

The Questions I Now Think to Ask Before Joining a Board

By Ellen B. Richstone



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Editor's note: The May/June 2013 issue of *NACD Directorship* featured "Questions to Ask Before Joining a Board." Now, amid rapidly changing business dynamics and with the benefit of insights gleaned from greater public board experience, we solicited the author, Ellen B. Richstone, to revisit what she wrote then and update accordingly.

Before joining a board, a director candidate should conduct a due-diligence process that includes meeting most or all of the board members, key members of management, and, if possible, legal counsel and external officers. Your level of comfort in ultimately accepting the honor of serving on the board will depend in part on how you approach those discussions.

Your goal here is to gauge how the board functions as a unit and how the board functions with management in both good times and bad. While you'll rarely find many absolutes in the responses, you should still have enough information to determine whether the board is a good fit for you and your talents.

Since my first article on how to approach vetting a potential board seat, my career as a director has grown to encompass boards in a number of industries ranging from technology and consumer products to industrial, biotech, and pharmaceuticals. Also, in that short time the environment in which directors work has substantially evolved amid increasing

regulatory pressures, risks, and sources of disruption. The world a company functions in is dramatically different. Combined with the perspective of added experience, I thought it was time to rethink and revisit my original suggestions for evaluating a board opportunity.

That said, here are a few key themes—and key questions—to explore to determine if a particular board seat is a good fit for you.

Culture, Structure, and Values

Committees. Understand the committee structure, responsibilities, and what specifically you will be asked to take on.

Conflict resolution. How does the board go about reinforcing ethics and values? Is there a formal process? What happens when there is a problem? How are differences between board members resolved? When the board and management disagree, do people respectfully listen to each other's opinions, or is there a shouting match? Can a fulsome discussion be had before proceeding in a functional manner to get to the best result? Ask for

specific examples of how the board and management typically work through contentious issues.

Engagement and interactions. How capable and committed are other board members? What is the average tenure? Why did the last director leave? What are board members' views on current management, e.g., are they forthcoming, honest, and competent?

Is there a formal onboarding program for new directors? Is ongoing board education valued? Is there support for staying current on the latest trends in the industry and the market, as well as with technology, compliance, and legal issues?

Explore the relationship between the audit chair, the chief financial officer (CFO), the compensation committee, and the head of human resources. Do these parties regularly interact outside the boardroom? For example, does the CFO feel that he or she can call the audit chair at any time to seek advice?

Are there regular opportunities for directors to meet with managers outside of scheduled board meetings? One of my boards matched directors with an executive they didn't normally have an official reason to interact with. The pair were expected to have dinner or breakfast at least quarterly. Every two

years, these matches were rotated—with the goal of building relationships.

Mission and Strategy

Does a strategic planning process exist, including consideration of risks (i.e., market shifts) and the ability to execute the strategy?

How often is strategy discussed, and is it regularly integrated with the yearly planning process? Focus on how the changing external environment (e.g., political, economic, competitive, technological, like the move to digitization) is integrated into the evolution of strategic priorities.

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 environment 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 and sales channels considered?

Products. Discuss the internal process for developing new products. Many companies integrate information on market dynamics, competitors, and customer requirements. Is the investment in research and development and new products weighed against expected revenue and profit stream in both the strategic plan and the one-year plan? While this information is probably restricted, your goal is to understand the board and management process and the quality of the information you will receive as a director.

Will the company remain financially viable if products are delayed in delivery to the market or if they are not successful once in the marketplace? The objective is to determine if a management process exists and is reviewed with the board.

Competitors. Find out how competitive intelligence is collected and how management processes those insights. Identify infor-

mation about the “who” (major and up-and-coming competitors), the “what” (the ways in which they compare to your company), and the “when” (the estimated release of their new products in the marketplace).

Customers. Try to understand customer viewpoints and how customer satisfaction is gauged. What sources are used 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 underway in current markets to increase business? Finally, does the board meet with customers? How does the board receive information that has not been sanitized?

Operations

Financials. Take a hard look at operating cash flow against ongoing requirements. Understand the financial strength and runway should there be a stumble in execution. If debt exists or a need to raise capital is underway or required, evaluate the triggers that might cause the company to take unexpected actions.

Legalities. Review pending or threatened litigation, investigations, and compliance with the Foreign Corrupt Practices Act. Ask how international risk scenarios are evaluated, and how they would be approached when a problem occurs. Will the directors and officers insurance 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, develop at least a basic understanding of the company's relationships with its key regulators.

Stakeholder Relations

Outreach. Develop an understanding of the board's role in shareholder or stakeholder communications. Do board members know how to respond if a shareholder or another stakeholder reaches out to them

directly? What steps have management and the board taken to prepare for a crisis, and how is that disclosed?

Quality. This area includes questions about products, the value placed on people, and how the company handles issues. Most companies have quality assurance programs. Learn how concerns and issues are addressed.

Human resources. Understand the approach to retaining, motivating, and attracting talent today and in the future.

Risk Management

Structure. What is the company's method for identifying and discussing business and corporate risks? This method should include internal controls and consideration of issues related to health and safety, the environment, and cybersecurity. Is there an enterprise risk framework? How is information about risk presented to the board?

Reputation. Today, this is a heightened risk area. How do management and the board think about reputation? How is reputation measured? Is there a process for evaluating how the brand is trending or whether social media channels are being formally monitored by an employee? Have you checked out the company's social media presence and read reviews on Glassdoor or other job review boards? Have the company and the board been working to understand how digitization and social media are transforming the business landscape in addition to their impact on the company and board oversight?

The Final Answer

Once you have asked the questions and received the answers, you must evaluate whether there is a culture fit. Be brutally honest with yourself about whether you can add real value. This is a long-term decision, and not one to be taken lightly. So, what is your answer? 