# Getting On Board

## *How to Establish an Advisory Board for Your Growing Business*

Advisory boards can provide businesses with a distinct advantage over their competition. This is particularly true for start-ups and family run businesses that often face complex decisions, requiring a balance between near-term business needs and longer-term family concerns. Having board members who understand these dynamics can help integrate family concerns with business strategies.

### Choose the right governance structure for your business

Both a board of advisors and a board of directors share similar structures and goals and are generally comprised of individuals from outside the company or firm to provide business owners and the management team with support, advice and assistance. Members of either board may also include the owner, certain family members, or company employees. The key difference between the two is that decisions made by a Board of Directors are *binding,* while advice and recommendations from a Board of Advisors are not. In addition, depending on the size and complexity of your company, a board of directors generally includes separate audit, compensation, and nominating committees.

### Benefits of an advisory board

Whether you choose a board of advisors or board of directors, both structures offer companies certain advantages over their competition, including these and other benefits:

- Unbiased, outside perspectives
- Increased accountability and discipline
- Greater credibility with investors, vendors and customers
- Help in avoiding costly mistakes
- Skills and expertise lacking in the current management team
- A sounding board for evaluating new business ideas and opportunities
- Strategic planning assistance and input
- Help anticipating market changes and trends
- Crisis management assistance and advice

### Creating an effective board of advisors

The first step in structuring an advisory board is to analyze the strengths and weaknesses of your current management team to determine the type of talent needed on your board. For example, if you plan to take the company public in a few years, you'll need someone who's done that before and brings the expertise needed to help guide you.

Look for gaps where you lack critical areas of expertise or market knowledge. Do you have the depth you need in areas such as marketing, legal, finance, e-commerce, research, and technology? What are your plans—both short and long term? Will you expand into new markets?

Next, determine the size and structure of your board. Advisory boards can range in size from two members to thirty or more, depending on your stage of development, the size and complexity of your business, and the individual skills needed. For most small to mid-size companies, five to seven members should be adequate. You can always add new members as you grow.

## Recruiting candidates

Your first instinct may be to ask friends, family members or professional advisors to sit on your board. However, unless these individuals bring expertise that your management team lacks, they may not be the best choice, or bring the objectivity you require.

- Begin by determining the areas of expertise your company needs and create a profile of candidates that successfully fit these needs.
- Search online and offline for experts and business leaders that meet your criteria. This may require networking within and outside of your field.
- Solicit recommendations from individuals within your industry and networks, and from those that are unable to serve on your board but may have colleagues that also fit your profile.
- Include experts and successful entrepreneurs from other industries and disciplines to bring fresh perspectives and best practices.

Take the time to meet with potential candidates and communicate your goals and objectives, including the need for advisors who will challenge you and hold you accountable for pursuing your business growth goals.

## Board compensation

Most board members expect and deserve to be compensated for their time, efforts and advice. Advisory board compensation can run the gamut from several hundred, to thousands per year. Some companies pay their board members per meeting, plus a monthly retainer. Most companies should also cover transportation, parking, meals and lodging for members attending meetings. Companies may also give or require members to buy stock or some form of equity participation in the company, so that members are vested in the company's growth.

**To learn how Planned Financial Services can help you pursue a broader range of business and personal financial goals, contact us today at 440.740.0130 or visit us at PlannedFinancial.com.**

7000 Fitzwater Road, Suite 300, Cleveland, Ohio 44141

## AVOIDING COMMON PITFALLS

**Establishing ground rules and adhering to them will create a fair, effective environment for all members.**

- **Create a meeting schedule:** Whether you meet monthly, quarterly, or semiannually, provide board members with plenty of advance notice and reminders about upcoming meetings. Because most board members are running successful businesses of their own, they may not be available for every meeting. However, everyone should be made aware that attendance is important and expected. If a member is chronically absent, the value of their membership on the board should be reviewed.
- **Management buy-in:** Some family members or company insiders may feel intimidated or threatened by the involvement of outsiders. It's up to the CEO or owner to articulate the benefits and importance of having an advisory board.
- **Personality conflicts:** Many members of your board will be high achievers, who have gotten where they are by taking charge. It's up to you to decide when a member's personality becomes more disruptive than beneficial.
- **Lack of communication:** Withholding company information or failing to communicate regularly with advisory board members destroys trust and effectiveness. Regular communication between meetings is essential to maintaining an effective board.
- **Inadequate compensation:** While compensation should not be the determining factor in a candidate's membership on your advisory board, successful individuals of the caliber you seek expect to be fairly compensated for their time and knowledge.