**The Chicago Tribune**: By Ann Meyer. **May 19, 2003**

## **Board of advisers can focus on issues**

After four years with a board of directors, privately held Gold Eagle Co. switched to a board of advisers in April.

On the face of it, the reversal might seem to indicate the midsize company was going soft. But co-owner Rich Hirsch says it's just the opposite.

The board members have stayed the same, but some of their more mundane duties have been eliminated, allowing them to concentrate on key issues confronting the business.

"There are certain activities a board of directors has to do, which are really ministerial," Hirsch says, such as approving a new bank. "We felt we were wasting time on things we really didn't want the board's help on," says Hirsch, corporate vice president at the Chicago-based manufacturer of Heet and other automotive additives.

Instead, the company is much more interested in the board's advice on strategic issues, such as acquisitions, new products and corporate focus.

Besides, Hirsch says, a board of directors for a privately held firm is only as strong as management will allow it to be.

In practice, he says, the directors "weren't going to do anything we didn't want to do. It was a sham that they were running the company."

That raises a question often debated by corporate governance experts: Can a board of directors for a closely held firm be as effective as one for a publicly traded company, where it can oust management if necessary?

*Hal Shear*, president of Board Assets Inc. in Boston, is among those who would answer yes, even though the role of the board may differ from one company to the next.

"In a large public company, the board can fire the CEO," *Shear* says. "In a smaller company, the directors serve at the pleasure of the family or owners. These are people who are adding value to the company."

Boards adding value to companies is a concept that has gained considerable ground in recent years, thanks in part to the dot-com boom of the 1990s, *Shear* says. Fast-growing dot-coms attracted the attention of executives from major companies who were willing to serve as directors.

"The president of a big airline would come and sit on a little board not because they were going to get wealthy but because they were intrigued at the notion of growing something," *Shear* says. "Most directors want to give back and contribute something to others."

Having outside directors is critical to family-owned firms, especially where management and shareholders are one and the same, notes Steve Baird, president and chief executive of Baird & Warner in Chicago.

Before Baird bought out the realty firm from family members, it had a board made up of family members, which was hardly objective.

"The previous board functioned more like a family bloodletting," he says, often debating family issues instead of business. "It provided nothing positive in terms of helping the business grow."

While some family-owned firms assume that an outside board will be adversarial, it doesn't have to be that way, says Drew Mendoza, managing principal at the Family Business Consulting Group in Chicago.

The most effective board for a family-run company will offer advice and constructive criticism without suggesting a management overhaul, because that is often unrealistic.

But Mendoza encourages companies to set up a board of directors, instead of an advisory board. "Going the route of an advisory board is often a distraction or a delay. If the owning family wants the very best directors for its company, they are going to do the work right the first time," he says.

Less responsibility

While advisory boards do not have the same fiduciary responsibilities to shareholders that directors do, the role they play for independent companies is more than just lip service, Hirsch says.

A board of advisers can have tremendous sway at a private company if the board members are well-regarded.

"If we have people whose opinions we value, we listen. Otherwise we replace them," says Hirsch, who can cite many instances when his board's advice was put into practice.

For example, he says, a company scorecard posted on bulletin boards in several locations was a board suggestion. The monthly scorecard bears green numbers if a particular goal has been met, and red numbers if it hasn't, so employees can tell just walking by how the company is doing.

The scorecard has helped narrow the company's focus to eight measurable areas: sales, profits, safety, inventory, quality in-house, quality from outside vendors, on-time shipment and billing accuracy. And it also has improved communication with the company's 200-plus workers, an area in which employee surveys indicated the company needed work. "We want this to be a great place to work, where people feel part of an organization," Hirsch says.

Measuring goals is a good practice for any company, regardless of whether you share the results with employees.

Being on top of your company's financial performance is critical if you have outside investors or are looking for them, notes Tom Ricketts, co-founder and chairman of Chicago-based Incapital LLC, a small, privately held investment bank that issues InterNotes, corporate bonds sold to individual investors in $1,000 increments. And most directors will insist on regular updates, he said.

Ricketts posts Incapital's financial results each month on a board of directors' Web site so directors can check it at their convenience between quarterly calls and semiannual meetings, he says.

Having an outside board directing your company can boost your chances of raising capital. "It's a way to increase investor confidence in how the company is going to be managed and overseen," says Ricketts, who is also a director of publicly traded Ameritrade Holding Corp.

More experience

What's more, he says, directors give a company greater depth of business experience and an outside perspective. "Too many managers have the day-to-day grind, and they forget it's not about next week--it's about next year. The board helps you with that," Ricketts says.

At Gold Eagle, for example, the board convinced management not to add to its real estate, encouraging it to keep renting additional space. "They said, `You're not in the real estate business. You don't need it. If you add it, you'll be committed to it always,'" Hirsch recalls.

The outside perspective a board offers also can raise issues the individual business owner did not consider.

At Seigle's Inc., for example, the board questioned why the company was using a Big 8 accounting firm several years ago, and suggested it switch to a midsize firm with lower fees.

"It was an expense and a relationship we never questioned," says Harry Seigle, chairman of the Elgin-based building products supplier. But after heeding the board's advice, "We found the savings were very significant and the value much greater because of the attention we got from a firm that was much more appropriate to our size."

At Baird & Warner, directors suggested that the firm's accountants report to the board instead of to Baird, who is paying their fees. That way, Baird says, "If the accounting firm had an issue with something, they didn't have a conflict of interest in coming to me. They could go to the board."