

## **Who Is On Your Board?**

*By John Nardozi*

If you thought having a Board of Directors was only for Fortune 500 corporations, think again. Even a small, privately held business should have a Board. If you don't want to call them Directors (with the responsibility that entails), call it a Board of Advisors.

Formal boards of directors have legally defined responsibilities and fiduciary duties. But advisory boards generally have no formal power or binding legal authority. They exist to support and serve the business owner.

In fact, a smaller company can often make the best use out of a group of outside advisors, who can contribute their individual experience and expertise to help guide the decision making of company managers. The support and advice of a third party can supplement the talents of the business owner.

A Board of Advisors can bring an outside perspective to how you run your business, helping to identify and capitalize on opportunities, while avoiding mistakes. The Board can serve as a sounding board, and also in an oversight capacity. Perhaps most important is the capacity to provide an unbiased point of view built on experience.

### *Setting Up Your Board*

How you organize your Board of Advisors will vary with the nature and complexity of your business, and the experience and skill of your management team (which will be supplemented by Board members). You can start small, with as few as two members, although 5 to 7 is a more appropriate number for a small to mid-sized business. As your company grows, you may find the need to expand the Board of Advisors.

Who should be on your Board of Advisors? A mistake many family-owned companies make is to include only family members. This can limit the talent and objectivity of the Board. The same goes for friends or professionals who have a business relationship with the company.

When recruiting Board members, start by analyzing the strengths and weaknesses of your company's management team. The goal is to "fill the gaps" with outside advisors who can supplement your internal expertise. Do you need someone who can offer marketing advice? Help in managing finances? Legal guidance? Seek out Board members with expertise in these areas.

Ask your banker, accountant or attorney for their recommendations for Board members. If you are an active member of your local Chamber of Commerce, seek out successful business people who may be able to bring some of their expertise to your company. You might even ask retired competitors, who will bring their own unique understanding of your situation.

### *Board Operations*

Establish a set of expectations up front. In written form, set down what you expect the Board to accomplish, how it will function, how often it will meet, and how it will be run. Don't set yourself up as the chairman, lest you be tempted to dominate meetings and limit the free exchange of ideas.

Set up a regular schedule of meetings. Most businesses can get by with quarterly meetings. But don't be afraid to supplement with additional meetings if a crisis situation occurs.

Your interaction with a Board of Advisors is a critical component of its success. Be as open and honest as possible. A CEO who withholds information or twists the truth to suit his or her needs is doing a disservice to the Board and to the company. Good advice can only come from full and complete information.

Board members should be compensated, either with an annual stipend or on a meeting-by-meeting basis. In many cases, Board members may also be encouraged – even required – to take an equity stake in the company, giving them added incentive to provide their best advice and judgment.

In exchange, Board members must be committed to preparing for and attending meetings regularly. Establish rules for dismissal and make sure every Board member understands their responsibilities and commitment.

### *A Competitive Advantage*

It is estimated that less than 20 percent of privately held companies in the United States employ a Board of Advisors. Having such expertise and experience available to help you better manage your business can provide a distinct advantage over your competitors.

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