Board Basics for Entrepreneurial Companies

By Ken Olson, San Diego Tech Coast Angels

The boards of directors for young and growing companies are concerned with survival and financing, where those for large, well-established companies have a different set of concerns. This article will focus on real corporate boards for the growing company.

In small companies, the board of directors can and should be the CEO's best friend, advisor, counselor, cheerleader and helper. It should listen, coach, aid in focusing and financing, staffing, risk assessment, and participate in strategy debates. The 1978 Model Business Corporation Act states that all corporate powers shall be exercised by or under the authority of its board of directors; the business and affairs of the corporation shall be managed under the direction of its board of directors. ~~Although,~~ ~~An~~ individual director acting alone has no authority.
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Duty of care requires each director to operate in good faith, to pay attention and attend regularly, to act diligently and reasonably, and in the best interests of the corporation. Duty of loyalty requires each director to disclose any potential conflict of interest and to ensure that any known opportunity of potential interest to the corporation belongs to the corporation.

In CEO-controlled corporations, the role of the board is limited to hiring, monitoring (but not too closely), and in extreme situations, replacing the CEO. In director-controlled corporations, the board actively participates in management decisions while carefully monitoring management. In well-run companies, neither of these extremes is reached -- control is shared, with the board fostering effective decision-making and reversing failing policies.

Staffing the board in small companies: Get the best, and keep it small. Five is a good number -- the CEO and four independent directors. My experience has shown that two wise, experienced generalists, someone with a venture capitalist mentality, and a smart young CEO or CFO create a superb blend. No pals, founders, officers, or relatives. Good directors are calm and thoughtful, open to new ideas, and able to evaluate people, ideas, and risks. The best directors bring a network of good contacts, some industry knowledge, and the willingness to pitch.

Board meeting topics for entrepreneurial companies: Keep it simple. The important topics are goals and strategies, the company's trajectory and speed, its major milestones, and cash.

Why do directors serve? To contribute and to learn, and for prestige, experience, fun, and financial rewards. They are selling their talent, mentoring, time (including worrying time), and availability. They are sacrificing other opportunities, bearing out-of pocket costs, and exposing themselves to lawsuits. In return they are entitled to honesty and decency, full disclosure, all of the bad news early, good read-ahead materials, well-managed board meetings, acceptance as full members of the team, and participation in the rewards when the company succeeds.

Great boards make great companies. The message to entrepreneurs: your board can make or break your company, so choose directors carefully, understand their roles, work with them, and provide them with good information. Treat them as your partners. The rewards are great -- you'll be glad that you did.

Editor's Note: More information about the San Diego Tech Coast Angels can be found online at http://www.techcoastangels.com.

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