

Success is as good as your board

Private company board isn't about governance

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There has been a lot of good general commentary recently on boards of directors and governance issues, much of it applying to larger, public companies. But what exactly should smaller, private companies do?

If you have an institutional investor, such as a venture capital fund, you probably already have a functional board structure that has been set out by the fund. As an entrepreneur or owner/operator, it may or may not be adding real value to your business. In large part, it is a governance mechanism for the fund. If it is working well, it is a win-win situation.

If you don't have an institutional investor, or any other third party capital, you likely don't have a useful board structure and may be wondering if you need one and if so what features a good board should have. A rule of thumb is to do the opposite of what big public companies are doing, or being forced to do.

The sole purpose of an effective board at a private company should be to increase the probability of success. It is not a governance structure, it does not monitor your performance for someone else. It acts for no one but you. That isn't a bad thing.

With that in mind, here are some practical things to consider when assembling a board:

Forget about a formal, legal board. The best structure to use is that of an advisory board. I've talked about their advantages in a past column as have other writers in this section, recently.

Don't try to create flashy "blue ribbon" panels. Generally, be wary of high-profile people who appear to do little but sit on boards, as this is a real hit-or-miss proposition. I maintain that few people can sit on more than three boards and be effective.

Don't bother with more than three people. Any more takes too long to find and makes meetings hard to organize; any less will obviously make a fulsome discussion harder. At the same time, don't try to populate the board all at once. Get it going once you have one person. Set up the board's routines and practices, and fold others in as you find them. Board members should be shareholders or stakeholders of some kind in the company. Independent directors, as in the public company context, are tantamount to indifferent table dwellers waiting for the catered lunch to be delivered.

Pay your board in shares only and have good long-term vesting provisions. Cash should only be doled out for travel and accommodation costs.

Use people you know and trust, or are referred by people you know and trust. Having said that, I think Rick Spence's and Ajmer Mehmi's online national advisory board centre could be an excellent, practical and valuable supplement to this generally limited pool of people. Take the time to honestly identify your personal and business weaknesses and try to bolster these via your board. You don't need to share these with anyone.

Don't be shy about pushing people off the board if they are not contributing or don't seem to be available for meetings. But don't pull the trigger too fast; people can grow into the role.

Meet face-to-face vs. conference calls, especially for the first few meetings. This can cost more, but is definitely worth it. Have formal, well-thought-out, relevant agendas and set time limits. Never start late, and it should be unusual to run even 10 minutes past the allotted time. Have a chair who makes the trains run on time -- it's absolutely critical for gaining and keeping good members with busy schedules.

Get meeting materials to the board at least three days before, five is better, and mentally track who reads and processes the information. Materials should tie in to the agenda and facilitate discussions. It can take time and effort to compile these--don't worry about making the package formal or flashy, or big.

Most important, after every meeting you should feel something has been achieved that will directly increase the financial value of your company or move toward realizing on it. If this isn't happening, change things up -
- agendas, people, compensation, whatever is necessary. Don't wait too long to do it, either, if you are not growing value, you are dying.

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