

Ten Practical Guidelines to Improving Board Communication

Corporate Secretaries
International Association
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Introduction

Mark Twain once said: “I didn’t have time to write you a short letter, so I wrote a long one instead”. As corporate secretaries, we regularly face this challenge in relation to board communication: management prefers bombarding directors with as much information as possible to avoid being accused of opacity, whilst directors often complain that they are receiving too much information and it is being presented to them in ways that don’t highlight the key issues in order to stimulate the requisite discussion and debate, leading to less transparency and neither party’s objectives really being achieved. Ensuring effective board communication has always been a critical aspect of the role of the corporate secretary, but even more so in the face of ever-increasing liability for directors. The business judgement rule has been incorporated into legislation in many jurisdictions. The ability to depend on this rule is impacted by the actual information shared with directors, as well as the quality of their discussions and debate (based on such information provided) in reaching a decision in the best interests of the company. In addition, the increased usage of electronic communication has introduced many opportunities for better and instant communication, but at the same has increased the risk of overload.

The corporate secretary, as custodian of governance and the conduit between management and the board, can play a critical role in balancing the imperatives of management and the board, in the quality and detail of the information reaching the board and thus the quality of their ultimate discussions and debates, as well as board communication in general. A pro-active, front-footed and commercially minded corporate secretary, especially one that is part of the organisation’s executive team and thus well versed in the detail and intricacies of the organisation’s mission, vision and strategy, should also be informed enough to themselves determine and assess the kind of information that is critical to be communicated to the board, in addition to the information generally filtered through management. This paper is intended to challenge corporate secretaries on the manner in which they approach their accountability for sourcing information to communicate to the board to assist the board in future-proofing the organisation and to provide practical tips to enable them to ensure the materials presented to the board for decision-making are timely, accurate and effective to inform and facilitate discussion, and balance the sometimes different objectives of management and the board.

BOARD COMMUNICATION: A DIRECTOR’S PERSPECTIVE

“Today, no industry is immune from disruption, which can be both a tremendous risk and a huge opportunity, and is something that boards need to pay close attention to. A good corporate secretary can greatly assist the board in this arena by supplying them with relevant and pertinent information that will enable them to debate these matters. Corporate secretaries need to be pro-active in sourcing information for their boards”.

Dr D Konar

Chairman of, inter alia, Steinhoff International Holdings Limited, Exxaro Resources Limited and Old Mutual Investment Group.
Director of a number of other large listed international organisations.
Member of the King Committee on Corporate Governance.

Guidelines

1. Become a gatherer of broad-based information.

Many corporate secretaries may feel that it is not their responsibility to source and supply general information to the board. It is however contended that, despite the information that may be sourced and supplied from other avenues, this proactive action is probably one of the most meaningful and value-adding steps you can take from a strategic support perspective in enabling and assisting the board. Relentlessly search (and importantly, look beyond the “traditional”) for information that could be of value to the board in respect of current decisions, future risks and industry developments. KPMG’s Audit Committee Institute recently published their guidance for boards in respect of the 2016 board agenda and, inter alia, highlighted that the road ahead for companies in 2016 will be particularly challenging given the level of global volatility and uncertainty, for example the geopolitical environment, commodity prices, interest rates, currency fluctuations, slowing growth in emerging markets, as well as technology advances disrupting established industries and business models. These sentiments are mirrored by Dr Konar’s quote earlier in the document. One of the areas of focus, KPMG’s Audit Committee Institute suggests for 2016, is specifically to deepen the board’s engagement in strategy and for them to assess the continuing validity of assumptions at the core of the strategy. Naturally sufficient information and a broad base of varied information would be critical to enable the board to truly engage on this subject. Ask yourself “what are the things that could disrupt your company’s strategy and the assumptions applied in determining the strategy”: what kind of information do you (including the rest of the management team) need to be sharing with the board to assist them in future proofing the organisation? You needn’t necessarily transform into a futurist, but ensure you challenge your own paradigms, just as an example (these may be more relevant for

some businesses than others): Do you know what kaggle, blockchain and biomimicry are and have you shared information on it with your board? Can it potentially be a strategic enabler or disruptor for your company and should directors be aware of it?

Do you share a multitude of predictions on the future with your board (and have they internalised it in relation to the organisation’s strategy)?

As an example, do you and your board know that it’s predicted that by 2028, inter alia:

- ▶ The global population will be pushing 8,3 billion and 62% of them will be living in cities.
- ▶ 50% of today’s jobs will be replaced by artificial intelligence.
- ▶ Wearable technology will be controlled by thought.
- ▶ Car insurance will be a thing of the past, as most cars will be driverless.
- ▶ Water will be the most sought after resource.

2. Be an honest broker of information and communication between the board and the executive/senior management team and avoid playing politics.

This however does not mean that you should not be very in tune with corporate politics or different agendas: in fact a sensitivity towards, and good understanding thereof, will enable you to see the wood for the trees when required.

- ▶ Never hide information from the board because it would protect or suit management! A good cultural test is sometimes whether bad news travels as fast as good news.
- ▶ Personally raise matters that would warrant the attention of the board if not done by others – but determine the best means to do so, a private conversation with the chairman might be a better option in certain instances than a blanket email to all.

3. Engage with your directors to ensure you understand the type and quantity of information they would prefer.

Keep a “stakeholder register” noting any specific or special requirements (inter alia, some preferring not to receive communication over a weekend unless it is an absolute emergency or electronic versus hardcopy preferences, etc.). Similarly engage with management and other key stakeholders on the information that they would ideally like to share with the board (especially the ad hoc type, not formally part of the board meeting process) and agree principles or a schedule of information sharing, taking the types of information and suggested timing for board packs, referred to later in the document, into consideration.

4. Ideally all information to the board should always be processed and distributed through the office of the corporate secretary.

This enables you to monitor and control all information shared and very importantly, to ensure the same information is shared with all directors and you are able to retain a record of information shared in case of any litigation or queries in future. Ensure appropriate steps are taken to protect confidential and sensitive information (much easier if you are the custodian of all communication to the board).

5. Always remember what the purpose of specific information is, when determining its appropriateness, as well as the required format and process.

All information provided to directors should aim to assist them to perform their fiduciary duties, oversight role and to comply with legislative and regulatory requirements. Reference the suggested types of information (detailed later in the document) when determining whether it is information that should indeed be shared with directors or whether it may be perceived as information overload.

6. Develop a standard template to be used by management for all board submissions.

Such a template ensures that the board always receives the information that they require as a

minimum and management is also clear as to the exact requirements for any submission. Obtain approval from management and the board on the template so as to ensure all stakeholders’ expectations are being met and you have the requisite support to ensure committed utilisation of the template. Using a presentation slide type format can be suitable for some organisations or some topics. Ensure that management understands when to use which format. Elicit regular feedback from the board on whether information flows and templates are meeting their needs: continuously seek improvement suggestions. Importantly, also ensure submissions are written in ordinary, understandable language. Avoid technical jargon as much as possible and where such language is unavoidable, explain clearly and include a taxonomy for acronyms.

The template should as a minimum deal with:

- ▶ Administrative details: From, to, date, heading.
- ▶ Purpose
- ▶ Introduction
- ▶ Executive summary if the document is longer than e.g., 10 pages.
- ▶ Detailed information/discussion as required and dependent on the type of approval required (e.g., capital approvals would naturally require financial metrics, budgetary details, etc.).
- ▶ Risk analysis
- ▶ Financial implications/analyses
- ▶ Conclusion/recommendation/decision required. Ideally this should include a draft resolution to clearly indicate what the board is approving and which will greatly assist in the minute-taking process as well. One of the biggest challenges is that management is often unclear as to exactly what they require and hence approval resolutions do not meet their exact requirements or differ from the original purpose.

- ▶ Sign-off/accountability. Many companies require a physical signature, but this depends on the culture and style. It must be clear to the board who holds ultimate accountability for the request and to whom they need to direct any additional questions.
- ▶ Appendices or supporting documents, where necessary – especially where the submission is already lengthy. If the executive summary is well compiled and clear, the detail can be relegated to appendices for those directors that wish to receive greater detail.

7. You are not just a post box.

Take accountability, not only for the consolidated board pack, but for the contents of the individual board papers and ensure timely circulation:

- ▶ Be proactive – reach out to those responsible for preparing submissions – the corporate secretary can help to materially improve the quality of board papers using their unique knowledge of the board's vantage point and information needs. This also greatly assists in ensuring your colleagues perceive you as a value adding partner.
- ▶ Ensure your submission deadlines are such that you are able to review the documents to ensure they meet the board's requirements and that it does clearly address the topics in the template, specifically the purpose and the decision or resolution required. Check for inconsistencies and return to the author for amendments if necessary. This preparation not only ensures a higher quality submission to the board, but also ensures that you are well informed in case directors ask any questions. In addition, you are better enabled to speedily finalise accurate minutes.

Refuse to accept submissions not in the correct template or format and return such for amendment. This generally only happens once, and if handled in a professional and courteous manner by explaining the business rationale, is generally well understood and accepted.

- ▶ The board pack should be available seven days in advance of the meeting (or any other period as agreed with the board or required by standards/legislation). Ensure the board is notified in case of any delays or late circulation of certain documents. Directors do not generally

8. Consider the most appropriate means for communication.

There is no silver bullet, but in an era of instant information, there seems to be no other answer than electronic communication for the majority of board communication (naturally where companies can afford such solutions).

The usage of board portals has become increasingly prominent and has definitely assisted the corporate secretary in communicating more effectively, efficiently and timeously with directors. It is suggested that you definitely consider utilising such a solution, if affordable for your organisation.

Some of the advantages include:

- ▶ Achieving the green imperative by reducing paper and printing.
- ▶ Increased security, some examples include:
 - In most instances more than one password is required to access the device thus eliminating the risk of unauthorised access of information.
 - Devices can be wiped easily and remotely, if stolen or misplaced.
 - The risk of hard copy documents being left to lie around and accessed is eliminated.
 - The ability to email or forward documents from the device can generally be limited or eliminated completely, thus again reducing the risk of unauthorised distribution of information.
- ▶ Materials can be distributed quickly and easily accessed from remote locations.

- ▶ Virtual assembly is possible over a period of time, thus allowing the corporate secretary to commence with portions of the board pack on receipt, whilst other documents are still awaited.
- ▶ Changes in the order of documentation, late additions or replacements can easily be made, whilst the main portions of the board pack can be made available, allowing directors to commence with preparation, whilst further additions can follow.
- ▶ Immediate accessibility once “live”. This greatly assists when directors are travelling and eliminates courier costs, additional time requirements to courier and other logistical and delivery annoyances.
- ▶ Improved management of conflicts of interest is possible as access can be restricted for those directors not entitled to view documents (if so required by local legislation or governance practices).
- ▶ Effective decision-making based on “real-time” information (if timely and correct information is shared by management). It enables easy access to archives of past minutes, meeting materials, charters and other general information (in a reading room).
- ▶ Effective and efficient management of written resolutions, as voting is generally possible by a click of a button.
- ▶ Reduced costs when compared to printing.
- ▶ Notes and comments can be made electronically on the board documents and, in some of the solutions, shared with other directors or kept private (based on the director’s choice in each instance).
- ▶ Emailing of documents and comments can be enabled or disabled for security reasons.

9. Ensure you have a proper records management process and all communicated documents are properly filed.

In most countries the acceptability of electronic records has rendered hard copies superfluous, but ensure compliance with any local legislative requirements. Ensure your records retention policy also deals with board communication and especially board packs. Remember, for those countries where the business judgement rule applies, you will need to depend on the information shared and considered in order to effectively utilise the business judgement rule in case of any litigation. Board portal solutions greatly assist in this, as you can archive previous board packs. Always remember to add any hard copy documents tabled at the meeting to the electronic pack to ensure you have one consolidated and complete version. Where you share information via email, ensure that you also keep a proper record.

10. Rather communicate more than less.

When in doubt whether to communicate something to the board or not, apply the principle of: “If in doubt, put it out” (the same principle that generally applies to continued disclosures to the market in a listed company environment).



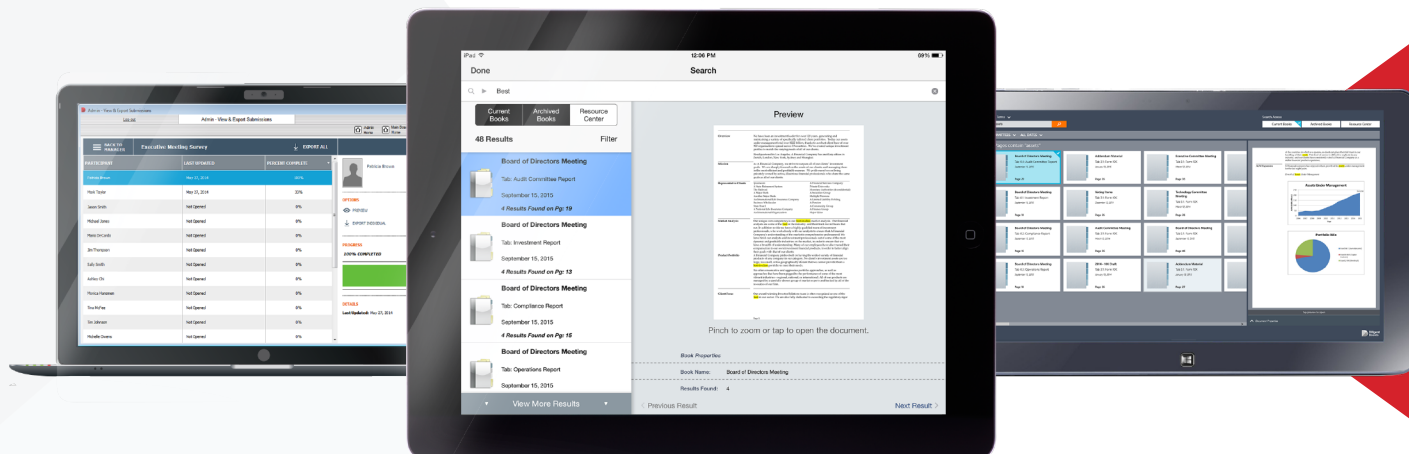
What is Meant by Board Communication?

It is important to consider all types of information that can and should be communicated to the board – either at the outset of the relationship with a director (inter alia during the induction process) or throughout a director's tenure.

The list below is not intended to be complete or exhaustive, but provides guidance as to the types of information and when such should generally be shared to ensure optimal communication. The information, timing, level of detail and format should however be discussed and agreed with the board and other stakeholders, as discussed in the guidelines.

Timing	Document/Information
<ul style="list-style-type: none"> ▶ On induction ▶ Follow-up reviews 	Board and committee charters/terms of reference and annual plans, any specific board and committee key performance indicators or targets, governance principles
	Corporate bylaws/constitutional documents, key policies and procedures applicable to directors, including codes of conduct
	Statutory accounts and key financial data
	Budget and cash flow analysis
	Standing delegations of authority
	Directors' and officers' insurance information (cover and reporting requirements)
	Organisation's annual report (or drafts thereof whilst in review prior to approval and publication)
	Individual director remuneration information (for non-executive directors only)
<ul style="list-style-type: none"> ▶ On induction ▶ Annual reviews 	Planning documents, forward looking annual calendars
<ul style="list-style-type: none"> ▶ On induction ▶ Annual reviews ▶ As changes require 	Directors', executive and any key officers' contact details
<ul style="list-style-type: none"> ▶ On induction ▶ As changes require 	Key regulatory requirements – inter alia, the organisation's regulatory universe and summaries of key pieces of legislation, but specifically those pieces of legislation dealing with director duties and liabilities, corporate legislation and stock exchange rules, including insider trading restrictions
<ul style="list-style-type: none"> ▶ On induction ▶ Prior to strategic planning sessions 	Strategic plan and planning materials
<ul style="list-style-type: none"> ▶ Board submissions: as per guideline 6 and in accordance with meeting annual plans, ideally distributed at least seven days in advance of the meeting 	Board and committee meeting material and supporting documentation, inter alia: <ul style="list-style-type: none"> ■ Previous meeting minutes ■ Previous meeting action list ■ Written/circular resolutions since the previous meeting ■ Chief executive/operational review and reporting/scorecard/key performance indicator achievement/performance versus plan ■ Presentations on topics as required ■ Report back to the board from committees – submission of draft committee minutes or verbal reports ■ Risk matrices ■ Hot topics/emerging issues – including corporate governance developments

Timing	Document/Information
Board submissions (continued)	<ul style="list-style-type: none"> Budget and capital requirements and strategic performance reporting Trading statements/earnings releases (as applicable to listed companies) Nomination committee matters/succession planning Board and committee evaluations <p>Should also include the following information from the office of the corporate secretary, either at each standard meeting or as agreed in terms of the board's annual plan:</p> <ul style="list-style-type: none"> Legislative updates Corporate governance trends, best practice updates and feedback from investors/ analysts not yet shared Other supplemental reading, inter alia, industry trends, risks, research material Training/continuous professional development material
► Daily (for larger and listed companies)	In one consolidated document (often supplied by corporate brokers/service providers): summary of news clippings pertaining to the organisation, exchange rates, share price and that of key competitors/other interests' share prices
► Quarterly/as and when available (if listed)	Analyst reports and reviews
► Twice per annum or more frequently as agreed with the board	<p>Governance and information deep-dive/"training"/continuous development sessions:</p> <ul style="list-style-type: none"> Presentations on legislation Presentations on topical issues aligned to your organisation's business of today Presentations on topical issues aligned to your organisation's business of the future – specifically refer guideline 1
► Prior to general meetings	Regular updates on voting statistics
	Proxy advisory reports and summary of key responses to any material issues raised
	Guidelines/prepared questions and answers to assist directors in answering any questions at the meeting
► As and when required in-between formal meetings	Updates on key strategic issues or next steps to be reported on, emerging risks and issues directors need to be made aware of, key adverse events (including impacts on people etc.)
	Written/circular/round robin decisions required with their supporting documents, albeit that these should be avoided as much as possible or limited to remedial/administrative type decisions so as not to lose the necessary board interaction and debate required for proper decision-making



Improving Board Communication Case Study

Company details: Exxaro Resources Limited, one of the largest South African-based diversified resources groups, listed on the JSE Limited.

Introduction: Resulting from certain legislative amendments and the implementation of a new enterprise risk management framework, it was decided in 2011 to reconstitute the different committees of the board and amend their scope and terms of reference as briefly indicated below:

Old committees	New committees	Comments
Audit, risk and compliance committee	Audit committee	Scope amended to a more “traditional” audit committee, although financial risk and compliance still remained, the overall responsibility for the enterprise risk management and compliance frameworks and their implementation were transferred to the SRC committee
Safety and sustainable development committee	Sustainability, risk and compliance (SRC) committee	The scope of this committee was significantly expanded to encapsulate the risk management and compliance frameworks (which also included transformation compliance (or broadbased black economic empowerment and employment equity processes and practices) as applicable in South Africa)
Transformation, remuneration, human resources and nomination committee	Remuneration and nomination committee	Scope amended to a more “traditional” remuneration and nomination committee only and compliance aspects were transferred to the SRC committee

In addition, during the same period, the new South African Companies Act (Companies Act 71 of 2008, as amended) came into effect. This Act codified a number of common law directors’ duties. Many directors, at the time, expressed concern about a perceived future “higher standard” of duties expected from directors and hence significant focus was placed on the duties and liabilities of directors and how directors could ensure that they were indeed acting in accordance with such requirements.

Problem statement: Resulting from the revised committee terms of reference as described above, it became necessary to review and reconsider the type and manner of reporting and communication to be provided to the different committees to ensure they achieved their revised mandates. In addition, coupled with the perceived risk and uncertainty as to a higher standard of directors’ duties and increased liabilities, directors also started questioning the type and level of information presented to them in general. The new Act placed a more explicit positive or proactive obligation on directors to be better informed.

Hence, the group company secretary commenced with a process, specifically considering reporting guidelines for the Sustainability, Risk and Compliance (SRC) committee (as the committee with the most significant increase in scope and revised terms of reference).

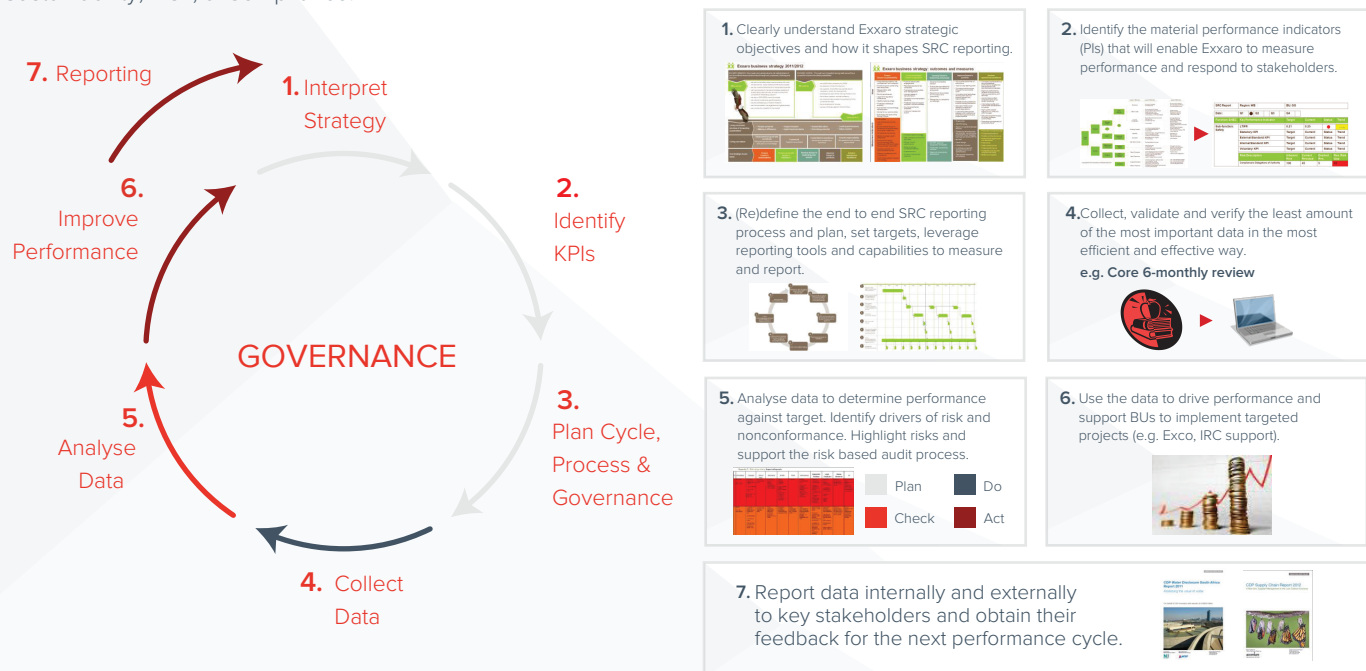
The ultimate objective of the process was to ensure optimal communication and reporting to the SRC committee of the board to ensure they met their full mandate and adhered to their directors' duties and responsibilities.

Initial process: A pragmatic step-by-step approach was followed (as also visually displayed in figure 1), to:

- ▶ Clearly understand Exxaro's strategic objectives and how they shaped SRC reporting.
- ▶ Identify the material performance indicators (PIs) that would enable Exxaro to measure performance and respond to stakeholders. These were identified based primarily on a peer review and Global Reporting Initiative (GRI) 3.1 reporting requirements (applicable at the time), and were also informed by the enterprise risks and material issues (a concept that has developed further over time since the advent of integrated reporting and specifically the work done by the International Integrated Reporting Council). Ten key questions were asked to filter and reduce the initial number of potential performance indicators to those deemed material and most critical for the committee and board to be aware of.
- ▶ (Re)define the end-to-end SRC reporting process and plan, set targets and leverage reporting tools and capabilities to measure and report.
- ▶ Collect, validate and verify the least amount of the most important data in the most efficient and effective way.
- ▶ Analyse data to determine performance against target. Identify drivers of risk and nonconformance. Highlight risks and support the risk-based audit process.
- ▶ Use the data to drive performance and support business units to implement targeted projects.
- ▶ Report data internally and externally to key stakeholders and obtain their feedback for the next performance cycle.

SRC Reporting Approach

Exxaro has changed its operating model and 'Tier 0' governance structure. As part of the new governance structure, the SRC committee has been created. What needs to be reported to the SRC Committee needs to be defined. Below is a robust SRC Reporting and Performance Management approach meant to enhance the way Exxaro measures, manages and reports on Sustainability, Risk, & Compliance.



In addition to the performance metrics, a link was also made to the risk details, material issues and level of assurance on the specific metric, as indicated in figure 2. This information provides the committee members with:

- ▶ The key performance aspects within their mandate that they need to concern themselves with.
- ▶ Target and actual performance to better direct committee discussion to only, inter alia, address red (non-performing) metrics or metrics with a negative trend over time.
- ▶ The ability to meaningfully discuss the status of any associated risks and other material issues, as well as have a sense of assurance on the specific metric and its performance.
- ▶ An absolute consolidated view of the total scope of what they were required to oversee as a committee and report to the board.



SRC Reporting Approach – Report Layout Example

The SRC report will comprise 3 sections namely:

KPIs
Risks
Material Issues

Key: Assurance level
0 – No assurance
1 – Internal Exxaro management assurance
2 – Risk management assurance
3 – Independent assurance (E&Y)

Function: Sustainability/ Environment	Key Performance Indicator	Metric	Target	Current	Status	Trend	Assurance (level)
Biodiversity	Total land disturbance	Ha	Target	Current	●	→	3
	Total land rehabilitated	Ha	Target	Current	Status	Trend	3
	Land usage in protected areas or areas of high biodiversity value	Ha	Target	Current	Status	Trend	3
Risk Description		Inherent Risk	Current Residual	Desired Res.	Res. Risk Gap		
xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx		100	45	5	40		
Issue/Trend	Key Challenge	Materiality	Response		Assurance (level)		
Resource Nationalism	<ul style="list-style-type: none"> • New taxes and royalties to hit profits (e.g. SA) • Ownership stakes at risk 	●	<ul style="list-style-type: none"> • Position Exxaro as a long term partner • Strong investment , jobs and SHEC credentials 		3		

Figure 2

A maturing process: The committee was extremely satisfied with the reporting. Discussions soon commenced on the reporting to be provided to the other committees and the board as a whole, in order to provide a similar view on material issues and performance indicators they required, to ensure they not only met their full mandates, but also comprehensively complied with their directors' duties.

In brief, since the implementation of the "reporting guidelines" for the SRC committee, the company has progressed to:

- ▶ A full integrated "strategic performance dashboard" linking the key performance indicators and metrics to the applicable:
 - Strategic objective.
 - Material issue.
 - Sustainability capital (based on the six capitals framework).
 - Risk appetite, as determined by the board, in the form of ultimate targets, best realistic and worst tolerable targets.
 - Actual performance achieved.
 - Risk and risk rating

Quarterly dashboard reporting occurs as follows:

- ▶ Full dashboard to the executive committee.
- ▶ Dashboard extracts to the various board committees – thus they only review the section of the dashboard applicable to their scope.
- ▶ Full dashboard to the board.

The full dashboard is reported to stakeholders annually in the company's integrated report or supplemental information.

The final step in the process of maturing is automation of the dashboard reporting, so as to ensure absolute data integrity and reliability.

Impact: The dashboard not only provides the executive team, board committees and board with the most critical information they require to manage the company's strategy and performance, but also forms the basis of integrated stakeholder reporting and allows any stakeholder to immediately and easily assess the company's true performance, its creation or destruction of value and its sustainability.

Conclusion: A process that started with the group company secretary attempting to address a specific committee need, developed into an integrated team providing a holistic and total solution that not only improved board communication, but the actual integrated management of the company's strategy and performance, as well as its transparent reporting to stakeholders.



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