

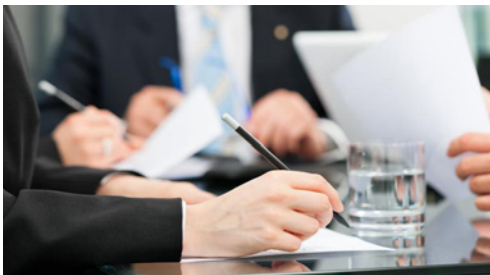
Gene Siciliano



7 Tips for Great Boards

All publicly owned companies and most nonprofit organizations have boards of directors to provide oversight and guidance to the management team. By contrast, most privately owned companies have no boards of directors, or they have shadow boards made up of family members who only meet in the official records of the corporation drawn up annually by their attorneys. Ideally these companies would form a real board with authority and fiduciary responsibility for the organization. Alternatively they would at least have a board of advisors to provide unofficial oversight and guidance to the management team, with no requirement for following their advice but at least having access to it.

We believe every organization, large or small, should have a resource that they can turn to for guidance. Such a resource will proactively suggest improvements that could accelerate success and/or point out perceived missteps that could hurt the business. Often that comes from family members or customers or individual trusted advisors (including our firm's team members). But our belief, based on 30+ years of experience, is that **companies with formal boards perform more effectively than those relying solely on the CEO and the management team.**



To that end, this edition of our newsletter is intended for those companies, whether public or private, that are considering, or have already built and actively use, a formal board of directors or a board of advisors. The tips and suggestions that follow are not intended to be all-inclusive; they are rather a joint product of our collective experience and some helpful input provided by the National Association of Corporate Directors (www.nacdonline.org).

Tips for better board performance:

1. Ensure **discussion materials** to be reviewed at board meeting are *sent well in advance* so busy directors have time to read and consider them before the meeting. A board member reading through a document or financial report for the first time, just as the motion to accept is presented for a vote has added no value to the discussion. By the same token, when reports are sent out in advance, board chairs should reasonably expect that all directors have actually read them in advance.

2. **Financial reports** are sometimes challenging for board members to comprehend, given the depth of detail and sometimes esoteric terminology in such reports. The presenter should make extra effort to *highlight key elements* of such reports in a way that helps nonfinancial directors to understand the impact of the information. Charts and graphs often help to achieve this, and board members should accept

that the only foolish question is usually the one not asked.

3. **Significant key initiatives**, such as M&A deliberations or major strategic initiatives, must be presented to the board in a *timely manner*, so all directors have time to consider the impact from their area of expertise. These are the kinds of issues where you want the best minds tuned up in advance for the highest quality discussion and decision making. And of course if your board is kept in the dark about a key initiative until the last minute, it shouldn't be surprising if they express some strong emotions about being put in that position, especially if they're fiduciary boards.

“...companies with formal boards perform more effectively...”

4. As your board secretary prepares **minutes of meetings**, it's best to keep them at a pretty high level, avoiding the details of the discussion that might down the road raise more questions than they answer. State the issue, decisions made, concise rationale for those decisions, key actions authorized as a result, period.

5. Whether your organization gets an annual audit by a CPA firm or not, engage your CPA to perform a test of your **internal control compliance** every couple years, just to ensure all the systems and procedures you think are in place and protecting you really are. That internal control review will typically be similar to what CPAs normally do in preparation for an audit, although you can ask them to tailor it for any special situations in your organization that may be unique.

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Gene Siciliano is the founder and president of Western Management Associates, source of *Your CFO for Rent*® services for over 25 years. The firm provides interim and part-time CFO/Controller services, executive coaching and assistance in operational finance and exit strategy. Gene and his team of seasoned CFOs and controllers have a clear mission in their work with CEOs and owner/operators of privately owned companies. Their value proposition:

- Increase the company's net worth and profitability by improving the management team's financial proficiency and bottom line results, and
- Develop and execute strategies that will make your company more appealing to a buyer or investor, if and when the time comes for an ownership transition.

7 Tips

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6. Performance measurement is a tool we all try to use to evaluate the effectiveness of our employees. But in our experience few CEOs try to measure **individual board member performance**. We think that's a mistake, because *non-performing board members are a detriment* to the organization, sometimes holding a seat that could go to someone who would bring solid value to the organization. Find a way to evaluate each board member – attendance, quality of participation, insight into the substance of the organization's purpose, active committee participation, etc. If

“Successful people do what unsuccessful people are not willing to do. Don't wish it were easier; wish you were better.”

—JIM ROHN

a board member doesn't measure up, the CEO or board chair should have a one-on-one discussion to fix it. Lacking success at that, asking for a resignation is the right action to take.

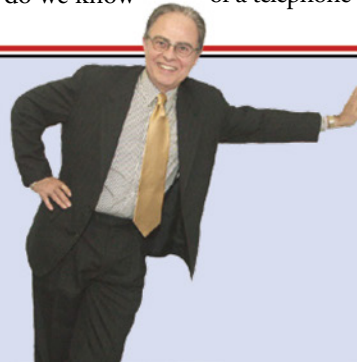
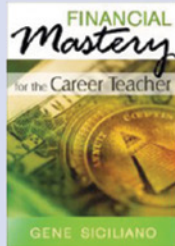
7. One issue every board should be briefed on regularly – **cyber security**. We know that no organization can be completely protected – witness our government's challenges in that regard – but we must do whatever we can afford to protect our data and our customers' data. So your board should know what your organization is doing to protect your data. The questions to ask: “What is our exposure?”, “Is our security enough?” and “How do we know

it's enough?” should be asked and answered to the board's satisfaction. One security expert I know puts it very succinctly: *“The hacker can try hundreds of times and only needs to be successful once. By contrast the target needs to be successful 100% of the time.”* Food for thought.

Some resources to consider for even more guidance on board service and process include the aforementioned NACD and, in Orange County, CA, the Forum for Corporate Directors (www.fcdoc.org). Of course, I'm always willing to insert my opinion as well, available at the price of a telephone call to 310.645.1091.



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