

# Finding directors for the smaller and early-stage company

*Don't be shy in your recruiting efforts. This can be a fun and educational experience.*

**BY DENNIS CAGAN**

**T**HERE ARE AN ABUNDANCE of issues around forming a board: the risks and benefits, how to form it, and what to do with it after it's formed. However, perhaps the most important consideration ultimately is who the actual directors will be and what value they add to your business.

Of course, the *who* must encompass their individual and collective core skills, experience, what they know and how they communicate it — and your bottom line. Perhaps one of the least appreciated skills needed by directors is how they communicate and work as a team. A room full of high-powered, big-name, big-ego CEOs, venture capitalists, retired businessmen, or private equity folks are not going to provide one bit of value-added advice if they cannot relate to your company management and ownership and communicate with others effectively. Personalities are good; everyone should have one. But on a board they need to be held in check so as to allow each person to give their best advice, in the most constructive way, and not go overboard in either being too agreeable for the sake of perceived unanimity or stubborn obstruction when they are not in the majority.

You might be thinking, “That’s all great, but I don’t even know anyone who has ever been on a board, or anyone who has a notable reputation. Where am I going to ever find someone qualified, and then convince them to serve?”

## Identifying your prospects

One thing to keep in mind is that we all probably know other smart, experi-

enced folks. There are few set requirements for a director. In starting out it is all about getting the best possible people you can recruit. There are two key objectives for board composition at a private or early-stage company. The board’s primary job is to give management good advice, surfacing all the pertinent issues for your consideration and open discussion, and providing you with the benefit of their broader, and perhaps deeper, experience. The second job is to lend their name and credibility to the company, usually for purposes of building credibility with customers, vendors, employees and, of course, investors. It instills confidence in stakeholders and business partners to know that a company’s ownership and leadership solicits and values the advice of outside professionals.

It’s worth noting that directors are not elected for life. Over time you will meet new people who may be even more successful, experienced, and noteworthy. As your company grows there is nothing wrong with upgrading your directors individually. There are sensitive ways to re-

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**Dennis Cagan** is a seasoned veteran of boardroom recruiting and formation. The various hats he has worn over the past 45 years include founder or co-founder of over a dozen companies (public and private), CEO/chairman, venture capitalist, private investor, consultant, mentor, and professional board member. His first public board seat came when he took a company he founded (his fifth) public in 1981. Since then he has helped hundreds of companies ranging up to \$1 billion in annual revenue. As CEO of Caganco Inc., he continues his active involvements as a high-technology consultant and entrepreneur and devotes significant time to mentoring early-stage technology companies ([www.caganco.com](http://www.caganco.com)).



place directors, and any director should understand and respond professionally to your request.

So, are you ready to get started searching?

### The first step

The first step is very simple. The search starts by simply compiling a list of possible candidates, and people you know who might be able to recommend others. Add to your list people you know of in business and who you respect and admire. It does not necessarily matter how well you know them. Successful people will have good personal networks, and most likely they are respected and admired. They could be the source of good referrals even if they are not interested themselves.

In addition to those you know personally, you can also ask for leads and introductions from your banker, attorney, accountant, other business owners or CEOs you know. Good sources can include a pastor or rabbi, relatives in business, and family friends. Although you may already know some of these people, you should be equally open to good suggestions of prospects whom you may have not have yet met. Explain to all of these key contacts what you are looking for and actively solicit their suggestions for board members.

In building your board it is worthwhile to have a good idea of the key skill sets and experience that you feel would augment and complement your

own and those of your management team. Could you benefit from more depth in sales, marketing, or operations? Or, how do you stack up in finance, international business, or technology? Could your firm use the perspective of the opposite sex? Could someone who is an expert in manufacturing, retailing, health care, government relations, information technology, or travel add to your perspective on your business marketplace or operations?

Regardless, compile your list of desirable attributes. Strategize those areas that you would like represented and target them in your interviews.

### Convincing them to serve

Once you have your list with a good number of possible board candidates it's time to start the interview process. Don't be shy. This can be a fun and educational experience. You may consider yourself too reserved to be calling these people cold. Don't worry. It has never been easier to reach out and establish contact in business. People have never been more open to meeting you and expanding their own networks. It is always considered an honor to be interviewed to join a board of directors.

Of course the best start is an introduction from a mutual contact, but with the advancement of social media and tools like LinkedIn, Facebook, Google, and email (to name just a few), it has never been easier or more acceptable to proactively introduce yourself to others. Even if they are not interested or ultimately are not a fit, just reaching out may help your business in ways that you could not imagine.

Interviewing these high achievers is much like interviewing prospective employees, except that generally you can learn even more from them. It's an opportunity to get to know them and ask them any number of questions that will give you valuable business knowledge, and also indicate the way they think. You can often learn more about them and yourself from the questions they ask you than the ones you ask them.

This process is very interactive. In addition to qualifying them, you will also need to sell them. Not only will you want to pick the best directors, but they will need to be sold on you and your company. In order to get an acceptance you will need to tap one or more motivating interests of that person. Do they like you personally and want to help? Are they fascinated by your business? Do they find your challenges stimulating? Do they feel that they can materially con-

## A big catch

**A** number of years ago I was searching for a high-level director for a very high-technology company that I had co-founded. I hoped for someone truly exceptional, both for their contribution and their credibility.

I heard around town that a certain retired individual was living nearby. I checked him out by asking around and researching on the Internet. He had been a noted scientist and the president of one of the country's most respected universities. I was able to obtain his email address (not that hard these days), and I sent a polite invitation to get together over lunch — just to get to know one another. He accepted and we met several times, just visiting.



**Dennis Cagan:** A no at first, and then a yes.

Finally I asked if he would consider joining our board. He respectfully declined, stating that he was too busy with the other boards he was then on (General Motors, Raytheon, Hewlett-Packard and Hughes Aircraft — wow!). I countered with an invitation to join our board of advisers instead — fewer meetings, less responsibility, no liability. He was intrigued with what we were doing and liked our team, so he accepted.

A few years later he retired from those big boards and joined our board of directors. Over the years I have learned a tremendous amount from this gentlemen.

— Dennis Cagan

tribute and add value to your enterprise?

Who the other board members are will often make a difference as well. Directors like to engage with others whom they can enjoy and learn from. It's like playing tennis; you won't improve unless you play with better players.

Long ago I developed my personal checklist for joining a board. My considerations are: who else is on it, what business is the company in, is it properly funded, where are they located, and what is the compensation for directors?

### **Compensation**

What about that tricky issue, compensation? First of all, realize that it is not all about the money at this level. No one is going to expect your firm to pay directors \$250,000 or more. They might not even expect a large stock option grant, especially if it is closely held with no outside investors and has no aspirations of a liquidity event.

What will it take then? It will need to be something that satisfies each prospect, and be in addition to the qualitative benefits of fellowship, learning experience, and personal satisfaction. To some extent compensation will also depend on how many directors you have and how many of them are compensated. You may have one or two company managers or owners, including yourself, on the board. You should not have more. Owners or employees are not usually paid to be on the board. You can start adding directors one at a time; there is no hurry. In most situations a five- or seven-person board is probably

going to work best. In the end, it is important that the compensation for all paid directors be somewhat consistent, with perhaps a little more for key committee chairs (like finance).

There is a wide range of compensation alternatives. These choices include a monthly or per meeting cash stipend, stock options, restricted stock, profit sharing, bonus based on company performance, and more. Usually some combination of these will do the trick. The magnitude of each depends specifically on your company size, development stage, financial condition, and precedent within your peer group or industry.

### **Final word of advice**

Many entrepreneurs fail to appreciate both the benefits and risks of a board. Some get their first lesson when new investors impose one on them. I don't advise waiting, but rather take the initiative and form one comprised of your selections. Use its strength and knowledge to accelerate your company's success. Don't worry about 'leaving room' for an investor; they will always take care of themselves. Get the advantage of this important and powerful governance tool now. ■

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*It is always  
considered an honor  
to be interviewed to  
join a board of  
directors.*