

Article # 9

Questions board members should ask

As a board member the job of asking the right questions is fundamental to the value and responsibility of the board. Critical questioning is the road to understanding the business and knowing the management.

Asking questions that get to the heart of the issue or the core of the business not only informs the board member it also focuses the owner or managers on root causes. Questions that probe the deep and fundamental “why” need not be complicated; in fact, the simpler the question the more likely the answer can uncover real issues and lead to effective solutions.

When considering what questions to ask, remember guiding principles: Ask simple questions to help the business and the managers analyze, consider, understand and think in new ways, and ask questions that:

- enhance your knowledge of the business
- stimulate the discussion
- encourage new thinking
- allow you to listen and learn
- demonstrate that the board and the management both have the interest of the business at heart

On the other hand, never ask questions:

- to demonstrate your knowledge of the issue or questions
- to “trap” or “trick” the respondent

Experience demonstrates that board members who ask good questions and managers who give straight answers working together as a team build trust and a strong business model.

New members of the company's board often ask questions to build a basic understanding of the company. Experienced, long-term board members often ask questions to check the strategic compass of the company. Both new and long-term board members need answers to basic questions that seem simple but are critical to the health of the company and value of the board.

Following are questions every board member should be asking.

Does the company make money?

Separate the concept of earnings or net income with making money. If net income and the cash position are heading in opposite directions or if sales dollars and receivables are heading in opposite directions understand why and when the relationships will be corrected. Understanding the cash position, where cash comes from and where cash goes is fundamental to the health of the business. Accounting creates an estimate of earnings but cash is real.

What is the company's real vulnerability?

Would the loss of a patent or regulatory withdrawal of a key ingredient cause serious damage to the company? Is the business driven by a concentration on only a few customers and would the loss of a one of those customers cause critical restructuring of the business? Would any one crisis lead to a cascading effect on the overall health of the business?

Is the business leadership backed up with identified and qualified successors?

A truly healthy company cannot be dependent on only one or two key managers. Having bench strength in critical management positions provides insurance that the loss of one or more managers does not derail the company. Succession planning is a responsibility of the board. Mentoring today's managers and finding or identifying tomorrow's managers strengthens the future outlook of the company.

What plans are in place to insure the company's growth?

In today's global competitive environment companies see both threats to the growth of the business and opportunities to expand the business. Whether growth plans are organic or through acquisition expansion needs to be grounded in reality and tested for reasonableness. The board can help on all fronts concerning growth.

How does the company stack up against the competition?

Does the company have a clearly defined strategic differentiation that is valued by the customer? Are the company's costs and margins in line with the industry? If there are differences understand why and what steps need to be taken to optimize costs and margins. How can the company position its products or bundle its services to set the company apart from the competition and in alignment with the customers?

Is the company getting its price for product?

Are price adjustments, discounts and terms hiding the real price the company is getting for its products? Are customers paying on time and are receivables growing faster than sales? Are customers healthy or in financial straits? Remember that cash comes from sales therefore is the cash position improving with sales growth?

How does the management get paid?

What is the mix of salary and bonus? Are salaries in line with the market and are bonuses aligned with the company's strategy? Do incentives encourage the management to take actions and decisions that are good for the long term health of the company? Are there clearly defined activities and decisions that create growth and value from all functional areas of the company? Are bonus plans simple and tied to easily measured objectives?

Does bad news travel as quickly and easily as good news?

No one likes to deliver bad news, but it is important to encourage bad news to surface quickly so appropriate actions can begin correcting the problem. Encourage the bearer of bad news to come with potential solutions and be ready to engage the manager with discussion that brings clarity and sets an agenda for appropriate corrective actions.

In recent years the media has reported many examples of companies in which the board accepted only good news, failed to ask questions or accepted inadequate answers to probing questions. Enron, WorldCom and Adelphia are good examples of companies that lacked governance by the board. Good governance includes asking simple and appropriate questions that get to the heart of the fundamental issues. When board members get comfortable with the process of asking management what is underlying the results and outlook it benefits the business. Seek responses you can understand and are consistent with the strategy and goals of the company.

You may have other important questions to add to the list above. Remember keep the questions simple, listen closely to the answers and probe more deeply if you are not satisfied. If a question requires follow up or clarification and further study is needed set a time and expectation for a complete answer.

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