# How to build your own board

By Cara Cunningham, from *Red Herring*, October 30, 2000

Ideally a board of directors operates independently from a company, but oversees it with the company's best interests in mind.

Ideally, that is. In reality, many companies end up with much less because their chief executives don't know how to build their boards. Instead of carefully researching board candidates, they pick friends, yes-men, people they heard speak at conferences, or just about anyone who will offer them funding.

A better way to build a board is to plan it from the start, by establishing a board of advisers as soon as the company is founded. The advisers help entrepreneurs develop business plans and product strategies, but don't have any obligation to the company's shareholders. These advisers often evolve into board members.

When the founders seek their first round of venture capital, they should pay attention to the quality of the VCs who come with it. Once founders accept the money, those VCs will likely be named to the board.

After closing on the first round of funding, a typical board has four or five members, including executives and VCs. More likely than not, the chief executive is also chairman. That may be a passable arrangement at first. But over time, a board should grow to have a majority of outside directors, who neither work for the company nor have a vested interest in it, according to CalPERS (California Public Employees' Retirement System), a major investor that sets and studies board governance guidelines.

CalPERS also recommends that the CEO and chairman be different people; that way a company avoids the conflict of having a CEO command the board that commands the CEO.

When adding board members, the board should take stock of what the company lacks, like industry contacts, operational experience, name recognition, or strategic planning, and then start filling in the holes.

"A lot of the time entrepreneurs are getting into a business where there's one aspect that they don't know well, so that's a great place to bring in a board member," says Warren Packard, managing director of Draper Fisher Jurvetson. General Electric chairman Jack Welch recently appointed golf buddy and Sun Microsystems CEO and chairman Scott McNealy to GE's board. Mr McNealy offers advice on GE's technology plans, and gets advice from Mr Welch on managing a big corporation.

Mr Packard also advises bringing in one outside board member to act as the CEO's coach. Ideally, the coach has been a CEO for years and can spend one-on-one time teaching the entrepreneur the ropes of the job.

Some board members aren't qualified to serve because they're too busy with other commitments. (VCs are notorious for this – some sit on more than 20 boards at a time.) CalPERS recommends that boards decide the maximum number of competing time commitments a member can have, and update those guidelines annually.