How To Structure Your Board Of Directors Or Advisory Board, Forbes.com

By George Deeb

Properly structuring your board of directors or advisory board could be one of the most important pieces of determining the success for any venture. These are the people you are going to be relying on for strategic direction, or voting on all key decisions. So, it is important you understand their role, and correctly set them up.

What's The Difference Between the Two?

First of all, a quick definition for each. A board of directors are the people that manage the CEO and formally approve all key decisions of the company. They protect the interests of the shareholders. An advisory board is a less formal group of mentors that have specific industry knowledge, that bring their consultative expertise to the CEO and increase your odds of success and credibility with potential investors.

Structuring Your Board of Directors

In structuring your board of directors, here are a few obvious recommendations: (i) it should be an odd number (so never a voting tie); (ii) it should largely be comprised of parties friendly to you and supportive of your vision (so no battles in the board room or being forced into a non-desired direction); (iii) it should be a manageable number, like 5 or 7 members (so easy to schedule meetings); and (iv) members should bring real value to the story (e.g., specific industry, skillset or startup expertise, to help you avoid known pitfalls, or a Rolodex of key relationships that can be helpful to you).

For the not so obvious recommendations, firstly, you should structure your board relatively in line with the equity ownership of the company. For example, if one investor owns 20% of the company's equity, it would be fair for that investor to have one of five board seats, or a 20% voice at the board table. Or, vice versa, if you own 100% of your business, you may not want anybody on your decision making board, instead relying on your advisory board for advice and direction. Secondly, when you have an outside investor involved, it is important there is a mutually acceptable third party board member that has a non-biased perspective on the business (e.g., not a manager and not an investor), who, in essence, tie-breaks all disputes between management and the investors. I typically want to identify and nominate that outside candidate (so I know I can trust them), for approval by the investor. Don't do the reverse, as most likely they will be loyal to the investor. And, thirdly, you do not want a passive board member, simply showing up at scheduled meetings. You want a passionate member that you can assign real work to, that is providing real effort and deliverables in between meetings.

Structuring Your Advisory Board

As for structuring your advisory board, this is much more flexible and up to you. You can have as many or as few advisers as you deem necessary to help you grow your business. But, what is key is, these people need to bring specific skills to the table that you are missing which will be important to the company's success. As an example, if your company is a marketing technology company selling into the automotive industry, perhaps you want a technology development expert, an automotive industry expert and a "marketing to CMO's" expert in your advisory board.

And, the bigger the adviser's "brand name" in your space, the better. This is for two reasons: (i) they are a big "brand name" for a reason, so they have plenty of learnings to share; and (ii) those "brand names" will help get investors excited about investing in your story, as credible references and mentors for the business (e.g., if "brand name" likes it, so should I, as the investor). That said, it is hard to get the attention of "brand name" advisers, who typically are busy people and may not want to get involved with an unknown CEO or business. So, where you can, leverage mutual colleagues that can broker that introduction for you. If there are no known mutual colleagues, approach the adviser directly with an equity incentive for their participation (see more details below).

Frequency of Meetings

As for frequency of your board meetings, you should meet with your business based on the frequency of requiring strategic input. For startups still tinkering with their models, that should be once a month (so monies not wasted for too long). For more established businesses, meetings should be once a quarter. Frequency for advisory boards is not really relevant, as they meet on a more informal schedule, as called on by the CEO. Or, they are called upon individually as answers are needed to one off questions over time.

Compensation

The last key consideration for your board members and advisers is to make sure they are appropriately compensated for their time commitment, and incentivized to help you grow your business. For you and your cash investors, you are appropriately motivated as is, with your material equity stakes. But, for outside board members or advisers, I would suggest setting aside a small piece of the company's equity to distribute between these key people based on their level of involvement. Let's say you set aside 5% of the company for these purposes, and your outside board member may get a 1% stake, and your 8 outside advisers may each get a 0.5% stake (in the form of options or warrants). And, make sure all equity grants have vesting periods, so earned over time invested, and can easily be repurchased or recaptured if things go wrong down the road, in case you need to make a change. Or, if you don't want to give them equity, cash will be your other option. Where advisors could get $1,000 to $5,000 per meeting for their attendance, based on how big their "brand name" is.

And remember, if cannot find appropriate board members in a timely fashion, try to find a few mentors who can fill this role for you, in the interim.