

Don't Bore the Board of Directors - (How To Use A Board Effectively)

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STARTING UP: *Practical Advice for Entrepreneurs*

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Last month I explained why you need a Board of Directors, how to select directors and how to compensate them. Now that you have a great Board what exactly do you do with it? Boards, being composed of people, come in a variety of sizes and shapes. Not surprisingly there is no one "recipe" for effective use of a Board, but here are some ideas and observations.

Board Size. Size and the resulting group dynamics will dictate much of how you deal with the Board. Most entrepreneurial private companies I see have Boards comprised of 3 to 5 Directors. Some have advisory boards (e.g. a Science Advisory Board) which are larger but the legal Board usually does not exceed 5 in number and rarely is greater than 7. Larger public companies usually have larger Boards, partly because of the need to have specialized committees (e.g., Audit Committee, Compensation Committee). As with Congress, in larger Boards much of the important work occurs in the committees.

Assuming you have a manageable size Board of Directors, what do you do with it? First, you should try to establish a working relationship with each individual Director. As mentioned last month, you should have a "job description" for the Directors you choose. If you have found a Director who meets the specific job description the result will be a set of on-going interactions both outside and inside the Board of Directors Meeting.

Outside of the Board Meeting. In recruiting a Director you should have worked out the Director's level of activity and attention both in terms of the number of Board Meetings expected and, if the "job description" includes it, interactions outside of the Board room. These outside interactions with individual Directors are your opportunity to obtain individual advice and assistance. Establish a format which works for the individual Director and for you- a weekly breakfast, a monthly lunch, twice a week telephone call, frequent email, a tennis match followed by a half hour discussion by the juice bar-whatever works.

The Board Meeting. The strength of the Board of Directors system comes from the collective action of experienced and informed people. It follows that the Board Meeting has to be a combination of information transfer processes and resulting decision making. Board Meetings rarely last all day unless some major event is being considered such as an acquisition. For a normal Board Meeting plan on a minimum of 1 1/2 to 2 hours, more typically 3 to 4 hours.

Information. Because time is limited, you should "offload" as much of the background information transfer process as possible so that the Meeting can focus more on decision

making. The "Board Package" is the main method of off-line information transfer and should be distributed to the Board with enough time for the Directors to be able to read and digest the material but not so far in advance that the information is out of date. Plan on getting the materials to the Directors about 3 days before the Meeting.

A typical package will contain the following: An Agenda, Draft Minutes of the Last Meeting, Financial Reports with Management Commentary, Other Relevant Information. Be sure to keep the Directors informed of general developments between meetings- e.g., include the Directors on press release lists, product mailings etc. It can be very annoying to a Director to find out something about the Company from a source outside of the Company.

When and Where to Meet. The quality Directors you want are going to be very busy people so you need to get on their calendars. Schedule meetings as far ahead as possible. Early stage growth companies may have Board Meeting once a month. As the Company becomes more established the number of Board Meetings will tend to decrease to 6 or 4 per year with perhaps more committee work filling in the gaps. Meeting dates often coincide with financial reporting periods (e.g., 15 to 20 days after the end of a month or quarter) or major industry events (e.g., after the major trade show). Special meetings will be needed to approve financings. The time of day for the meeting will depend on whether your Directors are all locally based or have to travel and whether you and they are "morning" or "afternoon" people. I find morning meetings, like morning doctor visits, work best because people tend to get behind schedule as the day progresses. Most meetings are held at the Company's facilities so make sure the place looks presentable and that your people are aware that the "suits" will be there.

The Agenda. You will have to experiment to find the right formula for the Meeting itself, but use an Agenda to keep things on track and moving. A typical Agenda will include: Approval of Past Minutes, President's Report summarizing and highlighting (not duplicating) developments reported in the Board Package, Operations/Marketing Report, Financial Report, Old Business and New Business. The "Operations/Marketing Report" segment varies from company to company. For example, one of my software clients is working on its first product release and the Board spends a good deal of time on engineering, product features and market positioning issues. Another client is facing manufacturing and distribution problems so the Board has been focusing on those issues. In each case the Board hears reports from middle to upper middle managers, which allows the Board to get information that is relatively unfiltered by senior management and keeps the lower level managers on their toes.

The Legal Stuff. Be sure to allow enough time for New Business or the "legal stuff like approval of stock options etc. Many companies put these at the end of the Agenda, which can be a problem if the meeting is running late and people have to leave. Some Boards like to see specifically worded legal resolutions, in which case make sure they have been prepared, while others will approve items in general terms leaving it to the lawyers to draft up the minutes. I recommend previously drafted resolutions if the issues involved are complex- it avoids confusion as to what was intended.

DISCLAIMER: This column is designed to give the reader an overview of a topic and is not intended to constitute legal advice as to any particular fact situation. In addition, laws and their interpretations change over time and the contents of this column may not reflect these changes. The reader is advised to consult competent legal counsel as to his or her particular situation.