Article # 6

How do you maintain value in your board of advisors?

Sustainability is always an issue when looking for ways to improve either the results of your business or its functional processes. Maintaining value in your board of advisors is equally important and takes consistent effort on your part as the owner.

The opportunity I have had of participating on a number of diverse private company boards has demonstrated the importance of maintaining a high level of performance and participation. Companies and owners who are up to the task of leveraging the contributions of their board of advisors get repayment many times over. It is one of the secrets of success for companies embarking on the establishment of an outside board of advisors.

The suggestions discussed here are provided as a stimulant to get you thinking about ways you can sustain the value of your board of advisors. Paying attention to these suggestions will assure sustainability in the contributions your board makes to you and your company.

Being a good listener is an important start to maintaining the value of your board. In the first article of this series a quote from the owner and retired CEO of Manco Inc., Jack Kahl said, “You don’t always have to agree with your board but you had better listen to them". Your board is there to open your mind and your company to their expertise and experience. Your board is there to help you avoid pitfalls they may have experienced or can see from their own experiences.

<u>Have a plan of involvement</u> for your entire board as well as for each member you appoint to the board. If the appointees to your board fill the experience gaps, each one will bring specific strengths to the company. Together they bring you a broader vision. Individually they bring you specific opportunities for success.

<u>Avoid clones</u> on your board. Remember you formed a board to bring in new thinking and to fill gaps in experience. You don't need more people just like you or just like your managers. Avoiding clones is an opportunity to reach beyond the collective experience of the company.

<u>Encourage new points of view and different thinking</u> from your board. That is why you formed the board. Avoid friends who always agree with you and bring neither new experiences nor new thinking to the company. They will do you no favor and the company will miss the opportunity to grow to new levels of success.

<u>Add diversity as a supplement to ability and experience gaps.</u> Board members from completely different industries and experiences bring new points of view. All the new thinking is not in your own industry. Transferring

knowledge or experience across industries often brings competitive advantage.

Avoid appointing professionals whom you already pay for advice. Appoint board members who bring new exposure, new experience and new thinking to the table. If the legal, accounting or other professionals you already are paying are bringing you the value you are paying for, then putting them on the board takes the place of someone new and unique to the identified gaps in the experience of the company.

Establish and stagger terms of service so you have the opportunity to gradually turn over your board as the needs of the company change. For example, if you have three outside board members, stagger their terms of service so you turn over only one board member each year. Be flexible. If an existing board member remains valuable extend the term of service. Opt for a size that is manageable. Be adaptable so you can thank and excuse a current board member or add a new board member as the situation demands. When considering board terms of service have a goal of maintaining balance and continuity that meets the needs of the company.

Compensate fairly when appointing a board member. Benchmark the experience of your peer company owners and discuss compensation openly with potential candidates. In most cases this is not a board member’s livelihood and payment is generally proportionate to the size of the company, value of the input and expectation of involvement. Compensation may be in cash, in a form of equity or a combination of the two.

Maintaining value comes from paying attention to the suggestions discussed in this article. It is also a function of common sense and fairness from both the owner and the board appointees.

As you experience the development and contributions of your board you will find other powerful ways to leverage the return for the time and effort spent in appointing and using an outside board effectively.

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(Article #7 in this series will cover additional tips on effectively utilizing a board of advisors in a privately owned company).

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