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Outside directors can save troubled companies (and they're helpful for everyone else too)

By John M. Collard

An outside director is a member of the board of directors or advisors who is not part of the executive management team. These individuals are helpful to your company because they rarely have conflicts of interest and they often see the big picture differently than insiders.

Outside directors are also sometimes referred to as independent or non-executive directors. They are not employees of the company and are differentiated from inside directors, who do serve as executive managers and/or corporate officers.

While corporate governance standards of public companies require a certain number or percentage of outside directors because they are more likely to provide unbiased opinions, private companies are normally left alone. Nevertheless, private companies can still benefit tremendously from that unbiased advice.

Why add outsiders to your board of directors or advisors?

- Outside directors can be a low-risk, low-cost but valuable resource. They bring a new set of skills that will produce benefit for your company.
- Outside directors are on your side. Unlike other outsiders to whom even a private company must answer, like banks and insurance companies, the IRS, OSHA, EPA, etc., these advisors answer to you.
- Outside directors add credibility. When it comes time for a liquidity-seeking event, like new financing, selling the company or an IPO, outside directors send the message that you are a professional, serious organization with guidance.

The addition of outside advisors helps create a culture and structure that will withstand third-party accountability. It also helps you to start thinking as a serious, growing company and prepare for a potential future life as a public company.

Here are a few more benefits that outside directors bring to your company:

Independent perspective

The day-to-day events in a business often suck up your time and energy. It is easy to get wrapped up in the ways and means of running the operation, while losing track of the bigger picture. The sounding board provided by an outside advisor can certainly help ground you in real leadership duties.

You need advice from outside directors who care about the company's success, but who can view things from a distance and a different perspective. You will be well served by adding board members who can challenge you and the decisions you are about to make. When you only listen to "yes" men, you are essentially on your own, and new ideas don't enter the decision process. You want strong board members who are not afraid to offer advice, guidance, feedback and argument on issues. Employee board members may be in fear of losing their job if they speak up.

Create the opportunity for people to disagree with you and confront your thinking. This is a must if you want to grow. Honest debate from knowledgeable people, who are on your side, will produce results that you can rely on. If you fear this approach, what are you hiding? Smart people learn from advisors who don't threaten their position, hence the need for outside independent thinkers.

Benefits of Outside Directors

Action/Skill	Benefit
Independent perspective	Challenge management, sounding board
Strategic thinking & planning	New directions, transitions
Experience & objectivity	Been there, done that; oversee performance and risk
Contacts	Partners, customers, suppliers, personnel, lenders, investors
Capital infusion	Raise money, restructure, create offering package
Transactions	Prepare company for sale, negotiate a deal

Strategic thinking and planning

Outside directors should constructively challenge and contribute to strategy development, implementation and infrastructure. The board is the perfect way to help set aside your tactical perspective, and force you to work on the strategic business issues. Planning requires fresh thinking and business analysis, even if the result in some areas is to continue business as usual.

Experience and objectivity

The very nature of growth implies that a company is going where it has not been before. It is refreshing to make that journey to new opportunities with the help of an advisor who has been there and done that before. Their objectivity can help you through the obstacles.

When independent observers scrutinize the performance of management in meeting goals and objectives, and monitor results compared to long-term valuation goals, there is real value in their participation. Outside directors should satisfy themselves that financial information is accurate, that financial controls are in place, that internal reporting is at the right levels and prepared often, and that risk-management systems are in place. Make sure that the company complies with laws and regulations.

While most companies follow a well-understood life cycle, it is extremely helpful to distinguish between crises that are normal based upon their stage in that life cycle and crises that are troublesome because they are unexpected. Look for business advice from experts who have experience in these situations.

When transitioning into new markets, it helps to have someone on your team who has both gone through transitions before and understands the idiosyncrasies of the new market. For instance, doing business with the federal government is quite different than doing business in commercial and international markets.

Contacts

Your contact book doesn't include everyone. Every company needs help when it wants to grow, prosper or turn around. Outside directors can extend the company's reach by using their own contact network — colleagues that can get involved to provide guidance and resources.

Rely on these contact introductions to bring in new customers, which will drive sales revenue. New suppliers can favorably impact cost-cutting of materials, which drives a better bottom line. Strive for strategic teaming relationships to promote growth.

Contacts can be influential in bringing resources not previously available. They can attract new talent into the company at all levels, provide a new set of eyes and ears during the interview process. Locate other independent directors. Improve the management team. Grow the sales force and distribution channels. Introduce and improve marketing, penetration and internet-presence strategies. Entice operational experts to produce product and services. Lure innovative people who can embellish research and development.

Capital infusion

Outside directors often have a database of contacts who can supply capital, both in the form of debt (lenders) and equity (investors). This means that you can get in front of many financing resources quickly, once an expression of interest or offering package is ready.

Transactions

Like with raising capital, outside directors often have a database of contacts who both have deals for acquisition and who are looking for opportunities to buy. This means that you can get in front of M&A dealmaker resources quickly once an offering package is ready.

Outside directors are often adept at introductions and negotiating deals. They then elevate you (management and the board) to the decision-making role.

Hire that outside director.

About the Author

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