

What is your board's embarrassment IQ?

This quiz will place you on a scale ranging from "I sleep well at night" to "I must take immediate action." **BY GARY W. PATTERSON**

JACK AND SUZY WELCH raised a provocative point in their *Business Week* column, "The Boardroom Bunker," earlier this year. "Too often," they observed, "the question is: 'Has anything happened lately that could embarrass us?'"

The sad truth is that too many boards would be forced to answer a resounding "yes."

Although progress has been made to guard against governance scandals, too many board members today are in the dark — sometimes even clueless — when it comes to knowing the fundamental facts (read: financial health and profile) of the companies on whose boards they sit. According to the Welchs, real progress in boardroom behavior will be evident when members can resume their rightful roles of helping to develop a strategic vision that furthers the company's growth and profitability, instead of hunkering down and peering into an abyss of financial reports.

While this is a noble "meta" role, my first-hand experience with some board members tells me we're not there yet. I'm continuously amazed by what board members don't know that will indeed embarrass them if pressed against the wall. My perspective is a twist on the adage, but I truly believe that if you can't see the trees for the forest, you're overlooking fundamental, if not critical, knowledge of your company's business.

While the questions below may sound rudimentary, if not rhetorical, depending on your answers you may be a deer in headlights, or at least blushing with embarrassment. You be the judge.

What is your gut reaction to where the company stands?

Another way of asking this question is, "How well do you sleep at night given what you know (or don't know) about the company?" For example, based on the board package and other company materials

you receive before board meetings, do things feel right, or do you have a gnawing feeling you can't quite put your finger on? After all, the board and your CEO's credibility are impacted positively or negatively by finance, operations, sales, human resource, or communication issues. One way of gauging the reputation of your company is checking how aggressively prestigious service providers and financial institutions seek the company's business.

Do you really know the direction in which the company is headed?

If you were to begin signing Sarbanes-Oxley equivalent certifications with personal liability on current financial statements or fiscal projections, what else would you ask or want to know about the company's growth and viability? It's important that boards understand the short- and long-term issues facing a company, which can be ascertained from a company's five-year strategic plan.

While some may question the relevance of a five-year plan given the speed at which companies change today, I'm a proponent of long-term planning and visioning. Not only does a strategic plan act as a beacon guiding your company into the future, but just as important, it helps the board evaluate the quality of the executive team. A discussion on strategy is the surest, if not the fastest, way to learn how effective management is in its efforts to pull together and grow the company as a team. You'll be able to see whether management's vision is unified or splintered,

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which can make the difference between a company going somewhere and one that's going nowhere.

Are you receiving the communication package in a timely manner?

Another concern is the timely delivery of materials prior to board meetings. If you're consistently handed materials the night before or, worse, while the meeting is in progress, it's important that you understand the distinction of your role in the meeting — you're viewing a presentation and not participating in a thoughtful, well-prepared discussion.

To this point, many CEOs can be great salespeople who may seduce you with their charm, wit, and fancy presentations unintentionally (I trust), thereby distracting you from observing what's really going on in the company. When was the last time you complimented the CEO on his or her effectiveness in running a board meeting and the

umes. Ask yourself: How good are the CEO and team members in giving the board periodic updates on how well their past projections or assurances have been met, exceeded, or missed? If you're observing negative behavior and conflicting attitudes among the executive team in board meetings concerning the interpretation of reports, then something may be rotten in Denmark.

Do you know who your most profitable customers are?

If you can name the company's top 10 customers both in terms of combined revenue and total profitability, you're in a good position. But that's not all you need to know. You need to know the profitability of each product line as well as ascertaining how well the company meets customer requirements and response times. Again, if you're not receiving timely and accurate sales reports detailing likely customer closes, potential business, and future prospects, this may be a sign that you don't really know your profitable customers as well as you should.

Is your expertise being leveraged to its fullest?

Good selection and periodic evaluations of board members ensure expert external perspectives on areas key to company growth where that expertise may not exist inside the company. The value of outside expertise to a company is a major reason directors are selected by truly good or great companies.

Ask yourself: How often over the last year have you been involved in somewhat minor items like the color of an advertising brochure or details of a general ledger account such as a miscellaneous expense? I trust most of you are chuckling here and only a few have to admit some version of this.

Where do you stand as a board member?

Depending on how you answered each of these questions, you can begin to measure where you stand on the spectrum:

- I have nothing to be embarrassed about: I sleep well at night.
- I'm mildly embarrassed: I'm above average.
- I'm terribly embarrassed: I need to improve my performance.
- The situation is critical: I must take immediate action.

If you're ready to take the next step, I urge you to write down three opportunities or changes that you think will serve the company well. Trust your initial intuition. And three is enough. You can always take this quiz again to see if you've improved. ■

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delivery and discussion of important information? It's not a good sign if you can't remember.

What is the quality of the communication material you receive?

The quality of the material will also give you a glimpse into how much you know and don't know about the company. Ask yourself if the financial reports and summaries are easy to understand and evaluate. For example, many companies either drown their directors with more information than is needed or provide too little and/or omit information on crucial areas of the company. Keep in mind the purpose of the package is to maximize the time and value of directors who have limited time to address important issues facing the company. If you're struggling to make sense of the materials — whether it's financial figures or summaries of operational issues — you may be driven to distraction to a point where you're confounded about the health and well being of the company.

Are the financial figures and operational metrics accurate?

We addressed timely delivery of information, but that's not enough. You need the assurance that past budgets, cash flow projections, sales funnel reports, and oral operational updates from the CEO and management were accurate and met.

Here, the executive team's behavior speaks vol-

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