

Article # 3

What is a board of advisors in a privately held company?

From a practical point of view a board of advisors in a privately held company is a resource for new thinking and fresh ideas. It is an opportunity to install added discipline into the workings and processes of the company. Outside advisors bring balance to the decision process and experience to the key issues at hand.

In order to address some of the typical fears heard from owners of private companies about creating a board, the following article describes the differences between a public company board of directors and a private company board of advisors.

In a public company a board of directors is a legal requirement. The board of directors represents the company's shareholders. It provides governance. It is the role of the board to hire, hold accountable and when necessary fire the CEO. A board oversees procedural and regulatory compliance and plays the central role in the statutory and fiduciary duties and responsibilities of the company on behalf of the shareholders.

In contrast, in privately held companies a board of advisors is serving at the option and pleasure of the owner or CEO. It is an outside resource that brings value-added perspective

and constructive insight to the problems and opportunities of the company. A board of advisors brings fresh thinking and fills expertise gaps.

Another key role for a board of advisors is to provide objective and experienced evaluation of the professional, senior managers in the company. Using the board of advisors as mentors for the professional managers as well as for the next generation owners brings unique and valuable contributions to the company.

In companies where multiple family members are engaged in the management of the company the board of advisors can serve the role of helping to organize the experience and potential of family members. The board can play a role of not only mentoring but also evaluating the next generation to best serve the company. The advisors can play an important role in assuring the optimum long term results for the business. The board of advisors can shoulder the responsibility for the best succession decisions.

Another unique role of a board of advisors in a privately held company is to send a clear message of openness and fairness to employees, suppliers and customers. To each of these groups the use of an advisory board is a message that the owner is willing to listen and to be challenged in a constructive way for the benefit of all.

My friends in the legal profession do make a clear distinction between the definition of a board of directors and a board of advisors in a privately held company.

In my experience, serving on multiple private company boards, the success of the process is not in what it is called but in how it is organized. The successful use of a board of advisors is driven by setting clear direction and discipline for the involvement of the board.

There may be a benefit in choosing either description the owner decides to use for the board. Each of the choices communicates unique messages the owner may wish to send to employees, suppliers and customers.

The term “board of directors” may send a more formalized and serious message than the term “board of advisors.” The two terms may each have different impact on the talent attracted by the opportunity to serve the owner and the company.

In the end, however, the results of the use of outside talent to improve the performance of the company are decided by the discipline applied to the establishment and process of using a board of advisors.

So, when you as the owner reach the stage of deciding to form a board that includes members with experience from outside the company, remember, the benefits will come not from what you call the board but in how you constitute the board.

The important steps to remember when creating a board include establishing a clear mission and specific job responsibilities, identifying and filling real gaps in talent or experience, and formalizing job descriptions for board members.

These specific topics will be covered in more detail in subsequent articles.

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(Article # 4 in this series will cover factors to consider, resolve and formalize prior to forming a board of advisors in privately a held company).