



A Comprehensive Guide to Establishing an Advisory Board



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Introduction

Countless business owners get into difficult situations by relying on gut instinct instead of sound advice. The good news is the world is full of talented professionals willing to lend a hand toward the success of their business. Where large companies have a board of directors, small and medium size companies can benefit from a board of advisors. An advisory board is one of the best ways to create a space for dialogue that will ultimately lead to a stronger business.

So why create a guide? Too often, advisory boards are formed without a lot of thought. People the business owner or CEO know express an interest and, “presto,” they are on the advisory board. There’s no analysis of what the company really needs versus what would be nice, and other pertinent issues and questions are not addressed. Such hastily assembled advisory boards are ineffective and frequently need to be dissolved and re-assembled. This guide will help you get it right the first time.

What is an Advisory Board?

An advisory board is a non-legal board of directors comprised of individuals the CEO believes can help the company succeed. Advisory boards can be formed to address specific matters, e.g. to prepare the company for sale or CEO succession, to assist with the marketing strategy, or to address operating issues. Advisors are chosen by the CEO and serve at the CEO's pleasure. The CEO can choose to follow the advisory board's recommendations or not.

Similar to directors on a legal board, advisors are recruited and their expertise vetted. Where possible, the advisors are compensated for their time. Advisors generally serve a one-year renewable term which affords both parties a graceful way to terminate the relationship when it no longer makes sense.

The Difference between an Advisory Board and a Board of Directors

There are very distinct differences between an advisory board and a statutory board of directors:

An individual who serves as a member of the board of directors works for the company, and has a fiduciary responsibility to look out for the best interest of the stockholders and the company, meaning the individual can be held legally responsible for decisions. The board of directors is collectively responsible for the hiring, firing and evaluation of the CEO, and potentially senior management; and the review and approval of major corporate objectives, policies, budgets and strategies.

An individual serving on the board of advisors does so at the pleasure of the owner/CEO, who can fire the advisor. Generally an individual serving on the advisory board has minimal liability, if any, provided actions of advisors and meetings are conducted as strictly advisory.

Individuals are usually attracted to serve as advisors for many reasons, one of which is the “no liability” issue. CEOs and business owners are attracted to implementing an advisory board for many reasons as well, but, the ability to receive advice while not expanding their statutory board generally is the most attractive.

The Benefits of an Advisory Board

CEOs of several organizations were asked the reasons they implemented an advisory board. Here's what they had to say:

Across the board every CEO cited accountability. As entrepreneurs, they generally answer to no one, as the statutory board is often limited to just the CEO. This level of rigor significantly contributed to their business growth and success.

Many cited their advisors as a needed sounding board for critical decisions.

One founder called her advisory board an “insurance policy.” She turned to the advisors when faced with new challenges and found either an advisor, or someone they suggested, provided assistance. Prior to the advisory board, the founder would spend enormous amounts of time researching an issue and often resolved it less than favorably.

Many also cited the advisors as providing a varied set of views from which to consider opportunities and challenges. This diversity of thought helped identify new ways to reach markets, handle firm ownership and start new lines of business.

As a result of an advisor’s suggestion, one firm changed its ownership structure to take advantage of two of the partners being minorities when bidding certain contracts.

Other benefits of an advisory board CEOs mentioned included: otherwise unaffordable expertise; connections to valuable resources and potential business opportunities; increased credibility; and as a precursor to a more active statutory board.

When and Why to Consider Implementing an Advisory Board

Anecdotal information gathered over the years suggests advisory boards are most often formed when a company is past the survival stage and positioned for growth. It’s then that senior management, or the CEO, realize their need for additional knowledge in specific areas. Usually the company is profitable but unable to support a large number of salaries or consultant fees. Companies also find the revolving door of individual consultants can be confusing because their efforts are often not well coordinated. So needing insight and information, they turn to an advisory board to round out the executive level.

Savvy entrepreneurs have been known to implement advisory boards while they wait until business growth supports a larger management team. The author served on one such board. In this case, the CEO/Founder identified where her skill set was weak and recruited advisors to supplement. This advisory board went on to help the company find funding, and eventually advised on the merger with a competitor.

Sometimes a company creates an advisory board because the founder is leaving. Clearly people who have managed successions before can provide invaluable advice. At the same time they can help mentor the remaining senior management team to conduct a smooth transition.

Another reason companies create advisory boards is to support an entry to new markets, either directly, or through the acquisition of other companies. In this case the types of advisors recruited are individuals with the appropriate related experience.

But, the overriding reason advisory boards are created is to augment the skills of the management team and make the business stronger.

Overview of the Steps to Establish an Advisory Board

Establishing an advisory board is a multi-step process. The Advisory Board Kit (“Kit”) incorporates the steps the author uses to develop a client’s advisory board. If you follow the material, and complete each step, you will be rewarded with an advisory board that supports your growth and success. While you may be tempted to skip steps, you cannot do this without compromising the end result: an advisory board that helps rather than hinders your objectives.

Two CEOs interviewed talked about casually assembling their first advisory board only to dissolve it because they derived no benefit. Each CEO went on to re-assemble their advisory board after careful thought, consideration of the types of advisors needed, and better planning.

Some of the steps can occur simultaneously, while others must happen in a specific order. The Kit includes a detailed explanation of each step to help you with implementation. The areas covered include:

1. Articulating your company’s vision.
2. Knowing why you are establishing an advisory board.
3. Identifying the skills your company needs.
4. Developing a profile of preferred advisor expertise.
5. Setting advisor compensation.
6. Identifying and prequalifying individuals that meet the advisor profile.
7. Interviewing and vetting advisor candidates.
8. Pitching the prospective advisor.
9. Identifying what information to provide a prospective advisor.
10. Creating the statement of roles & responsibilities.
11. Inviting the individuals to serve as advisors.
12. Orienting the advisors.
13. Running effective meetings.
14. Optimizing the use of your advisory board.

You can expect the process to take a minimum of ninety days due to the number of steps and the number of people involved. Exhibit 19 in the Appendices lays out a timeline of how the steps flow. When you have selected three to five advisors, you can call a meeting even if you are still recruiting. However plan to continue your recruiting. Many CEOs view all new people they meet as prospective advisors.

How to Use the Advisory Board Kit

The Kit combines the “how to” with the appropriate forms and documents to facilitate implementation. Why include all these? These forms and documents have been provided for the time-strapped business owner, but, to simplify, the forms and other useful information, are also included in the appendices. Use the forms and documents as provided, modify them, or develop your own.