

Top Ten Things Every Corporate Director Should Know

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There's nothing like a recession to re-focus management and boards on the basics of value creation. Rigorously analyzing our products, our services, and our value proposition every now and then is a good thing, and now that we're facing a downturn in the economy, it is especially necessary.

For the board's part, we directors need to be asking the most fundamental questions and reviewing the answers. If you're a corporate director and you don't know the answers to these 10 questions, you have some work to do.

- 1. What does the Company do?** Does it make things, provide a service, re-sell what someone else manufactures? Know what the Company itself does, and what it outsources.
- 2. Who buys what the Company sells?** What is the specific pain point or need that is being addressed? What's the value proposition? Is there a concentration of business with a few critical customers?
- 3. What are the Company's core competencies?** Why do customers buy from this Company? What other business lines are feasible and desirable for the Company going forward? Does it have the wherewithal to expand?
- 4. How does the Company make money?** How specifically does cash get generated? What is the pattern of cash flow for this business? If the Company is not making money, or not making enough money, how can it make the changes necessary to become profitable?
- 5. Who are the Company's competitors?** How does the Company stack up against the competition? How do sales and expenses compare to competitors or to model companies with a similar brand or mission?
- 6. What are the Company's biggest risks?** What single event, or concurrent negative events, could happen in the next few years that would tank the business? Does the Company have someone assigned to monitor and mitigate each key risk area? Are these people communicating with each other?
- 7. What is the culture of the company?** Do the stated values mean anything? How does the company prevent and detect wrongdoing? Is there an effective hotline or communication mechanism that guarantees employees and vendors anonymity and/or confidentiality when they speak up? Is bad news dealt with timely and consistently? Does the board conduct its own affairs with integrity?

8. **How is the CEO compensated?** When salary, bonus, other incentive plan payouts, stock, and the value of options are all added up for a given year, what's the number? Do shareholders understand how pay is linked to performance?
9. **Who would run the Company if the CEO were hit by the proverbial bus?** Are leaders being developed at every level of the Company? Is the oversight knowledge and skill in the boardroom sufficiently strong?
10. **How will the Company create long-term profitable growth?** Will it make/sell new and improved versions of what it's doing now? Will it need to venture far afield from its existing competencies? Does it have contingency plans to address changes in consumer behavior or other economic shifts?

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