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BEYOND THE BOARD ROOM

How Corporate Directors Gain Insight

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Diligent Institute was founded in 2018 to offer a global perspective on the complex and disruptive board governance topics that directors and leadership teams are tackling today. The Institute serves as the global governance research arm of Diligent Corporation, the pioneer in modern governance. Diligent® empowers leaders to turn governance into a competitive advantage through unparalleled insight and highly secure, integrated SaaS applications, helping organizations thrive and endure in today's complex, global landscape. The Diligent Institute is solely funded by the Diligent Corporation and functions as a think tank and research arm.



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Introduction

It's no secret that serving as a corporate director today is more challenging than ever before. Between the escalating pace of change, the increasingly public profile of boards, and the growing set of existential risks that companies face, one could argue that modern directors have more on their plates now than at any other time in history.

Corporate governance researchers and practitioners have spilled much ink in recent years about the necessity for changes in the boardroom; they've pushed for boards to improve their approaches to leadership diversity, technology usage and education, cyber risk oversight, corporate culture oversight, and overall proactivity. As directorship becomes more demanding, the traditional method of information transfer – where management prepares a paper board book (a.k.a. “meeting pack” or “board papers”), directors read the book, and the board meets to discuss the contents – has become insufficient.

As the role of the board continues to evolve to meet new demands, so too must the way directors acquire and assimilate new information. For a long time, the focus on updating board practices has been directed at helping management find more efficient methods of communicating information to directors in preparation for meetings. The key has been to ensure directors are receiving accurate, timely reports from management with digestible information that they can use to make strong decisions. But the focus of much of the existing literature on this subject is on *management* – what reports the management team should provide to the board, how the reports should be structured, and the means with which the reports should be delivered to directors.

Diligent Institute sought to ask a different question: *What are directors doing to gain insight and prepare for board meetings?*

Diligent Institute also designed this study to understand more about what kinds of information directors seek as they prepare for board meetings, how they feel about what they receive from their management teams, and where else they turn for insights and education. The goal of this work is to help elucidate directors' meeting preparation practices for those who work with boards on a regular basis – including CEOs, General Counsels, Corporate Secretaries and other Governance Professionals. This research also seeks to reveal opportunities for these actors to re-examine their board information and communication models.

Diligent Institute surveyed directors from around the world to learn how they currently prepare for board meetings. The data on how directors prepare for meetings is reviewed through two different lenses:

- The percentage of directors who engaged in each activity
- The percentage of time directors spent on each activity, on average

“I was thinking of preparation time as from the moment I got word that the materials were in the Diligent portal, but if I thought more broadly about it, I’d bump the percentage spent on other activities even higher. I’m always consuming information and working with my colleagues, so in that sense, everything I’m doing is preparing for a board meeting.”

Meeting preparation matters deeply because it plays a significant role in guiding the conversations and decisions that occur inside the boardroom. The results of this study, therefore, provide a useful window into what directors are bringing to the table. The research also highlights how board information models may need to evolve to meet the needs of modern governance.

Key Findings

Diligent Institute found that the days of management-prepared board books as a “single source of truth” are largely over. Sixty-five percent of directors are spending time gathering independent information about the company as part of their pre-meeting preparation. Additionally, directors spend forty percent of their meeting preparation time engaged in activities other than reading the materials prepared by management: Twenty-one percent of directors’ time is spent conducting their own research, and another nineteen percent of their time is spent in conversation with other corporate leaders.

Methodology

Diligent Institute collected responses from 198 directors to the following question: “In preparation for your last board meeting, what percentage of your total preparation or pre-meeting time spent preparing was dedicated to each of the following activities?” The survey was distributed through the Diligent Boards iOS Application in August and September of 2019. Respondents were mostly directors serving on boards spanning a wide range of geographies, organization types, and industries (for full respondent demographic information, please refer to the appendix).

A series of follow-up interviews with directors provided further context and perspective on the data. The quotes that appear below resulted from these interviews, and respondents remain anonymous to allow for candor and meaningful insight.

Results

What Directors Do to Prepare for Meetings



65% of directors spend time gathering independent information about the company while preparing for board meetings.

- This practice is occurring widely, regardless of industry or organization type – it is not isolated to particularly progressive or innovative boards.
- Public company directors are even more likely to gather independent information about the company, with 71% reporting that they did so before their last board meeting.
- Directors outside of North America are more likely to gather independent information about the company than their North American counterparts.
 - 70% of non-North American directors
 - 62% of North American directors

Meeting Preparation: Activities

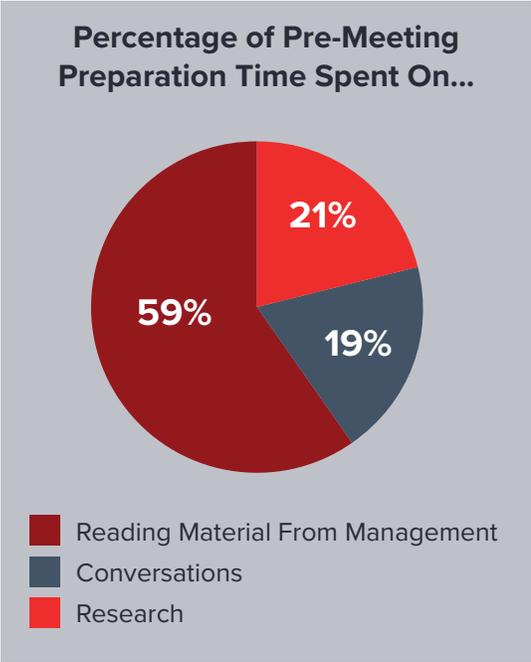
All Respondents	
Reviewing board materials prepared by management	100%
Gathering independent information about the company	65%
Conversing with other board members	79%
Conversing with management	87%
Reading industry reports or information	77%
Reading corporate governance thought leadership or best practices	64%
Other	8%

Public/Listed Companies	
Reviewing board materials prepared by management	100%
Gathering independent information about the company	71%
Conversing with other board members	84%
Conversing with management	90%
Reading industry reports or information	77%
Reading corporate governance thought leadership or best practices	61%
Other	10%

How Directors Balance Their Time Preparing for Meetings

Directors spend 40% of their meeting preparation time engaged in activities other than reading the materials prepared by management.

- 21% of directors' time is spent conducting their own research
- 19% of their time is spent in conversation with other corporate leaders
- The time allocation was consistent globally - there was never more than a two percentage-point difference between North American and non-North American results



Meeting Preparation: Time Allocation

All Respondents	
Reviewing board materials prepared by management	59%
Gathering independent information about the company	7%
Conversing with other board members	8%
Conversing with management	11%
Reading industry reports or information	8%
Reading corporate governance thought leadership or best practices	5%
Other	1%

Public/Listed Companies	
Reviewing board materials prepared by management	59%
Gathering independent information about the company	7%
Conversing with other board members	9%
Conversing with management	12%
Reading industry reports or information	7%
Reading corporate governance thought leadership or best practices	5%
Other	1%

How Directors Explain Their Meeting Preparation

This report unveils how much time directors are spending both communicating with corporate leadership and doing independent research before board meetings. The quotes assembled below from non-executive and executive directors at a wide range of companies offer some insight into what those activities can entail.

Having Conversations with Management

"We're meant to be 'noses in, fingers out,' but that can't mean that all we can do is read and review board books and attend meetings. In addition to our oversight duties, directors have a duty to provide appropriate challenge, advice and guidance. Isn't it better to be proactive and engage with management on a regular basis rather than simply replacing the CEO when we're unhappy?"

Efficient Preparation

"We tend to have 1:1 meetings between the CEO and each board member in advance of the board meeting. We're talking about the shape of the board conversation – what to expect and a preview of management's thinking and my thinking. I think it's great when I can do that before I review the materials, because then I know what to expect and what to read for."

"I get a normal flow of information from management, and if things look odd or not quite right, I talk directly to management. I'll absolutely pick up the phone and speak with them outside the boardroom."

"I frequently talk to management in advance of a board meeting, especially if there is a complex paper or if I know a controversial paper is coming. I will ask to have a meeting with management to go through the paper beforehand. I did this recently with a presentation that would be an entire change of direction for a project."

"When questions come up that require executives to do something, we email them in ahead of time so that when we turn up for the meeting, the simpler stuff has been handled already. It makes the net discussion of the meeting more productive."

"We're increasingly meeting with the management team on a more casual basis. In strategic planning sessions, we include a broader brush of the management team. But it depends on the culture of your board and your organization."

"You're being irresponsible if you're not looking more widely to understand what's happening in your sector rather than relying solely on CEO reports. Especially in today's high-risk culture, when you're assessing risk all of the time, if you just looked at one source, you wouldn't be doing your job properly."

Conducting Research

Strategic Asset Directors

“As a director, you need that ‘inclination to engage’ that Spencer Stuart described – that’s such an important soft skill.¹ The management team is generally up to their eyeballs in alligators on operational issues, so as a director, one of the best things I can do is research and read, dive into the industry, and make sure I’m up on all of the current trends. Then I bring that back to the management team as appropriate.”

“I have general streams of information for all the boards I sit on – monthly, weekly streams of information – and that process becomes routine, almost a background activity. I don’t sit in the week before the board meeting and binge on all the data. I’m doing it year-round.”

—— “ ——

“I’m always looking at the trends of how boards are run and how they should be run. I’m looking at how corporate governance practices interfere and help in different industries and at different organizations.”

—— “ ——

“Before our long-term strategy meeting, I send my colleagues all the interesting articles I can find about trends in the industry. It saves time at the meeting if we already know, for example, about the speed of deployment and impact of 5G, or when level three autonomous cars will be allowed by law. I think I can bring the most value in that context by researching (through reading or using my network) deep data on long-term industry trends and the development of new disruptive technology, so it’s how I dedicate most of my time.”

“A wealth of important information and knowledge comes from maintaining my network. I take it as a rule, for example, to attend the two most important industry symposiums – that’s where I meet old colleagues and we chat about the trends and we do a little gossip. That’s incredible valuable because it’s how I keep abreast of the latest developments. It’s social, but extremely relevant to my role as a director.”

Having Conversations with Board Members

“I think reading the materials loaded into Diligent is some of it, but once it’s loaded, trust me – the board members talk to each other.”

—— “ ——

“I will often do impromptu conversations with other board members about investment strategies, or what they think next steps should be, or about the different directions we could go in. We even do some ‘what if’ work.”

—— “ ——

“When we talk before meetings, to some extent, it’s coalition alignment.”

The Executive Perspective

“As an executive, a lot of my time is reaching out to board members on key issues to see if there was anything they wanted us to present on or that they wanted more information about. I’m encouraging those conversations beforehand so that there won’t be long, drawn out conversations in the board meeting that we were ill-prepared for or that could have been addressed beforehand.”

1. <https://www.spencerstuart.com/research-and-insight/finding-the-right-fit-assessing-first-time-candidates>

Conclusion

Understanding how directors prepare for a board meeting is the key to understanding what happens once they're in the room. It's clear from these findings that directorship today is dynamic, collaborative, and demands more than merely reading over the board book. These findings should move the conversation past the question of whether or not directors should do their own research and engage with corporate leaders proactively – the directors we surveyed are already there.

But with that question answered, many more important questions arise: How can the information provided by management in the board book evolve to meet directors' needs? How should governance and executive teams support and manage their directors' efforts in these areas? What are governance best practices for conducting independent research and collaborating prior to board meetings? Do these practices pose new risks, and if so, how can they be most effectively mitigated? What specific kinds of intelligence do directors feel they need to seek out on their own? Similarly, how can the management team discern what the board is learning from individual due diligence efforts, and whether or not the data directors are uncovering is accurate, appropriately contextualized, and relevant?

New practices inevitably produce new fears, risks, and uncertainties. But they don't arise in a vacuum – practices change when traditional models don't meet contemporary needs. It would be futile to ask directors to stop seeking out additional information or to ignore their burgeoning desire to do so. In fact, the instinct to be curious, proactive, and engaged that likely underpins this information model transformation is key to unlocking the benefits of modern directorship. By embracing these qualities in their directors, and by being aware of the shifting reality of board meeting preparation, companies can manage the new risks and leverage the full potential of modern governance to benefit the organization.

Appendix

Respondent Demographics

Organization Type

Public/Listed	47%
Private/Unlisted for-profit	28%
Not-for-profit	12%
Government	7%
Other	7%

Industry

Finance/Financial Services	29%
Energy and/or utilities	12%
Healthcare	10%
Agriculture, food, and/or beverage	8%
Construction	8%
Insurance	8%
Business and/or professional services	7%
Consumer services	4%
Transportation	4%
Technology	3%
Chemicals or metals	3%
Consumer products	2%
Electronics	2%
Retail	2%

Region

North America	55%
Australia and New Zealand	21%
Europe	14%
Africa	8%
Asia	1%
Middle East	1%
South America	1%

Company Size

Up to 499	36%
500 to 999	15%
1000 to 4999	24%
5000 to 19999	16%
20000 or more	10%

All percentages in report have been rounded to the nearest full number. Which occasionally has produced a set of percentages that has not added up to 100. Figures with decimal precision are available upon request.

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