

ADVISORY BOARDS AND ADVISORS

Many startups and small growth companies are driven by a leader with vision, passion and commitment. However, even the best and most capable leader isn't an expert on everything. In addition, his or her decisions will be better if there are outsiders with whom to discuss the business.

In large companies, strategic discussions can occur through the management chain or with a board constituted by the shareholders. However, many small companies don't have an ownership structure that is well suited for a board elected by the stockholders. If the CEO and his wife own 100% of the shares, for example, there's little point in having a traditional type of board of directors, yet there is still a need to get outside input. A better solution is to create an advisory board selected by the CEO. This advisory board can be of one of two types, a formal advisory board or an informal set of advisors. The best practice I've seen, at a company called Asperon (asperon.com) is to have both. This note presents how these advisory boards work at Asperon. It also discusses the use of paid outside advisors and other sources of business help.

Formal Advisory Board.

Asperon is a technology company that has been in business for four years. The company is run by its founder, John Kucera, who has been its driving force since its inception. The company has had a formal advisory board for most of its history. This board consists of the CEO and 3-5 people who have agreed to provide some of their time to help the company in return for nominal compensation. Usually several key employees also attend the meetings. Among the services and benefits that the advisory board has provided to the company and CEO are:

- **High-profile names.** The advisory board is listed on the website and provides a reference list of high-profile names that has helped promote the company to investors and customers.
- **Networking contacts** to help find financing (venture capital financing had initially been investigated), leads to customers (a key decision maker from one customer is on the board), and leads to others that can help the business progress.
- **Review and feedback.** At Asperon, the advisory board meets approximately once every 2-3 months. At these meetings, the

company's progress and plans are presented and discussed. These meetings have an agenda and prepared information, but there are typically no votes taken. The objective is to get feedback on results and plans.

- **Helping hands and minds.** In addition to networking, on several occasions, advisory board members have become directly involved in specific tasks, such as helping to sell a particular customer or helping develop some part of the product or accessory to it.
- **Continuity of advice.** Most advisory board members have been involved in the company for multiple years. This gives them a perspective on the business and commitment to it that a paid professional hired for a specific task might lack.

John recruited his advisory board using his network. He was able to recruit people with different skills and outlooks from among the people he'd worked with, people he'd met as he developed the company, and long-time friends that had accumulated experience that was useful to the new business. As time went on, some of the advisory board members became investors in the company.

In Asperon's case, advisory board members receive some compensation in the form of stock options. However, most of the board members give their time because they believe in the business and believe in the founder. Alternative compensation for the advisory board that I've seen range from free dinner after the meeting, to expense-paid trips to board meetings at a resort, to a fixed meeting attendance fee, to a combination of the above.

It is important to structure the board in a way that it is clear that it has an "advisory role" only. All decision-making authority, power and legal responsibility still rests with the owners of the business, or the formal board of directors elected by the shareholders, not the advisory board members. In Asperon's case, the company is majority-owned by the founder, but does have a formal board of directors that incorporates the other investors. If any legally-binding board decisions need to be made, this is done by this board of directors.

Informal Advisors

In addition to the formal advisory board, Asperon's CEO also relies on a network (kitchen cabinet) of

friends and associates he has met in the industry that he can call on for specific questions and informal one-on-one discussions. This set of personal advisors is more fluid than the formal advisory board, and unlike a formal board:

- There are no formal commitments or compensation and
- There are no formal meetings.

At Asperon the informal advisors are in the ante-room of the formal advisory board. Former members of the formal advisory board are still personal advisors and new members of the advisory board tend to be drawn from this network. Like the formal advisory board members, these personal advisors give their time and services primarily because of their relationship with the founder and belief in the business.

For many companies, it is useful to start with a set of informal advisors. As the business develops and the CEO feels that he wants to get more input, it is useful to formalize this relationship by creating an advisory board.

Informal Advisors versus Paid Professionals

In all companies, there are certain functions that can best be performed by paid professionals. Examples are:

- Outsourced accounting and payroll services;
- Legal services; and
- Marketing services like logo design, literature creation, etc.

In each of these areas, Asperon has sought out and found experienced and capable individuals and firms that provide good service and clear advice. It is important for any company to have expertise that they can turn to for these kinds of specialized areas. Even if it costs precious resources, it is better to get a good opinion than to make a big mistake in these types of areas. These service providers have sometimes also attended the advisory board meetings to be kept apprised of the developments in the company. In some companies, these types of advisors also sit on the advisory board. In Asperon's case, it has been more beneficial to use industry experts on the advisory board.

Other Business Help

Sometimes a company needs help on implementation, rather than on strategy. Because of the current economic downturn it is possible to find professionals that are between jobs or that have retired early that have time available and are willing to work for deferred compensation. Asperon has

successfully relied on skilled professionals who have contributed their time on specific tasks in return for stock options. A good example is the development of the User's Manual. Through a formal advisory board member, the company became aware that a very good technical writer found himself between jobs and interested in maintaining his skills. This person was able to generate a superb manual very quickly. In return, the technical writer got to share in the potential upside of the company and to establish another reference site for his work.

This type of help is most appropriate in companies that are more concerned about keeping their cash investments low and less concerned about diluting the ownership of the company by issuing options. These help-for-options relationships can evolve into full-time paid positions as the company's revenues grow.

Conclusion

I hope that you have found this brief helpful. Please let me know if you have any questions or suggestions for areas that should be covered in more depth. The following are some references if you like to explore this topic in greater depth:

- Allen, Kathleen. *Entrepreneurship for Dummies*. (c) 2001 Wiley Publishing. Pages 134-142.
- Gillis, Tom S. *Guts and Borrowed Money: Straight Talk for Starting and Growing Your Small Business*. (c)1997 Gillis.
- Schlau, William et al. *The Entrepreneurial Venture*. (c)1983-1999 Harvard Business School Press. Pages 450-458.
- Turner, Marcia Leighton. *The Unofficial Guide to Starting a Small Business*. (c)1999 Hungry Minds. Pages 183-194.