

# CORE STRENGTH



## A CPA's Value: Strengthening Boards

BY MARK H. FOWLER, CPA (INACTIVE)



Over the last several years, every aspect has changed in our businesses, careers, personal and public lives. As businesses adapt and course-correct, an important activity is to search for new and more effective resources to advise, forecast, plan and implement the most appropriate actions.

CPAs are one of the most valuable service providers helping clients find resources they need. A powerful component in business is the board of directors; CPAs can help bring a stronger board structure for all stakeholders. This article is based on a panel discussion I moderated on behalf of the CalCPA's LA Chapter Management of an Accounting Practice (MAP) Committee that discussed how CPAs can be more valuable to clients by helping with their boards. Along with myself (MHF), panelists included:

- **Gaurav Malhotra, CPA (GM)**: audit partner at Lucas, Horsfall, Murphy & Pindroh, LLP
- **Jeffrey Munson (JM)**: regional vice president of American Business Bank & board member of Private Directors Association
- **Jennifer Post, J.D. (JP)**: managing partner of Thomson, Coburn, LLP, Los Angeles
- **Dipak Shah (DS)**: Investment Banker & Board Member of Private Directors Association

### Boards, Board Members & Future Needs

**JM:** "Private companies fall into a few buckets, tightly family owned and controlled. The lifestyle business supports the needs of the family; other businesses may have bigger aspirations to grow to scale organically or through acquisition, including other growth initiatives, like seeking to go international and more oriented to future planning. There is a third kind: those with professional boards and generally backed by private equity, positioned to scale rapidly and with professional investors looking to

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safeguard the growth of their investments. There is a lot of discipline, rigor and very distinct functionality.

“The kind of problem we see is those companies that have neither thought about the board, nor given any reflective idea about who should be on the board or what should be done.”

**JM:** “How advisory is your CPA? If you are getting your CPA financials for November in December, it’s a purely transactional relationship; then that’s one thing. If your CPA is a true ‘trusted adviser’ with the company, then that’s a different relationship. I think what the board should be doing is knowingly bringing wisdom to the board. That wisdom can include a financial base from a CPA, for instance. More importantly, the CPA can bring value in a situation a vast number of times, if seen in an applicable scenario. For instance, the CPA can bring all risks and rewards of a merger to a merger discussion; the CPA can bring a risk and reward discussion to expanding in a new market. That’s what I see boards need: the wisdom, a pool of wisdom that owners can tap into, that they might not have access to normally from an audit partner or tax partner or being

part of the company in some way through a board.”

**JP:** “I think that having a CPA on the board can provide a perspective about recruiting the right outside advisers and the right outside support. It’s critical to have the correct level of accounting advice and tax strategy—all needed if you’re heading into a fairly significant transaction of any type.

“From a board perspective, showing up to the meetings prepared is the minimum daily requirement. You have got to show up, you must be prepared. Hopefully, outside of that, you’re doing a lot of

work surrounding the company’s needs and the industry. That’s all really important. You also should be prepared to go on record.”

**MHF:** “Maybe, you have been asked by a bank to be on a board and you declined. Maybe, you should have

said ‘Yes.’”

**DS:** “I started early, in college, with organizations and running boards. For those of you who have sons and daughters in college, I highly recommend starting them early, helping them to become involved in boards. This also might be an idea for younger CPA firm team members, even with nonprofits.”



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**CPAs in Accounting, Adding Value to Their Clients' Boards**

**DS:** "Your first question to yourself needs to be: 'Am I an effective board member?' You have to look at what kind of value you do bring."

**MHF:** "For several decades, I've worked in alliance with CPA firms to assist their clients in some form, with challenges or transformations. Why work with CPAs? They have the institutional memory, the trust, the comfort of communicating for years with clients. They also have a wealth of ideas and knowledge about what needs to change. The next step would be to introduce the CPA as a board member. It surely answers others' comments about the board member goal to add value. Of course, you can."

**JM:** "One of my customers, a large manufacturing firm, has a retired audit partner on the board. He's independent and offers a different perspective. They get tremendous value out of his being on their board. Every time we negotiate terms on a loan document, he's involved in that negotiation because he speaks entrepreneur and he speaks banker."

**JP:** "I had a very complicated merger situation where we were



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not able to get ahead of the due diligence concerning some integrity issues in the financials. If a CPA had been on the board, as part of the pre-M&A ramp up, these issues would have been spotted; a good deal of education and changes in the accounting presentation would have helped greatly in getting the transaction done sooner and more effectively."

**JM:** "I think CPAs, the best CPAs out there, that I work with, aren't just doing last year's information into a format that I can read; they're thinking about where the company needs to be and how to help them get there."

**GM:** "Well, you're a CPA, an accountant, you can read financial statements. As mentioned, it's looking at the past—who cares about it? It's good information to have, but how does it inform us of the future? I'm most interested in what's going to happen in the future."

**Trusted Advisors & Board Membership**

Trusted advisers are influencers and resources for the business. It's desired that a board has independent board members as well as those that are leaders/managers and owners.

**GM:** "If we were to talk more with our clients and ask, 'What can we do better?,' I think most of them will say, 'I



want to have a better conversation with my CPA.' We CPAs are the financial hub of their life, if I think about it. Being the hub naturally creates the tendency for us to be able to take the next step and start with questions—while demonstrating care. Where are you now? Where are you going in the future? Can you let me help you?"

**DS:** "If I were in the CPA's shoes right now, I would take the top five to 10, 15 to 20 clients. In Jeff's case as a banker, he mentioned he has 2,000 clients for his bank. Basically, take a sizable number of clients, divide the buckets into 3 groups (A, B, C) then start having one-hour meetings with them over the next four to six weeks. In those meetings, focus the first 10 to 15 minutes about the state of the health of the firm, deliverables with that particular client and making sure everything is going smoothly."

**GM:** "Mark touched on being a trusted adviser and the importance of having clients who understand what you're doing for them. Once they feel their needs are being met, nobody has ever questioned me and said, 'Hey, your bill is too high!' I never have those conversations. Again, the importance of adding value, having trust, being independent all make the CPA more than



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just a candidate for becoming a board member or helping them build a better board."

**MF:** "I know from working with CPAs and their clients that there is easily five to 15 times more work than is currently being addressed by the CPA firms—and its work that needs to be done."

**GM:** "Regarding Mark's question about the transition between an adviser and a board member and the conflicts that may arise: Many times, I have been asked to serve on boards of companies where I had been engaged with ongoing work. It's a no brainer; we give up the audit work in an instant."

**MHF:** "Gaurav, thank you. We need to address that, while you are being a trusted adviser, you also can have influence with the client to help them boost their board and be there to help make some decisions about who board members need to be."

**DS:** "Once you're the trusted adviser, it's key to keep on working with that CEO and chair of the business, to continue to provide advice and value. You're already in communication with them. Growth now comes into play. If not, you should be talking about that, because, as a board member, that matters: your growth-oriented value."

**GM:** “I think that one of the defining characteristics of a trusted adviser is that you can say no and feel OK about it and be heard by management. That’s more important for a board member than a trusted adviser. If you see something bad coming down the pipe, it is your job, at a minimum, to be able to voice it on the record.

“I care for my clients, and I care for my colleagues. I want to create that environment where they are being of service and going into the world, doing good things and feeling fulfilled.

“After all of these years, I’ve realized there’s no core relationship between how much money I’m going to make and how much work I’m going to do. I’m just going to leave it at that. Doing the right thing always generates more money than trying to do the work.”

**What Do Stakeholders Need?**

Stakeholders are an individual or group that has an interest in any decision or activity of an organization, as defined by American Society of Quality. This can be anyone: former owners, team members, vendors, bankers, customers, etc.—anyone who could be impacted by

changes in the business’ well-being, up or down.

**JP:** “It’s very important to have an outside perspective of someone who is either not a key equity owner or operator—someone who can look out for the entity overall. It would certainly benefit these boards to have financial experts and CPAs in their community.”

**JM:** “When you bring on a new customer, when that client begins to expand, understand the advice they’re currently being given. The CPAs

should know the bankers and vice versa; the attorneys should know the bankers and vice versa. We should understand the big picture of advice being given. That is a bare minimum.”

In conclusion, the single most important message: CPAs can help their clients to add value and one of the most important areas is the

board. As Shah said, “The single most important responsibility is to help create value when you are on the board.”

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