

## Creating an Effective Board

By Steve Hancox and Leonard Eppel, Autumn, 2014

As a company evolves, so should its governance. From start-up through its earliest stage, friends and family often serve as the only people an entrepreneur feels they can turn to for advice. Entrepreneurs also frequently join CEO Roundtables or other similar groups to gain access to other business leaders.

When one person owns and manages 100% of the company, and is accountable to no one else, they most certainly do not need a Board of Directors telling them what to do. Between these two extremes, of friends and family versus a formal Board of Directors, lies the appropriate answer for most privately held companies. A properly constructed Board of Advisors can provide a huge benefit to small firms with big aspirations.

A Board of Advisors serves two purposes. First and as the name implies, they bring skills that augment those of the owner(s). Second, they provide a measure of accountability and discipline; in which a CEO knows there is a scheduled date when he or she will be expected to reconcile the efforts and results against their plans and strategies.

An advisory board is not an expensive undertaking and should not be postponed. Yet, many businesses operate without one. Many business owners lack an understanding of what they are missing. This is where their attorney, banker, financial advisor or accountant can be of tremendous help.

In researching this article, I have found discussions within the legal profession that suggests lawyers might consider serving on their clients' Board (of Advisors or Directors). The American Bar Association discusses this topic in its newsletter ("Ethics Corner: Lawyer Serving on Board of Client") <http://apps.americanbar.org/buslaw/newsletter/0072/materials/ethics.pdf>. While this Internet article appears to indicate that lawyers *may* serve on boards, the next logical question is should they?

Again the Internet comes through with another fascinating article, this one from the NYSE Governance Services ("The Rise of the Lawyer-Director") <https://www.boardmember.com/The-Rise-of-the-Lawyer-Director.aspx>. An observation from a 2013 Cornell Law School study cited in the article makes the interesting discovery that the prevalence of lawyers on boards has risen to 43% and "that the value of these companies was about 9.5% higher than those companies without lawyers on their board".

While these articles only discuss the appropriateness of attorneys serving on Boards, every trusted business advisor (banker, accountant, financial advisor or attorney) should initiate the conversation and discuss the merits and process of creating a Board with their clients. While unsolicited advice can be uncomfortable to give and receive, it is where advisors can provide their greatest value. This is also true for those serving on the Board of Directors or Advisors.