Questions to Ask Before Joining a Board

By Ellen B. Richstone

Ellen B. Richstone has extensive board and operating experience, both as a CEO and a CFO, and as a director in companies ranging in size from venture capital-backed to S&P 500, public, and private. She currently serves on the board of the NACD New England Chapter, along with several other boards.

You are considering joining a company's board. You reviewed the publicly available financial, legal, and business information; spoke with management, internal and external legal counsel, and auditors; and evaluated the D&O policy. You are all set, right? In fact, this is the beginning of your due diligence process: the hardest questions are the least measurable, but equally and sometimes more important than the measurable ones. With many questions, a company might not want to share the details until you have actually joined the board. In those cases, *focus on whether the board and management have a process in place that supports a thoughtful discussion.* In particular, think about these questions against the backdrop of your board value and effectiveness.

Mission, vision, strategy, and related plan. Does a well-thought-out strategic planning process exist, including consideration of risks (e.g., market shift) and the ability to execute the strategy? How often is strategy discussed, and how is it integrated with the yearly planning process? Once a year is not enough. Focus on the board's value and how the changing external environment (e.g., political, economic, competitive) is integrated into the evolution of strategic priorities.

Market, market share, and market dynamics. Delve into the market size, growth rate, and whether market share is or isn't increasing. Look at the key drivers and the expected demand for existing and new products in development over the next three to five years. Does management correlate market information with the product development process? Are new geographies or sales channels considered? A risk/return evaluation (i.e., the cost of investments in R&D and new products versus expected revenue and profit stream) in both the strategic plan and the one-year plan is important. This information is probably restricted, but you can assess it if this has been thought through by management and discussed by the board.

Products. Discuss the internal process for developing new products. Many companies integrate information on market dynamics, competitor information, and customer requirements. Does the company look at the product development pipeline versus market demands? What happens if products are delayed in delivery to the market or if they are not successful? Will the company be financially viable for one to three years, or until this is righted? The key is to determine if a management process exists and is reviewed with the board.

Competitors. Find out how they collect competitive intelligence and how they process this insight. Identify information about who (big/small), what (how do they compare), and when (new-product development timeline). Is thought given to "up-and-comers" who could take the company by surprise?

Customers. Understand the customers' viewpoints and whether there is a focus on customer satisfaction. Determine the sources the company uses to understand satisfaction levels, issues, and how they are resolved. How does the company learn about new products desired by both existing and potential customers? What changes are needed to current market channels to grow the business? Finally, does the board meet with customers? How does it get information that has not been "sanitized"?

Financials. In addition to reports to the board and audit committee and public information, take a hard look at operating cash flow against ongoing requirements. Understand the financial strength—in case there is a stumble in the operating plan execution—if debt exists or a need to raise capital is required. Evaluate the triggers that might cause the company to take unexpected actions.

Legal. Having already reviewed pending or threatened litigation, investigations, and possible violations of the Foreign Corrupt Practices Act, find out how international risk scenarios are evaluated and how they would be approached if a problem occurs. Will the D&O policy pay for legal fees up front so directors do not have to lay out cash? If the company is in a highly regulated industry, understand the relationships with the regulators and how they interact with the company.

Board relationship and interface with management. These relationships should be based upon mutual respect and a willingness to listen and consider different experiences, so pay close attention to how these questions are answered.

- What is the relationship between the audit chair and the CFO, or the compensation committee chair and the head of human resources? Do discussions and face-to-face exchanges occur on a regular basis? For example, does the CFO feel that he or she can call the audit chair at any time to seek advice?
- Consider the relationships between board members and other members of executive management. One of my boards had a program that matched board members with an executive (not one they normally dealt with), and they were expected to speak to them regularly and have dinner or breakfast together at least quarterly. These "matches" were rotated every one to two years so that over a prolonged period of time board members would know the entire executive team beyond the formal presentations they might see in the boardroom.
- How are differences resolved? When board members disagree with management, do people listen to each other's opinions respectfully? Can you have a fulsome discussion and then proceed in a functional manner that supports the company and gets to the best result? Find out if there have been these types of discussions and how the board and management work through them in a constructive, effective manner.

Board structure and relationships (tone at the top and practical reality of the board). Understand the committees, responsibilities, and what you will be asked to take on. The hardest questions involve how the directors function with each other and with management.

- How does the board function when it has conflicts?
- How capable and committed are other board members?
- Is there an "orientation" program to bring new directors up to speed?
- What about board governance education requirements? How do members stay abreast of the latest industry, geography, and technology trends?
- What are existing board members' views on management? Are they forthcoming, honest, and competent?

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- How does the board go about reinforcing ethics and values? Are there appropriate processes? How does one check on this? What has happened in the past when there has been a problem?

Shareholder relationships. What is the board's role in shareholder communications? Do board members know how to respond if a shareholder reaches them directly? Have management and the board taken steps in crisis management planning? It is not a question of "if" but of "when."

Quality. This area includes products, value placed on people, and how the company handles issues. Most companies have quality programs, but identify how they actually respond to concerns and issues globally.

Human resources. How does the company approach retaining, motivating, and attracting talent? How involved is HR with the business? Does the CEO view HR as a partner? These same questions need to be asked of the CFO and CEO.

Your own value. Understand why the board wants you to join. Are you being added for the skills you bring? What is the expectation of your skills? Are you a good fit if this is a growth company or, alternatively, a distressed company?

Other Risks

What is the company's method for identifying and discussing business and corporate risks? Included on this list would be internal controls and the identification of any issues, health and safety, environmental concerns, and cyber risks.

Have the company and board been working to understand how social media is transforming the business landscape in addition to impacting the board's oversight of the company?

Reputational risks. Today this is a heightened risk. How do management and the board think about it?

Governance model. Is this an active board that focuses on both performing its fiduciary and compliance duties as well as taking an active approach to raising key short- and long-term issues to promote thorough and complete decision making? Or is it a passive board? How does this match with your own beliefs?

Keep in mind there are no perfect companies and no perfect boards. Prospective board members need to understand that they will find some issues as they evaluate any company. The important part is making sure a board is thinking about the right issues, and that management and the board can discuss, process, and come to conclusion (and actions) in a positive and constructive manner.

Having asked the questions and gotten answers, now you must evaluate the culture fit for yourself with the rest of the board as well as with management, and whether you believe you can add real value.