

"A Little Advice On Advising: Three Models of Success Will Help"

by Joe Hadzima

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You can't pick up a business magazine these days without reading something about the virtual corporation—the idea of forming "alliances" or "relationships" in order to accomplish business goals—rather than building a big inflexible infrastructure of people.

While that may seem like a novel idea, the fact is that successful entrepreneurs have been doing such things for years, not because it's "faddish," but because they usually have very limited resources at the outset.

An entrepreneur certainly should seek professional advice from his/her accountant and lawyer. Yet, too many fledgling entrepreneurs either don't seek out advice from experienced business people or just don't make effective use of such advice.

There are three basic advisor models that I have seen used successfully: an individual advisor, an advisory board, or a board of directors. Most entrepreneurs ought to avail themselves of all three models.

Individual Advisor.

An individual advisor might be a retired executive, a successful entrepreneur, a former co-worker or even a peer. In most cases that I've observed, the individual advisor's role is centered on a specific task or area of experience or expertise.

For example, Paul, one of my startup clients, has a product that will be sold to the defense and automotive industries. He has established an informal advisor relationship with Kevin, a semi-retired former General Electric executive who has years of experience in dealing with the government and large manufacturers. Over the past year, advisor Kevin has given entrepreneur Paul invaluable advice about pricing, contract strategies and dealing with subcontractors. Paul figures he has saved more than \$50,000 as a result of just one recommendation that Kevin gave in dealing with an injection molder. Kevin also has been able to use his lifelong contacts to give Paul leads to other potential advisors with expertise.

Advisory Boards.

A more formal advisor-board model will enhance the appearance (i.e., increase the valuation) of an entrepreneur's business. In addition, the dynamic interaction of the

various advisors will benefit everyone. That may be obvious, but it came home to me recently in my dealings with Bob, another startup client of mine.

Bob has a great deal of experience in the computer and information industry. He left his job last year to pursue an idea he has that involves the Internet. His partner, Fred, still works at Bob's old employer, but plans to leave next year and join Bob full-time. Bob and Fred have put together a three-person advisory board, consisting of a former business school classmate of Bob's, who is now president of a thriving retail catalog business; a strategy consultant, who has experience in corporate partnering; and me.

Bob and Fred approached each of us with a simple business proposition: "Join our advisory board. We'll meet evenings, pay you a very modest amount, buy you dinner, and share with you our insights into this field. We'll educate you, and each of you will get the opportunity to interact with other experiences and successful people. If it looks like we have a real business opportunity, then we can talk about how we might work together."

The advisory board has met four times for a total of about 20 hours. Everyone has benefited. Bob and Fred have worked hard to pull together information about emerging technologies that will be useful to each advisor in his or her business. We have pressed Bob and Fred to refine their business concept.

Equally important, we all have tried to eliminate "hidden agendas" by being explicit in the group about what we want to get out of the process. The retail catalog president is a complementary, but not competing, business, and figures the information Bob and Fred are assembling would cost quite a bit if purchased from a consultant. The strategy consultant and I similarly value the information and expect that, if things work out, we'll be involved at some point in a professional fee-paying capacity.

Board of Directors.

Every corporation is required to have a board of directors as a matter of law. In some cases, the legal board carries out all or some of the functions of the board of advisors, but the legal board has additional responsibilities and liabilities.

Corporate directors, for example, are accountable to stockholders and have liability under a variety of statutes, ranging from securities laws to employment and environmental matters. For that reason, it's often difficult to convince experienced advisors to become directors.

In addition, the entrepreneur often needs specialized advice over relatively short periods of time. In those cases, an individual advisor relationship or an ad-hoc board for a specific function often works better than trying to add the required expertise to the legal board of directors.

Some Dos and Don'ts.

Whatever advisory model you choose, here are some points to keep in mind:

1. Have a clear idea about what kind of advisor you want.
2. Aim high. If you can articulate a clear reason why you want someone's advice, you'll be surprised at how often even "famous" people will devote time to budding entrepreneurs who have that "spark."
3. Seek people with complementary skills and personalities.
4. Don't think you have to pay a lot. You probably can't afford to pay a good advisor what s/he is worth, but you should be able to entice them to be a part of your vision.
5. Don't waste the advisor's time. Figure out ways they can be a big help to you without requiring them to do a lot of work.
6. Don't use an advisor's name in offering materials or the business plan unless you have asked permission. The advisor may have a good reason why s/he wants to stay anonymous.
7. Don't plan on having the advisor invest money in your venture. Keep the advisor and investor roles separate. An advisor may eventually want to invest after s/he gets to know you and your business, but don't push the issue up front.

We all can use good advice. By being creative and thoughtful, an entrepreneur can get the help s/he needs without spending a lot of money.

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