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Board building: Assessing the value advisers bring

INSIDER VIEW
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Are you an entrepreneur trying to build a startup company? Do you feel your family business is stalled?

If you face hurdles in your early-stage company, or if you are in a family business and find the family expertise limits you, you may wish there was someone on your side to offer useful advice.

One way to get that help is to hire paid consultants. Another is to recruit executives who have that experience. However, both approaches can be expensive to an early stage company that must conserve its cash or to a family business not used to paying outsiders. Also, if only one or two people can be hired or contracted with the breadth of experience needed, the hire may be insufficient.

There is another way: recruiting a board — a board of advisers or a board of directors, sometimes both.

Corporations must have a board of directors. However, most entrepreneurs like to be their own boss and often regard a board of directors as a nuisance to be avoided. So most early-stage companies have single-member boards. That's likewise true in even more mature family businesses, with either a single-member board or two or three members of the family, but no outsiders.

However, the board can be an asset to your business — to offer a key supportive resource. A board can offer advice on an "as needed" basis, at a fraction of the cost of employees or consultants, with no long-term commitment, and if you choose your board carefully, a board can offer greater depth of experience.

To tap this resource, you don't have to create a formal board of directors. Many entrepreneurs start with an informal board of advisers that meets on an occasional basis.

When picking this board the entrepreneur should avoid friends and relatives and instead focus on filling in experience, gaining practical advice and opening doors, including:

- Tips to build your organization and structure.
- Marketing and production advice to expand.
- Personnel references and contacts.
- Contacts and credibility to raise capital.
- Advice when unforeseen hazards arise.
- Independent advice on succession planning.

Boards of advisers generally meet several times a year, often over a meal. Initially, the board may meet and help for the cost of the entrepreneur picking up the cost of a good meal. In time, stock options may be offered. For the board member, advantages include the ability to help a colleague, and to do so with no liability or responsibility and with limited time commitment.

To get best use from this initial, informal board of advisers, the entrepreneur should value the time and advice offered: Prepare for adviser meetings, keep advisers informed on company developments and set limited terms for service to keep the board fresh.

The voice of the family

The board of advisers in family businesses also deals with interpersonal family issues that affect the business. Thus, a family advisory board should have at least one member with professional expertise or knowledge and credibility within the family to lead resolution of interpersonal disputes. This role can also filled by a separate family council.

The adviser's mission is to reconcile the family's vision and direction with business needs. Sound management, growth and profitability can clash with needs and ambitions of family members. Non-family business also has issues with "office politics" and corporate greed versus meritocracy and system growth. However, family businesses require special vigilance to check erosion of competitive position and personnel attrition over perceived family restrictions or nepotism. They also require timely development of succession planning.

As the early-stage company takes on full-time employees, generates revenue and considers investment and expansion, selecting a board of directors can expand the reach and enable the entrepreneur to reach the next level.

With growth, knowledge gaps become more pronounced, the demands are greater and the need for real experience more acute. In the family business, this can come when the knowledge and skills needed can only come from outside the extended family. With growth, the entrepreneur may be more willing to share the burden of running the company.

Unlike advisers, directors take real responsibility and potential liability for management of the corporation. The board of directors directs officers and governance. Directors generally meet monthly, and instill financial accountability and appropriate record keeping in the business. That discipline and the time board members invest can help the company avoid or overcome pitfalls, and it can put the company in its best posture to gain financing, forge alliances or make important hires.

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