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*Corporate Communique . . .*

ROBERT DENNEY Associates, Inc.

*Management, Marketing, Strategic Planning*

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# A GOOD BOARD IS IMPORTANT FOR CLOSELY HELD BUSINESSES TOO

The Sarbanes-Oxley Act of 2002, subsequent rules proposed by the SEC and then the Dodd-Frank Act have produced many regulations that have added to the duties of the directors of publicly held companies. While most of these do not apply to the boards of privately held companies, they reinforce an age-old principle:

> *In addition to fulfilling their fiduciary responsibilities, capable and committed outside directors can bring valuable perspectives and expertise to the management and operations of closely held and family businesses..*

**Note:** The owners of some privately held companies prefer instead to form a separate Board of Advisors. In that case, the following points apply to the advisory board.

## Principal attributes of a good director

- **Objectivity.** Outside directors who are neither executives in the company nor owners of the business have no ax to grind. They can look at the company, as well as the issues that arise, from a detached, business-like perspective. Frequently they can also mediate differences that may arise among the owners.

- **Experience.** The owners or management of privately held companies usually know the particular business the company is in but they often have limited experience in finance, management or marketing. Outside directors can bring skills and practical business experience in these and other areas.

- **Commitment** to the company and a desire to see it succeed. Directors must be willing to put in the time that may be required.

## The role of a director

While the role of a director in a publicly held company is much broader – and bears considerably more risk – than that of a director in a private company, several components are the same:

- Serving as a sounding board for company management.
- Seeing the forest instead of the trees by not getting involved in operating details – unless requested by management or circumstances require.
- Asking tough questions of management.
- Insisting that the company develop and implement a strategic plan.
- Monitoring if the goals of the strategic plan are being accomplished.
- Ensuring that the company also have a succession plan for management and ownership.

## How to get the most out of the board

- Hold at least four regularly scheduled meetings. With any less, the directors won't have enough contact to be helpful.
- Draft a report and send to the directors several days before each meeting along with the agenda, financial reports and any other information they should have.
- Seek their help and advice on issues, strategies and plans.
- <u>Do not</u> include the company's accountants on the board but <u>do</u>:
  - Give them all reports and material directors receive.
  - Invite them to all board meetings.
  - Encourage them to participate and ask questions in addition to providing the appropriate professional counsel.
- Allow time for open discussion at all meetings.
- Hold an orientation session for new members.
- Communicate with board members between meetings and be available to them.
- Invite them to visit the company's facilities and allow them to talk to employees.
- Pay a director's fee.

***We have provided strategic management and marketing counsel to closely held businesses throughout the United States and parts of Canada for over 30 years. Recent Communiques, as well as information about our services, are posted on our web site www.robertdenney.com***

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