Choose board of directors wisely for success

Appeared in the Tri-City Herald July 28, 2002

Could your company benefit from having a board of directors? Boards oversee the conduct of the company's business and direct its affairs, but don't manage the day-to-day business. Strong, capable boards can help a firm make strategic decisions, grow and avoid risks.

It's not necessary to be a publicly owned company, or even a large one, to gain from a board's expertise.

"Every firm registered as a corporation is required by law to have a board," said Paul Lapides, "but in recent years, more private and public companies have started to recognize the value of boards." Lapides is a nationally recognized expert in entrepreneurial businesses who directs the Corporate Governance Center at Georgia's Kennesaw State University.

"Boards have three main responsibilities: monitoring, strategy and risk management," said Lapides. This involves hiring the chief executive and monitoring his or her performance, counseling management on strategy, ensuring legal and regulatory compliance and safeguarding assets.

A board of directors has a different role than an advisory board, which typically focuses on specific issues such as marketing or technology, Lapides said. And, unlike advisors, directors can be held legally liable for their decisions.

By law, board members are supposed to act in the corporation's best interests and not use their positions for personal gain. In light of recent misconduct by corporate leaders at firms like Enron, Arthur Anderson and WorldCom, finding high-quality, engaged board members is more important than ever, said Frank Moscow, president of an Oregon executive search firm known as The Brentwood Group Ltd.

Make sure your chosen directors will add strategic value, Moscow said. "Don't put Uncle Bob or your golfing buddy on the board just because it's convenient and you are comfortable with that person," he said. "You should seek people who have unique knowledge, experience and contacts that can drive your company forward."

Moscow recommends writing position descriptions that reflect the expertise needed to address your firm's challenges or upcoming plans. "You might need someone with experience in initial public offerings, mergers and acquisitions or marketing and distribution," he said. "Or maybe it's someone with knowledge of a specific technology, industry or customer base."

The chief executive officer, or CEO, typically sits on the board. But beware of loading the board with other company employees, known as insiders, Moscow said. “You want people who represent the best interests of the company and can confront the CEO without bias or fear of retribution,” he explained.

Moscow suggests looking for board candidates who are at the appropriate strategic level in relevant companies. Ask other CEOs or peer board members if the person being considered has the time, expertise and strategic view you need, Moscow said. “Ask if the candidate comes prepared for meetings, is focused on the company’s best interests and what happens when he or she disagrees with other board members.”

Many large companies pay their board directors an annual retainer plus meeting expenses. But an increasing number of companies, especially high-tech and startup ventures, are compensating their boards with equity. In its 2001 survey of more than 800 Fortune 1000 companies, Los Angeles-based recruiting firm Korn/Ferry International found that more than half the firms offer their board directors company stock, up from 41 percent five years ago.

Lapides said boards are especially important for technology and growth companies, which operate in a fast-moving, constantly changing environment. “There’s probably no industry that’s used the power of boards more effectively than the technology sector,” he said. “A strong board will increase your probability of success, reduce the likelihood of bad decisions and increase your access to capital markets.”

John Landefeld, chief operating officer of KeyMaster Technologies, Inc. knows the power of a strategic board. The 25-person Kennewick firm developed an anti-counterfeiting technology that uses invisible tags to verify the authenticity of products.

Landefeld said that KeyMaster’s board chairman, a former General Electric executive who now runs a variety of electronics firms, was instrumental in nudging KeyMaster into the anti-counterfeiting business. “A few years ago, we were a small instrument manufacturer focusing on the environmental industry,” Landefeld said. “Realizing that our markets were limiting our growth, this board member helped us make the strategic shift into brand protection and security.”

The transformation catapulted KeyMaster into the national spotlight. Last year, KeyMaster signed an agreement with 3M Company to use the Kennewick firm’s equipment to verify the authenticity of carpets sold with the Scotchgard™ brand. In May, KeyMaster formed a strategic partnership with Flint Ink Corporation, the world’s largest privately owned ink manufacturer, to provide “smart” ink and coatings systems to product manufacturers worldwide.

Moscow summed up the importance of a good board: “Your board members can exert tremendous influence on your company’s success. Choose them wisely.”

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