



BUILDING A BOARD OF ADVISERS

How to Build a Board of Directors

Haunted by nightmare board-meeting scenarios? Here's how to assemble the best advisers for your business.



BY TIM DONNELLY

 [@TimDonnelly](#)



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Ask a young CEO what frightens them most about their own company and they'll likely tell you about nightmare board meeting scenarios.

These nightmares are gatherings with long, time-consuming presentations, bickering board members, deadlocked decision-making, sneaky power grabs or, perhaps worst of all, a rubber-stamp committee that might as well not exist at all.

Scary as that might be for a new business, those situations are easily avoided by being smart about how you set up a board of directors in the first place. You have to pay special attention to a wide spectrum of details about the advising body, from having clearly stated goals to ensuring members with disparate backgrounds are able to cooperate — and sit in a room together for hours at a time without going at each others' throats.

The role of a board of directors has evolved over the years: Instead of the old smoke-filled conference room gathering of the CEO's family members, smart companies now treat their boards like a council of elders whose knowledge base can help set the tone for big-picture decision making.

"Boards are really at their best when they're providing guidance and leadership and insight at a higher level," says Frank Martinelli, president of the Center for Public Skills Training, which does consulting for non-profit and public-sector companies. "The buck ultimately stops with the board."

Companies sometimes make the mistake of installing a rudderless board by not having a clear mission or set of responsibilities. Experts offer these tips to kick starting your own board of directors.

Building a Board of Directors: What Kind of Board do You Need?

The first step is figuring out what kind of board your business needs. Many start-ups or small

companies choose not to set up an official board of directors until they either get some outside investment or start to grow quickly. Instead, some companies opt for a less formal advisory board, which doesn't have an official role overseeing finances or making business decisions, but can still help guide the company.

"They don't have the legal bells and whistles but they do provide some great advice to the CEO or founder," says Gaye van den Hombergh, president of Winning Workplaces, which works with companies to improve workplace environments, and with which *Inc.* partners to make an annual list of great offices.

Dig Deeper: Advisors or Directors?

Building a Board of Directors: Filling the Board

Choosing the right people to fill your board is the most crucial part of the process — and can often be the most difficult.

The trick, experts say, is to make sure you're bringing on people who complement your existing skill set while adding a combination of new abilities and experience to the table.

"You want people who understand the business and the industry that you're in so they can think strategically," says Mark Nadler, co-author of the book *Building Better Boards* and a partner at global business consultant firm Oliver Wyman. Companies often accomplish this by bringing on retired or former CEOs and other people with managerial experience, he says.

Van den Hombergh says one board she serves on added members to address specific needs: an attorney to help with human-resources issues, an experienced salesperson to help with sales training, and other professionals to help fill a knowledge gap on marketing issues.

"Focus on people who understand sort of the nuts and bolts, the operations and finances you need," she says.

Other companies seek to bring influential people onto the board not just for their experience but also for their contacts in fields such as engineering, the law, or other industries that can help provide business leads and advance the company's mission. For most start-ups, almost any level of expertise will help, experts say, though more, usually, is better.

Any company that has outside financial backers or venture capital will typically put some of its investors on the board. An important way to balance this influence is to recruit independent people that are not directly connected to either the company or the financial backing, says Will Herman, an entrepreneur who has held management roles with several technology companies and is currently CEO of software-design company Innoveda, which is based near Boston.

"There are many times where there becomes an adversarial relationship between insiders in the company and outside financial people," he says. "I fully believe one of the roles of the individual board member, the outside person, is to pull the two sides together, to create a link and to bridge different opinions and different points of view."

Even if you just want a small board to oversee your start-up company, having an independent voice involved helps keep perspective, Herman says.

"You need outside influence. Somebody needs to be the adult in the room," he says.

Beyond the hard skills — industry experience or knowledge — members can bring to the table, experts say it's also important to recruit members with soft skills, the interpersonal or group strengths that can make or break a cooperative effort.

"You don't want somebody who's going to dominate it all so everybody else feels intimidated," van den Hombergh says.

Dig Deeper: How to Vet a Board Member

Building a Board of Directors: Setting Goals

Most official boards have a set of bylaws that specifically lay out responsibilities and powers. When writing bylaws, you should be sure to clearly state who has the ultimate authority for making decisions about the company, whether the advice of the board is binding, and whether things like compensation or employment decisions are the board's responsibilities or fall with the company's management team.

The bylaws should also include term limits for board members, experts say. Herman recommends four years as a standard board tenure to help keep a fresh perspective.

"Within four years, the CEO has tapped 90 percent of the applicable knowledge of the board members," he says.

Ensuring board members rotate also helps groom younger business leaders, Martinelli says.

"It's not good for people to serve on the board ... like judges serve on the Supreme Court," he says. "We also have periodically this infusion of new and sometimes younger members who can bring fresh perspective on the decision making that the board is called to do."

As for the size of the board, business professionals say there isn't one answer that will suit all companies. Most recommend having a body between seven and 15 members, but the important thing is to make sure to find the right balance for the size of your company. If the body is too small, the board won't have a diversity of opinion; too large and it could get unwieldy and difficult to organize.

"It's just critical to make sure that time is spent wisely engaging board, reaping the benefit of having them together in one room," Nadler says.

You should also be sure to codify how members get added to the board. Will they be voted in by management? Elected by members of your organization? Or will existing members pick their successors?

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Building a Board of Directors: Conduct Effective Meetings

Harvesting the benefit of the board's experience involves setting up a strong schedule of meetings and establishing lines of communication.

Board meetings used to be 90 percent presentation and only 10 percent discussion of topics, Nadler says. Now, it's more like 20 percent presentation with the rest set aside for discussion

and decision-making. As digital information has become easier to share, smart companies have been keeping their board of directors up to speed in between meetings.

"It's one of the biggest complaints board members have that management tends to load them with a whole bunch of data right before a meeting," Nadler says. "It's just this sort of data dump that doesn't equip the board to talk about what's going on."

The number of times a board needs to meet also varies by the type of business. Experts say effective boards can meet as rarely as four times a year or as often as every month. However many times you decide the board should meet, the important part is having a set strategy for each meeting set well in advance, Nadler says.

"One key to that is sitting down and thinking about your board agenda a year in advance," he says. "If you wait until the last minute and say 'Let's do some of this in the November meeting,' inevitably some of those will get squeezed out."

Dig Deeper: How to Run an Effective Meeting

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