



Excerpted from
FastTrac® TechVenture™



TAKE CHARGE OF YOUR BUSINESS®

A program of the Kauffman Foundation

Board of Directors and Advisory Boards

At every stage of a company's life, you will need input from both inside and outside the company.

Board of Directors

If a company is organized as a corporation, it must have a board of directors. The board is the managing agent for the company. It makes big-picture decisions and elects officers. In many states, one person can be the sole owner of the stock in a corporation and the sole director on the board. A full board of directors, however, has the advantage of bringing together ideas from many minds. The board of directors may include one or more key members of the management team (most often the President and/or CEO), investors, and independent outside advisers.

After you have established a board of directors, concentrate on using that board to its fullest potential. Hold regular board meetings in addition to the mandated annual meeting with specific agendas, outcomes, and purposes. In the early stages, company boards often meet monthly (more frequently if circumstances demand). As the company matures, the schedule may ease so that meetings are held every two months. While some mature companies have meetings on a quarterly basis, meeting that infrequently can make it hard for directors to maintain sufficient contact with the company to fully live up to their fiduciary duties as directors. This is especially true given the new rules and regulations and heightened expectations facing corporate directors.

Regardless of the formal board meeting schedule, it is essential that the President and/or CEO interact with the directors between board meetings for ongoing counsel on the issues facing the company. Calling on the experience and expertise of board members individually cannot be to take any sort of formal action by the Board as a corporate body, which may only be done at formal board meetings in accordance with the bylaws. Do not be afraid to discuss difficult issues with the board. It exists specifically to offer guidance and direction.

Advisory Boards

Another way to gain valuable advice is to recruit one or more boards of advisers. An advisory board can be a group of business and technical experts who provide occasional advice to management but who are not full-time employees of the company. Advisers generally do not have to commit the same amount of time to the company as do directors; nor do they bear the same legal responsibilities. As a result, it is often possible to get talented people involved with the company who could not otherwise make the commitments necessary to be a member of the board of directors.



Entrepreneurs use advisory boards in many ways, but the ultimate goal is to get ideas, advice, and direction from experts. Advisory board members may be scientific or technology experts, bankers, marketing consultants, industry experts, financial consultants, customers, or other established entrepreneurs. They may meet monthly, quarterly, or as needed by the entrepreneur. They are usually compensated in some way, although compensation is generally relatively small—a meal during the meeting, a small payment per meeting, or in some cases, equity in the company. Few advisers join an advisory board for the money. Many established entrepreneurs attribute their success to the help that they received from mentors and advisers, and they feel that serving on an advisory board allows them to give back by helping someone else.

Reality Check ✓

The Sarbanes-Oxley Act of 2002 set stringent standards for a public company's directors or officers by imposing fines and even prison terms for corporate wrongdoing. In addition to these measures, Sarbanes-Oxley also raised the likelihood that civil damage claims will be brought against public company directors and officers. While most early-stage companies are not public, the standards set by Sarbanes-Oxley in the public arena will likely begin to find their way into the private arena as well. This means you should take seriously the choice of people to be on the board of directors, and that those who accept a seat on a board of directors must be fully apprised of expectations and responsibilities.