Is My Company Too Small For a Board?

by

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No company is too small to create a board of directors, and no company is too large and sophisticated that it cannot improve upon its board because directors have the potential to add significant value to management and the company in countless ways.
Here's how:

- Directors can give good advice insiders might not hear otherwise.
- Directors can be frank in a way employees won't or can't.
- Directors ask, "Why would you do that?"
- Directors help management network into important strategic resources such as partners, talent, capital, and markets.
- Directors bring new ideas.
- Directors double-check management's plans and make them accountable.
- Directors check for compliance to ethics, laws, regulations, and just plain common sense and good judgment.
- Directors bring experience – they've been there, done that, and there's no sense reinventing the wheel because that consumes time and money; and, there's no sense in making mistakes because that's painful.
- Directors pitch in and help during periods of rapid growth or crisis.

That said…excuses, excuses
There is no good argument (generally) against using a board of directors, yet owners and CEOs continue to cite the following excuses:

1. I don't have enough time

There are certain high-leverage activities for CEOs and owners that they must put at the top of their priority list because even though these tasks do take valuable time to plan, prepare, and execute (e.g., financial audits; a strategic planning retreat; a performance review with a key employee; a board of directors meeting), these activities hold the potential to make a substantial positive impact for the business. Executing these high-leverage tasks as a business leader is simply something you have to do, so you make the time.

2. I can't afford it

The cost and complexity of a board of directors scales to the size of the company. In a large or public company you can expect to attract sophisticated directors and they will expect a compensation package commensurate with company size and the commitment required.

But if you are a start-up company and only a few people are involved, you most likely won't be attracting public company directors that expect big fees. But you can attract successful local people that were once in your shoes and know what it's like to start and build a company and they'd be pleased to serve on your board as a way to give back – sometimes only for the price of a dinner and a few beers.

3. I don't know anyone to ask

Many people say this initially but if they take a few minutes to reflect, they can always think of someone to invite to be a director. Also, they usually know someone who could be an intermediary to a director candidate. Good intermediaries can be a friend; a relative; a business colleague; your accountant, attorney, or banker; a professor; the Chamber of Commerce; a valued and trusted key supplier or client.

There are also organizations that foster better corporate governance and directorship that can match directors looking for board assignments with companies looking for good directors. For larger companies there are search firms that specialize in recruiting directors to large and public boards.

4. I don't know what value they would bring; besides, I know what to do

An executive with this kind of attitude most likely feels this way about many things, not just a board of directors. This kind of insulated, ivory-tower attitude only limits new opportunities for management and the company.

The objective evidence indicates that boards do provide real value to management and shareholders. However, it is true that boards also hold the potential to screw up royally and there are many examples of that from both for-profit and nonprofit boards, big to small. But that is not because the value proposition of a board is not valid, only that those particular boards were dysfunctional and acted irresponsibly. The overwhelming majority of boards do great work for their constituents.

5. I don't want anybody to know what we're doing

It’s a valid concern for many companies, but you cannot operate inside a top-security box forever. You need a few select trusted advisers that you can lean on and use as sounding boards so that your thinking and decision making does not become inbred and myopic. Directors can give you fresh and unbiased insights and they will respect and maintain the confidentiality of your plans and intellectual property.

6. I don’t know how to set up and manage a board
If you can create, manage, and grow a company, you can create and manage a board. Most attorneys are very helpful in making sure you cover the legal basics. Experienced directors themselves will be very helpful and patient as you proceed and *learn on the job*.
There’s a wealth of good books and training programs at your disposal. In essence, a board meeting is just like any other meeting where you set a prioritized agenda, meet, discuss, and get things done.

7. I don’t want any outsiders involved – this is a family business
It is a truism that *there is family, and then there is everyone else*. Experienced directors understand this as it relates to the dynamics of a family business board, and still you would be surprised how effective (and refreshing!) an outside director can be inside a tight-knit family business and board. Family members are constrained in so many ways from being totally honest with each other. The outside director is unconstrained and sometimes the only one to *tell it like it is*. This can be an invaluable resource for a family business.

Just do it
If you’ve been dragging your feet to develop a board, just get on with it!

At the outset of building a board you will find that you can learn quickly with the help of the directors themselves. In a year’s time you will be the expert. You will find that your directors may refer you to other non-competitor CEOs who are looking for good board members. This is one of the primary ways the community of directors network and populate their ranks.

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