

# Reporting to the board

## *Role of the board*

S 180 (2) (c) of the *Corporations Act 2001* (Cth) creates a responsibility for directors to keep themselves informed, and one of the biggest challenges a non-executive director faces is how to access the information they need, verify its reliability and use it to make sound decisions.

Many boards rely heavily on the information provided by senior management. Although in many circumstances it may be appropriate to rely on this information, directors must take responsibility for the way they receive information and the level of detail this information provides.

Boards need to ensure:

- they have sufficient information and the time to make informed decisions;
- they are being provided with all the information, the good and the bad;
- the information they receive enables an evaluation of the issue: for example, agreed KPIs have been established to help assess performance or success of a program;
- the appropriate internal controls are in place to protect the integrity of the information provided

Non-executive directors often have other day jobs and may only have board meetings once every month, bi-monthly or even quarterly. The information needs to be succinct but also presented in a way that makes it easy to absorb and retain so that informed decisions can be made.

A good way to achieve this is to have an annual review to agree on key reporting issues, such as:

- The information available to boards and how it is made available, considering:
  - key corporate information, such as the constitution, board policies, strategy documents;
  - company media releases and information provided to stakeholders;
  - general environmental, industrial and economic updates;
  - the preferred format for this information:
    - in hardcopy (sent out)
    - in softcopy (emailed)
    - accessed via a board portal or other online software.
- How board papers should be prepared and delivered, considering:
  - the content and format of each pack;
  - the amount of information and level of detail;
  - the distribution of information prior to board meetings;
  - the board report template, which sets out a consistent format with minimum content requirements and presentation style.

### Directors must be critical thinkers

Decision making reports presented to a board serve the purpose of providing information that will help solve a problem or challenge. A board will use these reports to think through and assess all the information they have at hand to deduce a conclusion, develop a strategy, decide a course of action or to approve or reject a solution recommended by management.

A prudent director should apply critical thinking to any information they obtain. As a concept, critical thinking is defined in the following way by Dr John Dewey:

*“the essence of critical thinking is suspended judgment; and the essence of this suspense is inquiry to determine the nature of the problem before proceeding to attempts at its solution. This, more than any other thing, transforms mere inference into tested inference, suggested conclusions into proof.”<sup>1</sup>*

Critical thinkers test what they are told and what they read. They need to possess logical thinking skills and the capacity for disciplined thinking that is clear, rational, open-minded, and informed by evidence.

An effective board not only applies critical thinking in interpreting board reports, but also nurtures these same characteristics in the writer putting this information together.

### Applying critical thinking to board reports

Critical thinking researchers and authors Dr L Elder and Dr R Paul<sup>2</sup> break down the components of how we think into eight elements of thinking.

The following table lists these eight elements of thought alongside their application to board reports:

Element of thought	Application to board reports
<p><b>Purpose</b> All reasoning has a purpose.</p>	<ul style="list-style-type: none"> <li>Clearly state the purpose of the report.</li> <li>Outline the goals or objectives of what is to be achieved.</li> <li>Delineate similar issues.</li> </ul>
<p><b>Question at issue</b> All reasoning is an attempt to figure something out or to solve some problem.</p>	<ul style="list-style-type: none"> <li>Clearly state what the questions are that are embedded in the issue.</li> <li>What are the decisions that need to be made?</li> </ul>
<p><b>Information</b> All reasoning is based on data, information and evidence.</p>	<ul style="list-style-type: none"> <li>Reports need to provide context. Provide the history of the situation. Are there any previous board decisions that have led the organisation to this point?</li> <li>Provide evidence that supports any claims made.</li> <li>The evidence needs to be factual, not emotive based. Clearly state the source of the evidence, such as best practice, evidence based, observations or experiences.</li> <li>Consider how the evidence/information is presented; use lists, bullet points, graphs, tables to present data clearly and succinctly.</li> </ul>
<p><b>Interpretation and inference</b> All reasoning contains inferences or interpretations by which conclusions are drawn and data is given meaning.</p>	<ul style="list-style-type: none"> <li>What are the facts?</li> <li>What does the evidence infer?</li> <li>State any assumptions used in drawing conclusions or recommending solutions.</li> <li>Assess the assumptions for any unintended bias.</li> <li>Check that the interpretation of the facts make sense.</li> <li>State any alternative conclusions that could be made.</li> </ul>

<sup>1</sup> J Dewey, *How We Think*, D C Heath and Co Publishers, 1910, p 74.

<sup>2</sup> R Paul and L Elder, *Analytic Thinking*, 2e, Foundation for Critical Thinking, October 2010.

Element of thought	Application to board reports
<p><b>Concepts</b> All reasoning is expressed through, and shaped by concepts and ideas.</p>	<ul style="list-style-type: none"> <li>Clearly state any concepts, theories, definitions, axioms, laws, principles or models used, and define them.</li> <li>Are the concepts justifiable?</li> <li>Consider what conclusions that are being drawn, are they logical and in line with established usage?</li> </ul>
<p><b>Assumptions</b> All reasoning is based on assumptions. This includes assumptions about the information itself and also assumptions about the reader.</p>	<ul style="list-style-type: none"> <li>Senior management has access to much more detailed information than the board of directors.</li> <li>Has the board been provided with all the information needed to make informed decisions?</li> <li>The knowledge the board of directors may or may not have should not be taken for granted.</li> <li>Check that the assumptions make sense.</li> </ul>
<p><b>Implications and consequences</b> All reasoning leads somewhere or has implications or consequences.</p>	<ul style="list-style-type: none"> <li>Provide alternative options and outline all possible consequences of each option.</li> <li>Outline both positive and negative implications of a decision</li> </ul>
<p><b>Point of view</b> All reasoning is done from some point of view, a frame of reference, perspective or orientation.</p>	<ul style="list-style-type: none"> <li>Consider how an issue is being approached.</li> <li>Are there different viewpoints that should be considered?</li> <li>Different viewpoints might come from different stakeholder perspectives.</li> <li>Outline the different viewpoints with their strengths and weaknesses.</li> </ul>

### The characteristics of good information

To assist critical thinking, board papers should be written to agreed organisational templates or protocols. They should be jargon and acronym free (or have a glossary) and use a reasonably sized font. Papers should contain a clear recommendation and indicate what options have been explored and the pros and cons of each, including material risks.

According to D Starovic’s *Performance Reporting to Boards: A Guide to Best Practice*, Chartered Institute of Management Accountants (CIMA), London, good board information is:

- **Relevant** – the information should be focused and reflect the defined objectives and strategy of the organisation. It must not obscure the big picture with detail. It must be capable of being drilled down and sufficient to allow exploration of as many alternatives as are necessary for impartial action.
- **Integrated** – information collected should be managed in a way that satisfies both internal and external reporting needs. According to CIMA the information needs of directors are broadly similar to that information needs of investors.
- **In perspective** – information should be presented in the context of a time line, focusing attention to historical, current and project scenarios where relevant.
- **Timely** – the basic proposition is that imperfect information (within tolerance) is preferable to perfect information out of date.
- **Frequent** – different information should be provided at different times:
  - Monthly or fortnightly reports should focus on ‘critical’ success factors.
  - Quarterly reports should focus on qualitative aspects and have a broader coverage.
- **Reliable** – directors must have confidence in the information provided. Data behind information must be of good quality, trustworthy and unbiased.
- **Comparable** – actual performance should be assessed against benchmarks and targets. Reports should be prepared so as to allow comparisons to be made easily.
- **Clear** – text should be written in a clear and simple way.
- **From a credible source.**

## Presentation of the information

- When writing board reports, it's important to consider what is the best way to present the information.
- Research conducted by Ralph Haber<sup>3</sup> considers that recognition of pictures is essentially perfect. The reason pictures are so memorable is because they make use of a massive range of cortical skills: colour, form, line, dimension, texture, visual rhythm, and especially imagination. Pictures trigger emotion, which trigger more associations, thereby enhancing creative thinking and memory.
- Directors often get presented with large volumes of information. They need to contextualise the information, connect it to other knowledge they already possess and absorb and process the information.
- If pictures help to provide a framework with which to process information, then they should be considered whenever possible.
- When presenting volumes of information, consider the following elements of format and style:
  - Provide a hierarchy to the information with big picture first and then a drill down for more detail;
  - Provide links and associations to the information as it is easier to expand on existing knowledge than to remember new information;
  - Chunk the information using the 7 +/- 2 rule (this rule is based on the theory that short term memory only has the capacity to store 7 items at a time<sup>4</sup>);
  - Typically, English language reports read left to right;
  - Make use of lists and bullet points, tables of data, graphs, Gantt charts and mind maps where appropriate;
  - When using text, consider the use of font style, **bold** and *italics* to emphasize important points

<sup>3</sup> R H Haber, 'How We Remember What We See', *Scientific American*, 105, May 1970.

<sup>4</sup> This theory was first put forward by G A Miller, 'The Magical Number Seven, Plus or Minus Two – Some Limits on Our Capacity for Processing Information', *Psychological Review*, v 101, number 2, pp 343-352, 1956.

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