

Outline of Board Background Book

Helping Directors Prepare: The Board Background Book

Directors depend on the chair to get the information they need to do their job well. One effective way to accomplish that is with a board background book. The board background book is a comprehensive, professionally presented summary of important information about the business. While compiling the book can take some time, the investment of care and effort is usually greatly appreciated by the directors and often of value to the company's executive leadership. In many ways, it reflects the owners' eagerness to help the board get off to a running start and fulfill its promise. The board background book is best gathered in a three-ring binder with a table of contents, or on a protected website. The book should be provided to directors well before the first board meeting, to give them time to assimilate its contents.

Outline of Board Background Book

1. Mission Statement, History and Strategy

- a. Preamble and Board prospectus
- b. Brief history of business, including trade publication profiles or recently written articles.
- c. One- or two-page explanation of strategy, how company makes money, industry structure, and some key industry trends. (Include summaries of the economics of the industry, the value-added chain, or the product life cycle.)

2. Who's Who

- a. Organizational chart of the company showing names, titles, ages, years with company, number of total reports. Possibly include total number of employees and any relevant demographics.
- b. Shareholdings by owner and type of shares, buy, -sell or shareholder agreement. Business valuation; any trustees and their legal roles. Brief paragraph noting what happens to the stock of key owners in their estates.
- c. List of duly elected officers and their level and form of compensation.
- d. Family tree of ownership group, including in-laws, divorces, ages, and employment background.
- e. Contact information for key advisers, including lawyers, accountants, insurance agents, investment advisers, family trustees, bankers, and organizational consultants.

3. Biographies

- a. Biographies of key executives in one or two paragraphs each, including current roles and responsibilities, past work and educational experience, ages and years with company, industry and professional associations.
- b. Directors' vitae as requested and received from them.

4. Competitors, Vendors and Customers

- a. List of top three to 10 competitors and a brief description of their ownership, size, ways of competing, and other details.

- b. List of top three to 10 vendors, what is bought from them and roughly how much per year.
- c. List of top three to 10 customers, what they buy from the company and roughly how much per year.
- d. If available, a map of the United States showing where company does business, where it is concentrated, where it has locations and salespeople.

5. Financial Information

- a. Very efficiently presented one-page, five-year profit and-loss statement.
- b. On the same page, a current year budget and/or coming year pro forma budget.
- c. Simple balance sheet items, highlighting receivables, cash, inventories, fixed assets, debt, and equity.
- d. A one-page summary of financial and/or relevant operating statistics such as return on investment, return on equity, real sales growth, inventory turns, gross margin, sales per salesperson, product development budget, percentage of sales from new products, and/or new programs.
- e. A one-page outline of sales per product market category over several years, perhaps including development costs per category, gross margins and other relevant details.

6. Audit and Estate Valuation

- a. Most recent year's audit.
- b. Employee stock-ownership plan or insurance or estate valuation, especially funding formulas and redemption requirements, if available.

7. Articles, Bylaws, Indemnification

- a. Articles of incorporation and corporate bylaws.
- b. Copy of director indemnification and/or legal letter and/or insurance coverage.

8. Other Information, If Relevant

- a. Union status, including background on any votes, affiliations, etc.
- b. Corporate insurance coverage
- c. Results of any asset appraisals.
- d. Notation of litigation pending or expected; legal letters if appropriate, specifying exposures and status.
- e. Real estate or office space owned or leased, and terms and values if not clear in audit.
- f. Any employment contracts, stock options.
- g. Any dividend information.
- h. Pension fund information and trustees.
- i. Any ending covenants or contingent liabilities.
- j. Any particular corporate contributions, such as political or charitable.

9. Board Schedule and Agenda

- a. Outline of proposed dates for next four or five meetings.
- b. Agenda items planned for each meeting, such as audit report, capital budget, etc.

Excerpt from: Jennifer M. Pendergast, John L. Ward, and Stephanie Brun De Pontet. "Exhibit 8:4" *Building a Successful Family Business Board: A Guide for Leaders, Directors, and Families*. New York: Palgrave Macmillan, 2011. 128-30.