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<b>Authors(s)</b>	Brennan, Niamh
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There is circumstantial evidence and strong public opinion that many company boards have not been as effective as they need to be. Weak, ineffective boards, with poor oversight and lacking focus, with ill-informed and incompetent directors, have cost shareholders millions in recent years. But even the best boards cannot operate properly if key information is deliberately withheld by executives. This short article considers the central role of information in corporate governance.

Everyone must have thought after the Wall Street crash of 1929 – “never again”; Similarly, following the collapse of Enron. That year, 2002, was described by the then Chief Executive of the Institute as an annus horribilis. He observed “lessons have been learned by all concerned and hopefully we will not have a year like this again”. Surprisingly, lessons do not appear to have been learned, and we now have the spectre of Enron in the form of Lehman Brothers repurchase vehicle, Repo 105, that facilitated shifting €50 billion worth of liabilities off-balance sheet at quarter ends. As is often the case, the board of directors was kept in the dark by its executives. Closer to home we have had similar year end transactions, involving Anglo Irish Bank, Irish Life & Permanent and Irish Nationwide. Their boards (or at least the non-executive directors) were completely unaware of what was going on.

### **Risks in joining a board**

This is a reminder of the risks involved to all who join a board of directors. The biggest risk concerns the information withheld from the board. Companies face real dangers if news flows are filtered by executives such that only positive news is allowed through to the non-executives on the board. If there is a failure of information flows the governance system breaks down. Boards, especially the non-executive directors, rely on the integrity of senior management for the quality of information they receive. The ability to manipulate information is a function of seniority. Managers, especially the executive directors, are gatekeepers of information. They decide what information to let through those boardroom gates. The CEO is often the sole source or conduit of information flowing into the boardroom. From an internal control point of view, putting the full information flow through the CEO is high risk. Research has show that the CEO (often aided and abetted by the finance director) is the most likely to be able to perpetuate a material fraud within the organisation, through his or her ability to override the internal controls. Information is a weapon. How many directors have experienced being flooded and overwhelmed with information, which turned out to be irrelevant, with the key data being withheld?

### **Information flows**

Here are some information manipulation techniques with which some board members may be familiar:

- Inadequate, incomplete information – information too costly, time-consuming to obtain
- Information flows to the board tightly scripted
- Concealment of information
- Omitting or trivialising bad news
- Using excessive subtlety to communicate key information such that it is lost on the reader
- Swamping the board with a voluminous amount of information
- Tabling information at board meetings, allowing insufficient time to read the material
- Scheduling trivial matters early in meetings, ensuring critical issues are rushed at the end of meetings
- Keeping contrarian managers who might express alternative views away from the board

It can be difficult for non-executive directors to spot this behaviour. Here are the questions to ask:

- What is being hidden, covered up, not tabled?
- Is the agenda being manipulated? If so, why?
- Who benefits from the manipulation?

A Sunday newspaper recently revealed that more than 40 people knew about Sean FitzPatrick's year end loan transactions. So why did these people not come forward? Organisational dynamics often operate as mind guards – making sure that those expressing views contrary to the dominant group are either pressurised to conform or to leave the organisation.

### **Boards that work**

The effectiveness of boards depends on how well boards work together. Appropriate structures and processes can significantly enhance an open, constructive boardroom culture.

Features of great boards include:

- Diversity – of skills, views and attitudes
- A culture that promotes full and accurate disclosure of information
- Open, honest discussion and debate
- Questioning and disagreement
- Mutual respect
- Constructive mavericks and dissenters
- Directors and staff who speak up and, better still, disagree with each other in a supportive and collegiate manner.

Good governance is not about rules and regulations. It is about the quality of human interaction and behaviour.

Sources used: Carnes, M. (2003) "Boardrooms that work. A guide to board dynamics", Australia Institute of Company Directors, Sydney.

*Niamh Brennan is Michael MacCormac Professor of Management at University College Dublin, and is Academic Director of the Centre for Corporate Governance at UCD*