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Is It Worth Having A Board Of Directors?

Do you know everything? Do you have all the answers? In this article we explore the qualitative value that boards can deliver to drive a company's strategic objectives.

Jerry had built a successful manufacturing business, which had expanded year after year and achieved dominant market positions in several key states in the Northeast U.S. Jerry had three children, each of whom was well educated, uniquely talented and actively involved in the business. After Jerry turned 60, he began to think about how to ensure the continuity of the business while maintaining harmony in family. Jerry worried about what might happen if he was "hit by a bus."

It's often the punch you don't see coming that knocks you out.

The decision to implement a Board of Directors can be difficult for some private companies. CEOs worry about loss of control and debate whether it is worth the cost and effort. Some private companies assume that a board of directors is just a formal entity that is created at the point where they take in investors. We disagree.

With a great board of directors, you can have people who are totally focused on what you need to be successful. They can guide you to avoid the risks you don't really want to take. A great board of directors can help expand your vision in a way that helps you achieve your long-term goals and strategic objectives.

Lodestone Global recently published data that explores the financial benefit of implementing a board. 87% of survey participants responded their companies saw increased revenues and 81% reported increased EBITDA after implementing a board.

This article does not focus on financial value (we do that in our next post) but rather the strategic value that quality boards can deliver. We segment the value into four categories:

- **Boards extend networks.** Boards extend connections and give the company access to places and people they can't reach. They can make the introductions needed to amplify business opportunities
- **Boards promote accountability.** Key managers are held accountable to deliver on their promises to the board. Everybody has to report to somebody, and the board helps reinforce accountability and urgency

- **Boards lend credibility.** A board propels company growth by lending credibility to customers, employees and other stakeholders
- **Boards provide “air cover.”** Boards can provide cover for difficult strategic decisions. CEOs or key managers can justify tough choices by saying “the board recommended”

There could be other reasons why a Board might act as a key strategic weapon in a CEO’s arsenal. For example, if there are complicated family issues an independent board can help serve as mediator and prevent distraction on the direction of the business.

Jerry put a board in place that reflected the “adult in the room” sensibilities he was looking for in case of his absence. In addition, the experience of the board members would help drive the strategic future of the business. Finally, and perhaps most importantly, the board members would be *respected* by his family members and be *respectful* of the culture his family had built.

I’ve been a director of more than 50 organizations, including public companies (NYSE and NASDAQ), private firms, family-owned multigenerational companies, venture-backed early and late stage, private equity funded and non-profit. I’ve sat through more boring Board meetings than I want to remember. I’ve learned some very expensive lessons along the way, and I hope this column will help you avoid some of the mistakes I made.

Don’t be knocked out by the punch you don’t see coming!

Tune in to our next post for our article that outlines how advisory boards improve private company financial performance.

I write about boards and how they can drive strategy and performance. full bio →

I am currently the Managing Partner of Lodestone Global, which provides strategy consulting and board development to closely held companies worldwide. I have been a member of or assembled more than 50 Boards of Directors, and currently serve on the Advisory Board of Diesco, one of the largest Caribbean-based family holding companies, and MicroTech, a sensor manufacturer with operations in Costa Rica, NY and Florida. I was a partner with the Jordan Company, a multi-billion dollar private equity firm, where I served as President of the Children’s Leisure Products Group (CLP). I was previously Vice President of Corporate Development at Russ Berrie & Co. (NYSE), and President of the Toy Group, and a member of the Board of Directors. I was the Audit Committee Chair and Presiding Director of the Board of Directors at SYMS Corporation (NYSE). I was also a member of the Vision Board of ToysRUs.com and have served on the Board of Directors for The Franklin Mint, a leader in the collectibles industry. In addition, I have board experience in the technology, streaming video and software industries. I have chaired Family Business Programs for the Young Presidents’ Organization (YPO), a global community of leaders committed to the shared mission of becoming “Better Leaders Through Lifelong Learning and Idea Exchange.” YPO today has more than 24,000 members in more than 130 countries, and I’m proud to chair the Governance Committee and serve on the Networks Committee. I was the Associate Director of the Wharton Entrepreneurial Center, the oldest and largest academic program in entrepreneurship in the world, for 10 years, and founded the Wharton Small Business Development Center. He taught undergraduate and MBA classes in business strategy, venture capital, and business planning. Bernie is a graduate of Columbia College of Columbia University, and received an MBA in Entrepreneurial Studies from The Wharton School.