LIMIT THE TIME SPENT ON BOARD REPORTING

Efficient time management is crucial to all parts of a business, particularly to the boardroom. **David Parmenter** outlines the best way to reduce time spent on reporting to the board.

It must be one of the classic *Catch 22* situations; boards complain about getting too much information too late, and management complains that too much of its time is tied up in the board reporting process. Boards obviously need to ascertain whether management is steering the ship correctly and understand the state of the crew and customers before they can relax and 'strategise' about future initiatives. The board reporting process needs to occur more efficiently and effectively for both the board and management.

Board papers can reach mammoth proportions, tying up vast amounts of management time in preparation. I have seen organisations where one week a month is written-off by the senior management team (SMT) on this process. The results of these excesses are often late board meetings with the papers being sent to the directors only a day or two before the meeting. The meetings themselves can then be side-tracked by details, with the strategic overview inadequately addressed.

Selling the change to the board

Firstly, we need to examine why the carefully thought out recommendations we as accountants make, seldom catch the imagination of the chief executive officer (CEO) or board. As accountants, in Myers Briggs terms, we are commonly categorised as 'thinking and judgmental' people. We thus assume that as logic is our foundation stone so it is for others, and as such we use logic to sell change. Yet the majority of sales are 'closed' by appealing to the emotional drivers of the buyer and not by logic. Think of your last car purchase!

In order to sell the changes recommended in this article, you will need to work with one of the influential members of the board. You will need to:

- show them the costs involved;
- show them the proposed format changes seeking their input and support;
- absorb their suggested changes;
- prepare a presentation to sell the new board reporting regime that meets their approval and support; and
- ask the member to be the first to support your presentation after you have delivered it to the board.

Costing board papers

Directors themselves are often guilty of requesting changes to board report formats or additional analysis without first finding out what the exercise will involve, and of giving staff guidelines as to how much detail is required.

What amount of senior management time is absorbed by the board reporting process? It is important to cost this out and report it to the board as the directors will probably be horrified. I estimate that, for a company with 500 full-time employees (FTEs), the annual cost of preparing monthly board papers is between £0.3m to £0.5m, see Box 1, right.

Box 1 COSTING OF BOARD PAPERS, PREPARED MONTHLY

500 FTE organisation with monthly board reporting

SMT team accounts	Accounting team	Budget holders	Direct reports	SMT
Board papers				
Preparing board financial report from management reports	2 to 3			
Review reports before they go to board				1 to 1.5
Preparing business unit progress reports to the board				4 to 6
Review by CEO				0.5 to 1
Preparing one-off board reports		10 to 20	5 to 10	6 to 10
Working days per month	2 to 3	10 to 20	5 to 10	11.5 to 18.5
Average salary cost	£60,000	£45,000	£45,000	£150,000
Average productive weeks	42	42	42	32
	Low	High		
Average personnel costs	£200,000	£300,000		
Consultants reports	£100,000	£200,000		
Estimated annual cost of monthly reporting to the board	£300,000	£500,000		

Scoping of information requests
A request for information from the board can often take on a life of its own. A simple request soon adopts 'charge of the light brigade' characteristics as the request is passed down the management tree. Often the director who asked the question had visualised a 30-minute job and now someone has to embark on a massive exercise. How often is a lengthy report, on arrival at the board, briefly passed over after a cursory glance, when more than £20,000 has been spent?

There needs to be more direct communication between the directors and the staff who are going to research the request. The board should issue a set of instructions about size and examples of their ideal paper. In addition, each paper request should come with a half page form stating:

- suggested length (eg less than five pages, five to 10, 10-20, 20-30, up to 50);
- indication of time;
- maximum level of investment on paper;
- the board member to liaise with during the project; and
- whether a draft should be sighted before further work is invested on the report.

Failing that all directors should be asked by the chairman to scope their request. "I would like to know about xxxxxxx, I would suggest we invest no more than x days and £x,xxx on this."

Avoiding re-writes of board reports
Some organisations have made a major cultural change to report writing, committing the board, CEO and senior management team to avoid rewrites at all costs. The board no longer considers the quality of the board papers as a reflection of the CEO's performance. Organisations have learnt to delegate and empower their staff so that the report and board papers are being written with limited input from senior managers and are being tabled with few amendments, provided that the SMT agree with the recommendations. The CEO can choose to put a caveat on each report. The board understands that the report is not written in senior management team 'speak'. Board members are encouraged to comment directly to the writer about strengths and areas for improvement with report writing. The writers may also be in the dual role of both presenter and writer, where necessary. Thus the SMT will have a much more relaxed week leading up to the board meeting having largely delegated the report writing and the associated stress. The rewards include motivated and more competent staff and general managers being free to spend more time contributing to the bottom-line.

Tabling board papers electronically
Many of the procedures that support a board meeting have changed little since Charles Dickens' time. Board members still receive large board papers that they have difficulty finding the time or inclination to read. In the 21st century we should be using technology in this important area.

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The financial report should be made available as soon as it has been finished via a secure area of the organisation's intranet. Other board papers likewise can then be read as and when they are ready, instead of the last paper determining when all the papers are sent to the board.

There are organisations that specialise in electronic board paper systems. These have led to paperless meetings where the board members have a screen in front of them and the chairperson simply says "Let's turn to page 50 and discuss the purchase of XYZ." Immediately the first page of the paper is on the screen, and board members can access the notes they made when they read the paper. These systems offer many features including:

- access to papers from anywhere, anytime, as soon as they are available;
- intuitive and simple to use;
- notes easily attached to pages;
- instantaneous edits, page numbering, etc; and
- absolute security of board papers.

Replace the monthly budget with a monthly target set more recently
Board members frequently find that the variance commentary is not very useful. The setting of monthly budgets before the year commences is a futile task and completely undermines the credibility of the reporting process. How often do your variance reports start with, 'it is a timing difference'? I can write this type of commentary for you from my office in Wellington!

The solution is for your organisation to set the monthly targets only quarterly in advance. The main focus should be on the month and full year with year-to-date (YTD) progress reporting taking a secondary role. The progress YTD should be monitored against the full year forecast or against actual YTD from last year. We all know that proportioning the annual plan into a YTD target is just as futile as setting monthly budgets.

Do not give management information to the board
It is far too common for the finance team to give the management financial report to the board and then wonder why the board are asking stupid questions – "Why was £10,000 spent on uniforms this month?" We need to give a more summarised reporting pack, see Box 2 opposite, for my suggestions.

The general rule for materiality should be to have a separate reporting line if the category is over 20% of total revenue or expenditure for the profit and loss and the forecast of profit and loss. For example, show the revenue line if the revenue category is over 20% of the total revenue. If the category is between 15% and 20%, look at it and make an assessment as to whether a separate reporting line is merited.

Set up an icon system to highlight variances – a suggested way is to ignore all variances less than a certain amount. For all variances over this amount, allow a tolerance of, say, plus or minus 10% and show an icon for this, and then show as a positive or negative any variance over 10%. For example if the threshold is £10,000, then an £8,000 negative variance would not have an icon, if the variance is £15,000 overspent but it is only 6% of total expected then it is flagged with a 'within tolerance' icon, if the variance is £15,000 overspent and is 12% of the total expected, it is flagged with a 'negative' icon.

Tell the board that debtors are £10m rather than £10,267,234; I can assure you they will remember £10m but will forget the other number. The graphs should focus on main balance sheet issues such as debtors ageing, stock levels and cash. The notes should cover the main highlights and action to take. There should be no other commentary on the balance sheet; every line added to a balance sheet serves to confuse the board and benefits only the accountants. The detailed balance sheet (balanced to the penny) should be left to our working papers!

Training session for all writers of board papers
A logical step to lock in efficiency of board writing is to hold a training workshop, with all staff who are likely to be involved in writing board reports requested to attend by the CEO. The outcome would be that writers in the organisation know what the board wants, have practised what makes a good board paper and also have heard from one of the directors who would discuss what they like in a board paper. This workshop would be no more than half a day, and facilitated by an external expert covering best practice.

Box 2 REPORTING PACK SUGGESTIONS

Page 1 – A dashboard on progress in the organisation's critical success factors (we should not give them the balanced scorecard).
Page 2 – Detail on problems with the organisation's critical success factors.
Page 3 – Consolidated P/L (showing categories that are greater than 20% of total).
Page 4 – Balance sheet rounded to nearest one, 10, 50 million, whatever is appropriate.
Page 5 – Forecast of year-end P/L (given once every quarter after an update).
Page 6 – Forecast cash flow (including high /low range at any point in time during the next six months).
Page 7 – Status of major capital projects.

Set timely board meetings less frequently
Look to restructure the operations of the board, setting bi-monthly meetings, with the saved board members' time being invested elsewhere, such as:

- sitting on sub committees which are looking at improvements in key areas of the business;
- assisting the organisation with specialist know-how by presenting on topics to management and staff; and
- helping the company by opening doors to new markets.

Since board meetings are to be strategic there is no need for monthly meetings and the enlightened companies now have bi-monthly meetings or at the most, eight board meetings a year.

Box 3 (above) shows an efficiency scale in the holding of board meetings after the month-end in question. The longer you have to complete a paper to send to the board, the longer it will take. Save everybody time by limiting the number of days they can spend on these papers.

In some cases management is meeting with the board six weeks after month-end. There is of course another month-end in-between so they have to be careful to talk about the correct month. This situation is ridiculous.

Reporting key result indicators in a 'dashboard'
There is a major conflict in most organisations as to what information is appropriate for the board. Since their role is clearly one of governance and not of management it is, I believe, inappropriate to be providing the board with KPIs unless the company is in trouble and the board need to take a more active role. To me, KPIs are the very heart of management. Used properly many of them are monitored 24/7, daily, or at least weekly. Certainly not measures to be reported monthly or bimonthly to the board. (See Box 4, above right for the key features of a dashboard.)

We need indicators of overall performance that need only be reviewed on a monthly or bimonthly basis that show progress in the organisation's critical success factors. These measures need to tell the story

Box 3 BOARD REPORTING TIMESCALES

Within 10 working days of month-end	Within 11-15 working days of month-end	Within 16-20 working days of month-end	Over 20 working days of month-end
Exceptional performance	Better practice benchmark	Adequate performance	Inferior performance!

Box 4 KEY FEATURES OF A DASHBOARD

- It is a one-page document with brief commentary covering the issue and what is being done about it.
- The trend analysis goes back at least 12 months (some businesses need to go back a rolling 15 to 18 months). Remember business has no respect for your year-end, it is merely an arbitrary point in time.
- The title of the graph can explain what is happening. 'Return on capital employed' becomes 'Return on capital employed is increasing'; and
- You may need to maintain somewhere between eight to 12 graphs, and report the most relevant ones to the board.

as to whether the organisation is being steered in the right direction at the right speed; whether the customers and staff are happy; whether the organisation is acting in a responsible and environmentally friendly way.

I call these measures key result indicators (KRIs). These KRIs help the board focus on strategic, rather than management issues.

A dashboard with the KRIs going in the right direction will give confidence to the board members that the management knows what it is doing and the 'ship' is being steered in the right direction. They can then concentrate on what they do best – focusing on the horizon looking for icebergs or searching for new ports of call and coaching the CEO, as required. This is instead of parking themselves on the 'bridge' and thus getting in the way of the captain who is trying to perform important day-to-day duties. ■

FURTHER READING AND FACULTY WEB LINKS

- David Parmenter, *Key Performance Indicators – developing, implementing and using winning KPIs*, J Wiley & Sons, 2007
- 'The new thinking on key performance indicators' – *F&M133* www.icaew.com/index.cfm/route/135351
- 'Using templates to standardise reporting' – *F&M158* www.icaew.com/index.cfm/route/160103