Outside Opinion: Tech startups shouldn't be afraid to ask for help

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The skyline of Chicago is seen with the steam fog coming off Lake Michigan in Chicago, Illinois, January 28, 2014. (JEFF HAYNES / REUTERS / January 28, 2014)

Many in Chicago business lament our lack of tech startups that have hit the big time. We have a few noteworthy examples, but it is not a long list.

We argue over the reasons: Do we need venture capitalists and angel investors ready to take more risks? Are there too few successful entrepreneurs to provide institutional knowledge on how to scale a business? Do we need an innovation culture like Silicon Valley? How about more support from the city?

These may be contributing causes, but we are overlooking one problem. It's mundane, but important. Many entrepreneurs, mavericks as they are, resist setting up an effective advisory board.

I met recently with the commercial head for a prominent Chicago bank. She mentioned that less than 2 percent of the bank's middle-market customers have established a board of directors or advisory board (I tend to use the terms interchangeably). This bank's customers cover the nation, and many of these businesses are not technology firms. So this issue is not confined to Chicago, or to tech firms. Many in small- and middle-market businesses believe they are smart enough not to need a board, think it is too expensive or believe it would constrain their independence.

This is an astounding situation, and one that should change.

Think about the environment facing a small firm trying to become big. Perhaps it is opening new locations, selling products or services in new locations, or expanding the number and type of products or services it offers. This expansion stresses their financial capital and places the managers in a position of doing something they have not done before. A board of advisers, assuming it is properly selected, makes a good management team much better.

In my recent book, I highlight the decisions made by Chicago company Shiftgig, a job-finding service for bars, restaurants and hotels. CEO Eddie Lou made a decision to establish a board in 2013, when Shiftgig closed on Series A financing (when stock is first sold to outside investors). The conditions of the financing did not require this. But Lou, who was a venture capitalist before he became an entrepreneur, decided the company would benefit from establishing an advisory function early on.

The Shiftgig board has some big names, including Match.com CEO Sam Yagan and Brian Spaly, CEO of Chicago-based men's clothing distributor Trunk Club. Ken Pelletier, former chief technology officer of Groupon, serves as a technical adviser. These people were not picked for their big names. Lou will tell you that he crafted his board to provide expertise in four areas. He wanted help from people who had successfully scaled technology businesses, had sales experience, had raised angel financing and had raised money from institutional investors.

Compensating a board is a real expense, ranging from 0.25 percent to 2 percent of the company's common stock for each board member. But the cost should pale in comparison to the value that boards provide.

The path to growth is not an easy one, and having trusted individuals to provide sage advice is a logical decision that entrepreneurs can make to improve their prospects. Why so few do this is a mystery to me.

Weinfurter, managing partner at Chicago Growth Consultants, is author of "Second Stage Entrepreneurship: Ten Proven Strategies for Driving Aggressive Growth."