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Some People You Don't Want on Your Board of Directors

by Jack Roseman, Contributing Columnist

Selection and proper use of a board of directors is one of the first and most important issues facing an entrepreneur. At many of the larger corporations, boards become rubber stamps for management. This isn't good for those companies, but for a startup, a board without backbone can be fatal. You genuinely need smart advisors, savvy in your industry and willing to share their candid opinion and ask you hard questions.

Probably the most common mistake entrepreneurs make in picking board members is including executive-level employees and/or their paid professional advisors. Neither one is a good idea. I feel strongly that you should not have your lawyer on the board. You should not have your banker on the board. You should not have your accountant on the board. Why?

Let's assume you're a startup company and you meet every other month. That means

six times a year. So that means that six times a year, on issues that will shape the company's success or failure, this person who works for you has a vote equal to yours. And yet you are paying them. Their livelihood hinges on the company's cash flow and stability. Not only is there a built-in conflict of interest, but all of the sudden this employee or contractor is put in the position of being equal to you when in fact they are not. It just doesn't make sense to me.

And there is another reason. How often do you think this person is going to differ with you in front of the other board members? Should they differ with you in front of the other board members? I don't think so.

Putting outside professional advisors on the board has its own problems. Let's take lawyers first. Entrepreneurs are risk takers. Growing a business is full of risk. They say good lawyers

never ask a question unless they already know the answer. Does that sound like somebody with a high tolerance for risk? And good lawyers have to be suspicious. Entrepreneurs should be suspicious too, but if they were as circumspect as lawyers, I doubt that many businesses would have ever gotten started.

Putting paid professionals on your board also cuts off competition for that whole professional area. If your lawyer is a board member, are you really going to have a discussion at the board level of which is the best law firm to represent your company? And that goes for accounting and banking as well. A lot of entrepreneurs feel that this is a way to save money and build a relationship with these people, but I say a board seat is too important a position for that.

Along those lines, be careful how many money people you put on your board. I don't have a problem having a

venture capitalist on the board - and this will probably be a requirement for striking a deal with them. What makes this palatable is that you both know where the other is coming from. There are no hidden agendas. He or she is looking out for the people who put money into the business. And that's fine. But you don't want everybody looking out for that, as opposed to looking out for what's in the best interest of the company.

I've been on a board where everybody but me represented the financial interests, and that was a disaster. For example, if it's time to go out for a second round of financing, investors have a conflict. Suppose you can sell your stock for \$10 or \$20 a share. It's best for the company if you get the \$20, but which one do you think this potential investor is going to vote for?

The other danger with investors as board members is that most have never really run a company, and yet they really believe they know best how to do just that. They have helped run companies from the periphery, but sometimes it's very dangerous to know things from the periphery.

But it's also important to have points of view other than your own represented. So you do not want to recruit a homogeneous group any more than you want a bunch of "yes" directors. You want people who have different views of life but understand what you are doing and sincerely want you to

succeed. Next month I'll offer suggestions on what qualities I consider ideal in a director and where to find such people.

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