

Technology in Corporate Governance

BoardVantage
Security with Simplicity



Although board governance is ultimately predicated on the ethics and expertise of its members, it has grown evident to many directors that there is a crucial role for technology in the boardroom. These directors don't see technology as a panacea. Instead, they subscribe to the view that technology as an enabler – a key ingredient in a boardroom that is materially different from the one that existed only a few years ago; one where increases in board duties, a quickening in the pace of board work and growing regulatory scrutiny combined to bring about a change in the nature board work.

This qualitative change has exposed the limitations of paper-based process to serve the governance needs of fast-moving global corporations.

While the value of always-on access to board materials is readily apparent, what is equally clear is that a broad set of processes has to be captured to support the tech-savvy boardroom. From this range of processes directors typically distill three broad themes where technology can make a difference in corporate governance:

- Improved visibility into normal operations
- Greater responsiveness in case of ad hoc meetings
- Risk mitigation around discoverability

Visibility into normal operations

In sharp contrast to the recent past, board work doesn't stop when the quarterly meeting ends. Directors are expected to continue the conversation beyond the meeting, but without a

portal, it is not always possible, let alone convenient to communicate hyper-sensitive information in real-time. Boards demand routine access to weekly store reports and other sales figures. CEO's publish frequent updates. Directors complete self-assessments and other questionnaires. Executive committees work on succession planning and compensation committees review option grants.

Good portal design makes accessing all this sensitive information easier than traditional paper-based methods. Current meeting material is a click away while hyper-linking allows scanning of subject headings followed by drilling down on details if necessary. Powerful search tools allow directors to retrieve archival documents for benchmarking and automated distribution enables more frequent updates from management - without placing an unreasonable burden on the responsible executives. It's easy to see that in this "new normal" board environment, portals are a far more effective medium than the old-school paper process.

Responsiveness in case of special events

Given the unpredictability of external events such as M&A activity, market swings and natural and man-made disasters, it should be expected that circumstances at some stage will dictate the need to schedule an online meeting within 24 hours notice and in that short timeframe make all relevant documentation available. Board portals include alerting to make sure that this information is available in a more timely fashion. Factor in the mobility of board

members and the benefits of electronic distribution become clear.

In practice what often happens without the benefit of a portal is that companies improvise and make ill-advised trade-offs with readily accessible technologies such as email and fax. Faxes are sometimes sent to the wrong hotel, and in any event will be seen by hotel staff, all of whom are intelligent enough to understand the significance of an M&A bid. Worse yet, is the reliance on regular email, which creates a distributed, permanent and discoverable audit trail beyond the control of the organization. Taken out of context, off-the-cuff email deliberations can be presented in an adverse light.

Privacy, discoverability and risk mitigation

Effective governance relies upon the free and open deliberations among board members to arrive at a conclusion. Privacy is obviously essential for this process and board portals can help here in a number of ways. Designed with confidentiality as a primary objective, access is restricted only to board members and selected executives. All sensitive information is held within this protective envelop. This eliminates any risk of unauthorized viewing by IT or other support staff.

Also, portals provide a closed-loop email system, permitting a full and complete purge of individual messages. This allows boards to hold unfettered private discussions without having to worry about how their deliberations might look taken out of context.

Clearly, the board's final decisions and supporting materials must be preserved, and this is where document retention capabilities play an important role. **Using a portal the General Counsel can enforce the preferred policy for retention period with rules that will stand up to external scrutiny. This supports any requirement for discovery in a professional and time-sensitive manner.** Further, the latest generation of portals is able to extend the document retention policies to documents stored locally on the board member's laptops, an essential but sometimes ignored part of the puzzle. This is particularly relevant for boards where directors annotate board books prior to meetings.

Director Privacy versus Stakeholder Transparency

At first glance, the requirements for privacy and transparency seem to clash. Many of the corporate governance scandals of the last few years have hinged upon companies shielding the true nature of their finances from public disclosure. It's not unreasonable for shareholders to question whether this emphasis on privacy is just more of the same. Surely the owners of the company have a right to know what is going on in the boardroom?

Setting aside the fact that the quest for perfect disclosure may descend into an exercise in drudgery and documenting trivia, attempts at examining every piece of information may well create an atmosphere where boards will spend their time manipulating the information for

external presentation, rather than focusing on debating difficult decisions.

Boards are paid to address hard choices, many of which exist inside a complicated business environment or an uncertain legal framework. One example would be the operations of a global enterprise, where there are considerations for different national jurisdictions, in particular as this applies to competition and cartel laws which can vary greatly. What is legal in one country may not be in another.

Also consider lawsuits. A significant amount of board time may be spent deliberating legal matters arising from class actions, patent infringements and HR related claims with strong emotional overtones. Difficult decisions often require the evaluation of unpalatable options. Taken out of context, these could cause real harm.

If Directors are constantly looking over their shoulder, knowing that everything written by them will be recorded for future scrutiny, their response will be predictable – they will avoid written communication,. They will resort to phone and face-to-face collaboration only. That will prove increasingly difficult in the volatile business environment where the companies they govern are 24x7 operations. Inevitably this will slow down and harm the process of deliberation with no increase in transparency.

It is self-evident that transparency is critical for effective corporate governance. But, if it is to have any meaning, governance can't crowd out private deliberation. An overzealous application of tracking technology runs the risk of doing so

and creating net harm. Supporting privacy of deliberation ensures that Boards can arrive at the best possible decisions that can then be held up to public scrutiny.

It would be wrong to imply any of this is easy and that choosing the right balance is straightforward. Different industries, companies, and boards will choose different policies, and these may change over time. **Ultimately the role of technology is to implement what that policy is, not to dictate it purely on the grounds of what is technically feasible.**

Any decision is only as good as the quality, timeliness and security of the information upon which it is based. By improving visibility into operations, assuring privacy of deliberation and providing a rapid response capability to geographically dispersed directors, portals can affect all three elements, and therefore, the quality of corporate governance.



Note: This paper is a revised version of the article *'Portal Power for Executives, Directors'*, CRO Magazine, March/April 2008

About BoardVantage

BoardVantage is the leading provider of secure board portals for the browser and the iPad. Trusted by dozens of Fortune 100 boards, BoardVantage portals centralize documents, processes and communications. BoardVantage is SAS 70 Type II certified, and meets or exceeds the standards of the most security conscious IT departments, including those of major financial institutions..

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