

Should I Join a Board

09/24/07

I've been invited to join a board of directors. The company has under \$5 million / year in revenue. What are the things I should consider, when making my decision about whether or not to join?

By forming a Board, the owners are insuring that they will have a permanent advisory group in place. Board members become expert on how the business works, gaining specific knowledge of the company's market needs and plans. The information of the company remains within the 4 walls of the company, as advisors / directors have explicit confidentiality responsibilities.

There are a few areas our reader will want to consider, starting with the distinction between Board of Advisors and Board of Directors. You want know about the term of the assignment, your role and responsibilities. Consider the owner / manager(s) you'll be working with, and how this might change your relationship. Be clear about compensation and liabilities.

A Board of Advisors works for / with the owners of the company, with little or no actual decision making authority. Advisors exist to advise the owner of the company. This is most common in privately held companies, where the owner is typically the majority stockholder as well.

A Board of Directors works for the stockholders of the company, with specific fiduciary responsibilities. They are charged with representing shareholder interests and protecting the company. Directors can be held liable in a court of law. Directors are a more common configuration when the shares of the company are held by many people, and the person running the company is not a majority shareholder.

Next, you want to get clear on the term of the assignment, and the amount of commitment. Here are some questions you want to ask, when considering joining a Board:

- How often does the Board meet, for how long; is it scheduled well in advance
- What kind of briefing is available prior to meetings
- How many Board members are there, and why were they selected
- What kind of turnover exists among Board members
- What types of advice are you looking for from the Board
- When it comes to following the advice / directives of the Board members, what's the expectation
- What kind of written rules exist governing the Board and its relation to the company
- How long is a Board member expected to remain on the Board

Look for a Board that is made up of skilled, complimentary participants, not just all lawyers, all accountants, or all friends of the executive in charge. Look for Boards where there is some turnover, to refresh the pool of advice, but where Board members tend to serve out their terms before moving on. Regarding your own commitment, be reasonably sure you will be able to attend all meetings. Be prepared to spend 2-3 hours preparing for meetings, reading briefing documents and boning up on the industry at large.

Have an in-depth discussion with the owner / executive in charge of the company, as well as with other Board members, prior to joining. Find out about your responsibilities and role. There should be a purpose to having you join the Board; be sure you can fulfill it. Make clear that you are compatible and can work with the other Board members. Expect there will be dissension from time to time; be confident you can get through it productively.

Generally people are asked to join a Board based on a pre-existing relationship with the owner / executive in charge. Evaluate how joining the Board is likely to impact your relationship. Having informal chats with each other can be quite different from engaging in a rigorous debate. Having to tell the company that they're seriously missing the



Trusted Advisor to Business Owners

Should I Join a Board

09/24/07

mark can sometimes get in the way of lasting friendships.

Finally, don't forget to ask about compensation and liability protection. Compensation runs the gamut from zero, to having dinner, to being paid an hourly fee. At the top end of the range, calculate an hourly fee by defining the President's hourly fee, and paying Board members in the same ballpark.

Is there insurance for Board members? This is a more important point if you're acting on a Board of Directors. Insurance can be pricey, smaller companies may not be able to afford it. Without insurance, be very careful about joining a Board of Directors, where you have specific fiduciary responsibility, and can be sued by stockholders and members of the community, if the company fails to operate responsibly.

Looking for a good book? Try, *The Ultimate Board Member's Book: A 1-Hour Guide to Understanding and Fulfilling Your Role and Responsibilities* by Kay Sprinkle Grace.

Business owners regularly turn to Ask Andi and Strategy Leaders for advice on how to grow profitable, successful companies. They find what they need time after time. Specific advice is available at www.AskAndiBlog.com. Ask Andi is also published weekly in the Westchester and Fairfield County Business Journals and Hudson Valley Business. Written by Strategy Leaders President, Andi Gray, the Ask Andi column is a rich source of advice for owners of established, privately held businesses.

If you are a business owner and you have a question or would like to discuss some aspect of your business, call [1.877.238.3535](tel:1.877.238.3535) or send an email to AskAndi@StrategyLeaders.com.