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## Board of Advisors/Directors

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### Duties and Functions of a Board of Advisors/Directors

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#### "A Job, Not an Honor"

In the past, being named to a board of directors was often considered an honor -- a prestigious position with little or no real work attached. Those days are long gone, say TEC experts [Kraig Kramers](#), [Paul Lapides](#) and [John Zaepfel](#).

Today, the role of an advisor/director is challenging, demanding and often crucial to the growth of a company. "If a person being considered for a board position still adheres to the honorary status," Kramers says, "you don't want him or her on your board."

In general, board functions include:

- Establishing corporate objectives and policies
- Enhancing CEO and senior management effectiveness
- Acting as arbitrator between major stockholders (board of directors) or during family control issues (board of advisors)
- Acting during a crisis, such as the death or departure of a CEO
- Lending credibility to investors, customers and vendors
- Planning strategy development
- Making key introductions

Another important function is monitoring developments in numerous key areas. This may include, to varying degrees, the marketplace, the competition, industry trends, management performance and succession, as well as how the community perceives the company.

Risk management and control are also important board functions. "In a publicly held company, the board of directors is ultimately responsible for controlling its legal risks and obligations," Zaepfel says. This includes:

- Safeguarding company assets
- Ensuring reliability and integrity of information
- Compliance with laws, regulations, policies and procedures
- Cost-effective use of resources

Adds Lapides: "In most businesses, the crush of day-to-day operations leaves little time for reflection or long-term thinking. Too much time goes by without the CEO and senior management answering basic questions like, What are our long-range goals? Are we seeking to become a market leader? What do we want to be known for among consumers? An effective board helps the corporation stay focused on its vision, strategy and goals. After all, knowing what you want to achieve is crucial to any successful strategy."

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#### Roles and Responsibilities

All boards share certain responsibilities that should be clear to each member when they agree to serve. These include:

- **Attendance.** Serving on a board involves much more than just having your name on the corporate letterhead. At its most basic, members must agree to attend board meetings and agree to take part in some committee work.
- **Planning and support.** Board members should be involved in reviewing the company's fundamental purpose, priorities and goals. From there, members should oversee and evaluate strategic business plans, and support management in carrying out these plans. This includes approving major investments, acquisitions and the sale of company assets.

- **CEO monitoring.** In publicly held companies, the board of directors is legally responsible for selecting the CEO, approving executive compensation and, if necessary, dismissing this individual. Regular assessment of CEO performance is another key function.
- **Finances.** A formal board of directors approves a company's annual budget and ensures that the company adheres to it. The board can also (1) contract for an independent audit; (2) review financial performance against budget, prior years and competition; (3) control investment policies; and (4) manage capital or reserve funds.
- **Board effectiveness.** Board members should be able and willing to assess their own performance. They must effectively monitor themselves for results, practices and organization. A board must govern itself.

"A board of directors has specific fiduciary responsibilities," Kramers notes. "These start with simply staying informed on corporate matters -- reading all materials and minutes from committee meetings. It also includes attendance and participation in board meetings, and serving on specific committees."

The TEC experts offer these tips for serving effectively on a board:

1. **Never act unilaterally.** A board of directors is empowered to take *collective* action. No individual member should act on his or her own.
2. **Ask questions.** "Board members serve no purpose by staying silent," Lapidès says. "Ask questions. Express concerns. If a legal situation arises, you can't evade responsibility by claiming ignorance. Each member is responsible for their individual decisions and votes on corporate issues."
3. **Maintain confidentiality.** It should be obvious, but the TEC experts remind us that board members should *never* disclose confidential information presented or discussed at board meetings -- unless they are authorized to do so by a vote of the board or a committee. "Confidential information isn't limited to trade secrets," Zaepfel notes. "It also covers plans and proposals relating to company prospects, existing or proposed contracts and any arrangements to which the company is or may be a third party."

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## Leadership From the Outside

"CEOs shouldn't look to their advisory board to assist with day-to-day operational decisions," Kramers says. "The board's primary role is providing leadership and insights from the outside -- a perspective beyond daily events and activities."

Broadly speaking, a board offers leadership in these areas:

- Establishing vision and direction
- Ensuring a company's financial health
- Maintaining a high level of executive management (through CEO and senior level executive selection)
- Establishing or uphold strong community relations

Adds Lapidès: "Your board represents a group of skilled individuals who can help build the business by clarifying issues, solving thorny problems, removing obstacles to success. If after time passes, the board finds itself increasingly drawn into operational matters, that's a clear sign of trouble within the organization. Either something's broken on a very basic level within the company or your advisors/directors have lost confidence in the owner/CEO/management team's overall direction."

"You make best use of a board when members remain at a global level," Zaepfel says. "These men and women are here to provide guidance and focus. Let them do that. Don't make them substitute managers for operational problems."

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## Additional Resources

Below are links to more best practices as defined by our expert panel:

- [Creating a Board of Advisors/Directors](#)
- [The Advisory Board](#)
- [Board Benefits](#)
- [What Happens in the Boardroom](#)
- [Compensating Board Members](#)
- [Limits to Effectiveness](#)
- [Recruiting Candidates](#)

- [Insurance and Liability](#)
- [Committee Work](#)
- [The Future Corporate Board](#)

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