Advisory Boards Make Dollars and Sense

By
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There is no substitute for soliciting the opinions of the executive team, the people who will be most affected by change or its absence. However, often the answers to complicated questions don't lie within those most affected. Frequently the CEO will need to look outside the organization for advice and wisdom. Sometimes this comes for a Board of Directors, a body of individuals that has the duty of influencing a company's direction. Members of this board have a fiduciary responsibility to represent the shareholders by making pivotal decisions.

Advisory Boards, on the other hand, do not vote, nor do they have fiduciary obligations. Rather, as the name implies, they exist for the sole purpose of advising the CEO and executive team. Small companies, family owned companies, and organizations that do not have a board of directors often find that advisory boards can be helpful in assisting the leadership, but sometimes companies find that they benefit from both kinds of boards.

In the last decade advisory boards have been rather commonplace in the Silicon Valley, particularly for new ventures. However, even though they are relatively inexpensive and easy to form, outside this arena, advisory boards are a valuable, but much underused asset in helping companies handle change. Advisory boards are unencumbered by compliance and other business issues specific to boards of directors, and they can provide the CEO and executive team the benefits of experience, expert knowledge, contacts and credibility that will help them navigate the future of their companies. An effective advisory board can provide expertise that a small company cannot usually afford in full time employees, and it can offer ongoing personal support to those who have the lonely position of CEO.

How do they get started? Because they are free from the regulatory restrictions that shape a board of directors, advisory boards vary greatly in composition and function. Advisory board members are usually chosen for their expertise, experience, and knowledge. A well-balanced advisory board will include 4-7 individuals who have a background in one of the critical areas that affects the business: finance, operations, human resources, business development, marketing, sales, and industry issues. They will be people who are candid, objective, and independent, not friends who will tell the leader what he or she wants to hear.

Recruitment of qualified members usually occurs through acquaintances, either directly known to the CEO or known to existing advisory board members. Some members contribute their time for the pleasure of the stimulation of being involved in cutting edge discussions, but more often, participants are compensated by an annual stipend, stock options, or an hourly fee. According to *Corporate Governance,* the main attraction for being on a board is the intellectual adventure, the chance to meet with outstanding peers and to discuss issues of the future. It is an honor to be invited, and high quality people attract other quality people.

The purpose of an advisory board is self-evident: it gives advice. So, the members should be good listeners who offer dispassionate analysis about the challenges the company is facing. They should be sounding boards for the CEO who is struggling with decisions related to anything and everything that touches the company. If they can quickly get to the core of complicated problems, they can offer the leadership a new perspective for understanding implications and consequences.

For best results, the members' advice needs to be both strategic and tactical. They can assist by anchoring decisions in the company's vision, mission, and values, but they can also offer specific, step-by-step plans for carrying out plans. They need to be able to separate important from unimportant issues so that they can encourage the leadership to focus their energies, time, and resources on those initiatives that will have the most impact. In short, a successful advisory board will be able to help the CEO see a bigger picture when the temptation is to be distracted by the day-to-day problems of running a company.

This relationship is not one sided, however. The CEO has responsibilities too. First, she or he will usually be directly involved in the recruitment of qualified members. Then, the CEO will need to set meetings well ahead of time and set agendas for the meetings. Most advisory boards have two to three meetings a year, but others meet every quarter. With a start up venture, the board may meet monthly until things are under way.

Usually the meetings of the entire board will be half a day or a full day, but often CEO's find that they need specific advice from individual members more often. Whatever the needs of the company are, the effectiveness of the advisory board is enhanced when expectations are clear on both sides, and the board and leadership can concentrate on the challenges of helping the company's employees handle change, even if it is unexpected or unwelcome.

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