

Why Private Companies Establish Advisory Boards

THIS WHITEPAPER EXPLORES:

We'll discuss what an advisory board does and the main driving force behind why private companies establish advisory boards. Review a list of the steps needed to form an advisory board and the tips on how manage it effectively.



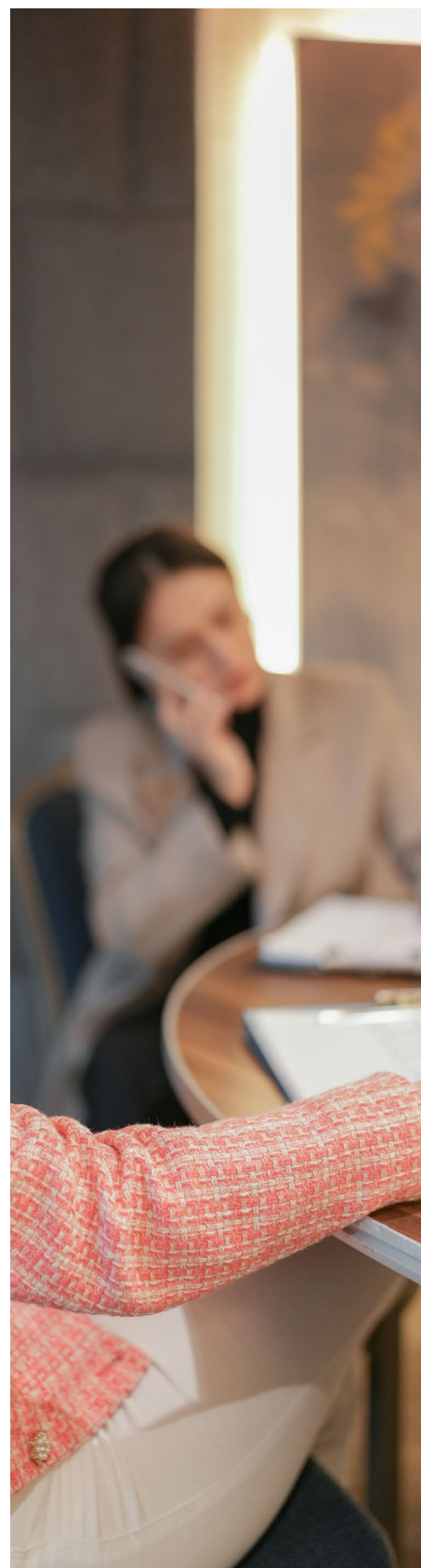
What is an Advisory Board?

Unlike a formally structured board of directors, an advisory board is a less formal group of outsiders (to the company) that is organized to provide owners and corporate leaders with support, advice and assistance. While Boards of Directors have legally defined responsibilities, control and fiduciary duties; advisory boards have no formal power or binding legal authority other than what you give them. They serve at the pleasure of the business owner or CEO with less cost, risk and liability to all parties involved.

Why Private Companies Establish Advisory Boards?

Clearly, we understand not every company needs a board. However, we have found many, if not most companies can benefit from an external board. Below are several reasons taken from business owners why they created an advisory board:

- Unbiased outside perspectives on many issues.
- Increased corporate accountability and discipline.
- Enhanced Owner/CEO and management team effectiveness.
- Greater credibility with investors, vendors, and customers.
- Help in avoiding costly mistakes.
- A sounding board for evaluating new business ideas and opportunities.
- Enhanced community and public relations.
- Improved marketing results and effectiveness.
- Strategic planning assistance and input.
- Centers of influence for networking introductions, ex. potential customers, investors, vendors.
- Help to anticipate market changes and trends.
- Crisis and transition leadership in the event of the death or resignation of the CEO.



Steps of an Advisory Board Formation

Below is an outline of the steps we follow when assisting Owners/CEO's evaluate and configure their advisory boards:

1. Clearly and concisely articulate the most important issues facing the company and reasons for implementing this board.
2. Determine the structure, total number of members, appropriate balance of inside and outside members, term of service, compensation, and roles that will characterize this board at formation.
3. Identify potential board member candidates.
4. Prepare board summaries, rules, corporate information (including mission and values statements), and invitations to service.
5. Conduct informal discussions with candidates to determine interest, availability, and capacity to fully serve as a member of this board.
6. Share board summaries and invitation to service with prospective board members.
7. Secure commitments to serve, execute documents, and schedule the first board meeting.
8. Secure meeting location, travel and lodging logistics as required.
9. Distribute corporate information, board rules, and meeting agenda well in advance of first board meeting.

Keys to Board Effectiveness

Many small companies do not have the time or energy to use advisory boards well. The majority of the members are rarely contacted, if at all, and the shares they receive give no benefit to the other owners of the business.

- If you build it, use it. Owners and CEOs who invest the time and money in creating a

board should be committed to soliciting and using its advice on important issues and decisions.

- Be careful of logistics. Don't solicit members that are located a long way from where you intend to meet, are exceptionally busy in their own business, or where a developing conflict of interest can reasonably be foreseen.
- Value their input, even when they disagree with what you want to do. Sometimes a board is at its most valuable when it recommends against a course of action the CEO wants to take. If you recruit a good board, often they have already been down the path you are on, and their experience (and past failures!) can help you to avoid costly mistakes.
- Communicate with your advisors. Keep the members of your board informed about what is happening in your company and industry. Meet with individual members on the phone at least monthly and send them information well in advance of your meetings, to help them prepare and keep the meetings productive.
- Hold regular meetings. Most boards meet once per quarter; however, boards should meet more often during times of rapid growth or if the company's needs merit additional oversight and guidance.
- Have an objective for each meeting. Your board members are typically busy people and their time is valuable. Make the most out of your meetings with them, by having a clear agenda and objectives for each meeting. Make sure to cover the most important items of business first in case the discussions take longer than planned or some members must leave early.

"If you build an advisory board, use it."

Conclusion

Access to outside perspective and experience is an asset that every CEO must have to avoid being trapped by blind spots, prejudices, and nearsightedness. Most CEO's need help to identify emotional stumbling blocks; they will benefit from objective questions/challenges and can use ideas that experienced outsiders are uniquely equipped to provide.

Outside perspective can help to avoid costly mistakes on the big decisions, make faster work in resolving the most difficult challenges, and enable you to capitalize on opportunities that might not be recognized in time. An advisory board provides these benefits together with a trusted, confidential, objective sounding board that doesn't (and often shouldn't) exist within the company or at home.

Contact Us

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