

1993

Assisting clients to establish an outside advisory board; Consulting services practice aid, 93-2

American Institute of Certified Public Accountants. Management Consulting Services Division

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AICPA

Small Business Consulting

**CONSULTING SERVICES
PRACTICE AID 93-2**

***Assisting Clients
to Establish an
Outside Advisory Board***

Management Consulting Services Division

AMERICAN

INSTITUTE OF

CERTIFIED

PUBLIC

ACCOUNTANTS

NOTICE TO READERS

This practice aid will be integrated into a manual for consulting services issued by the AICPA and is numbered for the that purpose. It is designed as educational and reference material for Institute members and others who provide *consulting services* as defined in the Statement on Standards for Consulting Services (SSCS) issued by the AICPA. It does not establish standards or preferred practices.

Consulting Services Practice Aids continue the series of MAS Practice Aids. The change in the numbering system of these series reflects the change of the division name from Management Advisory Services (MAS) to Management Consulting Services (MCS), rather than the discontinuing of any publications in a series.

Various members of the 1990-1991 AICPA MAS Small Business Consulting Subcommittee provided information for this practice aid and advised the authors and staff. The subcommittee members are listed below.

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AICPA

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PREFACE

This AICPA Small Business Consulting Services Practice Aid is one in a series devoted to the kinds of consulting services most often provided to a practitioner's small business clients. Even though the same services may be provided to large-volume clients, practitioners' experience indicates that providing advice and assistance to small, closely held businesses often involves different considerations. Small businesses frequently do not find it cost-effective to have the breadth of financial and accounting expertise that is present in larger businesses. Hence, the nature and depth of the practitioner's gathering and analysis of data may differ when providing services to small and large businesses. Most important, the personal plans, finances, and the desires of the small business owner may have a significant impact on the business's current and future operations, and the practitioner must take them into consideration.

Small Business Consulting Practice Aids do not purport to include everything a practitioner needs to know or do to undertake a specific type of service. Furthermore, engagement circumstances differ, and therefore the practitioner's professional judgment may cause him or her to conclude that an approach described in a particular practice aid is inappropriate.

For members employed in industry and government, Small Business Consulting Practice Aids contain information that may be useful in providing advice and assistance to management.

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24/100 ASSISTING CLIENTS TO ESTABLISH AN OUTSIDE ADVISORY BOARD**24/105 SCOPE OF THIS PRACTICE AID**

.01 Practitioners frequently assist closely held firms in solving problems associated with all aspects of business. Often, practitioners can identify and resolve these problems quickly. Other problems, especially if they are systemic, are harder to solve. Such problems often arise as a business grows or changes in character. During a business's early stages, management usually exhibits an entrepreneurial spirit by taking risks. If, however, the company is struggling to survive, management may be reluctant to take chances. Furthermore, decisions may be based on expediency, and survival may depend largely on chance. If the company survives and matures, management often becomes conservative avoiding the risk-taking that may be needed for continued growth.

.02 Additional impediments may further hamper effective decision making. One impediment that is typical in small closely held businesses is the conflict that arises from the client's dual role as manager and owner. The owner-manager's decisions may be based on personal reasons rather than sound business judgment. Often such decisions are detrimental to the business.

.03 The insularity of some owner-managers also impedes solving problems and identifying opportunities. In many cases, the same people have operated the business in the same way for several years. Their familiarity with the business prevents them from viewing its problems objectively and solving them creatively.

.04 An outside advisory board (OAB) can help owner-managers of small closely held businesses to recognize and solve problems and exploit opportunities to grow and gain a competitive edge. Small companies often have a nonfunctional board of directors, composed of family, friends, or an attorney, to satisfy legal requirements. Because their approach to forming and operating the board is casual, management sometimes lacks objective guidance—hence the need for an OAB.

.05 This practice aid describes how practitioners can assist clients in establishing an outside advisory board. It includes guidance on determining which clients would benefit from an OAB, selecting and recruiting board members, establishing and operating the OAB, setting agendas, and facilitating board meetings. The practice aid also discusses the issues associated with and methods for marketing OAB engagements.

24/110 CHARACTERISTICS OF AN OUTSIDE ADVISORY BOARD

.01 On the surface, an OAB and a traditional board of directors are similar, but there are important differences. A board of directors has legal standing and its decisions are binding. It is elected by the shareholders to protect their interests and has fiduciary responsibility to the corporation. The OAB, however, does not represent the shareholders in any legal capacity. Its decisions are not binding and it does not select management.

.02 In large publicly held corporations, the board of directors pursues the best interests of the corporation, placing these interests above those of any one shareholder to ensure the best return on investment. Shareholders who disagree with the course of action can sell their stock. In the closely held business, the directors' course is less clear. The interests of the corporation and the owners are the same.

.03 In most cases, a formal board of directors will coexist with an OAB. State incorporation laws usually require the corporation to have a board that is legally accountable, meets as required, and keeps minutes documenting the decisions of management. An OAB does not assume these functions. The OAB is created by management and is advisory only.

24/115 ENGAGEMENT SCOPE

.01 In assisting a client to establish and operate an OAB, the practitioner may undertake any of the following activities:

- Developing a schedule and cost structure for establishing the OAB
- Recommending criteria for selecting OAB members
- Screening and selecting OAB members
- Developing the agenda for the first meeting
- Training OAB members and management in the meeting process
- Facilitating OAB meetings on an ongoing basis

.02 To conduct training and to facilitate engagements successfully, the practitioner needs to have an understanding of group dynamics.

24/120 ENGAGEMENT UNDERSTANDING

.01 Once the practitioner has accepted the client, it is preferable to confirm the engagement understanding in a letter. The letter specifies the scope and benefits of the engagement. Because the scope may vary greatly among OAB engagements, the practitioner carefully describes it for each engagement. It is also desirable to outline the specific steps the practitioner will take and to indicate whether progress reports and the final report will be oral or written. A sample engagement letter is provided in exhibit 24-2 in the appendix.

24/125 ENGAGEMENT BENEFITS

.01 The practitioner clearly communicates to the client the several benefits of establishing an OAB. First, the client may use selected OAB members as a sounding board to help guide management in thinking about and discussing ideas and problems. The OAB also may serve as a forum for challenging management's reasoning and encouraging them to consider alternatives. Furthermore, the formality of the OAB provides a structure for management discipline and a regular review of operations. Finally, properly selected and installed, the OAB may inspire vision and commitment and help to assure stockholders and employees that caring people with a grasp of the business are available for counsel.

**24/130 ENGAGEMENT ACCEPTANCE
CONSIDERATIONS**

.01 A client may request assistance in establishing an OAB or the practitioner may recommend it, based upon knowledge of the client's business. When a client requests assistance, the practitioner considers whether the client will benefit sufficiently from an OAB to justify the costs of the engagement and of maintaining an OAB. The practitioner also needs to determine what the client expects from an OAB to help develop the criteria for selecting OAB members.

.02 In deciding whether to accept the engagement, practitioners consider the nature of the client's business and the specific request for service in light of their own standards, policies, and capabilities. Practitioners also need to determine whether the client has the temperament to assist in selecting the board members and to use the OAB. The owner-managers' support of the OAB is critical because their workloads will probably be increased, and in some ways, their lives made more complicated by the board. For example, owner-managers accustomed to few controls and little accountability may find that the board's expectation of accountability for and documentation of decision making inhibits their entrepreneurial approach. If owner-managers have concerns about this, practitioners need to explore the issue thoroughly with them.

24/135 ENGAGEMENT APPROACH

.01 Each phase of the process of establishing an OAB will be enhanced by the assistance of the practitioner. An engagement may involve one of the following phases of the process, several phases, or all phases. The approach depends on client needs as well as the practitioner's style and relationship with the client. Each step begins with a clear understanding of the work to be performed and of the estimated fees and concludes with a formal report documenting its completion.

Assessing the Client's Need for an Outside Advisory Board

.02 An OAB may be needed by a client to help address management (internal) or market (external) concerns. Internal concerns involve the structure and dynamics of the firm. The client may need assistance in resolving long- and short-term problems or in determining a long-term strategic direction for management, personnel, production, succession, and other areas. The external concerns are associated with the outside forces that the firm must interact with or react to. To address these external issues, management may need assistance with marketing, adjusting to economic changes, complying with government regulations, negotiating with unions, adopting new production methods, and dealing with other business hurdles.

.03 To assess the client's need for an OAB, the practitioner may wish to—

1. Identify the management team and evaluate its strengths and weaknesses.
2. Survey company personnel about their views of the management team and the current direction of the company.
3. Evaluate the quality, quantity, and timeliness of management information.
4. Obtain industry information and compare it with the firm's experience.
5. Solicit opinions of outsiders, including competitors.

.04 After evaluating the information gathered from these activities, the practitioner reaches an agreement with current management on the need to establish an OAB.

Establishing OAB Membership Criteria

.05 Once the practitioner determines why the client needs an OAB, specific criteria can be set for OAB members. These criteria usually relate to personality, experience, and character, as well as potential for contributing to the client's effectiveness.

.06 In determining the criteria, the foremost concern is to ensure that members and management will accept and respect each other. Members need to have integrity and courage of conviction. Other desirable characteristics include self-confidence, maturity, cooperativeness, and enthusiasm. Members also need to be articulate, willing to learn about the business, inquisitive, and humble (that is, willing to say "I don't know"). In addition, they need to be team players.

.07 The catalyst of effective board functioning is trust. Therefore, each member needs to be capable of maintaining strict confidentiality and be seen as a doer. Each candidate generally needs to be a risk-taking individual similar to the client in achievement and in business approach. Special attention needs to be given to prospective members' value to the board.

.08 The best candidates are individuals who complement other members' knowledge, skills, age, and cultural backgrounds. A balanced board will provide the diversity required to deal with a changing environment. The board members need to be experienced in using professional services, serving the general public, and dealing with labor-intensive industries. They also need to recognize the issues associated with operating in multiple locations and understand marketing concepts. The board members need to have not only well developed abilities to reason and analyze, but also creativity and intuition. The latter two qualities will foster the contribution of unusual, but appropriate, recommendations. To ensure objective and candid participation, the board members need to have sufficient personal income and wealth to reduce economic dependence on board compensation.

.09 Generally, the practitioner does not consider the client's suppliers, referral sources, patients or customers, bankers, friends, or family for board membership. People in these categories may lack the objectivity needed by an OAB, or their interests may conflict with those of the business.

Recruiting OAB Members

.10 Once the criteria for selecting board members are determined, the practitioner can assist in the search. The most effective way to conduct the search is by asking personal contacts and those of the client and associates to recommend candidates. In addition, most top-level business people can identify the chief executive officers of companies of an appropriate size with a compatible product. Usually, a limited number of similar companies that are owner-managed operate within 100 miles of the client.

.11 Once appropriate candidates have been identified, the practitioner meets with them, possibly at lunch or dinner, to ascertain mutual interests and identify compatible personalities. If a candidate is qualified and interested, the client provides relevant information about the company, such as the company history, ownership and organizational structures, and biographies of key people. The candidate then meets with the client and tours the client's facility. The candidate needs to be made aware of the responsibilities of a member of an OAB. If the candidate and client agree that it is a good match, the relationship is formalized.

.12 This recruitment process is repeated until the board reaches a desirable size, which is usually between five and eight members.

Establishing and Operating the OAB

.13 After the board members have been selected, the client and practitioner determine the mechanics of guiding the board. Along with this determination, or as a separate engagement, the practitioner may provide information and training for participants, set the agenda, and act as a facilitator.

.14 To give board members a basis for advisement, the client provides them with the following background information on the company. Members may have received some of this information during the selection process:

- History of company
- Prior three years' financial statements
- Most recent year-end financial statements
- Ownership structure
- Organizational chart
- Key-personnel biographies
- Business strategy and plan
- Budget
- Business philosophy

Biographies of other board members will also be helpful during orientation.

.15 Board compensation needs to be set at rates for similar services in the client's location and industry. Travel and out-of-pocket expenses need to be reimbursed. Experience has shown that an inadequately compensated board treats the relationship as something other than a true business function and therefore performs poorly. Compensation should be paid and expenses reimbursed in an expeditious and businesslike manner.

Setting the OAB Agenda

.16 The board needs to understand clearly the expectations for meetings. To ensure this understanding, an agenda, with appropriate detailed data, needs to be prepared in advance, so that participants can prepare. If the board needs supplemental information, they advise the client before the meeting.

.17 At the first meeting, a key goal is to foster a successful continuing relationship among peers. This often can be achieved by establishing an informal atmosphere that permits friendly exchange but is still attentive to the agenda. The basis for the relationship is the board's objective to nurture the business and give the CEO support toward that end. Subsequent agendas can be targeted to more specific areas of concern.

Facilitating OAB Meetings

.18 The OAB will consist of successful individuals who may have strong egos. They will be meeting with a client who may feel vulnerable and therefore act defensively. An outside facilitator can smooth the interaction and guide the board through the agenda. A facilitator can be especially helpful in the early stages of board implementation. The role of facilitator is best

played by someone with skill in group dynamics. The practitioner may wish to be a candidate for this position if he or she possesses that skill.

.19 When the board is established, the practitioner or client assesses whether the outside facilitator is still needed or the OAB are capable of conducting the meeting themselves.

Providing Ancillary Services

.20 To achieve its objectives, the OAB, through management, may request information that the company lacks the in-house capabilities to provide. This request may give the practitioner an opportunity to provide other services. Typically, other services that the practitioner can provide include assisting in the development of—

- A strategic business plan.
- An organizational chart.
- Budgeting.
- Job descriptions.
- Personnel manuals.
- Cost containment plans.
- A succession plan.
- A break-even analysis.
- A financial statement analysis.
- Comparative industry information.

Information about providing these services is available in many practice aids published by the AICPA MCS Division and in several CPE seminars and self-study courses sponsored by the Institute.

.21 If engaged as a facilitator, the practitioner needs to maintain an objective role and exercise caution to avoid subordinating the firm's best interest to personal gain.

24/140 MARKETING OAB ENGAGEMENTS

.01 The problems associated with marketing an engagement to establish an OAB are different from those associated with marketing other consulting services engagements. Because the concept of an OAB is relatively new, the CPA firm's partners, staff, and clients may be unfamiliar with it. Both CPA firm members and clients need to be educated to identify situations that require the assistance of an OAB and to understand ways in which the assistance may be provided.

.02 Firm partners and staff need to be encouraged to review the client list and determine if any clients exhibit the characteristics typical of a company that would benefit from an OAB. The symptoms include stagnation, disorder in management, high key-person turnover, slow or mediocre business growth, and confusion between ownership and management roles. The practitioner can use in-house training to educate partners and staff about recognizing the symptoms and identifying and targeting client prospects. Information may be disseminated to clients through the firm's newsletter. In addition, the practitioner can publish articles in local periodicals and make presentations to appropriate business groups.

24/145 CONCLUSION

.01 Many small companies have boards of directors whose primary role is to satisfy legal requirements rather than help make decisions. Often, these companies have significant management deficiencies. An outside advisory board can provide management support to these companies. The CPA practitioner is in a unique position to recognize when an OAB would benefit a client and to participate in the selection and implementation process. The practitioner can also assist in facilitating the ongoing board meeting process.

APPENDIX 24

CASE STUDY: ILLUSTRATIVE OUTSIDE ADVISORY BOARD ENGAGEMENT—ABC, INC.

ABC, Inc., a regional manufacturer of electronic devices, holds a patent for a device that has gained national interest. The product currently is assembled from parts manufactured outside the company. ABC's present sales are \$4.5 million. The company markets its products through an outside sales organization. Market study information indicates that sales could double annually over the next five years.

ABC has been in business for fifteen years, and has thirty employees. Administrative staff include the owner, production manager, two shift foremen, and a bookkeeper.

The owner, Tom Jones, exercises complete control over all management decisions. His approach to management is intuitive. Although he will listen to professional counsel, it usually takes considerable time and training for him to accept advice. Furthermore, in the past, Tom has been reluctant to spend money on professional services.

During his annual tax interview with his CPA firm's representative, Sally Sanford, Tom expressed concern about the company's anticipated growth and the nature and magnitude of decisions required to continue such rapid change. Sally suggested that he consider establishing an OAB to deal with the growth and change. She explained that her firm has successfully assisted several clients in installing an OAB, and she advised him that Arnold Smith, the firm's specialist in outside advisory boards, would provide him with more information on their function, process, and benefits.

Sally sent a memo to Arnold accompanied by the client's file. She asked him to contact Tom and evaluate the need for an OAB to deal with the company's situation.

Arnold sent Tom a letter outlining the services he could provide ABC, Inc. (see exhibit 24-1). Tom expressed interest when Arnold followed up with a telephone call. Sally accompanied Arnold to a meeting with Tom at which they determined that he was, in fact, interested in establishing an OAB. Arnold was concerned, however, about Tom's reluctance to spend money on professional services for two reasons. First, an OAB is designed to provide the owner with advice that cannot be obtained without considerable investment. The board is not meant to replace paid advisors. Tom understood this and assured Arnold that he had appropriate advisors. Second, the costs of establishing the OAB are high: Arnold's services plus reimbursement and stipends for the board. Arnold advised Tom that they would need to discuss these costs.

Because of Tom's concern about the costs, he and Arnold decided to approach the process of developing an OAB one step at a time. Arnold sent Tom a letter outlining the three phases of the engagement (see exhibit 24-2). Phase 1 involved identifying the benefits of an OAB to ABC and Tom's role in establishing and maintaining the board. In a second letter, Arnold reported his findings on the first phase (see exhibit 24-3).

After some consideration, Tom decided that Arnold could handle the board recruitment and training and facilitate meetings better than he could. Tom felt that he lacked the time and objectivity required. During phase 2, Arnold helped to select OAB members and to develop the policies and procedures required to ensure that the board would function effectively (see exhibits 24-4 and 24-5).

To provide prospective board members with background information, Arnold developed a description of the company and an explanation of its need for an OAB as well as its expectations. This document (exhibit 24-4.1) was sent to the prospective board members in a solicitation letter. After the candidates received the information, Arnold contacted them to meet with Tom and tour company facilities. Tom sent each selected board member a letter formalizing the relationship.

Arnold then carried the engagement through the first meeting for which he drafted a sample agenda (exhibit 24-5.1). After completing the engagement, he presented a final report to Tom (exhibit 24-6).

Tom is pleased with the results. The company has improved its management considerably. At the board's urging, a strategic plan was developed. Arnold was asked to refine the accounting system to provide more timely and detailed information. A cost system was implemented and a budget developed.

Tom trusts the board and feels that their advice is in the company's best interest. At times he is tempted to do things his way, but the results of seeking the OAB's guidance are apparent in the financial statements. The board empathizes with and supports Tom's need to assert independence. From personal experience, they realize this independence often benefits the company.

Tom is now working on managing his employees in a more professional manner and on developing a marketing plan. He expressed his enthusiasm, and the OAB's success is evident in both improved profitability and increased sales.

Exhibit 24-1

Proposal Letter for an Outside Advisory Board Engagement

CPA & Company
Atlanta, GA 30306

July 28, 19XX

Mr. Thomas Jones
ABC, Inc.
111 North Street
Atlanta, GA 30306

Dear Tom:

As you are aware from discussions with Sally Sanford, our firm is involved in assisting family-owned and closely held businesses to establish outside advisory boards (OABs). I speak from experience when I say that an outside board of advisors can be very helpful. Two years ago our firm decided to use an OAB. The experience has been very enlightening for us, and we feel the benefits have far exceeded the cost.

The benefits of establishing an outside advisory board (OAB) include the following:

- An experienced board provides guidance for management.
- A formal sounding board helps management to evaluate and think through key issues and ideas.
- A fresh perspective challenges management's reasoning and encourages consideration of more alternatives.
- A regular review of operations provides discipline for management.
- An OAB assures the family, management, and employees that caring people with a grasp of the business are available for counsel in critical times.

If you would like to discuss the use of an outside advisory board and ways to select and implement one, Sally and I would be happy to meet with you. Please contact Sally or me if we can be of assistance.

Yours truly,

Arnold Smith
CPA & Company

Engagement Letter

CPA & Company
Atlanta, GA 30306

August 2, 19XX

Mr. Thomas Jones
ABC, Inc.
111 North Street
Atlanta, GA 30306

Dear Mr. Jones:

This letter confirms our understanding of the services we will perform for ABC. We will assist the company in establishing an outside advisory board (OAB). The engagement will be conducted in three phases:

Phase 1—Identifying the benefits of an OAB to ABC and your role in establishing and maintaining the board.

Phase 2—Selecting board members and determining the policies and procedures required to ensure that the OAB functions effectively.

Phase 3—Training management and board members in the OAB process and facilitating meetings.

Our fee for phase 1 of the engagement will be \$X,XXX plus out-of-pocket costs. Our fee for phase 2 will be \$X,XXX plus out-of-pocket costs. Phase 3 will be billed at our standard hourly rates for professional services, which range from \$90 to \$150. We expect that fees for this phase will be between \$X,XXX and \$X,XXX plus out-of-pocket costs.

If this letter describes accurately your understanding of the services we are to perform for ABC, please sign and date the enclosed copy and return it to us.

Sincerely,

Arnold Smith
CPA & Company

Accepted by Thomas Jones
ABC, Inc.

Date

Exhibit 24-3

Report on Phase 1 of an Outside Advisory Board Engagement

CPA & Company
Atlanta, GA 30306

August 31, 19XX
PERSONAL & CONFIDENTIAL

Mr. Thomas Jones
ABC, Inc.
111 North Street
Atlanta, GA 30306

Dear Tom:

We have completed phase 1 of our engagement to assist ABC, Inc. in establishing an outside advisory board (OAB).

The purpose of phase 1 was to identify the benefits of an OAB to ABC and your role in establishing and maintaining the board. To perform phase 1, we—

- Interviewed you and key management personnel about company operations and market potential.
- Reviewed existing management structure documents (for example, organizational charts, job descriptions, and the organizational manual).
- Evaluated existing management information systems, budget systems, and other ABC operations in a general way.
- Reviewed ABC's existing business plan and financial information.

Based on our findings, we strongly recommend that ABC establish an OAB to assist with its anticipated growth. The expected increase of \$4.5 million in sales volume will definitely put extraordinary demands on management. Additionally, your financial systems, although adequate at present, lack the detailed sales and cost information and the budgeting system that will be needed as sales increase.

We believe the OAB will enhance ABC's effectiveness in meeting new challenges associated with its market growth, federal regulations, and management succession. We also believe that ABC will receive all the benefits outlined in our letter of July 28. Specifically, management will receive guidance from experienced board members in evaluating and exploring key issues and new ideas. The fresh perspective of board members will challenge management's thinking and encourage them to consider alternatives. Regular board meetings will provide a review of operations as well as discipline for management. In addition, the board's existence will help to assure you, your family, management, and employees that experienced, knowledgeable counselors are available in critical times.

24/100-14

We look forward to working with you on phase 2 of the engagement. During this phase, we will help you select board members and determine the policies and procedures required to ensure that the OAB functions effectively.

Very truly yours,

Arnold Smith
CPA & Company

Exhibit 24-4

Interim Report on Phase 2 of an Outside Advisory Board Engagement

CPA & Company
Atlanta, GA 30306

August 31, 19XX
PERSONAL & CONFIDENTIAL

Mr. Thomas Jones
ABC, Inc.
111 North Street
Atlanta, GA 30306

Dear Tom:

As part of phase 2 of our engagement to assist ABC, Inc. in establishing an outside advisory board (OAB), we have determined the criteria for selecting board members and the policies and procedures required to ensure that the OAB functions effectively. The OAB will consist of from five to eight outside members. The members will serve from one to three years with one member rotating off each year. Their compensation for each meeting they attend will be two hundred fifty dollars (\$250.00) per hour, which they will receive at the end of each meeting. Meetings, three to four hours long, need to be held quarterly at your offices and scheduled one year in advance. Shareholders do not need to attend the meetings, but the management team does.

We recommend that you consider for OAB membership entrepreneurs with extensive high-level management experience. They need to be associated with firms that provide professional-personal services to the general public and rely on referrals for clients. Preferably, their business will be labor intensive and will operate in multiple locations. They need to be able to understand the nature of ABC's business. One or two members could be from a large medically oriented business, and one from a large service-oriented business such as an architectural-engineering firm or an advertising-public relations firm. Recently retired entrepreneurs, bankers, and marketing or advertising executives would be desirable members.

For diversity, we recommend that you also consider a very successful person in the community whose business is not service oriented. The different perspective of this person will help to stimulate new ideas for the business. We do not recommend that you consider your suppliers, referral sources, customers, bankers, friends, or family to serve as members.

The desirable personal qualifications of a board member include:

- Honesty
- Integrity
- Courage of conviction

- Inquisitiveness
- Willingness to learn about ABC's business
- Ability to be a team player
- Willingness to say "I don't know"
- Ability to follow through with deliberation
- Ability to maintain confidentiality
- Ability to reason and analyze
- Creativity and intuitiveness

We recommend that when you approach candidates, you tell them why you think they are appropriate and state the purposes and terms of service. Interested candidates need to receive background information such as a history of the company, a description of the ownership structure, an organizational chart, and biographies of key people.

For the OAB to be effective, an agenda and supporting data need to be mailed out before each meeting, and minutes taken at each meeting and provided to all OAB members and shareholders. OAB members need to receive additional background information at the first meeting, including the business plan, the most recent year-end financial statements, the budget, and a statement of ABC's business philosophy.

Enclosed is a sample letter that you may wish to send to prospective board members. Also enclosed is an article on outside boards.

Please do not hesitate to call me if I can assist you further.

Yours truly,

Arnold Smith
CPA & Company

Enclosures

Exhibit 24-4.1

Sample Outside Advisory Board Solicitation Letter

Dear _____:

We seek an outside advisory board—an informal, independent source of stimulation and ideas—to help us manage the future of our successful business. We believe our business and industry will face challenges different from those we have confronted in the past. We believe a board of advisors will be an invaluable resource to owners and managers in meeting those challenges.

Our Business

ABC, Inc. has been in business for fifteen years. We are a regional manufacturer of electronic devices. We hold a patent for a device that has gained national interest and is currently assembled from parts manufactured outside the company. Our current sales are \$4.5 million. We market our products through an outside sales organization.

We have thirty employees. Our administrative staff include the owner, production manager, two shift foremen, and a bookkeeper.

Why We Need an Advisory Board

ABC, Inc. faces several challenges and opportunities. Our penetration into our local market and our traditional market has peaked. In addition, the attitudes of the public toward our industry are changing. Furthermore, recent federal legislation will greatly alter the structure of our industry and its methods of competition. To deal with these changes, we must invent new ways of doing business, challenge conventional industry thinking, and find growth opportunities in the next few years. We will need to evaluate several recent innovative experiments and consider new sources of private capital. Moreover, our personal goals and desires are changing, so we must prepare for management and ownership succession.

The expert counsel of an outside board will help us to face these opportunities and challenges and to assure ourselves, our families, and our employees that ABC will have a successful future.

How We Will Benefit from the Board

The primary purpose of our board will be to guide us as managers of a business. We will benefit immeasurably from the advice of highly successful people whose only interest is what's best for the business. First, we hope the board will help us evaluate and explore the key issues facing our business. The board offers us a forum to talk out our ideas. The fresh perspective of outside board members will challenge our reasoning and encourage us to consider alternatives. Board meetings will provide us and our management with the discipline of regular review of operations and commitments. In time, our board will assist us in evaluating the potential and development of our management successors. Finally,

the board will help to assure us, our families, and our employees that caring people with a grasp of our business are available for counsel in critical times.

How the Board Will Operate

We expect that our board of advisors will include three active business executives who have already experienced what we face. Our board will meet formally three times a year during morning hours. However, we hope our board members will also be available occasionally for telephone discussions or luncheon meetings.

We will work diligently to keep members fully informed of our financial and strategic progress. We do not view the board as decision makers or operating managers, but as counselors concerned about our future. In time, we will introduce board members to our management and our families. We will solicit their comments on our strategic plan, succession plan, and administrative policies and systems.

We hope the experience of assessing ABC's circumstances and considering its needs will stimulate board members and prove useful in the management of their own firms. While it is impossible for us to place a dollar value on the contribution each member will make, we hope an annual honorarium of \$4,000 plus out-of-pocket expenses will express our commitment and our appreciation.

Conclusion

We believe an independent outside board of advisors will help us become better managers and ensure a successful future for all who depend on our business. We will be proud if a few successful, talented people will care enough about and believe enough in our future to serve on our advisory board.

Sincerely,

Thomas Jones
ABC, Inc.

Exhibit 24-5

Final Report on Phase 2 of an Outside Advisory Board Engagement

CPA & Company
Atlanta, GA 30306

September 19, 19XX

Mr. Thomas Jones
ABC, Inc.
111 North Street
Atlanta, GA 30306

Dear Tom:

We have completed phase 2 of our engagement to assist ABC, Inc. in establishing an outside advisory board, and we have enclosed the final billing for this phase.

The purpose of phase 2 was to assist you in selecting board members and determining the policies and procedures required to ensure that the OAB functions effectively. With our assistance, you have selected the following three members to serve on the board:

George Armstrong, chief executive officer, High Services, Inc.

Jeff Holiday, vice president, Argon Design, Inc.

Orvil Peterson, owner-manager, Grant Tubing.

These board members will provide valuable assistance in making decisions that will promote stable growth as ABC enters national and international markets. For the OAB to be effective, an agenda needs to be mailed to board members before each meeting. A proposed agenda is attached. In addition, minutes need to be taken at each meeting and provided to all members and shareholders. At the first meeting, each OAB member needs to be given the following background information if you have not already provided it:

- The history of the company
- A description of the ownership structure
- An organizational chart
- Biographies of key people
- The business plan
- The most recent year-end financial statements
- The budget
- A statement of ABC's business philosophy

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We recommend that the first official meeting be held in early November. This will allow time for the training portion of phase 3. Participants without experience or training in the team process and group decision making will be scheduled for training in early October.

We look forward to working with you in this last phase of the engagement.

Very truly yours,

Arnold Smith
CPA & Company

Sample Outside Advisory Board Meeting Agenda

ABC, Inc.
Outside Advisory Board Meeting
November 11, 199X

Agenda

- 8:00 a.m. I. Introduction to management team
- A. Presentation by manager
- B. Questions
- 8:45 a.m. II. Owner's update on items of interest
- A. Ongoing activities
- B. Operations performance
- C. Financial performance
- 9:15 a.m. III. Status report on expansion into new markets
- 10:00 a.m. IV. Discussion of possible joint venture opportunity
- A. Brief update
- B. Sharing of board members' related experiences and opinions
1. What do we think about the form of shared business relationships?
2. What personal financial risk guarantees should we be willing to take?
3. How do we live with outside business partners in shared enterprises?
- 11:45 a.m. V. Review of quarterly information packet format (Any suggestions?)
- 12:00 noon VI. Schedule of future meetings (Please bring calendar.)
- 12:15 p.m. VII. Adjourn

Report on Phase 3 of an Outside Advisory Board Engagement

CPA & Company
Atlanta, GA 30306

Mr. Thomas Jones
ABC Company
111 North Street
Atlanta, GA 30306

Dear Tom:

We have completed phase 3 of our engagement to establish an outside advisory board (OAB), and we have enclosed our final billing for this engagement.

We are pleased with the results of the first OAB meeting. Your commitment to this project and leadership are valuable contributions to the process. Some areas, however, require further attention. First, the OAB and management team need additional training in the team process and in group decision making. Second, the next few meetings need to be conducted with a professional facilitator.

We appreciate your confidence in our ability to provide you with professional consulting services. If we can assist you in facilitating future meetings or provide related services, please contact us.

Very truly yours,

Arnold Smith
CPA & Company

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