REMOVE BOOKLET ALONG DOTTED LINE

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 suggests 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 unanswered 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."

ADVISORY ALTERNATIVES

If you are unable to devote the time and resources necessary to a full-fledged board of advisers, there are alternatives:

A board of professional advisers: If nothing else, convene your paid, professional advisers (including, perhaps, your banker and a consultant if you have one) a couple of times a year just to bring them up to date on the business. Some entrepreneurs may find this threatening (and expensive, if the advisers are billing). But, Ward is quick to add, "these are smart people who see lots of businesses and are going to raise questions." Moreover, preparing for the presentation forces you to do your homework. Because you are already a client, the arrangement can also ease disclosure fears.

The ad hoc board: Instead of constituting a board with regular meeting times, approach potential mentors individually, meeting with each for coffee occasionally or corresponding by e-mail. Or recruit a board for a short-term project. Either approach can serve as a tryout of sorts for a more rigorous approach later on.

The task-specific board: Some experts, including Eisenhut, believe advisory boards are best constituted for a specific purpose and a limited time. In this view, when convening a board for a strategic objective, "you need to have 60 percent to 80 percent of the framework in place," he says. "Then you go back to the board and have them put the final touches on." Each member of the board should have a particular area of expertise: finance, operations, purchasing and supply chain logistics, and a variable–regulatory, say, or real estate knowledge.

NOTES:

ADVISERS OR DIRECTORS?

The Case for Directors: If you can spare the time and the expense of the reporting requirements that accompany a statutory board of directors, then you might consider establishing a directorate, says Northwestern's Ward. "When it's a legal commitment, the directors feel a deeper, broader sense of responsibility to the company, to all the stakeholders, and the well-being of the company and the institution—to the continuity of the enterprise," he says. "Especially when there's an emergency."

The Case for Advisers: Still, Ward concedes that you'll get 80 percent to 90 percent of the benefit of a directorate from informal advisers, and most of the longtime small-business counselors *Inc.* interviewed recommended against chartering a board of directors. Even a company with a corporate structure that requires a formal board of directors might still want an advisory board, says Hansen. "On a board of advisers, I can give my best advice and not be constrained by the possibility that it's going to come back and bite me. It does change people's perspectives."

Resources

At **www.inc.com/keyword/buildaboard,** you will find many articles on the creation, care, and feeding of boards. "Friendly Persuasion" suggests strategies for swaying reluctant board candidates. "Four Tips for Working With Board Search Firms" lists boardroom consultants. "Weeding Out Weak Board Members" offers tips for evaluating boards and their members and dismissing them gently when it's time for a change. Several of the articles are drawn from Boardroom Insider (**boardroominsider.com**), an online newsletter.