



Micro-Businesses and Advisory/Corporate Boards: Get in the Loop

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A company is never too small or new to benefit from a board

Due to corporate downsizing and the willingness of individuals to take on more risk for seemingly greater potential returns, small business enterprises are starting up at a rapid rate of over 590,000 new businesses per year, according to estimates by the Small Business Administration.

Micro-businesses, like all businesses, need boards. In fact, they may need them more than most businesses do. As a regular advisor and coach to micro-businesses (in my definition, companies with less than 50 full-time workers), I see a trend to become more structured and organized—for pure survival. More entrepreneurs are making the momentous decision to establish an advisory board or board of directors before hanging out their “open for business” sign.

Just think about some of the enterprises that started small and are now successfully employing a significant number of employees. Don’t just think of Apple and Microsoft. Add BET, Black Enterprise Unlimited, Harpo Studios, and Johnson Publishing. Most of these enterprises started out of the garage, basement, or bedroom of the entrepreneur’s house or apartment with a few hundred or a few thousand dollars. Formal boards assisted these organizations in taking their enterprises to the next level.

Definition

A broad definition of the role of a corporate director is to set policies for a company and to protect the interests of its shareholders. The role is not to manage the operations of the company.

Rather the board acts as a liaison with shareholders, assists management with the company vision, and looks for opportunities to help the company become more competitive and viable.

Micro-Entrepreneur

Based on my two-decade professional career, my observations of well over 1,000 small business enterprises, and discussions with specialists such as Brian Nichol, Ph.D., of Organization Health & Management, Inc. (who studies family run businesses and organizational leadership), I have developed a pretty good sense of the character of the micro-business owner. The typical micro-business is run by a technician who has mastered a skill or developed a product he/she feels is marketable. Successful micro-business owners are typically charismatic leaders who learn when to give up the “expert” role and hire talent to complement their skills.

The reasons for starting these enterprises vary, but the ultimate goal is to create something they did not have at their former place of employment—control. No matter what entrepreneurs tell you, their focus is typically to create the

type of holistic environment with less bureaucracy than existed at their previous employer’s company. These individuals are typically leaders and aggressively seek to develop a sustainable enterprise through their own efforts initially. They hire additional staff when the workload and marketing plan (typically an unstructured plan) brings in more work than he/she can handle individually.

In order for directors to avoid conflict with the owner of a typical micro-business and help him/her successfully run the enterprise they must: keep all policies simple (avoiding bureaucracy in both the decision-making and implementation process) and allow the owner to maintain a sense of control.

The goal of the board of directors is to set policies that will help the micro-business owner use consistent methods for decision making. Policies related to compensation, accounting methods, loans, and credit can help eliminate some liability exposure areas, which can arise if the business owner does not consistently apply policies.

Lee Johnson, President and CEO of an 85+ employee holding company and financial institution, M&F Bancorp, Inc., states that an effective board of directors

DIRECTOR SUMMARY

Does a small, new company need outsiders? Yes, says this micro-business advisor and corporate director. Micro-business boards can provide resources such as contacts and access to capital. Furthermore, by having a board, a micro-business is more likely to attract a partnership with a major business. ▀

should act as a balancing mechanism to challenge management to view all options and share their expertise in business from various perspectives.

The former President and CEO Julia W. Taylor agrees and adds, "Your board should provide an outside perspective so the leaders of the organization can focus on serving for the public good of the company and concentrate on the growth of the organization."

Why Micro-Business Should Have Boards

Often I advise micro-businesses that when they set up their budget, marketing plan, and start-up date, and hire their paid professional advisors, they should expand their statutory board to include individuals outside the company. These individuals may even come from the large organizations forming alliances with the micro-businesses. And yes, I tell them, you should budget for board fees and expenses—remember you are using the time of experts and seasoned professionals.

If it proves difficult to find individuals willing to associate in a "director" capacity with a start-up micro-business, a micro-business can consider the advisory board route. Service on an advisory board does not open the individuals to liability as long as the board does not establish company policies or supervise the owners (the corporate attorney should be consulted to assist with establishing guidelines to avoid exposure for this volunteer committee).

Small company boards tend to provide resources to these businesses, rather than monitor them. The monitoring function is more closely associated with larger company boards. Resources include introductions to sources of capital and other networking opportunities. This point is made and supported in *Director's Monthly* article series by Brian Borders and Robert Stobaugh, published in 1996.

The micro-business or family-run enterprise can use the board to help with succession planning. An effective board of directors can assist in asking those "hard" questions that sometimes family dynamics does not allow you to make: Does Johnny really have leadership skills

or should the company look outside the organization to hire a president?

Why Larger Companies Should Contribute Directors to Micro-Businesses

What does this mean to larger corporations and their directors? To cut costs, corporations are forming strategic alliances or partnering with micro-businesses. The talented self-employed professionals running these smaller businesses are becoming useful resources for short-term projects, creative ideas, and revenue streams. The result for corporations is the reduced overhead required to start divisions from the ground level or conduct all of their research and development in-house.

To form strategic alliances or function as "incubator" divisions for the mega-companies, these micro-enterprises must consider prudent corporate governance. Often operations are family-owned, with strong family dynamics. Therefore, formalized policies and procedures are a must in order for these enterprises to succeed past the infancy stage of development.

Venture capitalists, in determining whether to fund a micro-business, typically require the business to form a board of directors (with a seat reserved for one of their representatives). Privately held micro-businesses that wish to partner with a larger organization would be well advised to consider the same strategy. In most instances, disclosure of a non-officer board of advisors or board of directors is not required.

The benefits go both ways. You never know when the next wave of technology enterprises is going to surface. An association with a budding micro-business in the technology field can help everyone involved, including larger enterprises.

Conclusion

Micro-business owners are typically enthusiastic, motivated, and persistent in their quest to grow their business. Formalized boards can help a micro-business set parameters and benefit from the experience of seasoned professionals and technical leaders, learning from cross-

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industry experience of others at the cost of directors' fees. As these small enterprises set new paths for their organizations, larger enterprises as well as their directors can benefit and prosper from the innovative ideas generated from these companies. ▀

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