

McTevia Speaks With Crain's Detroit Business About the Importance of Having an Outside Member on Your Board of Directors

A board of advisers can help keep a company on right track

By Dustin Walsh

The transformation from startup to second stage can leave the role of the founder in flux. Revenues are growing into the millions of dollars, employee numbers are in the double digits and the owner's ability to manage it all is diminishing.

Many second-stage entrepreneurs hire officers and rely on their executive team to delegate and manage the day-to-day operations of the company.

However, companies can further professionalize their management structure by creating a board to help guide the company's progress, according to local experts.

Privately held companies typically want to form an informal group of advisers early in their growth, said Dave Haviland, principal at Ann Arbor-based business consulting firm Phimation Strategy Group.

Business acquaintances or support groups can act as a sounding board on best practices and business operations, he said. These groups also offer direction without the owner relinquishing financial information or control, he said.

Peggy Feltmer, executive vice president for Farmington-based business-software developer ZenaComp Inc., joined an informal group of owners and managers as part of Walsh College's Affinity Group program, where a noncompeting group meets monthly to discuss strategies and offer support.

"I joined to become part of a network, and keeping in tune with what they're doing is good for my business," said Feltmer, whose company reached \$1.6 million in revenue in 2009 and employs 15.

"Learning the processes they are going through helps us figure out what we need to do," she said.

A membership to Walsh's Affinity Groups costs \$100 annually.

Entrepreneurs' Organization, a worldwide support group for entrepreneurs, offers a similar group called Forum, which requires membership in the organization.

However, by the time a second-stage company reaches \$5 million in revenue, a formalized board of advisers can offer structured, timely and direct advice on a regular basis.

A board of advisers, more typical in privately held companies, differs from a formalized board of directors.

A board of directors has legally defined duties and fiduciary responsibilities and is generally well-compensated.

A board of advisers is free of legal and corporate policy and is elected and assigned roles defined by the second-stage entrepreneur, Haviland said.

Carol Wright, tax principal at Rehmann Financial in Farmington Hills and former CFO of Farmington Hills-based American Laser Centers, said forming a board is proactive for a growing company.

"Before the board, every decision was dictated by the owner," she said. "Now the company needs predictors for next quarter; systems and structures to handle the complexity of a growing company."

While most advisory boards consist of a company's officers, it's important to have at least one outside member, said Jim McTevia, managing partner of longtime Bingham Farms-based business consulting firm McTevia & Associates L.L.C. and a member of the National Association of Corporate Directors.

"Outside advisers are able to see outside the day-to-day operations and understand the best interests of the company, long term, not the short-term gains of those running it," he said.

An outside adviser can also fill a need in your company, Haviland said. If the company is in need of legal advice, placing a lawyer on the board makes sense. If the company needs marketing assistance, place a marketing executive on the board.

"Ask yourself, 'Where do I need to plug holes,' " Haviland said.

But Haviland also recommends limiting a board member's term.

"What you need this year from an adviser is probably different than next year," he said.

First Preferred Mortgage Inc. formalized a traditional board of directors 15 years ago and hasn't looked back, growing from a small brokerage firm to a regional bank and wholesale mortgage company that funded more than \$1 billion in loans in 2009.

Founded in 1992 in Port Huron as a mortgage brokerage, the company is now a privately held mortgage bank with a call center in Southfield and a wholesale operation, Michigan Mutual Inc., in Bingham Farms.

Hale Walker, senior vice president and board member, said the family-owned company decided to create a board based on the advice of McTevia, who consulted with the company from its beginnings and is now a member of the board.

Also on First Preferred's board is the company's CEO, president, CFO and a representative from the sales and marketing department.

"A board really challenges your thinking," Walker said, who is also an owner and shareholder of the company.

"We go through finances, forecasts, every segment of the business and second-guess the decisions we're making and take time to look at best practices and management accountability."

Walker said ego is the biggest pitfall when organizing a board.

"Don't go looking for 'yes-men,' " he said. "Get your ego out of it and surround yourself with people that are better than you."

Outside investors look at potential companies with a formalized board as a safer investment, McTevia said.

"When an investment firm invests in a company, they are investing in people," he said. "Having a sophisticated board is a big step in the right direction and certifies that the company is a real player."