons cited by board of directors were as follows:

Figure 15

Do you use an external consultant / facilitator for strategic planning?

1. When there are varied opinions in the board room and a consensus is required, an independent facilitator help the board arrive at a consensus.

2. For some discussions, one needs to consider several alternative solutions to the problem being discussed. The facilitator can give appropriate airtime regardless of the source of the suggestion.

3. The facilitator can ensure that everyone feels equal ownership of the final solution determined.

4. The facilitator can provide neutral party guidance to build trust and get full board participation in the discussion.

Some of the facilitators most commonly hired are listed in the section titled "List of companies that facilitate Board Planning."

INSIGHTS ON STRATEGIC PLANNING

- The organizations that always use an external facilitator are able to end their strategic planning sessions with a clear objective most of the time.
- The effectiveness of sessions are rated higher when an external facilitator is present.

👍 BEST PRACTICES

- Progressive boards hold their strategic planning sessions off site.
- Efficient boards review their strategic plan quarterly.
- Advanced boards use an independent facilitator for strategic planning sessions.

CONCLUSION

Organizations that use board governance software like board portals have a strategic advantage over those who do not, in the following areas:

- Board book information security
- Streamlined board book compilation ahead of the meetings
- Ease of board book access
- Ease of annotating board materials
- Streamlined board material revision process
- Conflict of interest management
- Reduced cost due to elimination of printing, paper and shipping
- Increased ability to access archives
- Increased ability to access procedural documents
- Managing time effectively during board meetings
- Tracking the performance of the board of directors and the CEO

This has fueled the need for investment in technology in the board room and will continue to do so in the foreseeable future.

Passageways Board Portal Technology Maturity Curve
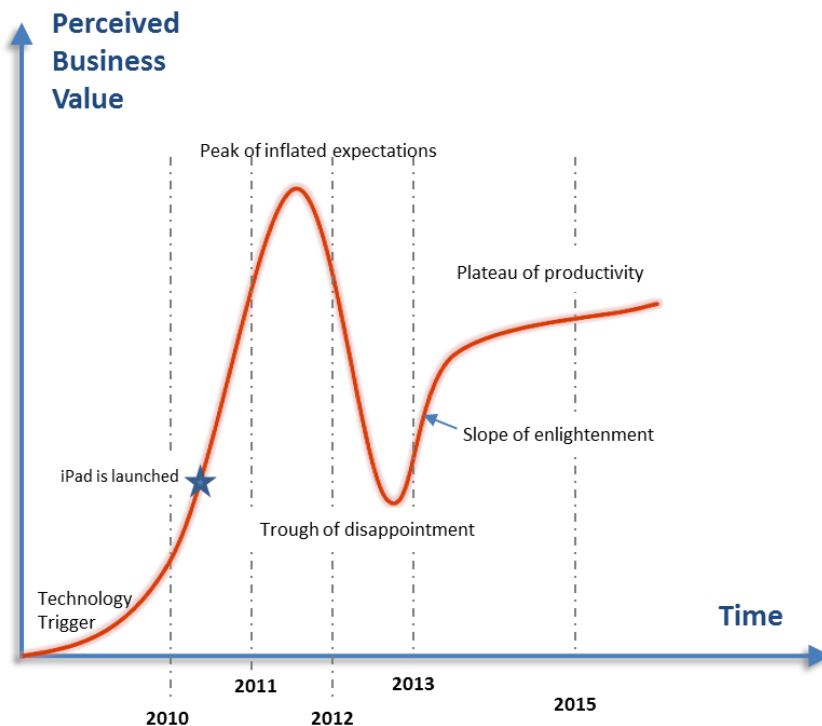
The figure shows the technology maturity cycle for board portal. The launch of the iPad in 2010 created very high expectations. As a result, the board of directors were somewhat dissatisfied in mid-2012 due to lack of expected features in affordable board portal solutions and compatibility issues with the iPad. Subsequently, several features were introduced to board portals by various vendors in late 2012 which again won attention from the board of directors. As per the current trend, by the year 2015, board portal will become a technology standard among the board of directors.

SUMMARY OF BEST PRACTICES

By definition, a **best practice** is a method or technique that has consistently shown results superior to those achieved with other means, and that is used as a benchmark. In addition, a "best" practice can evolve to become better as improvements are discovered.

Listed below is a summary of best practices derived from the survey results and market research conducted throughout the compilation of this report.

- The board has members from a diverse background: age, race, gender, education and profession.

  o Diversity matters as much as business skill.

- Use board portals to access board materials securely.

  o An online solution provides greater security than paper-based distribution.

- Where possible, restrict the size of their board books to fewer than 50 pages.

  o Your directors are becoming increasingly responsible with less time to review materials. Keep it simple and concise!

- The board must undergo training on topics that are most important and relevant to the organization.

  o Board education is critical to evolving as a company.

- There should be rigorous self-evaluation process for the board members where board members can be held accountable and set realistic expectations for the organization's performance.

  o Get ahead of the trend! Board and individual director evaluations are imperative to ensuring effective corporate governance.

  o The board conducts a review of CEO's performance annually.

  o CEO performance is critical to the success of the organization. Annual CEO evaluation is imperative.

- Board meetings should end as scheduled most of the time.

  o Consider a solution that monitors time spent on each agenda item.

- Board meetings are held at least quarterly.

  o Independent of scheduling, board meetings need to be concise and on point.

- The board meeting should always cover important items on the agenda.

  o Again, a solution that monitors time spent on each agenda item can ensure all items are covered.

- The board manual and bylaws should always be available to the board members.

    o   An online solution ensures documentation is readily available and secure.

- The boards of directors and management have a formal CEO succession plan and review it annually for adequacy.

- Board members should participate in the annual meeting with the shareholders.

- All board members should sign a conflict of interest policy document and recuse themselves from discussions with potential conflicts of interest.

    o   An online solution can help effectively manage this process.

- Strategic Planning sessions are best done off site.

    o   Off-site meetings are key to ensuring effective, uninterrupted engagement amongst users.

- The strategic plan should be reviewed quarterly.

LIST OF COMPANIES THAT FACILITATE BOARD PLANNING

Board planning, strategic board planning, is critical in ensuring effective board governance. A list of organizations that can help facilitate this process is included below. We welcome submissions from potential providers for inclusion in this list at: sales@passageways.com

- Cornerstone Advisors
- Meeting Facilitators International
- Stuart Levine & Associates
- Leadership Strategies
- SC Hammond Advisors
- The InnerWork Company
- Breining Group LLC
- KickStart Alliance
- Scontrino-Powell
- Facilitation & Process

- Baltimore Mediation
- Beth Grupp Associates
- John Fulwider
- Strategic Business Solutions
- Pinnacle Performance Improvement Worldwide
- Strategic Arts and Sciences
- Credit Union National Association
- The Cardwell Group

LIST OF INSTITUTES THAT OFFER BOARD EDUCATION SERVICES

Continued board education is a critical aspect of ensuring effective board governance. A list of organizations that can help provide board education is included below. We welcome submissions from potential providers for inclusion in this list at: sales@passageways.com

- National Association of Corporate Directors
- Credit Union Executives Society
- The Directors Network Inc.
- Directors' Consortium
- NYSE Governance Services
- UCLA - Anderson School of Management
- Harvard Business School

- London Business School
- CEIBS/ Wharton Joint Programmes
- Kellogg School of Management
- Credit Union National Association
- The Board Institute
- Callahan's group

Operations

Marketing

Executive Team

HR

Accounting

Strategic Initiative

Committees

Financials

Metrics

Employees and Customers

OnBoard