Is an Outside Board of Advisors Right for Your Company?

By Steve Handler, CPA - Partner

March 2014 -- While it is standard practice for a larger organization to have a dedicated board of directors who focus on strategic planning and corporate accountability, there is no reason a smaller or medium-sized company cannot achieve the same benefits through its own Board of Advisors (BOA).

The first hurdle to overcome in achieving these benefits is to address any insecurity issues. If your company commits time and expense to creating a BOA, it makes sense to listen to and consider their advice. Nothing will weaken your board's effectiveness more than establishing the board, and then ignoring most of its advice. The following are some guidelines to keep in mind:

- Select the right advisors. Three or five board members is the ideal size. This size also helps avoid "tie votes" that typically result from an even number of board members.
- Do a "plus and minus" evaluation of the company. What are the company's strategic strengths/opportunities and what are its weaknesses/threats? Select board members who can help you understand these key elements associated with strategic planning.
- Add variety to your board. Don't use friends, family, and professionals or other employees that currently serve or work for the company. You already receive advice from these individuals, as well as your lawyer, accountant and banker.
- Use independent professionals or industry specialists where warranted, as well as those that complement your "plus and minus" assessment.
- Avoid appointing advisors where the focus on their compensation is more important than accomplishing the board's overall objectives.
- Avoid big names. A $10,000,000 company should not seek out a Fortune 500 CEO to serve on its board.
- Create a written summary of the importance of serving on the board, including its philosophy, expectations, expected time commitment, and compensation.
- Consider peers (e.g., other CEOs), industry leaders, specialists and executives who have experience serving as board members. If the company plans to grow, identify candidates who understand where that growth will come from tomorrow, not just where it is today. If branding and research are keys to achieving the company's growth, identify individuals who have experience in these areas.

There are a wide range of strategies associated with appointing a board of advisors, including appointing a consultant (i.e., a non-board member) to solicit, interview, and help select the advisors. The consultant can also assist in developing the objectives and overseeing implementation of the board's operations. There are many companies that appoint members from their organization to serve on their board. Of course, you can decide to do it yourself, without outside assistance.

Once the board has been formed, the real work begins. The first meeting should be structured as a "getting to know one another" session. And, since the membership will more than likely consist of high-level executives, all meetings should be structured around an agenda; important materials should be circulated in advance of the meeting. The discussion of financial and operational reports should be kept at a high level in an effort to avoid wasting meeting time on minutiae.

Every board meeting should be devoted to one or two strategic topics, as well as any follow-up matters not agreed to from the previous meeting. The CEO should evaluate the effectiveness and contribution of the board members continuously. If it proves necessary, the CEO should meet (privately) and address issues with any ineffective members; if all else fails, it could prove necessary to appoint a new board member. Some meetings will be successful, and others will not. Judge the board's effectiveness on an overall, ongoing basis.

Your company should, ultimately, reap the benefits of your BOA's contribution to strategic issues and concerns. Key questions to ask include: is the company reaching or exceeding its goals? Over time, consider: does the board contribute new ideas, and are those ideas being implemented? Are the ideas beneficial and profitable? If not, find out why. Establish strategic goals and monitor the progress towards achieving them.

Unlike a public company with its board of directors, your company is under no legal obligation to have or maintain a Board of Advisors. For the board to be successful, it must continuously contribute to the success of the company. If you would benefit from additional guidance or assistance in considering a Board of Advisors for your own company, please contact me at 847.213.2107 to arrange a complimentary consultation.

Steve has been a Partner with Michael Silver & Company CPAs since 1997. His prior experience includes 15 years as a Partner in another CPA firm, and over a decade of management experience as an industry executive. In addition to assisting international companies with their U.S. operations, and extensive experience in real estate, Steve is a Certified Management Consultant with expertise in mergers & acquisitions, long-range planning for closely-held businesses, compensation planning, and commercial lease negotiations.