

# Directors & Boards

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# What should be in the boardbook

*The primary shortcoming of the typical board book is the lack of external information.*

BY MARTIN D. HANAN AND DAVID N. FULLER

ONE OF A COMPANY'S critical responsibilities is to involve its board of directors in the management decision-making process. The most valuable communication tool used in this process is the "board book" prepared by management and distributed to directors in advance of meetings. While the board book is an extremely important tool, it rarely lives up to its potential in terms of fully informing directors with regard to the internal and external factors that affect their decisions.

## Typical Contents

Prior to the meetings, a board book is generally disseminated to prepare directors for the coming discussions. Usually the board book contains an agenda listing the items that will be covered during the meeting, and, for each item, select detailed information. For example, a financial package showing the company's financial statements for the recent quarter along with supporting schedules might be provided to coincide with the agenda item relating to management's report to the board on recent performance. Other items may include proposed resolutions relating to such issues as loans and loan documents, senior management appointments, or compensation.

While the information provided in a typical board book is helpful in terms of preparing the board for the discussions that will take place, there is typically little information that would allow the directors to do much more than listen and question within the boundaries of the information presented by management.

The board book typically provides adequate detail relating to the performance of the company and other internal issues. The primary shortcoming of the typical board book is the lack of external information. While there is a tremendous amount of information available, direc-



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tors often don't have the time, resources or inclination to gather, distill and synthesize that information in order to improve the quality of their input.

## External Data Requirements

Given management's familiarity with the issues facing the company, the information they share with directors often presupposes a level of knowledge the outside directors may not possess. Between meetings, directors have their own dragons to kill and, while they may come across some information on their own, they are less likely to pick up on the news and events affecting the company than is management. It is therefore imperative that the company, either through its own

actions or by engaging outside services, synthesizes the information that directors require in such a way that they can evaluate alternatives and make decisions with the highest degree of certainty possible.

The external data provided should cover the following topics:

**1.** The condition of and outlook for the economy in the company's geographic scope;

**2.** The condition of and outlook for the industry and the specific markets in which the company operates;

**3.** The identity of the company's competitors, their market positioning and the related perceived advantages and disadvantages of each;

**4.** The comparative financial performance of the company and its competitors for which information is available;

**5.** The comparative performance of the company's securities relative to those issued by competitors;

**6.** The level and nature of executive compensation in similar firms and identifiable relationships between compensation and corporate performance;

**7.** The current opinions of analysts and institutional investors regarding the industry, events or trends affecting the company and its competitors;

**8.** Mergers, acquisitions and divestitures in the industry and relevant deal terms;

**9.** Capital structure comparisons between the company and firms of a similar nature; and,

**10.** An analysis of the information that can be gleaned from a comparison of the relative values of the company versus its competitors.

Armed with this type of information, directors are better able to evaluate the alternative decisions proposed by management and can be more proactive in discussions about key issues such as corporate strategy and investment decisions. Simply speaking, this information unlocks the value potential for which the directors were elected.

As directors, as well as analysts, we understand the importance of thorough, accurate and timely information to make the best decision for the shareholders. ■