



Board Games: Choosing the Right Mix of Advisors for Your Company's Success

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One of the most common characteristics shared by entrepreneurs is a kind of innate self-confidence – an indomitable spirit that pushes you past the barriers that hold others back. The rub, of course, is that there might be a cliff on the other side of that barrier; something a set of good advisors could have alerted you to.

When their company reaches a certain size and level of maturity, many entrepreneurs begin to consider the notion of creating a board of advisors or a board of directors to help keep their company's growth on the fast track. The fear of making a mistake or missing a great opportunity underlies the need for a board, as well as planning for succession and a day when the original entrepreneur will have a less involved role in the business. Certainly, some owners of privately-held or family-run companies reject the notion of bringing in outsiders for fear they might lose control or disclose too much of their secret sauce or because they believe that they don't need the advice or help from anyone else to achieve success.

But it's been our experience in working with thousands of successful, fast-growth companies that the companies that stand out – the ones who truly break through – rely on a board or even a structured group of CEO peers to help chart their path forward. We have found that the act of making yourself, as CEO, accountable to someone else actually results in you making better decisions in the long run – including steering clear of cliffs and taking better and more productive paths to growth. It's not just the act of creating a board that matters, however. It's finding the right mix of advisors, where each individual member of the board brings a particular skill or fills a specific need, that, when added up, results in the wisdom of the crowd, a mastermind group, where the group is smarter than the individual mind. The key point is that the CEO, who also serves on the board and often, if he or she is the majority shareholder, gets final say on any decision, benefits from the kind of advice a well-structured and diverse board brings to the table, mitigating some of the risk that entrepreneurs feel around boards.

Before we get into the details of how you should structure your board, it may be helpful to define terms. A board of advisors is a group of people assembled to dole out advice on anything from business development to growth strategy. A board of directors, on the other hand, is a group of individuals who also give advice but, in agreeing to serve on the board, have a legal and fiduciary responsibility to the shareholders of the company. To say that another way, the advice a CEO gets from an advisory board is non-binding whereas a board of directors can actually hire and fire the CEO. If you are considering going public, or have a diverse set of shareholders, a board of directors is more appropriate.

Many companies dip their toe into the water by forming a board of advisors, which eventually evolves into a board of directors over time. For the purposes of this article, though, we won't further distinguish between the two varieties of boards. Rather, let's get to the meat of the issue, which is: Who should be on your board?

To answer that question, we need to begin by defining the five different skill sets that a board member could bring to the table:

- **Oversight:**

This is the classic governance role, where a board member weighs in on key decisions such as the compensation packages for the CEO and other senior managers, the company's compliance with regulations, reviewing audited financials, and the management of any shareholder issues that may exist. This function makes sure the business follows the rules. Certainly, a privately-held company could potentially have fewer of these issues to deal with than one that has, say, taken on investors. But the bigger point here is that the board can provide a level of objectivity when it comes to issues like compensation and financial stability. In other words, board members haven't been sipping the company Kool-Aid and can therefore be counted on to deliver solid, independent advice directed in the best interests of the company as a whole. When you go about recruiting board members who will bring oversight skills with them, you should consider folks like: former CFOs, CPAs, partners in an accounting firm, and lawyers. To be clear, the idea in recruiting accountants and lawyers is not to get a discount on their services but to ensure that you get good objective governance and oversight advice for your company.

- **Insight:**

When you go looking for insight, you're searching for individuals who can help you devise and improve the strategy for your company's growth. That means finding individuals who have an understanding of your industry and how you can grow your business. It's often best to find at least two members of your board who can perform this role in order to get a balanced view. In terms of where to find suitable members, consider current or retired CEOs of other companies from your industry or even those that supply it. You could also consider recruiting CEOs from similar industries, or even a great strategist that is in a very different space. Senior business consultants can be useful in fulfilling this role as well. Again, the point is to find individuals who have been there, done that and who are then willing to share their knowledge and experience of what to do – and what not to do – in growing your business.

- **Money:**

The money role comes down to recruiting board members who understand banking, finance and M&A – especially if your company's growth strategy involves either making acquisitions or being acquired. This is particularly critical in capital intensive businesses. In this case, you'll want to recruit individuals with experience in financial structures and liquidity events that can help properly finance your business and position it to get maximum value when it is time for a liquidity event. That means that you'll want to recruit traditional bankers, investment bankers, M&A leads or even an executive at an investment firm. If your company has taken on an investment from a private equity firm, they will already have a seat on your board and their representative can potentially serve well in the money role. It is worth noting that some private equity board representatives have a hard time balancing the needs of their fund and the needs of the business – the best do this seamlessly.

- **Golden Rolodex:**

Another critical role board members can play is utilizing their social and business network to make introductions and bring your company to places you could never go on your own. Let's say, for example, that you're exploring different acquisitions. Ideally, your board member would be connected within your industry and could put you in contact with the executives and investors of potential acquisition targets. Other examples include partnerships and talent acquisitions, where a good board member can not only make recommendations about who to pursue for, say, a VP of sales position, but who can also jumpstart the relationship by making a phone call that paves a way for a follow up from the CEO. A key point here, though, is that a board member needs to be willing to pick up the phone or make introductions on your behalf. It's not enough to just have industry connections – they need to be willing to use them on behalf of your company's growth. A Golden Rolodex is a particularly valuable skill for a board member to bring to any company that is doing business with the government, where someone with prior government experience such as an admiral, general or deputy chief of staff, knows the right people to connect with to reach the appropriate decision makers.

- **CEO Spare:**

The fifth and final skill set you'll want to consider for your board is not a required one. In fact, it's conditional on whether you have any viable internal candidates in the organization who could step into the CEO role into the wake of some kind of catastrophic event. That means you'd like to have at least one board member who would be qualified to lead the company at least until the company could name a full-time successor. Even if you do have internal successors lined up, having a capable board member who could help smooth the transition, especially in a family-run company where successions can get personal, can make for an excellent risk mitigating strategy.

Now that we know what roles should be represented on your board, it's time to evaluate how the folks you have tabbed to be on it stack up. Whether you are starting the journey of creating the board or simply want to rethink the makeup of your current group of advisors, we have found it helpful to create a simple matrix that highlights the five key areas and roles where your board can add the most value: see Graphic below.

Board Skills

Board Member	Oversight	Insight	Money	Golden Rolodex	CEO Spare
Mr. V	X		X		
Ms. W		X		X	
Mr. X				X	
Ms. Y	X	X			X
Mr. Z			X		

The idea here is that you want to see a good balance of check marks across the board. The board in the example above is well balanced in the critical roles. If you find that you are top-heavy in some areas and weak in others, then you might need to rethink the composition of your board. You might, for example, have too many CPAs and not enough industry veterans to rely on. Using the grid can also help you identify particularly valuable board members who bring more than one skill to the table as well as those board members who don't seem capable of pulling their weight.

Changes in board composition take time. There are always personal relationships, history and prior good service that should be considered, but like any other talent position in the business, the wrong person can inhibit growth. It is the job of the CEO and the Chairman to find a pathway to remove non-productive board members that may have outlived their useful life and replace them with individuals that can be more helpful on the path forward.

At the end of the day, the value in creating a board is that you are creating a group whose goal is to look out for and protect the interests of the owners of the business and that as an owner, you will get better advice if you give up some level of control and rely on their input, advice and connections. Better yet, with your board's help, you'll be able to push the boundaries of your company's growth and creativity without having to worry about a fatal mistake.

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