Article # 8

Board of advisors composition and compensation

This series of seven previous articles has provided insight and experience concerning the elements necessary to develop and maintain a value-adding board of advisors for private companies.

In this eighth and last article of the series the issues of board composition and board compensation will be discussed.

In private companies effectively using a board of advisors the composition is generally made up of two elements. The first group is outside directors. The second group includes selective, senior, functional managers from inside the company.

The outside board members are chosen using the tips and tools discussed in this series of articles. They fill specific gaps in the experience or expertise of the company, and will represent an opportunity for new perspectives and new thinking.

The number of outside directors should be proportionate to the size of the company and will represent important gaps in the company's experience or expertise. A good guide line for companies making their first commitment to using a board of advisors is to identify two to four outside directors who fill the highest priority gaps in the company's experience or expertise.

Board candidates should be smart, independent, and diverse in experience. They should be eager to bring new perspective and insight to the company and willing to soundly support their views. Board candidates must have both personal and professional integrity. One final attribute of importance for your outside board members is, when appropriate, to be willing to provide constructively opposing points of view contrary to the owner and inside managers.

As cautioned in earlier articles, avoid outside board candidates whose only qualification is that of a friend. In addition, generally avoid candidates who are already outside paid professionals for the company such as outside counsel or an outside auditor. They are already being paid for their independent advice. They can be invited to board meetings as needed to present information or to give their opinions directly to the board.

The inside members of your board of advisors will be made up of selected senior managers who are also employees of the company. As the owner and president or CEO you will serve as the chairman of the board.

Next, select functional area managers of your company who are most important to the company's success. If the company is manufacturing driven, the senior manufacturing manager would represent a likely candidate for a board position. If your company is marketing driven, the senior marketing manager is an appropriate candidate. Often the senior financial officer is an important part of the makeup of the inside board members.

Candidates from inside the company should fill seats that represent important functional disciplines of the company and / or senior managers who are clear succession candidates for the company.

The total number of board seats should reflect company size, the defined opportunity of having a board, diversified experience and expertise and a number that is comfortable and manageable for the owner. Additional board seats can be added after gaining experience with this management tool. Remember, keep your options open and be flexible. Make revisions as the company and market circumstances change.

Board compensation for outside directors is best addressed by considering a few key factors. Benchmark other companies similar in size to yours. Look at companies inside and outside of your own industry. Relate the range of appropriate compensation to the value you put on having a board of advisors. Consider various methods of payment including cash, equity or some combination of the two payment methods. Remember, most outside board members in private companies are not serving on the board as their primary means of support. Compensation should be related to the time provided and the value delivered by the board members.

As the size of the company increases other financial issues need to be considered. As the owner do you expect your board members to shoulder any fiduciary or regulatory risk? If so, what protection can be provided for the board members? If not, will a written release be provided to the board members from the company?

Compensation for inside board members also needs consideration during the planning stage of forming a board of advisors. If the inside manager's job description and reward system already takes into account board participation then additional compensation is not appropriate. If this activity is added to the manager's duties and responsibilities, then consideration of additional compensation is appropriate. Payment to inside board members should be related to compensation of the outside directors.

Board composition and compensation should reflect the mission and job descriptions you as the owner have developed for your board of advisors. Following the suggestions in this series of articles can be of value in the choices you make and in the way you operate and gain value from your board of advisors.

Successful owners who have utilized outside boards effectively have found that the message sent to employees, customers and suppliers is powerful. It says you are an owner who recognizes and uses a competitive advantage, is open to new thinking, and is likely to be on the top of your game.

From my experience on numerous boards I have no doubt that an owner effectively deploying an independent board of advisors is more likely to reach his or her goals for growth, reward, succession and at some future time a smooth transition or exit.

John F. Dix is president of Business Development Index, Columbus, Ohio, and is a member of numerous boards in the US and Canada. He can be reached at: (dix.3@osu.edu).

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