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How Much Does a Company's Board Really Cost and Does it Deliver ROI?

Research from the USA and Europe suggests that CEOs and their direct reports spend up to thirty percent of their time supporting the Board. This work includes researching and writing papers, briefing directors, preparing minutes and agendas, attending meetings and answering questions.

We were keen to understand more about the board-management interface in Australia to see whether the same applies.

Our Survey

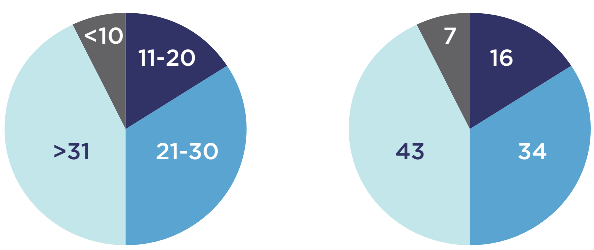
We asked a series of questions in September 2013 to a cross section of 977 senior executives, board members and advisors representing organisations across Australia, in every sector:

1. Does 30% apply for your company – if not, what percentage would you suggest?
2. How aware is your Board of the total cost of C-Suite support?
3. Do you receive good ROI from the cost of that time?
4. What would improve the ROI?

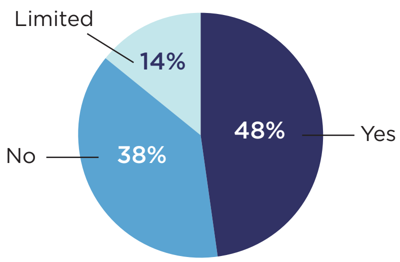
Summary of Results

Respondents answered with the following:

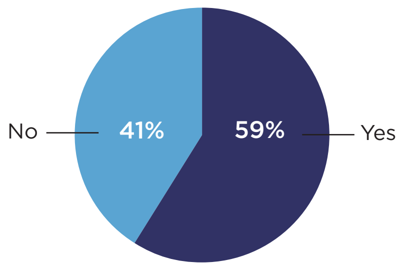
1. Percentage of Time Spent Reporting to Board:



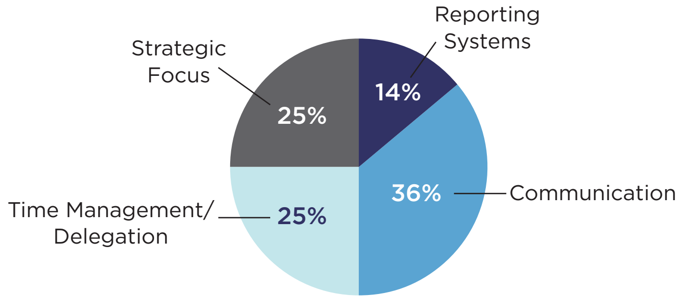
2. Awareness of Cost?



3. ROI on time Spent with the Board:



4. Improve ROI By Improving:



Key Survey Insights

Time Spent Reporting to the Board is Less Than in the US

The average time spent reporting to the board was 23%, slightly lower than the 30% reported in the US.

Only 7% of respondents felt their executive team spent less than 10% of their time supporting the board whilst 43% of respondents felt their executive team spent in excess of 30% of their time on board support tasks.

> *I would place the 30% of CEO and C-suite executive time spent supporting the Board at about correct. It is a fair amount higher in the not for profit arena in that the Board members there often have less operating management experience and need more "hand-holding". So in not-for profits may approach 50% of time.*
>
> ***– Senior Director Global Compensation and Benefits***

Only 22.5% of respondents said that reporting to and supporting the board takes up less than 20% of their time. These executives tend to emphasise that their boards are not bureaucratic and have a practical approach to governance rather than a formal, legal or theoretical one:

> *The ROI really depends on the quality of the board. In a great board the time spend will typically be in responding to value-adding thought / questions. In a poor board it will box-ticking for the sake of satisfying a board that probably don't add much value.*
>
> ***– Executive Director***

Some estimated it at closer to between 35 and 60 percent of their time:

> *30% for me is a little low as I also look after the Group Executive Team (who meet weekly). This group spends a great deal of its time considering the information to be provided to the Board and Committees. Along with questions from Directors, Board and Committee paper preparation and managing the governance of the organisation, which revolves around our directors, I spend the majority of my time on the matters you have mentioned - about 60% would be a fair bet.*
>
> ***– Company Secretary***

It is possible that executives over-report the time they spend supporting the board because they would have to do much of the analysis and data gathering for their own purposes if they were not doing it for the board.

> *I suspect that they consider the time they spend preparing operating, financial and other reports as being for the benefit of the board only, rather than seeing those as essential tool for themselves in the running of the business on a day-to-day basis.*
>
> ***– Experienced NED***

However some participants also pointed out that directors often spend time mentoring the senior executive team and that this time is usually not counted as board support. So the time spent could also be under-estimated in these cases:

> *I would estimate about 30 - 35% of my time would be spent supporting the board by undertaking the tasks that you identified and at least an additional 15 - 20% of my time providing mentoring to board members and senior managers.*
>
> ***– Managing Director***

Another good point was made in that the actual amount of time varied, depending on the stability of the organisation:

> *30% would be based on "normal" operations. Where change is occurring, it is more likely to be 45-50%.*
>
> ***– Group CFO***

Executive boards have a hard time distinguishing between board information and information they prepare for their own purposes. As a general rule executive boards are perceived to have an efficiency bonus for the company but to offer less independence and hence a greater susceptibility to asymmetrical risk-taking and agency-theory issues.

The Majority of Boards Have Limited or No Awareness of the True Cost

In the listed sector shareholders vote each year on a pool of money from which the company may pay the directors' fees.

However ***the cost of having a board far exceeds this visible cost***. Senior executives spend a considerable amount of their time preparing information for the board, writing agendas, papers and minutes, tracking down information, managing "housekeeping" (conflict of interest and consent to act statements, directors shareholding notices, the logistics of board travel and meetings, etc.), and interacting with directors in committee, board or one-on-one meetings.

The cost of that time and other intangibles is rarely tracked and few boards are aware of their total cost.

52% of respondents said their board had limited or no visibility of the cost of executive support for the board.

- It has been calculated that the cost of executive support for a board is greater than the cost of two additional full time senior executives for many not-for-profit or government sector companies and greater than the cost of one c-class executive for many listed companies.
- The cost of the executive support in listed companies is approximately three times the cost of the annual board fee and it exceeds 25% of the senior executives' time cost.

ROI of Time Spent in Board Interaction is Under-Valued

We asked the question about ROI because boards tend to scrutinise management costs, but are possibly not aware of how much of the time cost of senior executive support is spent on servicing the board. This often results in a lack of assessment of ROI.

Once alerted to the issue, executives and directors may immediately start to consider ways to reduce the cost.

Responses from some senior executives confirmed a concern with a lack of real investigation of the ROI in interactions with the board:

> "*It strikes me that if I spent this much time on anything else its ROI would be EXPECTED to be high. So from the Board's point of view, surely my time would be better spent elsewhere?*"
>
> ***– CEO***

> "*It's honestly not something that has been discussed - but it should probably be on every board's agenda with a process attached to measure ROI as a way to keep the board on their toes.*"
>
> ***– Executive Director***

In some cases there was a measure of frustration expressed about the amount of time spent working on reporting to the board, without a good perceived ROI from it:

> "*I often do not see a good ROI from this time. Boards need to be very clear about the information they wish to receive and how this is presented. Good Board governance is not measured by the number and length of the reports received.*"
>
> ***– Managing Director***

> "*30% sounds about right for CEO direct reports, but it's often as high as 50% for our CEO. ROI on this is very low.*"
>
> ***- Human Resources Director***

Others pointed out that the interaction is not always management and executives presenting to the board, but can be the other way around; the impact upon the time commitment on both parties may, nonetheless, be the same:

> "*I think it's a matter of what the Board culture is as to what the expectations on management are. The more proactive Boards get around the company and see what's going on. They don't simply read reports.*"
>
> ***- Global General Manager Human Resources, Safety and Management Systems***

A good point was also raised in that the time impost is considered a *necessity* rather than a *choice* and therefore there was less perceived requirement to measure ROI:

> "*I don't see this through an ROI lens so much as an important part of C suite responsibility*"
>
> ***– Group General Counsel and Company Secretary***

Others felt that much of the reporting seen as supporting the board was actually a key part of the management role:

> *Some might believe that 'Compliance Reports' are prepared for board, but in reality, management is charged with responsibility for complying with rules and regulations, but boards are ultimately in the firing line for things that go wrong. I believe this type of activity is part of the 'C Suite's' bailiwick and it's wrong to consider this as solely 'supporting the board'.*
>
> ***– Non-Executive Director***

Finally, it was interesting that some executives make a distinction between the time spent on developing and implementing strategy and that spent on compliance.

> *From a cost perspective, compliance-driven interaction adds no true value.*
>
> ***– Experienced NED / Governance Consultant***

The Keys to Improving ROI

Our survey respondents identified four key areas where the ROI of board support can be improved: communication, time management and delegation, strategic focus and reporting systems.

These areas can all be improved by a better governance process and targeted training: for instance better communication can be achieved by training board members in questioning and executives in presenting and in writing board papers; as well as improved communication between board members when they are geographically separated.

> *Proximity to some of the other board members would improve the ROI, as we have board members in 3 countries*
>
> ***– Managing Director***

Training both the board and executives so that both parties understand how an efficient board operates would save time and therefore cost.

> *Number one improvement would be establishing a clearer understanding of management versus NED responsibilities*
>
> ***Human Resources Director***

However, many boards hesitate to expend resources on training themselves. This may be a false economy, even for unpaid volunteer boards where the board cost is zero. Small improvements in efficiency of the interface between board and organisation nearly always outweigh the costs of training.

Training executives to report and communicate effectively at the right strategic level will also reduce the cost impost. Lobbying government and regulators for a reduced compliance burden (which has little correlation with a lower incidence of corporate failure) is more expensive but also helpful; especially if they listen and then act.

> For a company with a board remuneration of ***$4M***, it has been calculated that the ***total cost of the Board***, including approx 30% of the time of the direct reports, would be around ***$13.5M***.

If the efficiency of the interface between management and board is only ten percent less than optimum, it becomes a major cost to the business and shouldn't be ignored.

Training at this interface can help bring these extra efficiencies to the relationship, as well as other synergies like increased agility and energy to the company as a whole.

For further information and to discuss measures that may improve the effectiveness of your board's interface with management please call Julie Garland McLellan on 0411 262 470 or contact her via email at julie@mclellan.com.au