The Entrepreneurial Director

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The argument that the board of directors can be a helpful tool for entrepreneurships and small businesses derives from the rationale for using boards from both a macro and a micro perspective. Society depends on boards to provide overall checks and balances in the running of businesses. This could not be more evident from the role of the board in Enron's collapse (U.S. Senate 2002).

The board's value to the entrepreneur is found in the application of the micro perspective. Two sets of recommendations are developed to formulate an improved model of directorship actions and behaviors. First, duties and responsibilities of the board of directors are expanded to help guide entrepreneurs. Second, five unique behavior patterns are then proposed that can be particularly helpful in carrying out the duties and activities of the board for guiding entrepreneurial success.

The overall thesis that arises from this research is that working advisory boards and boards of directors could not only be helpful but instrumental in strategic planning for entrepreneurs and small businesses. To accomplish this goal, the traditional role of the board of directors is expanded, especially to address and respond to the needs of entrepreneurs and small businesses. Five behavior constructs are proposed to provide a model of the entrepreneurial director. Three key behavior patterns underlie each construct. The model is proposed to stretch current boardroom practices to better serve entrepreneurs and small business managers.

Research Design

During the past 25 years, the author has coordinated 100 student research and consulting teams, directed at improving entrepreneur and small business problems and opportunities. Several of the studies investigated business opportunities for not-for-profit institutions, such as devising improved strategies for a gift shop in a local museum. For each entrepreneurial client, senior business students at a Midwestern university were assigned to investigate, analyze, and suggest improvements of the entrepreneurs' strategic and tactical issues over a four-month period. The author also conducted interviews and conversations with the entrepreneurs that focused on their problems and how well they were able to respond to opportunities. The consulting teams' recommendations and the author's impressions consistently find that many issues seriously hamper the planning processes in these businesses.

Corporate Governance: The Macro Requirement

From a macro perspective, corporate governance can impact the nation's financial stability, which in turn, will affect its economic performance. Therefore, it is prudent to enthusiastically promote good corporate governance to fight against financial fraud and to win the publics' confidence in our institutions. When the public was recently asked about their ability to trust companies in providing complete and accurate financial information, roughly 42 percent lacked trust in such information. Further, when the public was asked if boards of directors are effective at managing executive compensation, 57 percent of respondents with college degrees disagreed (Bright 2006).

Corporate scandals have contributed trillions of dollar losses in the United States. Many of these scandals were the result of shifting power in favor of the CEO and other high-ranking officers and away from boards of directors. As a result of these misdeeds, we are entering a period of government impact of boards of directors and a rethinking of making boards more effective (Donaldson 2003). Further, good corporate governance can reduce the number of investors who trust false financial information and make incorrect investment decisions (Shen, Hsu, and Chen 2006).

Directors of large corporations often rely on hired counsel to conduct independent investigations for the board. This was reported to be the case both at Enron and Tyco. Yet both rating agencies and other investigators can miss parts of the truth (Chanos 2006), which are important for the investing public to make wise decisions. Society must be able to rely on directors to be true stewards of corporate governance. They must define a philosophy and culture of ethics to guide corporate management that will permeate businesses, society, and culture. By making a strong commitment to ethics, accountability, and shareholder interests, boards will gain and strengthen investor confidence in society's business institutions. On a macro perspective, it is society's confidence that builds a stronger economy.

Corporate Governance: The Micro Requirement

Managers from medium-size and larger companies that move into entrepreneurial roles quickly encounter a different business world than they were once familiar with. The entrepreneur has to be all things to all people, which requires making decisions much of the time within the total value chain. Entrepreneurial lives are full of small problem distractions. They have to do things constantly that are beneath executives in larger size institutions. There is a lack of influence, prestige, and public recognition for the entrepreneur that is expected and achieved in the executive suite. The entrepreneur's problems are unnervingly vulnerable; for example, the loss of one customer could often be a serious problem. Further, they have little control over their time; there are always interruptions (Schroder 2006). As their business becomes successful, it can become easy to overlook any of the following deadly errors:

- Forget to remit payroll taxes on schedule.
- Fail to document the justification underpinning the dismissal of an employee.
- Allow the company's liability insurance to lapse.
- Neglect to report sales usage tax.
- Verbally grant employee incentive options during an informal luncheon meeting (Levangie 2004).

A board of directors seems especially useful to the entrepreneur in the following applications.

The Responsibility for Providing Direction and Advice

Seasoned wisdom from the board can present "the big picture" to the owners. Entrepreneurs and small business managers need guidance in developing a future for their businesses.

The Responsibility for Providing Support

Many entrepreneurs and small businesspeople have no one other than themselves to rely upon. By having a board, they can feel comfortable and gain confidence from people who have a track record of successful business experiences in their career.

Going Public

If a new entrepreneur or small company is successful, it may aspire to go public. Independent boards are helpful in meeting stock exchange requirements. Further, board members can add credibility to the business by associating with it and through their connections.

Succession Questions

Many family-owned companies that emerged after World War II are going to be facing succession questions. A board can help derive a good succession plan and provide rationale to conflicting parties about the succession of the small business.

Financial Guidance

Entrepreneurships and small businesses often experience cash and capital problems. A board's vision and planning can help moderate issues resulting from cash flow problems.

Networking

Many board members can help think of sources of potential capital and make other links that are very useful to a small business or entrepreneur (Buss 1996).

Legitimacy and Reputation Building

Reputable independent directors can help establish the legitimacy that new entrepreneurship's often lack. Successful individuals can act as a signaling mechanism in the development of the entrepreneurship's reputation in its environment (Deutsch and Ross 2003).

Developing the Entrepreneurial Director

Boardroom members and researchers are making a case for the board to evolve a new set of duties and skills, especially for entrepreneurships (Dorado and Molz 2005).

It is a very difficult challenge to focus on the operating mechanisms of business institutions that require a high level of specialization to assess and determine objectively how effective that specialization is. It is the directors who are in the best position to question and affirm or deny the progress and direction of institutional development.

This research suggests the following duties for continuing the expansion of the evolutionary role of the board of directors in guiding the nation's entrepreneurs and small businesses.

Meeting with Shareholders

In the past, directors had limited contact with shareholders. Given the state of conditions facing boards today, it is suggested that boards meet and talk with shareholders. To date, both the Securities and Exchange Commission and the New York Stock Exchange have not mandated that boards meet with shareholders. The board of directors could attend an annual meeting with shareholders without internal management present to discuss shareholder issues and obtain their impressions of how the entrepreneurship is performing (Whitehouse 2006).

Discussions with Employees

Directors must learn to do more listening and devote more time to listening to employees. In the past, directors have not had access to employees. Meeting with employees can give directors a sense of how dedicated employees are toward pursuing company goals. Equally important, directors can get a sense of how employees feel about management (Whitehouse 2006).

Too many managers view the workforce as a cost to be controlled. The employees invest their human capital in the companies they work for. The board should encourage and support their voice in corporate governance (Kochan 2006). Directors should exercise their rights to visit company facilities during work hours and have conversations with employees without internal management present.

Evaluating Each Other's Performance

Much of the boards' time is spent interacting with management and in interacting with each other. The idea of having periodic board reviews could help to change board behavior in a variety of ways. The performance evaluation of each board member will cause directors to become much more serious about performing well because a written opinion and conclusion is made about their board success and effectiveness. It could modify feedback, make directors more serious in their preparation for board meetings, and make them more serious when serving on committees (Wei 2006). Board members should be peer reviewed every three years to summarize their contributions to the entrepreneurship and their impact on the company.

Strategizing the Business

When there are no easy road maps to follow for guiding business activities, the board can help strategically to monitor and guide the entrepreneur into the future. When the board of directors has independent leadership, that is leadership other than the CEO, it tends to perform better in corporate strategy (Lawler and Finegold 2005). The board of directors must find the energy, industry, savvy, and ability to help mold, approve, and test the strategic plan for the entrepreneurship or small business. This requires that several board members have deep industry experience and to help the board to set a strategic course (Carey and Patsalos-Fox 2006). The board of directors provides the momentum in the strategic planning process that keeps managers and employees tracking toward their long-range goals.

The board of directors is capable of defining three elements of strategy (Frery 2006) for the entrepreneur:

1. *The Why of Strategy.* The first element of strategy to be conducted by the board is to define the entrepreneur's ability to increase customer value beyond a reasonable cost.
2. *The How of Strategy.* The second element of strategy to be accomplished by the board for the entrepreneur is to define how the strategy is going to be accomplished. The board will explore benchmarking, differentiation, core competencies, and other creative and imitative methods that will help mutate and evolve a new business model.
3. *The What of Strategy.* The third task of the board in designing a strategy for the entrepreneur is to define the capabilities, limits, and scope of the strategy. The board should help set the guidelines by examining diversification, new markets, vertical integration, outsourcing, and other techniques that stretch the horizons for the entrepreneur and determine the impact of the positioning.

Evolving New Cross-Functional Relationships

Many strategic failures during the past 15 years can be traced to an excessive focus on identifying and concentrating on narrow core competencies. This trend was not practiced by companies that took special interest beyond their core competencies, such as paying close attention to quality control, and managing and controlling their distribution networks. Good examples of companies that went way beyond their core competencies are Avon, Harley Davidson, Starbucks, Sherman Williams, Dell, and Caterpillar (Thomas and Wilkonsan 2006). The board of directors can help envision beyond just the core competencies by integrating cross-functional components such as sales transaction data, product specification data, channel partner data, product line data, consumer behavior data, and many other data components to design new intersection points that translate into new strategies. Intersection points are evolved into networks for making things happen (Forsyth, Galante, and Guild 2006). Thus, the entrepreneurial board is in a pivotal position for engaging in the development of cross-functional relationships for developing integrated strategies that capitalize on intersecting insights.

Practicing Servant Directorship

The entrepreneurial director is servant first, director second. These directors view themselves as public servants, a natural inclination that the board member wants to give service to his or her company (Martin 2006). This requires that they find an important task to perform as director and that they get engaged in the process of accomplishing it. This could take the form of helping create new division or department goals, writing plans, auditing part of the company, collecting census data on population growth trends, and a host of other tasks. These tasks must directly relate to the goals of the company and fall into the sphere of work that the board can accomplish. This work should augment management's tasks and goals. The criteria to become a servant director have been well developed by Greenleaf (1977) who set up a training center for servant leadership (Greenleaf Center 2007).

1. To bring their institutions to a distinguished level of performance.
2. To design the leadership of the institution as a group of equals.
3. To define the institution.
4. To state the purposes and goals of the institution.
5. To learn what they need to know in order to oblige the institution to reach distinction.
6. To have a total understanding of the institution.

7. To have a caring attitude for all the persons touched by the institution, especially caring for those persons in proportion to their involvement in and dependence on the institution.

The Entrepreneurial Director Model

The evolving duties of the board in serving the entrepreneur require a higher level of involvement and commitment than just preparing and attending 10 meetings per year and voting on issues. It involves knowing the trends and opportunities facing the business, assembling data collection points, and processing data to glean intelligence from information. It further involves helping to evolve a strategy and to negotiate and guide the entrepreneurship through each window of opportunity. To perform the above evolving duties and tackle the issues, problems, and opportunities facing entrepreneurships, a model is developed, comprised five behavior patterns (Aquinas 1990 version) that are found to provide a good targeted fit for performing the duties and expectations required by entrepreneurial directors.

Charitable

Entrepreneurial directors have to be more charitable than their larger corporate counterparts. Charitable directors are those that give freely their time and talents to the company, its employees, and other board members. These directors become ready to respond to management's needs in getting work accomplished. They accomplish projects as well as provide the traditional guidance, coaching, and mentoring to evolve effective company performance. Good target behavior examples of director charitableness are the following:

1. Charitable directors express an innate desire to give more to the company for which they are a board member than they will take from it.
2. Charitable directors know that they are going to strive at imparting new initiatives into the lives of the companies for which they serve as board members.
3. Charitable directors spend the time and energy in showing management, supervisors, and employees how some units or segments of the business will be refocused today to build a better tomorrow.

Patience

The entrepreneurial board must invest in patient capital for the entrepreneur. It involves a forbearance and vigilance over the entrepreneur's asset base coupled with a strategy that is accruing economic activity. The board needs to evolve and practice a capacity of calm endurance, hope, and trust as business activities pass through a series of economic conditions, obstacles, and trials for achieving success. Good target behaviors that provide examples of directorship patience include the following:

1. Board members provide special encouragement to slower developing and less productive employees and managers.
2. Board members induce colleagues to come aboard. They convince employees, investors, and others to buy into the entrepreneurial plan and the board's plan.
3. Patient directors refrain from using luck to any extent. Guiding entrepreneurial performance is not a game of chance; it is the guidance of performance activities and the setting up of checkpoints to assess the degree of goal achievement of these activities.

Humility

Achieving status or a next promotion are poor reasons for joining a board. Humble directors will deflect attention away from them and shun the limelight. They quietly focus attention on the tasks at hand. Board meetings become a poor place for ego trips and personality clashes. These directors must learn to disregard their status and ego in accomplishing board work and attending board meetings. They are much more plow horse than show horse (Collins 2001). Several target behaviors developed to encourage director humility are the following:

1. Board members refrain from seeking titles and status. Directors who seek the value of titles and status are less likely to focus on issues for their own benefit rather than for benefit of their company. Status will normally accrue as a result of improving entrepreneurial performance and effectiveness.
2. Board members recognize and admit errors. A board and management that develop and implement strategies are not going to be right 100 percent of the time. A board that admits error will learn to observe feedback closely and grow in strength and confidence.
3. Board members seek criticism. The board acts as management's "window to the world." By seeking criticism, the board can understand new viewpoints, evolve better strategies, and maintain a better understanding of their role in providing guidance as a "window to the world."

Values

Entrepreneurial board members must strive to seek and display a set of values or absolutes to all members of the business. Values comprise the belief system of each board member. Hard work, punctuality, concern for others, honesty, and the importance of life are important boardroom values. They need to signal their determination in safeguarding assets and improving performance and effectiveness of the company for which they are a board member.

The roles of entrepreneurial directors are defined to encourage a higher degree of involvement when compared to that of their larger corporate counterparts. A closer interaction with managers, employees, and shareholders allows them the opportunity to display their values to these groups. Target behaviors that help define and permeate values are the following:

1. Board members display integrity. Integrity is first a wholeness that contains the parts of the person that qualifies them to be a director and, second, it is an inclination of a director to apply a high standard of morals to the entrepreneurship. Mature directors realize that integrity is a journey, not a destination to be reached. Directors must lead in displaying integrity.
2. Board members never cheat the system a little. Directors have an opportunity to know what the business is involved in, to act on inside information for them, and to obtain contracts for their own companies. By adhering to strict guidelines and honesty, they will send the signal that it does not pay to cheat the system a little.
3. Board members seek and accept responsibility. Directors must make the connection between taking actions and being able to safeguard assets, evaluate management's performance, and develop and guide a strategy for the entrepreneurship. Thus, entrepreneurial directors derive an obligation for setting up tasks, guiding performance, and recognizing results.

Contentedness

Directors of entrepreneurships must search for a different set of incentives, rewards, and satisfactions from their counterpart directors of larger corporations. High retainer fees, consulting fees, committee fees, status, and expensive travel are not likely to be components of reward schemes for entrepreneurial directors. Nor are entrepreneurial directors likely to have consultants, corporate staff experts, and other employee support. Part of their satisfaction will emerge from being able to see that they utilize their skills to improve the performance and effectiveness of their entrepreneurs. Additional satisfactions will derive from rewards that result from profitable performance of the entrepreneurship. Good target behaviors for practicing entrepreneurial director contentedness are the following:

1. Board members display a positive attitude. Carrying any grudge and complaining will quickly transpire into the perceptions of managers, shareholders, and employees.
2. Board members savor the moments of satisfaction resulting from the struggle. Entrepreneurial directors must carefully set up strategic processes that contain checkpoints for assessing the amount of accomplishment achieved during carefully determined time frames. They must learn to recognize and reward themselves and others for small accomplishments within the longer range process toward success.
3. Board members find happiness in utilizing and applying their skills. Entrepreneurial board members will have to spend a considerable amount of time and possess a high degree of skill in managing detail, investigating opportunities, collecting data, and utilizing technology for developing pathways of opportunities that their business can take advantage of.

Conclusions

The traditional definition of the board's role is not a sufficient condition for meeting the challenges that entrepreneurs encounter. The entrepreneurial board member will evolve his or her role by achieving three important criteria (Greenleaf 1977).

1. An awareness should exist that a critical watch is being kept over the institution's direction.
2. A healthy tension must always exist between belief in the current status quo of the institution and the urge to question, offer advice, and even criticize.
3. A feeling must be possessed by directors of an authority role, which includes freedom to make expressions and suggestions, to ask questions, and to require information from employees and managers.

The entrepreneurial board must be capable of collecting and filtering facts and data through their introspective and vigilant instincts that will evolve cross-functional integrating insights. Further, they provide the skill, savvy, and energy that translate these insights into strategies. The execution of strategies calls for their careful monitoring, guidance, and the addition of checkpoints for assessment of these new windows of opportunity.

Entrepreneurial board members will gain an improved understanding and insight into issues facing the entrepreneurship by engaging in discussions with employees and in meeting with shareholders. The style of leadership practiced by management and its effectiveness will become evident to them. Through honest and frank discussions without the CEO present, they will further understand the strengths, limitations, opportunities, and threats of the businesses they are guiding.

It would be helpful if board members would periodically evaluate each other. This expectation can provide an incentive for each board member to be participative, conscientious, and diligent about improving the entrepreneurship. In most instances, a three-year time span ought to be long enough to allow each board member to make a positive contribution to the entrepreneurship. An honest evaluation of the CEO of the entrepreneurship is also advisable.

To fulfill these expectations, five behavior constructs are proposed to provide a model of the entrepreneurial director. Three key behavior patterns underlie each construct. The entrepreneurial directorship entails the practice of charitableness, patience, humility, adhering to a set of values and contentedness in carrying out the board's work routine.

By engaging in these behaviors, board members practice servant directorship. They provide personal involvement in engaging in entrepreneurial projects as well as providing direction and guidance. If carried out properly, it will be the entrepreneurial directors who will set a new standard for traditional boards to follow.

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