Hot Topics
Elevating board effectiveness: Monitoring corporate performance

Monitoring corporate performance is a critical function of every board. An effective board monitors the overall performance of an organization, including its operational, strategic, and financial objectives. A key aspect of the board’s oversight role is to actively monitor management’s execution of approved plans, as well as the organization’s progress toward meeting its objectives. It is essential for the board to prioritize and enumerate the organization’s objectives in monitoring its performance.

Boards should establish a consistent method for receiving, reviewing, and utilizing the data received. Boards use many data points to monitor company performance, including financial and non-financial metrics, and industry and peer information, which can come from board reports, trend analyses, surveys, financial statements, industry benchmarks, and audit opinions. Knowing which metrics are most effective in understanding performance and indicating potential issues can be challenging, yet beneficial to the organization.

In the Deloitte Governance Framework (Figure 1), performance is identified as one of the five critical governance elements over which the board provides active monitoring and oversight. The other elements are strategy, governance, talent, and integrity. The task of actively overseeing these five elements cannot be delegated to management.

Some of the key responsibilities of the board related to the oversight of the organizational performance include:

- Understanding and agreeing on the company’s key performance objectives and strategy
- Providing leadership and direction in developing the strategic, operational, and financial plans
- Developing and confirming that key performance indicators (KPIs) and financial objectives are monitored and achieved
- Confirming that there is a policy to communicate with shareholders regarding the company’s performance that is aligned with Regulation Fair Disclosure, an SEC regulation to address the selective disclosure of information by publically traded companies and other issuers.
Operational and strategic objectives
As discussed in the November 2012 Hot Topics article, the board has a significant role in providing strategic oversight. The board typically plays a less-active role in the development and execution of the annual financial and operating plans. The annual operating plan is typically developed by management and the contents are linked directly to the strategic plan. The annual operating plan tends to have a bottom-up approach, in contrast to the strategic plan, which tends to have a top-down approach. The board’s role is to approve the annual operating plan and ensure it is consistent with the strategic plan of the organization. Below are a few questions to consider when reviewing the organization’s annual operating plan and objectives:

- Is the plan achievable?
- Does the plan reflect the mission and goals of the organization? Is it consistent with the strategic plan?
- Are the assumptions consistent between the annual operating plan and the financial plan?
- How is success measured for qualitative objectives?

Throughout the year, the board is responsible for monitoring the progress of the organization in achieving its operational and strategic objectives.

Financial Objectives
An organization’s financial plan typically links to the annual operating plan that has been established. The annual operating plan provides details on the organization’s objectives and how they will be achieved, while the financial plan identifies the revenue and expenses for the activities associated with each objective. The board should use the financial plan to monitor the organization’s performance throughout the year. The primary responsibility for monitoring the financial plan typically falls to the audit committee. The board should periodically review or receive a summary from the audit committee on the financial results. It is not unusual for a board to be composed of a majority of non-financial experts; therefore, financial information should also be provided in narrative descriptions, summaries, charts or graphs and in a consistent format to facilitate the review process.

According to a study titled “In the dark II: What many boards and executives STILL don’t know about the health of their businesses,” conducted by Deloitte and the Economist Intelligence Unit, 83 percent of respondents said the market increasingly emphasizes non-financial performance measures. Among those respondents, 78 percent said that financial indicators alone do not adequately capture their company’s strengths and weaknesses. These responses indicate that a number of organizations are measuring the value brought to their organizations by understanding their underlying performance drivers through the use of non-financial measures. Achieving a better balance between financial and non-financial performance should not entail paying less attention to either, but instead paying proper attention to both.

Performance oversight model
The Deloitte Governance Framework: Framing the Future of Corporate Governance provides a model of leading practices for boards to consider in executing...
their oversight responsibilities. Underlying each governance element are four attributes to help measure effectiveness: skills and knowledge; process; information; and behavior. A board’s maturity with regard to each element may range from low to high, but the board should take the time to assess how well it believes it is performing. The following table outlines a representative maturity model that can be used in evaluating what would constitute a high-performing board for each attribute with respect to reviewing the performance governance element of the framework.

**Representative performance oversight model**

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<th>Attributes</th>
<th>A highly functioning board:</th>
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| Skills and knowledge        | • Thoroughly understands the business and its drivers and has relevant, recent experience and knowledge in the industry, related industries or markets, and competitors  
• Possesses extensive knowledge of the company’s competition, strengths, weaknesses, opportunities, and threats, and understands the strategic and financial plan assumptions |
| Process                     | • Reviews and approves the strategy, annual operating plan, and financial plan  
• Monitors performance against the established financial plan and alignment with strategy  
• Monitors competitive and financial analyst reports and other trends related to the company’s performance  
• Ensures full and transparent disclosure |
| Information                 | • Receives timely, detailed reports on plan versus actual performance, including expenditures outside the approved financial plan  
• Receives adequate information related to agreed-upon trends, KPIs, and pre-established metrics |
| Behavior                    | • Demonstrates commitment to driving the success of the company  
• Engages with management on the strategic plan, financial planning processes, and the alignment of the annual operating plan with the company’s strategy.                                                                                                                            |

**Concluding thoughts**
Monitoring and overseeing corporate performance is a fiduciary responsibility and is essential to improving board effectiveness. High-performing boards understand that the data presented is not the end in itself, but a means for the board to make informed decisions. Effective boards persistently strive to add value to the organization. A proactive role in continually monitoring is an effective way to guide an organization to improved performance.
Hot Topics articles are featured in each issue of Corporate Governance Monthly, a newsletter with the latest information for boards of directors and their committees from the Center for Corporate Governance (www.corpgov.deloitte.com).

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