Catching Stars: Recruiting Advisors and Directors for Startups and Early-Stage Companies

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There are very few insurmountable barriers to entry or formidable competitive advantages that can successfully deter determined and/or well-capitalized challengers from aggressively competing with startups (seed) and early-stage companies.[1] In the absence of steep technological barriers or overwhelming competitive advantages, startups and early-stage companies often seek to fashion moats by developing proprietary information, systems and processes. The primary building blocks of these moats are extraordinary talent, exemplary operational excellence, and an employee-centered culture. Startups and early-stage companies maximize their chances of market success by coupling these building blocks with an uncompromising and laser-like focus to iterate and rapidly develop new, revitalized or uniquely integrated customer-focused products.

Often overlooked as a critical ingredient in a successful venture's secret sauce is the role of dedicated, experienced, and motivated advisors and directors who have agreed to aid a company by actively serving in these consultative roles. When successfully recruited, these individuals can be expected to apply their knowledge, experiences, and insights to provide invaluable guidance and business advice to the company.

In contrast to typical advisors and directors, star advisors and directors are unique. Their market knowledge and access to networks in domains relevant to a company's current and/or future business interests can provide a disproportionate ("unfair") advantage in terms of their potential contribution to a venture. While personal interventions of this type can be meaningful for all companies, they are especially critical for startups and early-stage ventures. Companies in early stages of development often find themselves operating with short fuses and few lifelines

[1] For this article we will consider the role of advisors and directors as similar issues for startups (seed stage) and early stage companies.

reflective of their modest funding, limited outside resources, insufficient technical knowhow, and incomplete teams. Star advisors and directors, by virtue of their willingness to mine their Rolodexes and leverage their relationships to advocate for the interests of the company, can gain access to hard-to-reach and well-connected individuals, thereby providing information, support and resources to a company at critical times. Often it is the personal engagement by star advisors and directors at business tipping points that will determine whether or not startups and early-stage companies survive or fail.

The primary purpose of this article will be to illustrate the benefits of engaging the services of star advisors and directors. We will provide a structure and present guidance on recruiting the "right" people--both stars and non-stars--to serve. A key premise of this article is that recruiting star advisors and directors, especially by startups and early-stage companies, is a qualitatively different task from hiring traditional directors and advisors. While only briefly mentioned in this article, it should also be noted that the recruiting process for stars has parallels in the equally important task of identifying and hiring A-player ("10X") employees early in their careers—typically when employee motivation and technical capabilities are valued far more highly than work experience and broad connections.

We will start off by providing several examples of how the "right" advisors and directors have provided extraordinary, if not existential, value to startups and early-stage companies, helping them continue on the path of creating potentially significant financial returns for their investors and employees. Not surprisingly, some of the principles, concepts, and models we will be presenting are also applicable to large enterprises. In that regard, as appropriate, we will also provide some examples from well-established companies. Finally, we will address some procedural issues related to "star management" to insure that the significant time and effort invested to recruit these individuals as advisors and board members will translate into extraordinary value consistent with their capabilities and extensive networks.

Star Advisors and Directors Provide Value: Examples

The mission of Neverware, a startup founded by a recent college graduate from the Wharton School of The University of Pennsylvania, was to provide elementary and high school students in underperforming public schools with in-school access to high-speed Internet performance. The founder, Jonathan Hefter, designed and built a "Juicebox" that both literally and figuratively "sat" between the servers of Boards of Education and the machines currently being used in school computer labs. Neverware's value equation was that their technology obviated the need for schools to regularly purchase large numbers of new computers. The company's technology generated state-of-the-art performance with the schools' existing outdated machines at less than one-third the cost of new machines. Moreover, by employing cloud-based remote monitoring, the newly configured computers required minimal local (on-site) IT support.

By virtue of their novel technology, the company successfully booked multi-year contracts with credit-worthy public schools and demonstrated a strong growth rate. Yet, despite their sales success, multiple large computer manufacturers had rejected their repeated requests for a line of credit to purchase servers that they could convert to Juiceboxes. Even though they had achieved some venture funding, Neverware's management was repeatedly informed that they were simply "too small and too early" to obtain the necessary credit. The startup team was fearful that their inability to acquire the servers necessary to deliver on pre-sold contracts would destroy their credibility and cripple their new and promising company.

A telephone call from one of the company's star advisors/investors to a long-time friend, the General Manager of the Small Business Division of Dell, explained the problem and described Neverware's breakthrough technology. Following that call, the CEO was put in contact with the "right people" and the company was quickly approved for a line of credit enabling it to continue its rapid growth trajectory. Neverware subsequently raised a Series A round led by a well-known venture fund in the education space, ReThink Education. The financial support of ReThink

Education also enabled the Neverware to address the rather sudden evolution of the school market to low-cost Chromebooks and the company was able to raise additional funding from Google to pivot and begin servicing both school and commercial markets as a cloud-based enterprise software company. Since its October 2015 launch, Neverware's CloudReady™ software has been installed on more than 500,000 devices around the world.

When Aaron Patzer, the CEO of Mint.com, went live with his consumer-oriented financial services website he was unexpectedly overwhelmed by demand. He needed additional servers immediately. A call was placed by one of his investors and star directors describing the situation to the office of Jeff Bezos, CEO of Amazon, and the company providing his web services. This intervention promptly led to a bypassing of the typical corporate decision making hierarchy and a significant increase in server availability, thereby avoiding disappointing thousands of prospective new customers.

Securly, a San Francisco-based startup formed by two former employees of McAfee, developed a product to provide classroom teachers with the ability to monitor and manage in real time the Internet content being accessed in class by elementary and high school students. Distribution of the company's "white hat-black hat" technology had been swift with 265,000 students worldwide quickly adopting it. However, raising expansion capital proved to be difficult.

The founders, highly skilled technologists, were repeatedly challenged to find a way to succinctly present their current and future business models (including expanding their in-school sales efforts to the parent-controlled at-home market) in a simple and logical format. Multiple meeting by the founders with venture capitalists had not gone well. Two of the company's investors/advisors, both of whom had been both founders and funders of startups, offered to help by providing detailed critiques of every page of the company's pitch deck. To inform this effort they contacted their network of fellow venture capitalists and education specialists to gain first-hand intelligence on the issues that had been raised in the company's

"bad meetings." Multiple revisions led to a new pitch deck that was more direct in focusing on the company's great potential in both realms, at school and in home. Even though the company faced reduced venture capital interest due to secular headwinds in the sector, funds were eventually raised and the company has since prospered.

Sometimes even star advisors and directors do not move quickly enough to save a company. First Flavor was a promising venture-supported university-based technology startup founded to market a novel, quick-dissolving filmstrip that when placed on a consumer's tongue was able to replicate the flavor of almost any food. The CEO was a successful entrepreneur but new to the consumer products industry. He was committed to a strategy of growing the business by promoting the strips to large companies as an inexpensive and low-risk alternative system for assessing the marketability of both new products and established product reformulations (typically, cost-reductions).

Multiple sales efforts to convince large companies to adopt this innovative filmstrip technology into their testing programs were unsuccessful. The feedback received was that these companies already had standardized testing procedures, that these well-entrenched protocols were developed and well-managed by their R&D and marketing research departments, and that the replacement of their SOPs (standard operating procedures) would be unlikely. This was their position even though their legacy testing systems were slow, costly and required significant technical resources. In essence, these companies did not perceive that they had a problem that was big enough to motivate them to risk investing in a new and unproven technology to replace their well-accepted systems.

The board members had relied on the founding CEO to develop the business strategy and the marketing and sales models. They were late to recognize that he was not sufficiently versed in the standardized product testing protocols of large consumer product companies. Star board members decided to personally contact acquaintances and former customers who were now senior level executives in

consumer products companies. They learned that while the filmstrips were recognized as innovative, convenient and less expensive alternatives to traditional testing procedures widespread adoption would require demonstrating superior in-lab performance and in-market consumer validity relative to their existing testing protocols. And, that these tests would require multiple well-designed, head-to-head assessments across multiple products.

As a result of these insights, the board determined that by the time the appropriate testing protocols could be authorized, funded, and executed, a business development/sales team well-versed in both the standard testing protocols of large companies and the new strips hired and trained, the industry contacts established, and the multi-level decision corporate making process engaged, the company would run out of money. Shortly thereafter the First Flavor venture was shut down.

Sometimes even experienced, long-time CEOs in large public companies will choose to disregard or ignore the advice of star directors and advisors. In 1992, with the aid of some middle managers, Ben Rosen, a star director, investor and the Board Chairman of Compaq Computers, conducted his own due diligence on technology market trends at the annual industry trade show in Las Vegas. He determined that Compaq could significantly reduce the costs of its computers if management was willing to use less expensive but equally effective standardized parts. Rod Canion, the founder and long-time CEO of Compaq Computer, had rejected Rosen's less expensive sourcing option, insisting that the "q" in Compaq stood for quality which to him meant avoiding any low cost alternative parts.

Rosen feared a quickening of the continuing erosion of Compaq's sales to cheaper machines (clones) if the company remained on its current high-cost path. As an early star board member and investor in Osborne Computer, he had "seen this movie before." He watched that company's sales first skyrocket and then fizzle as it continued along a path of an inordinately slow response to market changes. He

was determined not to let that happen again. With the board's support, Rosen fired Canion.

In 1999 Rosen reprised his role as a CEO executioner. At that time, the Compaq board had reached the conclusion that the company needed to evolve from being essentially a hardware company to becoming more like the "new" IBM, an integrated services provider transitioning into the developing technology world order, by leading the movement to the Internet. Eckhard Pfeiffer was an operationally focused CEO whom Rosen had elevated to replace Canion. Pfeiffer had been pushing back against bringing in new executives who understood this growing trend and continued ignoring the board's direction to find a successor. After watching Compaq's stock price erode as a result of missing revenue and/or earnings over a series of quarters, Rosen fired Pfeiffer.

Even CEOs who have worked for decades in an industry can benefit from "out-of-the box" recommendations from advisors and directors. In 2004, Stonemor Partners, a private company founded as a leverage buyout, was the first cemetery and funeral home ("deathcare") company to be publicly listed as a Master Limited Partnership (MLP). MLPs are unique financial structures that offer tax-advantaged status and are typically utilized in the oil and gas industry. Lehman Brothers enlisted some of its best financial engineers to help maximize the likelihood that this non-traditional deathcare entity would qualify as a public MLP.

Once public, one of the company directors at a Stonemor board meeting suggested that the company apply for a patent for its unique financial structure. After some debate, the CEO and full board came to recognize the value of filing an application with the Patent Office. It was noted that with continuous upgrading, improvements, and extensions, the patent application and review process could be expected to take years to resolve, thereby serving as a moat against competition. Stonemor's deathcare competitors would be uncertain whether the pending patent would be granted and, therefore, less likely to expose themselves to potential litigation by

copying Stonemor's financially advantageous structure. The director's idea for filing a patent application was based on a marketing strategy of creating fear, uncertainty and doubt ("FUD"). The idea had come from a morning breakfast meeting the prior day with an early-stage venture capitalist who had mentioned that several of his startup companies had filed for patents as barriers to discourage competition, even though they did not expect them to be granted.

This pro-active action proved prescient. Years later, Richard Verdi, a Ladenburg Thalmann equity research analyst covering the company, cited the potential patent as a competitive advantage for the company.

<u>The "Right" Advisors and Directors for Startups and Early-Stage Ventures</u>

The task of recruiting motivated, value-add advisors and directors can be time consuming and difficult, especially for first time entrepreneurs. To address this challenge, it is imperative that all stakeholders, including investors, founders, and managers be fully vested in the task of identifying and recruiting the "right" people. After all, it is in the interest of all stakeholders to help increase the likelihood of creating and realizing company value.

Given the "unfair advantage" of having the right (even if not star-level) advisors and directors one would expect that all first-time CEOs and even the majority of experienced CEOs would recognize the merit of incorporating input from experienced advisors and directors into their decision-making process. From a practical perspective, this behavior is especially likely if a CEO fears that simply ignoring meaningful advice might lead to a hostile board-level confrontation, potentially raising the issue of the their own longevity as stewards of the enterprise.

How does an entrepreneur identify and entice the "right" advisors and directors, be they stars or not, to work with their startup or early-stage venture?

At the pre-institutional friends and family funding stage, especially for a first time

entrepreneur without a track record, attracting the "right" value-add advisors who are not investors can pose a daunting challenge--one that can demand expending an extraordinary amount of time and effort to bring to a successful resolution. We have observed that recruiting high profile individuals requires a finely honed sales presentation, one analogous to the typical elevator pitch they diligently prepare for presentation to potential investors.

In the case of early-stage companies approaching potential advisors, "the ask" can be even more challenging since it is a request for assistance often characterized in terms of an uncertain time obligation and an unknown financial outcome. New entrepreneurs are not always fully cognizant of the fact that they are seeking access to an advisor's most precious resources: time, knowledge, (and, for stars) network. Furthermore, it is likely that their request for access to those resources will occur at unplanned times, under challenging circumstances, and with short fuses available for their resolution. Given this scenario, entrepreneurs require developing a clear understanding of the magnitude of time and effort they are soliciting.

A pitch positioning the company to a prospective advisor or director should follow the same basic format used by an entrepreneur in soliciting potential investors. Its content should focus on why they are creating this company, what product/service they are offering, and how they will create it (Business Model), market it (Marketing Model), and make money (Revenue Model). The entrepreneur should also be able to clearly articulate the businesses' capabilities, core competencies, competitive advantages, and competitive disadvantages. This information should be highlighted by the potential qualitative and quantitative benefits that will be realized by an advisor or director ("what is in it for me?") as a result of agreeing to work with the company.

Providing compensation in the form of advisory shares or partnership interests can help support an entrepreneur's case for recruitment. However, unless the entrepreneur is a successful serial entrepreneur, it is unlikely that highly sought

after advisers and directors will consider the value of that compensation commensurate with what they might be more certain to earn in their own ventures or other business activities. For this reason, the entrepreneur's pitch must be well rehearsed, highly compelling, and aligned with potential advisors' and directors' motivations and interests (see below).

Not surprisingly, recruiting advisors and directors and especially stars is easier post institutional investment. By that time, along with the external validation provided by funding by "smart money," a company should have a structure for a Board of Directors and/or Board of Advisors in place or at least in formation. Meaningful compensation with some degree of expectation that there will be a realization of value can then be provided to advisors and directors in the form of options, profits interests, and/or direct financial incentives.

Advisor and Director Motivations

In developing a sales pitch to attract advisors and directors, founding entrepreneurs would be wise to seek to understand the unique interests, capabilities and motivations of the individuals being recruited and to tailor their solicitations accordingly. Careful and well thought out preparation and idiosyncratically crafted approaches are critical for approaching each of the two types of prospects, those who may be investing their own money in the company (or that of a fund they represent) and those who are not and are being compensated explicitly for their time, experience, knowledge, and/or contacts.

At least seven basic types of intrinsic and extrinsic motivations can be expected to underlie a prospective advisor or director's decision to accept or reject an offer to serve. While one or more of the seven can apply to any given advisor or director, the first five listed below are generally the most prevalent in seed and early-stage startups.

1. Founder obligation or friendship

Agreeing to serve is likely more a function of a debt or loyalty to the entrepreneur than the result of a detailed analysis and formal assessment of the viability of the business. In this case, an entrepreneur's solicitations to potential advisers and directors can be expected to rely on personal relationships ("good-will capital").

2. Interest in the venture, possibly as an extension of their own academic expertise and/or business activities

Many early-stage university-based ventures take advantage of the time and advice freely offered by professors to students. Sometimes these academicians will be motivated to serve as advisors and directors since they will consider a startup relevant to their own research—their primary medium for achieving academic notoriety and professional advancement. For example, Professor David Bell, a professor at Wharton, recently wrote a book on eCommerce largely based on research insights gained from startup ventures initiated by Wharton students. As a further incentive, academic advisory positions with current and former students can occasionally turn out to be extremely lucrative (as in the cases of Milo, Warby Parker, and BazaarVoice).

Senior executives may view their involvement with a startup or early stage company as enhancing their business skills by expanding their knowledge base in less familiar contexts and industries, some of which may be more "cutting edge" than in their own more "traditional" companies. In any case, this experience will enable them to sit on the other side of the table and gain a better appreciation of how they may want to engage with their own advisors and directors.

3. Love of/benefit to society based on the company's mission

Socially minded advisors and directors can be recruited for startups and established companies that encompass altruistic or environmental missions. However, even if a company has not been formed as a non-profit social entrepreneurship venture it can still be committed to a social mission, such as donating some of its future profits or the time of some of its executives to

worthwhile causes. This commitment can assist a CEO in recruiting socially minded advisors and directors (as well as employees). Warby Parker adopted this corporate strategy by donating a pair of eyeglasses for each pair sold.

4. Building up their credentials for other endeavors

Some individuals are motivated to advance their own professional standing. Being associated with a successful startup or early-stage venture can provide an advisor or director not only with interesting fodder for cocktail party talk, but also access to other opportunities and contacts reflective of their newly enhanced business status.

5. Getting in the game/for personal gratification

Simply wanting to be where the action is and experiencing the excitement of being associated with a "hot" venture is sufficient to entice some individuals to serve as advisors and directors. It is likely that any financial remuneration offered by the company to these individuals would be considered as relatively inconsequential and primarily viewed as providing an affirmation that their value to the enterprise is being recognized.

6. Protecting/enhancing their own investment (investors)

Individual investors, especially if they consider the magnitude of their financial investment (potentially) significant, are likely to be motivated to serve as advisors and directors. Providing an opportunity to monitor and possibly contribute to enhancing the value of their investment can be a very powerful motivator for an investor to serve as a company advisor and/or director. Professional investment funds can be expected to require a directorship (or at least a board observer role) in return for their financial commitment to the company.

7. Gaining compensation (professional advisors and directors)

Some advisors and directors serve primarily for current compensation. In the case of startups and early-stage companies, this tends to be rare due to the importance of controlling their burn rate. More typically, advisors and directors in early-stage companies and startups are rewarded with stock, options, or partnership interests, depending on the corporate structure. Standard ranges for remunerations are discussed below.

As startups and venture companies grow and enter the business mainstream, significant compensation for advisors and directors can be beneficial to the companies by enabling them to recruit experienced professionals who can help it grow and flourish.

Fiduciary Responsibilities and Independence

By engaging advisors a company can acquire support, guidance, and direction reflective of diverse areas of expertise without incurring the obligations and liabilities of employing directors. From a judicial perspective, advisors get a "free ride" and do not bear similar fiduciary responsibilities as directors.

Directors are primarily differentiated on the basis of whether or not they are considered independent. With private companies, this distinction is of much less importance than with public companies where independent directors must meet standards and reporting requirements that are defined and enforced by government regulators. The definition of independence in public companies varies from country to country, business type to business type, and even among listing exchanges with a single country. In the U.S. the Securities and Exchange Commission (SEC) sets and enforces the rules.

Independent company directors are generally recruited to provide a perspective to insure that critical and potentially conflicting board level issues are addressed from the point of view of all shareholders, not just investors or management, neither of whom, by definition, can be independent. An independent viewpoint is critical

when decisions that disproportionately affect a sub-class of shareholders need to be considered. For example, a business decision related to the allocation of additional equity to a sub-group of employees should be addressed from the perspective of the company as a whole, rather than solely from the perspective of the owners of any single asset class of stock.

Venture or private equity funding often leads to the necessity of recruiting independent board members. Individuals recruited to serve in this capacity tend to be highly respected and well known with specific experience, skills, and knowledge than can provide significant value to the company. From the perspective of top management, it is important that they have a formal say, if not a veto, on who fills these positions. They should confirm that these individuals are easy to work with and have sufficient experience with growing companies of their comparable size, preferably in their industry.

The Experience-Skills (ES) Matrix for Advisors and Directors

Before initiating a search process for advisors and directors, it is advantageous for all key company stakeholders to take a formal inventory of the skills and experiences that they believe will be needed to enhance the performance of the venture and increase its likelihood of success. Exhibit 1 shows such a matrix. It is important to recognize that this is a sample matrix and that a specific company in a given industry may need to adjust the column headings and row descriptions to be more reflective of its individual situation and domain. While not every empty cell in the matrix requires an entry, the recognition of a void can help company management identify the existence of a gap that a part-timer, consultant, or professional services provider could fill on an as needed basis.

Exhibit 1
Experience-Skills (ES) Matrix
Advisor and Directors

Primary Skill Sets	Experience: Relevant Domain Knowledge	Relevant Technology Knowledge	Start up Entrepreneurial Experience	Exit and M&A Experience	Extensive Network and Connections "Stars"
General Management					
Research and Development					
Sales and Marketing					
Technology and Internet					
Accounting and Finance					
HR and Recruiting					
Operations and Logistics					
Manufacturing and Sourcing					
Governance/ Legal issues					

The selection process should recognize that there are three kinds of advisors and directors: (1) Subject matter experts, typically academics or industry experts; (2) general advisors who are skilled in areas critical to the business; and (3) investors, ranging from friends and family to sophisticated venture angels, super angels, venture capitalists, and private equity/hedge fund managers. Each kind of advisor and director may serve in single or multiple roles (cells) based upon their experiences and skills.

An ES Advisor and Director Matrix demonstrates how the three kinds of advisors and directors can be categorized into areas of corporate need. As noted above, recruiting the best people (and especially stars) to fill in the boxes identified as critical to success should be a corporate priority and likely will require a significant effort by all of the key company stakeholders.

While the exact definitions of the columns and rows in the matrix may vary for a given business and industry, it is important that a CEO and any other key stakeholders go through a formal exercise to develop a company matrix as part of the process of creating their human resources roadmap. It is highly likely that the decisions regarding advisors and directors made early in a company's evolution will have a significant and disproportionate impact on its future. Thus, the individuals involved in this process should consider seeking outside counsel and advice from experienced entrepreneurs and investors when developing the company's matrix.

It can be very difficult and especially painful for both governance and emotional reasons to remove non-contributing directors and even advisors from boards if they prove to be disruptive, dysfunctional or simply unable to provide the anticipated value to the enterprise. In particular, a CEO should pay particular attention to the personality, communication style and motivation to serve for each candidate advisor and director being considered to be sure that each will mesh well with the company culture.

Sometimes an individual's ability and motivation to contribute as an advisor or director will shift. Frequently this evolution is intertwined with the development of the company. This situation is most likely to occur when a business looks like it will fail ("abandoning a sinking ship") or become a big hit (the intoxicating "smell of money"). The contacts and network that a company will best serve a company, as reflected by the experience and skills of the star advisors and directors, may also be expected to evolve as a venture grows from early seed to institutional funding and

matures into a full-fledged company. To the extent possible, both current and anticipated company needs as it evolves through its lifestages should be considered when filling (or intentionally leaving vacant) slots in the matrix.

All advisors and directors should be explicitly informed when they are recruited that as the business develops changes may have to be made to the advisory/director cadre to provide new skills that will be more in line with the company's evolving needs. Informing advisors and directors early on that their appointments will be periodically reviewed on a formal basis will facilitate any future transition process.

<u>Mentors</u>

In addition to advisors and directors, entrepreneurs often have mentors (see Exhibit 2). While on some occasions the same individuals may serve in multiple roles, mentors should be conceptually differentiated from advisors and directors. Mentors are individuals who have the trust of the entrepreneur and who provide counsel on multiple matters including personal, family, and business issues. They tend to be personal friends, friends of the family, relatives, teachers or business acquaintances. Most often they have informal roles, often providing counsel on an ad hoc basis. Regardless of the success or lack of success of the venture, it can be expected that mentors, as trusted, long-time confidants, will continue to serve as personal counselors and sounding boards for the founding entrepreneurs.

Exhibit 2

Mentors, Advisors and Directors

	Pre-Institutional Funding Concept and Early-Stage			Post-Institutional Funding	
	Friends and Family	Seed	Angel/Super Angel	Series A, B, C…	Public
Mentors	X	X	X	X	X
Advisors	X	X	X	X	X
Advisory Board			X	X	X
Board of Directors				X	X

<u>The Advisor and Director Recruitment Process</u>

Every startup and early-stage venture should have advisors, if for no other reason that it reinforces an image of corporate stability and credibility, perceptions of which will eventually help them to raise funds. While some early ventures may seek the additional organizational discipline provided by a board of directors, most will wait until they have achieved sufficient scale and wish to raise institutional capital before implementing that additional governance structure.

Recruiting the "right" advisors and directors can be a challenging task, especially for first time entrepreneurs. With that in mind, the following seven suggestions are offered to help startups and early stage companies accomplish that goal.

1. Finding your first advisors

With startups and early-stage ventures it is likely that the task of identifying and recruiting the company's initial advisors will fall on the shoulders of the CEO and

founders. For first time entrepreneurs, initiating this search can be an especially daunting task and relying on guidance from friends, family members, mentors, and other entrepreneurs is highly recommended.

Startups originating in colleges or universities have the advantage of being able to solicit teachers and professors, some of whom are likely to agree to serve reflective of their educational mission, even if they have low expectations of personal financial gain or the venture's scope are outside of their main areas of research. Alumni can also be a good source of advisors, especially if the CEO/founders can identify common areas of experience and interest (such as membership in the same campus groups or programs). Many colleges and universities also host startup programs and events where other college entrepreneurs can provide referrals for good advisors.

Multiple law and accounting firms, in anticipation of potential future business, are willing to provide services to startups and early stage companies inexpensively or even for free. Once engaged with these professional service providers, first time entrepreneurs should be able to find or be referred to competent individuals who are willing to become engaged as company advisors.

Many city and state governments also support startups. Attending local meet-ups and similar startup-focused events can usually lead to recommendations for advisors from other attendees. A growing number of cities also host private incubators and accelerators that as part of their programs provide mentors and advisors to their companies.

Even if a venture chooses not to enroll in any startup programs, they can scrape incubator and accelerator websites and search for experienced advisors outside their network who might be willing to work with them. Well-crafted solicitations to narrowly targeted individuals on Linkedin also can yield potential advisors and mentors. It is helpful that if included in your pitch you can reference a blog you

have posted or other content that your "target" might find of interest. Other potential sources for advisors in the U.S. include Dorm Room Fund, a college student targeted fund that lists the names and positions of individuals willing to serve their startups as advisors, SCORE with over 300 chapters, and Small Business Development Centers (SBDCs), located in major business centers across the country.

Serial entrepreneurs, in addition to the resources noted above, can be expected to engage investors, advisors and directors involved in their prior ventures either to serve again as advisors themselves or to identify other individuals that might be willing to become engaged.

2. Source broadly and solicit referrals from multiple disparate sources and geographies

While approaching known local individuals at the start of a search is logical and potentially fruitful, we suggest that it can be worthwhile to cast a wider net. One would expect that the more qualified prospects seriously considered the greater the likelihood of turning up candidates that might be ideal for the role(s) the company needs filled.

This broader approach does not suggest avoiding considering the usual pool of suspects. Rather, by conveniently restricting the search process solely to known, local, readily available individuals a company may run the risk of missing a unique opportunity to acquire fresh and innovative thinking and resources.

3. Be prepared. Take the recruiting process as seriously as you take building your executive team

CEOs and other founders typically spend considerable time and effort screening and hiring their team members. Particularly in the case of startups and early-stage companies, there is a strong emphasis on identifying and hiring only "A" players since there is the recognition that the success of the company is highly dependent

on a few key people and that there is little room for hiring missteps. Just as it has been claimed that "A" players are worth 10X "non-A" players to a startup, a similar calculus can be made for all advisors and directors, and not only for stars. In effect, the recruitment of advisors and directors should receive the same level of planning, effort and focus as hiring top employees.

4. Interview face to face. Spend as much meaningful time as you can with each candidate

Telephonic or Skype interviews with candidates as the sole method of interviewing should be avoided. In this age of sophisticated technology, the assumption is occasionally made that these communication vehicles will provide sufficient information to assess a candidate. With well-known individuals and potentially star advisors and directors who have "busy schedules," virtual interviewing is even more likely to be considered acceptable.

While these methods of communication might suffice as initial screening mechanisms, it is critical for both the CEO and each candidate to determine that their personal "chemistries" and management styles are well matched. This is especially important for directors where it is likely that the CEO will be "married" to them for the duration of the venture. A productive on-going relationship requires mutual trust and confidence. We have found that these can only be achieved with an investment in time allocated to face-to-face contact and a commitment to engage in intensive discussions on the expected opportunities and challenges ahead.

5. Have multiple key stakeholders involved in the process

Not unlike the process of recruiting any senior level person, in preparing for an advisor or director recruiting effort, the CEO, senior management team and any existing advisors and directors should coordinate efforts to formulate a protocol for how the process should be handled in terms of: (1) Formally and clearly describing the opportunity, (2) identifying the aptitudes, skills and experiences

needed, and (3) explicitly defining expectations in terms of performance. Candidates should be evaluated against a template laying out the profile being sought as presented above in the ES Matrix.

The primary challenge in this process is that most CEO's are not trained in effective screening and interviewing techniques, especially when involving high level advisor and board prospects; and, that they need to come to recognize their limitations. To offset this weakness, it is highly desirable, especially for first time entrepreneurs, to engage into the interviewing process current advisors and directors. If none are available he should seek to involve one or more individuals that personally may not want to serve but who have who have experience in advisory roles and/or on boards of similar size early stage companies. Individuals with this type of experience are more likely to recognize the personality traits, motivations and "advisory communication styles" needed to be effective advisors and directors. If no such individuals can be found, CEO's who recognize their limitation in this process should seek counsel on best practices.

As a company grows and takes in outside money, it is likely that not all advisors and directors will be (solely) of the CEO's choosing. Nevertheless, entrepreneurial CEOs are wise to insist on a strong voice, if not a veto, in the director selection process.

6. Get references checks

It is best if reference checks are done not only by the CEO himself but also by current company advisors and/or board members. If a candidate has served or is currently serving as an advisor or a director for another company, then seeking references from individuals who are familiar with them in that capacity (and not only in their "day-jobs" as CEO's, academics, golfing buddies, etc.) should be undertaken. This effort can be particularly valuable if the individual being asked to provide information has not been pre-listed by the candidate and is a "dark" reference.

Having reference checks done by someone whom you trust and who has personal familiarity or even friendship with the referring source is ideal. Likely sources for this kind of information on candidates would be other CEOs, venture fund principals, and co-workers at prior companies. Applying these principles will help minimize the "standard" HR reference check mantra of "acknowledge that the prospect served as an advisor or director, but don't say anything bad that later might be attributed to you and/or might legally expose us."

Finally, utilizing a professional firm in assisting in vetting candidates is much more important in recruiting directors than advisors due to the ease of ignoring/firing advisors relative to directors. As part of their service, these firms will also do reference and background checks

7. Star players want to work with star players

It is important to target and successfully recruit the most challenging prospects as early as possible in a company's history, even if it necessary to work harder, invest more time and/or pay more to get them on-board. The better known and more capable your early advisors and directors and the wider their network (if they are stars) the easier it will be to recruit additional advisors and directors. Success breeds success.

A star advisor or director can help the company not only in the recruiting of other star advisors and directors but also in the process of hiring star employees. It can be flattering and highly motivating for a job candidate you are courting to receive a recruitment call from a well-known individual who is currently serving as an advisor or director for the company. That contact will help validate for that potential new hire the belief that the company "is real" and has a significant opportunity for success.

Non-alignment of Interests

At times, a founder's best interests may not fully align with those of their directors and investors. When Intuit called and Aaron Patzer from Mint.com took the meeting, he said he had no intention of selling the company. According to one of his directors, Aaron claimed he just wanted to hear them out. When he returned to the office, to the chagrin of some of his venture capital partners, he announced he had taken Intuit's offer. To the investors, Mint.com was a potential billion-dollar company; to Aaron, Intuit's offer (reported to be $160-170MM) was a life-changing event. Intuit's offer provided Aaron with the opportunity to eliminate the risk of Mint's failure, take money off of the table and become a venture capital investor himself.

Examples of other scenarios that can lead to non-alignment include dilution, accepting funds from certain venture groups, support for different strategies to achieving sustainable growth and exit opportunities. In all of these cases it is important that there be an open dialogue among key stakeholders and a recognition of who has the ultimate decision making control. As noted above, independent directors can play an important role in these types of discussions.

<u>Managing Advisors and Directors</u>

Fast growing early-stage and start up companies can expect to experience multiple corporate challenges in rapid succession. All advisors and directors will expect the CEO to recognize the importance of their time and act accordingly--addressing challenges with clear agendas and materials carefully prepared and distributed with sufficient time to review prior to calls and meetings.

Requests to star advisors and directors to tap into their networks should be relatively infrequent and only when there is a clear need that is apparent and the situation is perceived to be critical to the company and its mission. When these requests are too frequent they tend to lose their sense of urgency. To the extent CEOs treat all of their board members as stars, they will find it easier to work with the current directors and, if necessary, recruit new ones.

In addition to the "work-phase" of the board, it is important that a CEO orchestrate informal get-togethers, such as dinners the night prior to board meetings, site visits, retreats, etc. to facilitate building camaraderie among the board members, advisers and management. Directors and advisors like to interact with each other and these events can serve to motivate both management and all of its supporters to commit to the company's mission.

Bad Actors

Enhancing the likelihood of a success for a venture requires that all key stakeholders--management, employees, investors, advisors and directors—find ways to reduce sources of friction that can hinder the company from maintaining a rapid growth trajectory. Sources of friction can emanate from any member of the stakeholder groups. Dealing with this issue can be particularly challenging with board members who at one time were major contributors and who are not only no longer adding value but whose continued involvement may be detrimental to the growth of the company.

An extreme case of friction would be a board member who is disruptive and/or not fulfilling their fiduciary responsibilities. In large, more established companies, where there is capable HR assistance, self-assessments and cross-assessments (360 degree reviews) among board members can lead to the identification of any needed behavior change. With startups and early-stage companies, board-related problems need to be uncovered early with decisions made and ameliorative actions executed quickly.

Direct intercession and calling out of non-acceptable performance of board members in a private session by the CEO founders, sometimes with the assistance of other board members may be warranted and necessary. Simply put, there may not be enough time or financial runway to take steps to provide extensive intervention and remediation.

Compensation of Advisors and Directors

Providing advisors and directors with what is perceived to be fair and market-based compensation should be considered an ante or "cost of entry" in the recruiting process. While "star advisors and directors" might ask for slightly different compensation, the guidelines presented below can serve as benchmarks.

In our experience advisors and directors typically receive common stock options that vest quarterly over one to two years with no cliff and a single trigger (an equity acceleration with either a change of control or a change of control and a liquidity event). Occasionally there is a double trigger (a change of control plus termination without cause).

While compensation for advisors and directors can vary widely, some guidelines we have seen employed are as follows: Advisors typically receive .05% to .5%. Super advisors and stars, those whose value is viewed as critical to the company on multiple levels, typically receive .5% to 1.5%. Members of the board of directors tend to be treated as Super Advisors/Stars and receive .5% and up to 1.5% Prior to a Series A funding, advisors often will receive a "making whole" gross up of 30% to 50% to account for dilution from seed investors, Series A investors, option pools, and the like. Advisors recruited after the Series A can expect to receive .1%-.5%.

Whether or not advisers and directors receive compensation, to the extent that they are capable, companies should seek to have them invest their own money in the company. This step should reinforce their interest in having the company succeed.

Final Comments

This article has focused on the time and effort needed to recruit, manage and extract maximum value from advisors and directors. A CEO needs to never lose

sight of the fact that he is in control, that advisors, board members and investors are there to help him and that their money is already in the deal. While getting the "right" star advisors and directors can help grow a business, a CEO should recognize that the only factors that ultimately will validate a business and create value are its revenues, growth trajectory and customer base. In the end, it is all about performance.

Reference

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