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HOW TO BUILD AN EFFECTIVE BOARD OF ADVISORS

ABSTRACT

A BOA provides an independent perspective and unbiased & unfiltered advice to the owner/CEO of a private company. It acts as a sounding board on current business matters.

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Helping directors increase board effectiveness.

How To Build An Effective Board of Advisors

WHY A BOA?

For private company CEOs, establishing a Board of Advisors can be a cost efficient way to gain critical skills in areas outside a company's core competency, to gain objective and unbiased counsel, and to provide credibility. A BOA can foster a spirit of innovation and allow a CEO to test ideas in a safe environment.

CEOs are often trying to do more with less, while managing change, grappling with new technology and setting a strategic vision. A properly comprised and structured Board of Advisors can provide informed, but non-binding, guidance and serve as a trusted resource.

THE BOA FORMATION PROCESS

Establishing an effective Board of Advisors, and ensuring it adds value, is a ten-step process.

1. Focus on purpose
2. Analyze strengths and weaknesses
3. Determine readiness
4. Define roles
5. Establish a recruiting method
6. Document operating procedures
7. Decide on compensation
8. Orient and launch
9. Evaluate effectiveness
10. Coordinate terms

> "I have had a board of advisors since 2005. The reason I assembled these experts and thought leaders was to create a platform for me as the CEO to garner independent perspectives and to discuss deeply issues - which leads to better strategic decision making. I attribute our growth and financial strength to our BOA. I can't imagine running a business without one!"
>
> Private Company CEO

1. Focus on purpose.

Think about why you want a Board of Advisors. Typical reasons for a BOA include hearing independent and objective opinions, using board members' skills and experiences to bring a different view to problems and discussions, increasing credibility in the eyes of lenders and the public or increasing accountability (sometimes called the "nudge factor"). CEOs often use the BOA as sounding board for succession planning. If a private company is also a family business, the BOA may also serve as a mediator when business matters and family matters conflict.

Focusing on purpose helps set the tone for the board building process. Jot down what you would noodle about if you had a Board of Advisors.

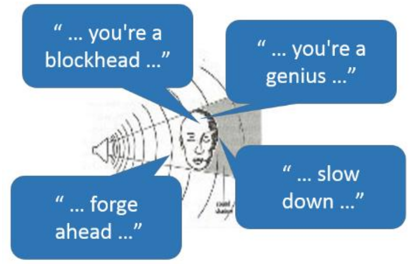
2. Analyze strengths and weaknesses.

Review your company's strategic plan. Or, if there's not a written strategic plan, consider the company's growth opportunities and your vision for the future. What strengths do you and your management team have that will help you reach your goal? Where are your skill and experience gaps?

Analyzing the strengths and weaknesses of your management team helps you decide what skills and experiences to look for when assembling the Board of Advisors.

3. *Determine readiness.*

   Evaluate your personal readiness to spend time creating a Board of Advisors. The five stages of a private company board are: (1) the kitchen table board; (2) an informal board of advisors; *(3) a formal Board of Advisors*; (4) a Board of Advisors that operates similar to board of directors; (5) adding independent directors to the company's statutory board. A formal Board of Advisors is a good idea for any company – but the CEO must be willing to spend time forming the board, preparing for meetings and debriefing after meetings.



   Determining readiness ensures comfort-ability with moving forward.

4. *Define roles.*

   It's important to understand the role of the Board of Advisors. The BOA provides an independent perspective, and unbiased and unfiltered advice to the CEO and/or owner/founder. It acts as a sounding board on current issues and strategy. The BOA helps to avoid "group think" and provides objectivity when the advocates for a decision are involved in its justification or are its beneficiaries. The BOA is not family, not friends, not management, not paid accountants, lawyers or bankers.

   Defining roles includes establishing guidelines for how the BOA, management, outside experts and family interact, if at all.

5. *Establish a recruiting method.*

   Finding great candidates for the Board of Advisors begins with determining what skills would most help the company continue creating value for stakeholders. Think through what board of advisor skills would best complement the management teams' skills. In addition to skills, consider other attributes that may be helpful, e.g. whether or not past positions held is important, if community involvement or a specific education degree would be beneficial. Finally, think about who you know that has those skills. Ask trusted advisors, perhaps your lawyer or your accountant, for referrals. The actual interview will be a two-way conversation that requires preparation. Determining who you want to be involved in the interview process, and when, is also key.

   Establishing a recruiting method is a process that begins with identifying the skills that will complement management's skills.

Are you ready for a BOA? Will you:
- Be honest about your business?
- Be willing to confide in others?
- Share business strengths, weaknesses & strategies?
- Accept constructive criticism?
- Listen actively?
- Take the time to prepare for meetings?

6. *Document operating procedures.*

Although a Board of Advisors is not a formal entity with decision-making authority, it does require some formalities. Meeting dates need to be calendared in advance, a meeting agenda needs to be set, advance meeting materials should be sent to the BOA, and the CEO needs to schedule time on her calendar to "debrief" following the meeting. Operating standards, sometimes called the BOA's statement of purpose or governance guidelines, should be distributed to BOA members during orientation. Included in the guidelines are topics such as advisor responsibilities, terms and confidentiality.

Documenting operating guidelines ensures that everyone is on the same page.

Quick Tips:

- Determine purpose
- Don't recruit friends or family
- Look for honesty, proven success
- Source recommendations
- Target 3 or 4 members
- Set meeting times in advance, typically 3 or 4 each year
- Set term limits
- Stager terms
- Don't be offended at BOA suggestions
- A "drained" feeling after the meeting is a good thing
- Keep members informed in-between meetings
- Evaluate BOA performance

7. *Decide on compensation.*

Boards of Advisors should be paid. They will prepare for meetings and share their time and experiences. Typically, compensation is minimal – members don't say "yes" because of the pay, but it demonstrates a value for value concept.

Compensating advisors raises the bar – on both sides of the table.

8. *Orient and launch.*

Prior to the first Board of Advisors meeting, it is important to have an "introductory" or "orientation" session with all of the members of the board, together - possibly a morning meeting followed by lunch. Because it's likely that advisors will have different levels of understanding of your company, this session ensures everyone understands the business, current victories and current opportunities. Doing this ahead of time accomplishes two things: (1) the advisors get to know one another - establishing culture is important; and, (2) it allows the first Board of Advisors meeting to be a board meeting that sets the tone for future meetings.

Key Differences – BOD & BOA

Board of Directors

- Fiduciary responsibilities
- Primary responsibility is to the stockholders – to see that the company performs at its best and provides the best returns for investors
- Makes decisions

Board of Advisors

- Advises the CEO (and perhaps other officers) – not the company
- Serves as a sounding board
- No decisions made – no authority

Orienting advisors to company business matters ahead of time helps ensure the first BOA meeting delivers real value.

9. *Evaluate effectiveness.*

   Just as CEOs evaluate the usefulness of strategies and tools, the effectiveness of the Board of Advisors must be evaluated each year.

   Assessing performance helps the BOA to adjust its practices so that it can best help the CEO increase stakeholder value.

Typical Excuses for Not Forming a BOA:
- It's too restrictive
- I'll put my job in jeopardy
- Boards are not effective
- My business is too small
- I have good accountants, lawyers
- I belong to a CEO roundtable
- I'm too busy

10. *Coordinate terms.*

   The main reason a CEO establishes a BOA is to gain independent and untainted advice – to get "fresh eyes" on important business concerns. Setting term limits upfront is good practice. While the number of years that equal a term vary among companies, a three-year term limit is often used. Terms should be rotating, so that not every BOA member departs in the same year.

   Bringing "fresh eyes" to the Board of Advisors is good practice.

CONCLUDING THOUGHT

For some CEOs, the decision to involve outsiders in their business may be a wrenching step. But, there is good news. Understanding the benefits of hearing an uncensored perspective in a constructive manner, and then adapting the GSG board building process to fit your unique company – will allow the formation of a valuable and effective Board of Advisors – one that will better enable the creation of shareholder value.

BOA THOUGHTS FOR START-UPS AND PUBLIC COMPANIES

Public companies, or large private companies, may establish a BOA for a particular product line or a specific initiative. The formation process, as outlined here, may vary in this instance, but the principles are the same. In these cases, it is also important to clarify the relationship the BOA has with the statutory board.

Start-up companies generally begin with an informal BOA and may adapt these same principles to that process.

"There are many ways of going forward, but only one way of standing still."

Franklin D. Roosevelt