



CLARKSON
Centre for Board Effectiveness

Clarkson Centre SME Toolkit #2: Creating Your Board Manual

By Matt Fullbrook

In 2006, the Clarkson Centre for Board Effectiveness (CCBE) began a multi-year study of corporate governance in Canadian Small- and Medium-Sized Enterprises (SMEs). This initiative included nearly 100 interviews with SME board members and extensive data collection from public filings of publicly-traded Canadian SMEs. The outputs from our efforts include four years of [comprehensive governance ratings](#) for Canadian public SMEs, contributions to the development of the structure and content of the SME Board Effectiveness Program offered by the Rotman School of Management, and a series of practical toolkits for SME boards, of which *Creating Your Board Manual* is the second.

Throughout our SME Toolkit Series, we will provide guidance to SME boards on topics that are important to directors, managers and investors, and also recommend resources that we believe will help boards design, implement and execute formal processes in key governance areas. We also offer descriptions of valuable governance structures that have proven beneficial among successful Canadian boards, and explain why and how SME boards might consider applying them in their own organizations.

Creating Your Board Manual provides guidance to SME boards to facilitate the development of an effective board manual. CCBE has learned through interviews and surveys with Canadian SME directors that formalizing board roles, ideals and practices increases director confidence and decision-making effectiveness, as well as helping to attract experienced directors to your board. An effective board manual is a medium for the codification of these formal processes, and as such can be valuable for much more than just the orientation of new board members.

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Creating Your Board Manual

1. What is the Purpose of a Board Manual?

Every successful board abides by a set of formal structures and processes that govern key board attributes and activities such as size, composition, roles and responsibilities. Our SME director interviews indicate that in addition to the creation of these formal structures and processes, SME boards can greatly benefit from formally *documenting, reviewing and updating* them. We believe the board manual is the ideal venue for this information.

At its core, a board manual is a roadmap for directors, which contains key information on the organization, its strategy, and its governance structures/processes. For many boards, the primary function of a board manual is as a comprehensive reference guide, mainly used in the orientation of new board members. If treated as a constantly-evolving guide to the board's decision-making processes and responsibilities, however, the manual can be valuable for more than the briefing of new recruits: it can also help to *attract* directors and ensure ongoing decision making effectiveness.

Our interview and survey participants reported that they occasionally encounter difficulty attracting experienced directors to their boards. Occasionally, this results from a perceived lack, on behalf of the director candidates, of formal and up-to-date governance structures. Those who managed to avoid this roadblock did so by documenting and maintaining a record of the board's *current* processes and recent decisions. If this record is contained in the board manual, it can ensure that prospective directors are fully informed when deciding whether or not to accept a board appointment.

If this record-keeping process is performed diligently, the development and maintenance of the board manual becomes an valuable governance practice unto itself.

2. What does a typical Board Manual look like?

Free Management Library offers an outline of the typical contents of a board manual [here](#) under the following major headings:

Legal descriptions

- Contains basic legal information about the organization and its structure, as well as high-level characteristics and duties of the board.

Strategic plan

- Contains the firm's overarching mission statement, current long-, medium- and short-term goals, and up-to-date progress reports.

Board organization/operations

- This section outlines the structure and roles of the board and its committees as well as established work-plans and processes (e.g. for recruiting and evaluating board members).

Programs/products and marketing

- Provides complete descriptions of the firm's products and services, as well as detailed industry information. This is particularly valuable for new directors who lack extensive expertise in your industry.

Finance/fundraising

- For many boards this is the most detailed section of the board manual, and in fact often comprises a separate document unto itself. It is important to include highly detailed information on the board's processes for financial oversight as well as all pertinent internal and external (e.g. regulatory) policies.

Public/community relations

- For boards that include a PR section in their board manual, the goal is to provide directors with guidance for interaction with media and stakeholders (e.g. interview guidelines and contact information).

Personnel and policies

- This section includes the names, titles and job descriptions for all key personnel, as well as active policies governing human capital (e.g. health & safety, conflicts of interest, codes of ethics, etc.).

Using this framework, boards can work with management to compile all of the necessary information to orient new board members to the board's (and firm's) processes and responsibilities.

3. Using your Board Manual to codify current and evolving board processes

We believe there is an opportunity for boards to consider the board manual as a roadmap for all oversight and decision-making duties. In combination with annual schedules that outline the frequency and focus of each broad topic (e.g. strategic planning, risk oversight, board evaluation, etc.), the board manual can outline processes, goals and success metrics for board

discussions in each key area. An example of the details a board might provide regarding board evaluations can be found below on page 5.

The specific details contained in the example below can be discussed and adjusted annually as necessary to reflect recent focuses, recommendations, and also any adjustments to the purpose and process of the board's self-evaluation. This type of ongoing maintenance can enrich the usefulness of the board manual and illustrate to new and prospective board members the details of your board's processes and their outcomes.

While this approach to the board manual is not common, whether among SMEs or larger firms, it is a practice that can help boards refine their procedures and ensure ongoing consideration of the effectiveness of decision-making processes, while improving the effectiveness of the orientation process for new board members.

Board Manual Example

Board Evaluations

Purpose: The board is responsible for the ongoing monitoring of its own effectiveness. Our regular board evaluations compile feedback from all board members and key managers regarding the ongoing effectiveness of board structure, skills, processes and outputs. Using this feedback, the Governance Committee makes recommendations to the board designed to address gaps in effectiveness, as well as to leverage current board strengths to ensure success going forward. The board often adjusts the focus of the evaluation process to address current or upcoming strategic priorities or events. For example, in 2010 our evaluation survey was designed to assess the effectiveness of our current CEO succession process in light of the planned retirement of our CEO at the end of 2012. In 2011, our evaluation process will evaluate the success of the recommendations that resulted from last year's survey, as well as the board's recent strategic planning exercises.

Process: The Chair of the Governance Committee conducts one-on-one phone interviews with each board member to discuss current board strengths and challenges. Drawing on the content of these interviews, a confidential board survey is developed by the Governance Committee and delivered to the board. Board members have two weeks to complete the survey, and results are compiled by the Governance Committee, or occasionally by an outside advisor, as was done in 2010 (*report can be included*). The Governance Committee is expected to provide a summary of results and recommendations to the board in advance of the board meeting that follows the completion of the board survey. At that board meeting, the board will discuss the Governance Committee's recommendations and determine the course and timeline for their implementation, if ratified.

Frequency: The board evaluation process is carried out annually in the Fall. The board discusses key topics to be covered in the survey at our September board meeting, deciding what, if any, strategic and operational priorities should form the focus of the board evaluation.

Recent surveys and results as well as relevant meeting minutes can be included in the board manual as appendices.