Well-Meant Advice

In the worlds of entrepreneurship, start-ups, boards of directors, and all related topics, there is no shortage of 'generous' people who like to offer an abundance of free advice. Do not make the mistake of weighing all advice equally!

I recently attended an event and during the informal networking time I was visiting with a woman who had co-founded a successful company. She was considering her long-term goals for the firm and whether or not she should upgrade her corporate structure and form an advisory board, or even a fiduciary board of directors. Another attendee joined the conversation and quickly started giving her advice. He advised on the best corporate structure, and issues relating to advisory boards and fiduciary boards, and other company growth and maturity issues. Since I considered his advice to be very wrong in her circumstances, I asked him some questions about his background. It turns out that he had never started a company, never run a company, and never been on a board of directors. He had always been a mid-level sales and business development executive for multi-billion-dollar international manufacturing companies – in a completely different industry. Not only did it waste this lady's time, but it could potentially send her off in a destructive direction.

Caveat emptor, buyer beware! All advice is not good advice. Carefully consider the source.

Has this well-meaning individual ever: started a company? Been the CEO of a company? Taken a company public, or had another type of liquidity event? Been on a board of directors – of a public or private company (not a non-profit)? Hired, compensated, and fired senior executives? Negotiated with an investor, like a venture capitalist or private equity firms?

Have they done or directly experienced any of the things they are so freely offering their advice on? If the answer to any of these questions is no, then I suggest you take it with multiple grains of salt.

Getting advice is always a valuable attribute for entrepreneurs, however even more important are two additional considerations – *who are you getting the advice from* and *determining if you want to take the advice*. It may seem obvious, but all advice is not equal. Many well-intentioned founders idealize a culture of transparency – which is admirable, especially when contrasted with a dictatorial one. However, as an organization grows it becomes much more cumbersome and even problematic to try to extend that policy into an expanding company. Leading a company is a delicate and challenging job. Someone must make the final call. As a CEO when faced with a decision on which technology base to build your application on, would you weigh the opinion of your marketing executive the same as your CTO. No. Or, would you give the opinion of your CTO the same as your marketing person in a decision on the design or color of your company logo. No.

What do the best advisors look like? Expert knowledge and experience in the subject that they are advising on. As noted above, a marketing expert is not likely to be as qualified to advise in

technological subjects as a CTO, and vice versa. Would you ask your attorney for medical advice or your doctor for legal advice?

One frequent misalignment of advisors involves lawyers and accountants. Each is licensed to give advice in very specific areas – the law and financial accounting. While there are some lawyers and CPAs that have good business experience (particularly if they have been practicing for a long time), that is not their area of primary knowledge. Have they started companies that developed an e-commerce platform, food, or other product?

Have they built a team, struggled to make payroll, developed a product, marketed and built a base of customers and revenue – beyond their particular professional services practice?

Some of the best advice you will ever receive comes in the form of a board of directors, or advisory board, or simply ad hoc consultation, in the areas of business that are critical to your task of building your enterprise. Some examples of critical areas of advice include (alphabetically): capital acquisition, corporate governance, customer support, engineering, facilities, finance, financial projections, geographical, hiring/firing, human resources, industry expertise (specific), investor relations, leadership, legal, M&A, manufacturing, marketing, negotiations, operations, out-sourcing, regulatory compliance, risk, sales, strategy, technology, and more…

It is up to you to make sure that an advisor is truly qualified to opine on a particular subject. This is something where actual experience can out-weigh degrees like MBAs or Ph.Ds. or licenses like legal, CPA, or MD. Great advice is out there and often available for the asking – often even free for the asking. In the field of entrepreneurship and start-ups, and building commercial enterprises, the best knowledge comes from experience, and unfortunately, from making mistakes and learning from them. When building a company everyone will make mistakes, why not at least minimize yours by learning from others?

The right advice at the right time – or missing advice

In my role as a Shadow CEO® and governance expert I hear almost monthly from entrepreneurs, who have gotten advice from other founders (but not experienced it themselves), "Don't take money from a venture capitalist, because they will steal your company and throw you out." Let me set the record straight here. Venture Capitalists are not in the business of stealing companies. They are in the business of investing in companies with great ideas, and great management teams to execute on those ideas. And they are extremely seasoned negotiators of investment terms – way better than most entrepreneurs. They do not steal companies. However, they have been known to orchestrate the 'replacement' of senior management that is not getting the job done, and not executing well enough. They don't like to lose their money, and if they feel that is a risk, they act. So, when a founder gets demoted or fired, how can it be done if they were the founders, and who's fault is it?

On the surface, the answers are easy, but underlying the actions are several complicated dynamics. First, any investor or combination of investors who have majority control of a company can usually take most actions they wish. They may even have some of these rights as minority shareholders. Whose fault is it? There is only one answer here – the entrepreneur themself.

This has two parts. Part one, the founder may not have been continuing to contribute to the company's success. Perhaps they were just not up to the job of running the show, or sometimes they are simply causing dissension or disruption – well-publicized examples of each abound. Regardless of what precipitated the dismissal, it remains still the entrepreneur's fault for another basic reason.

Part two, going back in time to the day the VC first invested in the company. Most likely there was a group of folks sitting around a big shiny conference table in some law firm's office. On one side of the table was the VC, and on the other was the entrepreneur/founder. Perhaps both sides even had their lawyers there. The VC proceeded to push an investment document across the table, and the entrepreneur signed it. Buried within that document there were terms and conditions that gave the VC the legal ability to later dismiss the entrepreneur.

Whose fault was it that the founder signed that document, without getting the best advice? They signed the deal without having proper insights into the long-term meaning and ramifications of the terms of the agreement. They did not adequately understand what they signed. But the deal they signed gave the investor(s) the right to do whatever they did. Maybe they were just in a hurry to get the funds, perhaps not. But they signed it without fully understanding what powers they were signing over.

Seek qualified advice, but … caveat emptor!

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