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# HOW TO: ASSEMBLE A BOARD OF ADVISERS

An advisory board is a rare species in the small-business ecology, yet assembling such a board may be one of the most important steps a CEO can take to assure an enterprise's success. Besides offering credibility and contacts, advisers working together provide guidance sharpened by boardroom debate, something individual mentors can't match, says Corey Hansen, a financial adviser specializing in small businesses at Smith Barney in Bellevue, Washington. For family businesses, boards are invaluable, particularly when it comes to the delicate matter of succession. "A board has the willingness to bring the subject up, in a supportive and patient way," says John L. Ward, a professor at Northwestern University's Kellogg School of Management and author of *Creating Effective Boards for Private Enterprises*. "Then once it's on the table, it creates a forum of safety for the conversation."

Unlike a board of directors, which has formal legal authority over a company and a fiduciary duty to its shareholders, an advisory board won't make decisions for you and has no obligation to the owners or liability for the company's actions. That said, "if you're not willing to execute the advice of the board, then you'd better not put one together," warns Tony Eisenhut, managing director of KensaGroup, which forms companies to commercialize technologies developed by universities. "Because the greatest disrespect to a board, having given you a commitment of their time, is taking their time and doing nothing with it. Not only will you lose credibility with that board but with future board members as well."

# BUILDING A BETTER BOARD

## 1. Whom Do You Want?

Though we often think of sound business advice as universal, a good board is tailored to the opportunities and obstacles in the path of your specific company. Ward suggests starting the process by defining your company's key success factors—the characteristics that most determine whether the business will thrive and the strategic challenges the company will face. What you come up with will determine the makeup of your board. “What you're looking for,” Ward says, “are people who have already experienced what you're about to experience. If you're a service business, two of your three outside advisers should be from service businesses. If you're trying to grow from 50 to 200 employees, then you want two of three outside directors who have had that experience.”

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**The Right Level of Experience** “The advisory board should be at the level you want to go to, rather than the level you're at,” says Hansen. Members, he adds, should have experience building a business, not merely running one. Don't make the mistake of recruiting a highly visible executive from a big company. “You want somebody who's beyond—but just beyond—where you want to be,” says Eisenhut. “Billion-dollar experience might be great for attracting VCs, but if you're going for \$10 million in sales, you want some \$10 million to \$20 million experience.” You're looking for people who know

how to execute with the resources you have available. Strive for “in-the-saddle, facing-the-same-music CEOs,” says Ward. Very recently retired executives are second-best, in his view.

A note of realism: Hansen says a small company, especially one just starting up, will probably struggle to find ideal advisers. Though you may not know personally someone who is a perfect fit, such people are probably closer than you realize. Your local networks—business organizations, Small Business Development Centers, and professional advisers can provide the introduction.

**The Right Number** A board should be made up of three to five outsiders. Two people “are always trying to find mutual agreement,” says Ward. With three, an adviser “can afford to take chances.” And “a group of more than

five tends to dramatically reduce productivity,” says Hansen. “With every person you add, it becomes a geometric increase in interaction; you want to keep things simple.”

**Whom to Avoid** Most counselors recommend against asking professional advisers, such as lawyers, accountants, and bankers, to join your board, unless their fields dominate your strategy—as an intellectual property lawyer's would in the case of a tech company. Even in those instances, though, don't impanel the pros you've hired (though there may be a place for



them in a more limited board; see “Advisory Alternatives”). Instead, find advisers “who have full-time jobs and who are intrigued by what you're doing,” suggests Meriby Sweet, director of the Maine Small Business & Technology Development Center. “You want somebody who's not making a living from your business.” And a board generally shouldn't include friends, family, or anyone with an emotional interest in the business.

## 2. How to Get Them Aboard

Solicit candidates with a two-page prospectus describing the business. Explain why you want a board and what you're looking for. Then detail how it will operate, including compensation. Describe your initial discussion with prospective members as exploratory, because even as you solicit them you should be evaluating them. “Make sure that they're sharp and experienced but also willing to share,” says Eisenhut. And that they'll mesh with the personalities in the room, including yours. It can be uncomfortable to kick someone off a board, so as a fail-safe, institute short terms of service. “I typically ask for one year at a time,” says Hansen. “Those I want to keep, I ask to renew; those I don't, their terms expire.”

**The Pay** The matter of compensation is tricky. Some experts say it's entirely unnecessary, and nearly all warn against advisers who take the position for the money. “You can attract anybody for pay,” says Hansen. “But you're not necessarily going to get the kind of advice you want. You want people who are attracted to the type of business that you're building.”

On the other hand, some form of compensation—even token—tends to sharpen an adviser's sense of responsibility and commitment. Hansen sug-



gests a modest payment once an adviser serves for a sustained period—three years, say. Ward’s formula is to calculate your base hourly or daily salary (excluding bonuses) and pay your board members for their time at that rate. (Assume prep time is equal to meeting time.) “You’re telling them, ‘I value your time as much as my own,’” says Ward. “And it should hurt enough that you make sure to get as much out of the investment as you can.”

### **3. How to Run the Meetings**

Your board should meet two to four times a year. (Ward prefers three times, because it gets you out of the quarterly cycle, with its emphasis on earnings—the board, he says, should be looking forward, not back.) Try

mightily to maintain the board’s strategic focus: If you can’t meet at the company offices without interruption, borrow a meeting room from another company or a hotel or restaurant. Meetings should seldom last more than three hours.

**Structuring the Conversation** At each meeting, focus the board’s attention on a few core strategic matters. Don’t follow the stultifying pattern, set by large corporations, of reading the minutes, reviewing the previous quarter, etc. Eisenhut suggests devoting an hour to each of two major topics and half an hour to each of two follow-up or future topics. Ward recommends that the CEO ask himself or herself in advance, What’s the biggest unan-

swered question facing our company today? That topic starts the meeting.

In any case, put the agenda in writing, and state clearly what you expect the board to contribute to each item. Help your advisers prepare by sending a week in advance the information they need to digest. Keep it short, thoughtful, and processed—don’t send raw data. Between meetings, keep them updated on any developments.

It can be difficult for an entrepreneur to face a board frankly over difficult issues. But the advisers, having been there themselves, will recognize this and guide the CEO, says Ward. He suggests asking one to co-facilitate the meetings, at least to start. “After the first meeting, it gets easier.”



