

Trend Watch

Ten Questions Every Board Member Should Ask

In this continued era of over-heightened corporate governance concern, board members can and should take several steps to reduce their risk profile. In the wake of the recent Enron, Tyco and WorldCom debacles, the new role of a director requires them to be more active participants in the “high-level” affairs of the corporation. Every board member, and for that matter, every stockholder has the right to understand where the company came from and where it is headed.

The best questions are most often the easiest and, more embarrassingly, the ones we forget to ask. Here are 10 of the top questions every board member should ask:

- 1. How does the company make money?** This may not seem like a question you need to ask, but what is important is where the cash is coming from and how it is disseminated through the company. If management can't provide a clear answer, there may be a problem.
- 2. Are our customers paying up?** If there's one thing that will make or break your company, it's cash flow. Cash comes from sales. But a sale isn't cash, until the customer actually forks it over. Express your concern about sales growth compared to receivables.
- 3. What could really hurt – or kill – the company in the next few years?** Doing things right in business has gotten a lot of press in recent years. Results are what really matter, and results come from both ideas and execution, but the biggest enemy of great execution is mistakes. The problem with mistakes is that they creep up on you. Are we prepared to handle unexpected events? Ask management to consider “the worst case scenario.”
- 4. Do we know what our competitors are doing?** Competitive intelligence gives you hard facts on which to base decisions about marketing tactics, R&D investments, product launches and overall business strategy. Is our company a leader, follower, or niche competitor in our industry category? Are our costs lower, sales brisker, our margins deeper than our competitions?
- 5. If the CEO left tomorrow, who would run this company?** An organization's fate is more important than the fate of its current leadership. It is imperative to have a contingency plan in place and be grooming others on the team at every level of the organization.
- 6. How are we going to grow?** Continuous quality improvement is the hallmark of successful companies, worldwide. Does the CEO's growth plan call for consciously developing and introducing improved versions of its own current products along with significant technological advances?
- 7. Are we living within our means?** A company cannot grow if they are spending money today that will be needed for bills tomorrow. Are our key expenses, especially salary and benefits, under control?
- 8. How much does the CEO get paid?** Is the total company properly tied to long-term corporate performance? Most people don't take the time to do the math – salary + bonus + stock, etc. The final compensation number is what you must have in mind when judging whether the CEO is paid fairly.
- 9. How does bad news get to the top?** Typically, bad news travels down, not up. Bad news has to get to the people that can do something about it. Create a system that guarantees anonymity and eliminates fear of reprisal – whether it's an employee hotline, survey or third-party reporting service.
- 10. Do I understand the answers to questions 1 through 9?** If not, go back and ask again. Just asking the right questions could get the company's management focused on the right issues.