

# REFOCUS THE AGENDA

Mounting risks and heightened scrutiny have boards adapting—and sometimes scrapping—traditional processes to comply with new, increasing demands, according to a survey of more than 250 board members by *Corporate Board Member* and EY Americas Center for Board Matters. Some insights.

BY MELANIE C. NOLEN

**C**harged with helping their companies cope with disruptive external forces, today's directors are also grappling with the need to adapt internally, as pressure mounts for boards to adjust to new realities.

Time—from having enough of it to how best to spend it—surfaced repeatedly as a top concern in a recent survey by *Corporate Board Member* and EY Americas Center for Board Matters, both survey responses and follow-up discussions with directors. Among the 256 directors we polled, 48 percent cited "finding adequate agenda time" as the area where

boards needed improvement most. Only 13 percent cited adequate agenda time as an area where they felt confident in their board's efficiency.

Several directors noted that ever-expanding boardroom agendas make advance preparation and efficient time management in the boardroom more crucial than ever. "Time is, in my view, our most important asset," says Mike Stice, who sits on the boards of Marathon Petroleum, Spartan Energy Acquisition Corp. and MPLX LP. "Things like approval of minutes and review of financial statements and all that stuff should all be done in advance. Everybody should be responsible for coming up to speed and having already made comments. If you have a problem

with the minutes and the first time I hear about that is at the board meeting, shame on you. Let's not have a conversation about the minutes, let's not have a conversation about financial statements."

To be effective, he asserts, today's board members should be reading through the material provided before the meeting, submitting questions and comments, and digging a little deeper into issues when needed, so everyone is ready to hit the ground running with a meaningful discussion. By enabling boards to operate more efficiently, advance preparation allows for more "quality conversations around strategy and culture and leadership and succession, you know, the things that really are important that

they be conducted in a high-quality exchange," says Stice.

Rethinking how time is used during meetings is the only way to "make sure you don't shortchange the most important topics," agrees Joe Wilkins, an independent director on the board of QuidelOrtho, who says that boards need to find ways to get the less important and more administrative things off the meeting clock.

His board facilitates this by recording committee meetings and sharing them with the rest of the board in advance of the full-board meeting. "We get to review them, and then we can ask questions beforehand and open up the opportunity for board members to ask questions way ahead of the meeting so they can get the most pressing questions answered," Wilkins explains. "Then, it's more of a check-in at that point because we had a lot of the dialogue before the meeting."

Kris Peterson, leader of EY Americas Center for Board Matters, notes that the consent agenda, "where boards formally declare they have 'taken as read' the routine work not requiring discussion" can also be helpful in addressing time constraints. "The truth is that the routine work needs to get done one way or the other," she says. "If you are not spending time in meetings reviewing historical results or reviewing and approving minutes, directors need to do the work between meetings to stay well-informed. High-performing boards will have support structures in place to help ensure that the routine doesn't slip through the cracks."

## MANAGING MANAGEMENT'S TIME

When asked where directors might best consider cutting back on time spent, 41 percent of directors surveyed identified time allocated to management presentations. While directors acknowledged the importance of thorough briefings by management, several noted that presentations are often longer than necessary and repeat ground already covered by reports disseminated in advance. "It's very important that you monitor and are aware of the information [provided by management], but just because you monitor and are aware of the information

## GETTING IT RIGHT

### Areas where directors feel most confident in their board's efficiency



## PUSHING FOR PROGRESS

### Areas where the board could use the most improvement



*\*Directors were asked to select top three.*

## EVOLUTION ON THE AGENDA

### How board meetings have changed over the past three years

Some full board meetings are now virtual

53%

More open discussion time to meeting agendas

35%

More frequent communications with management outside of board meetings

35%

Hold virtual committee meetings prior to or after full board in-person meetings

29%

Created new committees or sub-working groups

29%

More frequent communications among directors outside of board meetings

26%

More board and committee meetings because some are virtual

25%

Added meetings to regular cadence

24%

Removed concurrent committee meetings to allow directors to sit in on other committees' meetings

20%

Extended the time of our meetings

18%

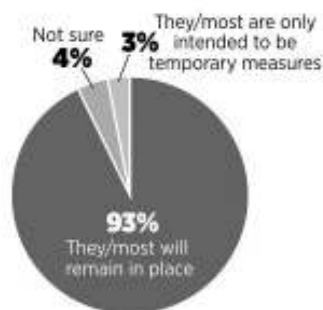
We have made no changes

6%

*\*Directors were asked to select all that apply.*

## STAYING POWER

Do you expect these changes to remain in place for the foreseeable future or were they only intended to be temporary measures?



doesn't mean that it has to be accompanied by a 15-minute or a half-hour board presentation," says Jane Buchan, who serves as an independent director on the boards of Globe Life and Immix Biopharma. "There's a big difference between cutting presentations and cutting information. We're not focused on cutting information, we're just focused on making the presentations interactive."

"I think [management presentations] are very, very, very redundant and waste time," agrees Wilkins. "We can read those reports ahead of time, and we can just jump into questions to that report. That's much more efficient than hearing [management] present. There's a lot that they want to share that's exciting, but getting

the highlights is good—and it's a trend that's becoming more and more important. It's just, no more fluff these days."

Rather than reiterating information provided in advance at meetings, management should use boardroom time to offer more in-depth analysis and forward-looking strategy, according to directors. Among the ways directors would improve the quality of the information they receive from management, more interpretation on the meaning and importance of the data and "more forward-looking information, and fewer historical results earned the top spots on the list—each with a third of the votes. Closely behind was more focus on the most critical KPIs (31 percent). Only 15 percent said they were fully satisfied with the information they receive from management.

"We just did our annual board assessment, and the loud outcry was around the board materials, particularly the management presentation that was not only taking too long but was too rear-view-mirror-looking when we wanted to be understanding trajectory," says Dorlisa Flur, a director on the boards of Sally Beauty Holdings and Hibbett. "We get to a level where you can't see the trend lines on some key drivers. A lot of retailers' inventory became something you wanted to watch last year, and then that suddenly started leading to all of these supplemental scorecards that had us all saying, 'Whoa, you're overwhelming us with way too much detail.'"

Buchan says discussions with management should focus on the big picture of how the company is operating, not the siloed issues, particularly at a time of increased activism risk. "Some of the biggest institutional investors and some of the very big corporate activism programs, they're all focused on the board paying attention and not missing the obvious," she says. "You can't let the chair or management control the objective."

Bringing the discussion back to how the business is operating, understanding the challenges and developing a level of mutual trust in the boardroom is vital, Buchan says. "We want to know what's really going on. We want to know about what your fears and your worries are because there are a lot of perspectives

around the table," she says. "Obviously, we're trying to help steward the company on behalf of its shareholders, but when everyone's sitting around the table and it's a very honest conversation, I think we've done a really good function of it because that's what we're here for."

## DISCUSSION DEEP DIVES

More time for open discussion with management and fellow board members topped directors' wish lists to improve board meetings, with 60 percent of respondents citing it as where they would like to spend more time. Time to engage with the management team and high-potential employees and reserving time for new and emerging issues arising after the board agenda was set followed as No. 2 and No. 3 priorities, among 46 percent and 35 percent of directors, respectively.

In return, beyond reducing the time devoted to management presentations, a full third of board members said they would be willing to reduce social time for directors to get to know each other better if time were short.

However, a number of directors we spoke with strongly disagreed with that choice, including Swati Abbott, a director on the board of home healthcare company The Ensign Group and the current CEO of Blue Health Intelligence. "It's important from a governance perspective that you understand what each director is bringing to the table, understand their background, understand their expertise, so you can collaborate as a team, just like in any team," she says. "You need to understand your team members."

Socializing among directors is part of basic governance that ensures that each board member brings something different and needed to the table "so that we can collectively advance management and help them think through issues," says Abbott. "It's super critical if you are going to do right by the company."

"It gives us the opportunity to talk and sit down for dinner, with no agenda," agrees Barbara Lang, who chairs the nom/gov committee and is an independent director on the board of Piedmont Office Realty Trust. "You're chatting with whoever is sitting on your right or left, and you're getting to know them. Sometimes you talk about work and what's go-

## WHAT DIRECTORS WANT...

**If your board decided to add two hours to its regular meetings, how would you prefer to use the additional time?**



*\*Directors were asked to select top three*

## ...AND DON'T WANT

**If your board decided to cut its regular meetings short by two hours, what would you prefer to remove or cut back to use the additional time?**



*\*Directors were asked to select top three*

ing on at the company, but a lot of times it's really just talking about them, whatever else is going on in people's lives. That gives us the chance to get to know them outside of their corporate board role."

Directors also pointed out that spending time with one another socially can help board members collaborate more effectively. "Individuals who have a better understanding of one another are able to be more effective in dealing with others," says Devin Murphy, a director on the boards of CoreCivic and Apart-

ment Income REIT Corporation and the president of Phillips Edison & Company. "And the way you learn about others in the context of a board is through the socialization elements of the board processes."

Peterson says what these findings speak to is less about the importance of directors connecting with each other over cocktails and networking, and more about the critical importance of quality discussions in the boardroom and with senior management on critical issues.

**"It's a board's duty to be able to step in and point out if you think management is being risk averse or taking on too much risk."**

"Directors are looking for more time to get to know management teams and high-potential employees; perhaps shifting social time to director networking with these groups is the opportunity for boards," she says.

#### RETHINKING WHERE AND HOW

Reflecting on the most significant way that board meetings have changed over the past three years, most directors chose holding meetings virtually. Fifty-three percent of survey respondents report that they now conduct some of their full-board meetings virtually, and 29 percent do the same for committee meetings.

However, while acknowledging the efficiencies gained by not needing to travel, several board members questioned whether virtual meetings are as effective, particularly for large boards. "When you're trying to have a full-board meeting, especially one the size of Mar-

athon, which is like 12 board members, you end up with too many people and not enough time," says Stice. "Frankly, it's hard to navigate in person, too, but the point is, I think full-board meetings are better in person."

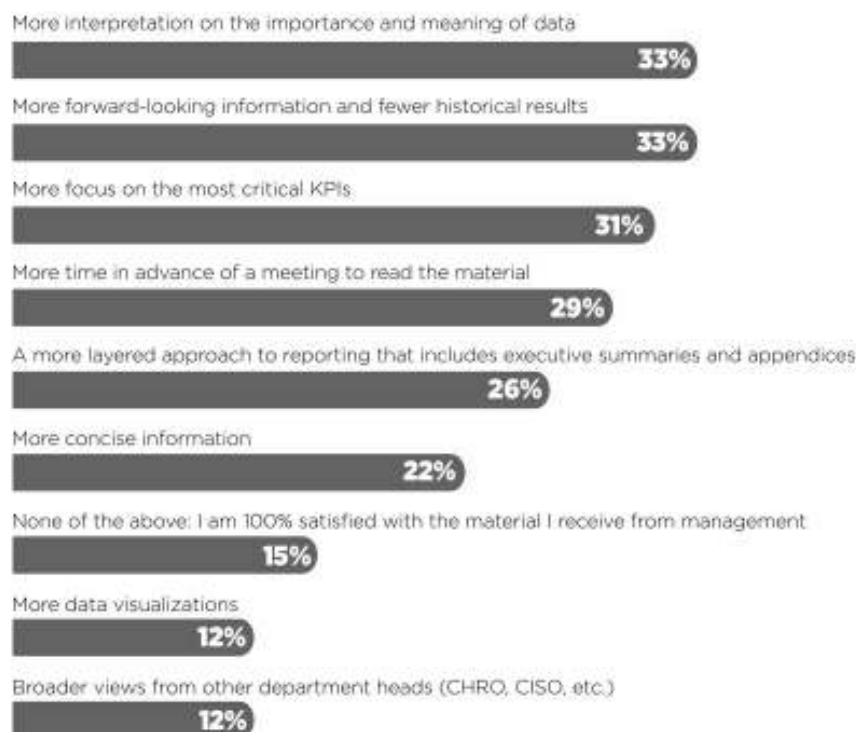
Lang reports that while her full board managed virtual sessions just fine during Covid—the board is relatively small with eight members—they have since made the decision to go back to in-person. One reason is that her board has a practice where all members are invited to attend all committee meetings, whether they're on the committees or not, which is much easier to accomplish in person. "I believe the thinking is, let's just let everybody hear everything because we're going to have to hear about the vote when we get to the general board meeting, so it's nice to hear all the dialogue," she says. "Obviously, if you're not on the committee, you don't vote there, but it makes the board meetings relatively quick because we've all gone through everything." The full board also still holds certain sessions virtually, but primarily when a special situation arises, such as an acquisition or a disposition.

Another change in board practices, according to the survey, is the increase in communications outside of formal meetings. More than a third of surveyed directors reported having more frequent communications in between meetings than they did in the past, noting that those engagements help clear out more discussion time on the agenda.

The onslaught of issues falling onto boards these past few years have forced them to move items out of the agenda to tackle offline so that meeting time can be reserved for more in-depth discussions of the most critical issues—at both the full board and the committee level. "The way I see it, they're trying to take things out of the audit committee, so that the audit committee doesn't go on forever," Murphy says. "I was on the board of a company years ago where the audit committee would go on for six hours. That doesn't happen on the boards that I'm involved in now... And to be frank, unless there are issues that need to be dealt with in the audit committee, the audit committee shouldn't go on that long. For audit committees that go on for much

## THE RIGHT STUFF

### Top ways to improve the quality of the information received from management



*\*Directors were asked to select top three.*

longer than two hours; I would question whether there's a more efficient way to run the process."

Twenty-nine percent of directors report that their companies have created new committees and working groups to better manage the agenda. Flur points to a growing tendency to leave a board meeting with follow-ups that involve a sub-working group. "[We have] pairings between board members and members of management so that between the meetings, there's a lot more interim dialogue to try to advance on what might have been a next step that was coming out," she says. "It's a bit more of let's divide and conquer as a board who's got the expertise and who on the management team would benefit from a lean-in on that expertise."

Her board also shifted the order of the meetings to streamline communications and facilitate discussion. Instead of starting the day with committee meetings that lead up to the full board meeting, as most boards do, they're now starting with the full board. "We've found that even on the most basic things around financial performance, there was a lot of duplication. In the audit committee, which was first in the day, that was the first time we were getting into performance for the past quarter," Flur says. "But you wanted to hear about the business side before going into the nuts and bolts on the audit committee side, so we decided to flip the order of our meetings."

The goal was to cut the time spent in committee meetings—from four hours to two hours for audit specifically—and become much more focused on the issues that matter. "Instead of us having to baseline everything, now we have that context on performance, and we're able to drill into the things that are the more technical aspects of audit committees," she explains.

Wilkins's board also creates working groups for certain topics for which it's more important to gather specific expertise around the table, like M&A. "We pick a number of more professional people that have handled this work in the past and have them go after that with the CEO," he says. "And then, when they present to the board, it's not just the CEO and his team, it's also the board and

the CEO and his team together, working through the due diligence," he says.

Such ancillary meetings are a growing trend, according to directors. "It could be activist driven; it could be proxy season driven; it could be something there that requires a subset of the board and its unique expertise," says Stice, who estimates that such impromptu discussions now take place on a monthly basis. "It's not a regularly scheduled thing. It's in response to a stimulus, outside of the normal course of business. That's happening more frequently."

## ALIGNING ON RISK

Another area of focus highlighted by survey respondents was the importance of open, forward-looking discussion. While 65 percent of directors surveyed said they were highly confident in their board's alignment with management on top risks for the company, 38 and 31 percent said they could use more clarity on management's appetite for risk over the long and short term, respectively.

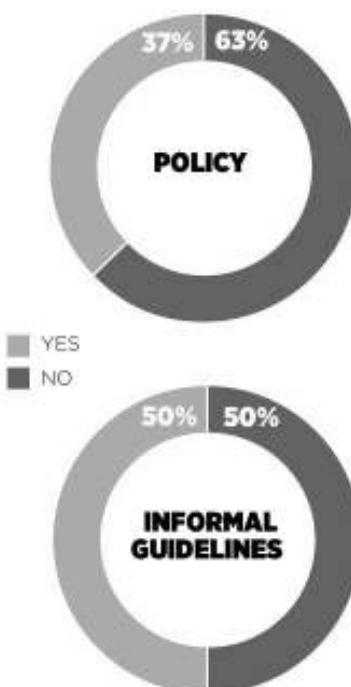
The finding is startling, Abbott says, because "it's a board's duty to be able to step in and point out if you think management is being risk averse or taking on too much risk. It may be that sometimes management will be more conservative, but let's have a discussion and understand why. And it may be that they are taking too much risk, and you need to be like, 'Whoa, we're not sure. Let's talk.'"

"That [delta] shouldn't even exist," adds Murphy. "But I'm guessing that the reason it does is that boards are more risk averse and therefore less willing to take risk. Management has more incentive to take risks than boards, given how the risk-reward benefit accrues more to management than it does to the board. Management gets the benefit of the upside, and the board basically owns the downside because when things go wrong, the board gets blamed, right?"

The misalignment could also stem from the fact that the risk environment is very different today, notes Stice. "Risk has become more extrinsic than intrinsic. It's not the decision-making within the tent that exposes us to greater risk with potential reward, it's the things that are happening to us outside the tent that are making us

## INFORMATION APPROACHES

**Does your board have a policy or informal guidelines to help directors remain informed on key issues?**



## “Directors are looking for more time to get to know management teams and high-potential employees.”

respond,” he says. “Fifteen to 20 years ago, a lot of the risks that we would expose ourselves to were decisions we made. Now, the risks are in response to a 250-page SEC document that may potentially force us to list Scope 3 emissions. So, we tend to be playing defense more often than offense.

“But I really believe that reward is commensurate with risk, and if I’m going to hold the corporation or the company responsible for greater reward, then I need to be willing to take on greater risk. That is how you differentiate yourself among your peers who might be ironing out and mitigating and eliminating all the risk.”

## IDENTIFYING EMERGING CONCERNS

For the past five years, CBM research has shown cybersecurity atop the list of concerns for board members. And this survey didn’t buck the trend: Nearly two-thirds of directors said their level of concern in that area had grown over the past few years, making it by far the top issue on the list, well ahead of economic conditions (41 percent) in second place.

The challenge with cybersecurity and data privacy, directors say, is the sheer complexity of the matter—how to protect what—and the increasing sophistication of attacks. Knowing where to look and which questions to ask is key, and hearing from experts in the field is one of the best ways to ensure the board stays abreast of emerging risks.

Yet, despite the importance of staying informed on new developments—around cyber or any other issue—only 37 percent of directors surveyed said their board had a formal policy for board education, and just 50 percent have informal guidelines to keep them informed and educated on those risks and opportunities.

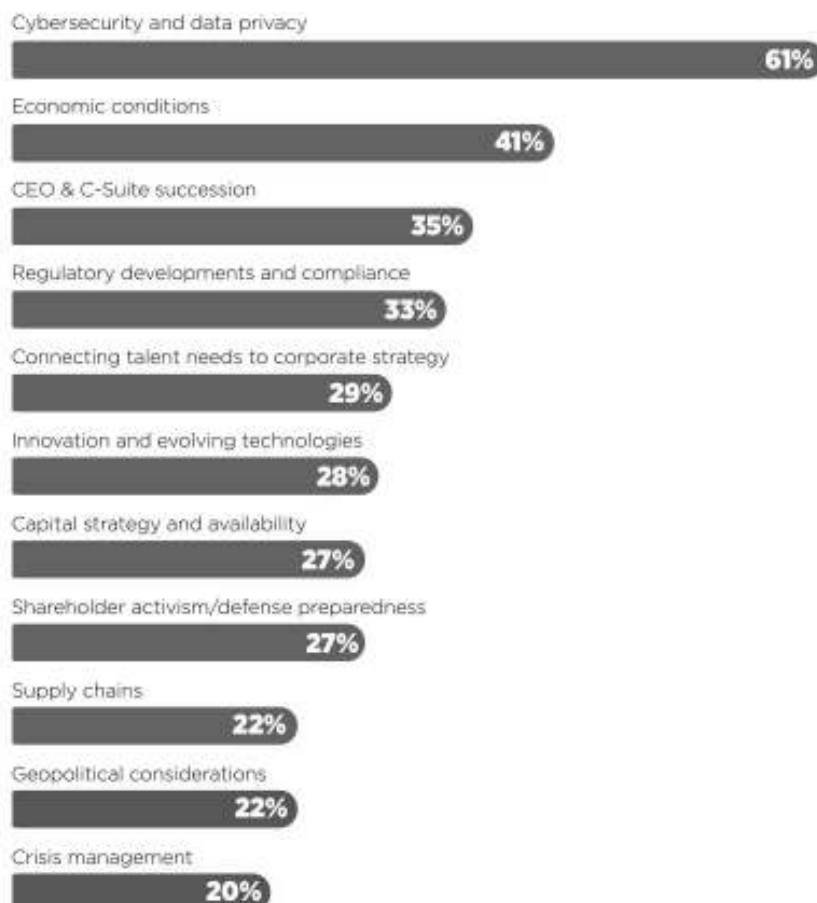
The data isn’t surprising: Our research has repeatedly shown that directors typically aren’t supportive of formal policies, whether they concern board education, term or age limits, or any other aspect that, in directors’ view, restrict the freedoms of the board, as they can potentially harm the effective governance of the corporation.

Instead, most directors say it’s an individual’s responsibility to seek out the information they need to enhance the quality of discussion at the board level. And directors who don’t take the time to invest in their education get weeded out fast, Stice says, thanks to a basic board function: director assessments. “And it’s really healthy,” he says.

Company-specific education events are also useful, says Abbott. “I love the fact that [Ensign] has an annual conference of management, and they talk about all the top-of-mind issues,” she says. “They have public speakers, and we, as board members, attend. We get to meet all of management, we get to hear all top-of-mind-issue industry experts. And that’s fabulous. Talk about an educational experience and walking in their shoes for two days.” **CBM**

## WORRIES ON THE HORIZON

**What would you say has grown as a concern for you in your role as a public company director over the past two to three years?**



*Directors were asked to select top 5*