

The Challenges and Potential of Boards of Advisors and Boards of Directors For Emerging Technology Companies

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Introduction

Boards of Advisors and Boards of Directors for emerging technology firms can provide great value for the company in the earliest years. Many founders of start ups would say they don't have a board of directors or board of advisors composed of "outside members" (composed, at least in part, by people who are not employed by the firm), because they are too small, don't have the time or money to create one, or don't think anyone would be interested in serving on such a board. These statements are not only demonstrably false, but people who start up or work in early stage technology firms know they are false. When they tell others about their new technology, they know that people get very interested, very quickly and often offer advice or make it clear that they are willing to help the person starting the company. Second, the people who become interested in the technology know the company is cash constrained and are not looking for money, or even equity (at first) as a precondition to helping the founder and first set of employers improve the company. Third, while technology founders and early stage employees spend an extraordinary number of hours working IN the business, they surely have the few hours it takes to put together a board of directors or board of advisors. Such boards are needed because these founders and early stage employees often spend little time working ON the business , and frankly, often have few of the skills, experience, contacts, competitive intelligence, business planning and finance capabilities, human resource knowledge, export, law, contract, negotiation, and sales training necessary to make their emerging echnology company a business or financial success.

So, if these are not the three reasons why most emerging technology companies do not have either a board of directors or board of advisors for their companies, what could the reasons or barriers be? This article takes a stab at some facts and three myths that might serve as barriers to the formation of such boards.

Just Who Starts an Emerging Technology Company?

Many emerging technology companies are started by one or two "visionaries" or just extraordinary programmers, engineers, technologists, and problem solvers. There are many adjectives that we can use to "generalize" the type of people who start these emerging organizations. They are:

Focused

Intense

Driven

Problem Oriented

Accurate and Precise

Organized

Able to Work in Isolation

Confident

Self-Centered, Control Oriented

Research/Fact/Analytically Insightful

Numerically Gifted

Understands Complex Material and Physical Relationships and Risk

Detail, Precision, Measure Oriented

Impatient, Always On to the Next Thing

Not all of these characteristics fit everyone working who has started or who works in an emerging technology company. Every generalization is false, by its nature. Every person is different with different characteristics. But, if many of the founders and early hires of emerging technology companies share all or most of these characteristics, it becomes very easy to see why many of these founders or early workers in emerging technology companies do not have active boards of directors or boards of advisors comprised of “outside members,” members who do not work for the company.

The idea of having to get a group of people enrolled to sit in on monthly, quarterly, or even bi-annual meetings for several hours, to report to them the company goals, efforts, progress, and failures, to negotiate with them as a group either a compensation package or to ask them and get them to agree to serve for a year or two as a volunteer, is not what a person with the characteristics listed above would typically like to do. One could conclude, that the skills, personality characteristics, leadership training and experience needed to create such a board do not appear to be a good match with the skills and characteristics suggested above as common among those who start emerging technology companies and work for them in their early stages. To take this analysis one step further, so that it leads to a conclusion or an “assumption,” we could conclude or assume, to put it bluntly, that most people with these personality characteristics who start emerging technology companies are poorly suited to create and sustain valuable boards. Our

analysis of the “board situation” with emerging technology companies starts by challenging this assumption, that I call a “myth.”

Killing Myths: A Road to Progress

This article will attempt to destroy the three myths that often stop or hinder emerging technology companies from starting and having useful boards of directors and boards of advisors. These myths are:

Emerging technology company leaders would not be great conveners of boards of advisors or boards of directors for their organizations.

These boards could not provide much value to these types of companies.

These types of boards require a lot of time, effort and expense to set up and to support on an ongoing basis.

Debunking Myth Number 1

It does not take a social worker or human resource specialist to set up a board of advisors. In fact, it takes only a couple of hours, and the steps are very simple. They are:

Identify expertise that your company needs on a periodic basis that it can not readily buy. Recognize that this step requires the founder to acknowledge that he or she cannot do everything or be in control of everything. The conflict is between the “founding” ego and the recognition of pragmatic self-interest that comes with the off-loading of some responsibility and authority.

Create a one page set of “Expectations of Members of the Board of Advisors.” This one pager would include how many meetings (from one to six meetings a year, possibly 12, but that is pushing it), what the agendas for the meetings will include, and a paragraph describing the compensation, if any, that will be paid to members of the board of advisors. Usually, an emerging company will offer a member of a board of advisors some discount on its products or services, some barter arrangement that is of benefit to the member or his or her company, some future oriented business opportunity or commission on referrals, or some publicity or other reward that is of benefit to the advisory board member.

Set a number of advisory board members you would like and create a list of potential members.

Call them and invite them to consider attending an exploratory meeting, usually a dinner, to consider being on the advisory board.

Set the date for the meeting, invite the participants, set the agenda for the meeting, hold the meeting, and that's it.

These five steps could take as little as one hour. The size and scope of this advisory board will increase and decrease throughout the first year. Only the person or group that has started the emerging company or is in the early workforce of the company has the credibility, the relationships, and the knowledge necessary to know who to invite to be members of the advisor board, why to invite them, what information the company can share with them about the technology, the goals of the company, its prospects and challenges, and can know how to use the advisory board for the mutual benefit of the company and the advisory board members.

So, the idea that the characteristics of those who start emerging technology companies suggest they would be poor conveners of advisory boards is actually false, a myth. Our understanding is that ~90% of founders leave – or are removed – by the Board about the time a startup gets big enough to go public or get to some revenue figure. This fuels the perception that most people who are good founders and not good Maintainers/Managers. Clearly successful founders recognize the early value of Boards. and we believe that since people who would like to be advisors want to work with founders because they have such great ideas and great energy, founders can be excellent conveners of advisory boards and boards of directors. The other main reason people will want to be on your advisory board or board of directors is they respect the technological advances your company is attempting to achieve, want to see the problem that your company is addressing actually be solved in a cost-efficient manner, and they respect the founder and those that work in the company at this early stage.

From Board of Advisors to A Fully Functional Board of Directors: Not So Fast

While creating a legally constituted board of directors requires several additional steps, and costs more, the basic additional steps are not that daunting. The advantage a board of directors has over a board of advisors is that a board of directors has a set of legal duties to the company and the company has a set of legal duties to the board of directors. Members of a board of directors may be legally liable for actions of a company, they need to be compensated and insured in most situations, they need to be kept abreast of all material actions taken by the company, and they need to know everything about the finances of the company. Often, full fledged boards of directors are not used in emerging technology companies until outside investors are brought in and they want to be part of the “governance structure of the company” to help the company and to protect their investment.

Since boards of directors have the power, subject to some contract provisions, of hiring and firing the CEO and top management, there is often good reason why a founder, who is the CEO and sole decision maker would and should be very reluctant to have a fully empowered board of directors comprised of a majority of outside members, on the first

day the company starts. However, there is great synergy of having a fully operational board of directors and getting outside investment. So, if your company will be seeking outside investors, it is wise to start off creating a fully functioning board of directors sooner rather than later.

Debunking Myth Number 2

The second myth is that boards of advisors and boards of directors are a waste of time for an emerging technology company.

To prove this is a myth, we could take one of three tracks. First, we could provide a list of all of the actual benefits that boards of advisors and boards of directors have provided to emerging technology companies. We could identify each company, and even each board member and quantify the dollar value of each contribution. But, you do want to finish this article this century. Second, we could take one company and show all of the things that its board of advisors or board of directors has accomplished for that company. The problem with this approach is that it might leave out 90% of that boards of advisors and boards of directors have provided for other companies.

The third, and preferred, way to show that boards are not a waste of time, at least potentially, is to list all of the ways that boards have, in the past, benefited companies. If you create a board of directors or board of advisors, we can not guarantee that your board will yield all or most of these benefits. But, at least you will know from this list the enormous potential benefit that boards of directors and boards of advisors can bring to emerging technology companies. The list of benefits includes:

Identify new customers – particularly those with a strategic interest in the success of the startup

New, highly qualified employees

New sources of financing and capital

Independent advice regarding the company's business plan

Public relations support

Help with human resource issues – let the Board help the CEO with serious personnel issues

Help finding space

Assistance in putting into place a supply chain with agreeable cost and terms of delivery and payment

Assistance in finding legal counsel, accountants, payroll services and back office support

Assistance with competitive intelligence

Assistance with mentoring a CEO and senior staff

Valuable contacts in the business community

Valuable contacts in the technology community

Valuable contacts in the university and educational sector

Invitations for speaking opportunities

Co-authorship of articles

Advice on accounting issues

Recommendations regarding the company's marketing plan

Loan of equipment, office space or conference room space

Advice on how to improve the product or service that the technology company offers

Assist in getting real feedback and constructive criticism from customers and other forms of customer relations management support

Recommendations on strategic partners

Recommendations on conferences and events to attend

Recommendations on organizations to join

Recommendations on how to structure contracts with employees

Recommendations on how to share equity with employees

Recommendations on how to value the company and negotiate with Angel and Venture Capital Investors

Leadership development training for the CEO and senior staff of the company

Help set realistic, stretch goals for the company

Advise company on potential merger and acquisition opportunities

Assist in improving the reputation of the company in the community

Advise the company on a volunteer or contribution strategy that can pay dividends for the company

Advise the company on human resource retention policies, pay scale and help negotiate terms with specific employees

Suggest new products or services the company should offer

Provide consulting and bench strength to the company when it is stretched thin but can not hire additional full time personnel.

This list of 35 benefits that a board of advisors or board of directors can provide is illustrative of what a company should ask of its board of advisors. While no one can guarantee that your company's board of directors or board of advisors will produce value in excess of its cost, this list shows that is a great potential return on investment in creating a board of advisors or more formal, board of directors.

One company that was never going to seek outside investors advised its board of directors that if each of the six initial members of the board would invest \$1,500 in the company at the start, that after five years, any board member could resign and the company would calculate the value that this board member created within the company. While this type of trust oriented relationship is unusual, each of the six board members agreed. In year five, one board member resigned. After a quick set of calculations, the CEO wrote the board member a check for \$150,000.

And there is always what we call the Earl Smith approach to boards of advisors, named after Dr. Earl Smith of Washington, DC. His view is that a board of advisors should focus on only one thing – business development, and should be paid a commission on all business leads they bring to the company. This approach greatly simplifies the role of a board of advisors and lets everyone know right at the outset the highest and best use of the time of the members of the board of advisors.

Debunking Myth Number 3

The third and final myth is that boards of advisors and/or boards of directors take a lot of time, effort and expense to set up and to support on an ongoing basis. Boards can be set up in just several hours of time. Ongoing support, be it monthly, quarterly or bi-annual meetings will take some effort to coordinate. However, all of the things that a CEO of an emerging technology company does to “support the board” are exactly the things that the CEO should be doing anyway – creating and communicating a business plan, setting regular goals, creating financials that are understandable, building and implementing a marketing plan, a technology improvement plan, a customer relationship management

plan, and tending properly to all of the human resources and financial issues that an emerging company faces.

Therefore, while a good banker will ask twenty tough questions when you apply for that first six figure line of credit, a CEO should already be working on the answers to each of these twenty questions and not need to take much extra time in answering them just to the satisfaction of the banker. The banker's questions, if answered properly, usually help improve the company's thinking in many areas. And, getting ready for a board of directors' meeting or a board of advisors meeting should include preparing answers to the questions a CEO can reasonably expect the board to ask.

So, creating and supporting a board of advisors or board of directors need not take huge amounts of time. Meetings will need to be managed so they don't drag on. When a board member calls, the call must be returned quickly. And, when a board member has a suggestion, if the company chooses not to follow it, the suggestion at least merits a written memo explaining why the company has chosen not to follow the board member's recommendation.

There should be some form of annual board evaluation process. New board members should be invited to join. Board members who are not contributing should be invited to leave. This takes work and energy and time, but the costs of time and money appear to pale in comparison to the potential benefits.

Conclusion

Henry Ford once said, "Whether you say you can do something or not, you are right either way." This is the case with boards of directors and boards of advisors. If you say it is too much hassle, too large of a cost, that no one can help your business, and no one would want to anyway, you are probably right. And if you say that our business could benefit from others looking at what we do, giving their advice, making suggestions, and I know exactly the 5-9 people who would make great members of a board of advisors or board of directors, and they would love to join such a board and would get a lot out of it, you are also probably right.

Depending on the vision you have for your company, a board of directors or board of advisors may or may not be right for you. As the CEO you have a duty to your company to investigate this business opportunity with rigor, without prejudice, and without dismissing it because it may be "out of your comfort zone." If Jim Henson were alive today, he would tell you, his company that soared, soared because he had some great ideas and lots of advisors who told him, showed him and helped him make it happen. Jim's advisory board helped Jim Henson Enterprise contribute to the lives of hundreds of millions of people world wide, and we are still counting. Maybe an advisor board or a board of directors can do the same for your company.

Biographical Information

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