HOLDING YOURSELF ACCOUNTABLE: EFFECTIVE ADVISORY BOARDS FOR OWNER MANAGERS

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It's lonely at the top. No matter how much we know, we can't know everything. No matter how good we are at some things, we can't be good at everything. How do we know when we're being told what we need to hear? How do we know when we're only hearing what we want to hear? Sometimes things make more sense when a stranger says them. For all these reasons, having a board of advisors can be a very good thing for an owner-managed business. This article explains how to put together an effective advisory board from the perspective of an experienced advisor.

Advisory Board versus Board of Directors: The Owner Manager's Perspective

Most business people are familiar with the concept of a board of directors in large public companies. Directors are elected by the shareholders to oversee the management of a company, and are accountable to both the company's shareholders and government regulators.

Formal boards of directors are not as common in owner-managed businesses for three main reasons:

- Owner managers like to control their destiny, and generally don't like to submit to the scrutiny of others (even if they are handpicked associates).
- Many owner managers expect to have a hard time finding enough third parties that they both respect and who will show up to advisory board meetings.
- Many people do not want the risks, obligations and liabilities associated with being a director of a private, owner-managed business.

However, an *advisory board* is an excellent alternative to a *board of directors* for owner-managed businesses. It is a group of professional advisors that you invite into your business world and who function just like a board of directors, except:

- They are not formal, legal directors of your company.
- They have no decision-making power. They only make suggestions and provide advice.
- They have no "directors' liabilities", which comforts them and makes it easier to get good people to join.

Reasons For Appointing An Advisory Board

There are many good reasons for owner managers to have an advisory board, including:

- It's lonely at the top.
- It's very hard to see yourself objectively.
- It's hard to see your management team objectively.
- It's hard to objectively judge your business and its place in its industry.
- No matter how much you know, you can never know everything.
- No matter how good you are at some things, you cannot be good at everything.
- No matter how many people you know, you cannot know everyone you should know.
- How do you know you are being told what you need to hear?
- How do you know if you are hearing what you want to hear or are asking to be told?
- Familiarity breeds contempt – sometimes things are more credible when a stranger says them.

Therefore all owner managers, especially those who are thinking about exiting their business, should seriously consider putting together a formal board of advisors that meets regularly.

The Benefits of Having An Advisory Board

There are many benefits to having a board of advisors, especially if they are true impartial advisors and not friends or relatives. Potential benefits of having a board of advisors include:

- You can get objective, independent advice.
- You can get a chance to see your business as outsiders do.
- You will have someone in your group who will not be afraid to challenge you.
- You will have someone to hold you accountable.
- You can get a second opinion on any decision or choice you have to make, which can give you new ideas or perspective on the issues or provide you with assurance that you are on the right track.
- You can share the burden of decision-making, especially difficult decisions.
- You can discuss things you might not be able to discuss with others.
- You can add depth to your management team that you cannot afford to hire, filling in gaps in experience or expertise.
- You are not encumbered by the legal structure of a formal board of directors.
- You are not bound by the advice you receive.
- Your advisors need not be concerned with directors' liabilities.
- You can do all this at a very reasonable cost.
- Meetings will 100% devoted to you and your business.

There are many for-profit and not-for-profit organizations that organize owner-managers for group meetings. However, most of these meetings allow every owner manager to share a problem or two. While this is great personal learning time for each owner manager, and a lot of good advice can be had, it is not the same as having two or three-hour meetings devoted completely to your business. If you only have time for one or the other, a proper board of advisors may be the preferable alternative, especially if you are thinking about exiting your business.

How To Assemble an Advisory Board

If you think an advisory board is the right thing for you, there are some simple things you can do to get one together:

- Be clear in your mind as to why you want one.
- Consider how often you need to meet in order to get what you want out of the experience.
- Decide how many members of the management team should be on the board, if any. It is not unusual for two or three key senior executives to attend board meetings, even if they do not have formal seats on the board.
- Consider whether any family members involved in the business should be on the board, including your spouse or any children you are grooming to succeed you.
- Decide how many outside members you want on the board. Usually two to four outside members is appropriate – anything more can get unwieldy.
- Have an idea of what you are looking for in board members, and why.
- Make sure what you are looking for integrates with your motive for having a board at all.
- Consider what kind of people you want to have on the board, including what strengths and personalities you are looking for, and write these criteria down.
- Consider what kind of team you want to put together, especially in terms of expertise. For example:
    - Industry knowledge.
    - Insight from the perspective of other industries.
    - Strategic thinking.
    - Accounting or finance expertise.
    - Legal expertise.
    - Operations and production expertise.
    - Human resource expertise.
    - Sales and marketing expertise.
    - Experience in corporate governance or business leadership.
    - Connections to investors, bankers, analysts and other important third parties.
- Decide what areas you or your team are weak in, and find experience and expertise to fill those gaps.
- Do not put “yes men” or “yes women” on your board of advisors – find people who will look out for you and stand up to you at the same time.

- Find people who you and your management team will respect, and who will respect you in return.
- Find people who are compatible with your corporate culture.
- Go through personal contacts and acquaintances.
- Contact others who might have a wider network than you do, including your accountant, corporate lawyer and banker.
- Do not be afraid to get referrals from people you trust.
- Do not be afraid to approach people you would like on your advisory board even if they do not know who you are – they just might say yes.
- Compensate your board members, even if they don't insist. People will take it more seriously if they are being paid, and you will take them more seriously in return. Check the typical fees for owner-managed businesses in your community. In my experience, $500 to $1,000 per meeting (assuming a two or three hour meeting outside normal business hours once every three months) is fairly typical.
- Do not automatically offer share options or commission to advisory board members. Many good people will be motivated by the desire to help and won't be looking for options. On the other hand, if you want focus on growth and long-term commitment, share options can be useful.
- Get a commitment of at least four meetings from every new member, including a commitment to be on time and prepared; you want the meeting to be viewed in a business-like fashion.

Getting The Most Out of Advisory Board Meetings

The meetings themselves should be run in a professional and business-like manner. They should be held regularly, on time and with an agenda, and with background material issued before hand. Here are some suggestions for getting the most out of your meetings:

- Chair the meeting yourself. This is your business. You want people who respect that and are committed to seeing you succeed.
- But be prepared to listen. In fact, you should listen much more than you should talk. Take your own notes for later review.
- Schedule meetings at a convenient time and location, generally at the end of the business day but not late in the evening. Give people most of the day for their own business but get them home in time for a late dinner.
- Select a location that is convenient for everyone; at your business if you have the facilities, but offsite if it's more convenient.
- Do not make it a social meeting. Do not meet in a restaurant or over a meal, although serving refreshments of some kind is always appreciated, and you can always go out for some social time after the business meeting is over.
- Run it as a business meeting.
- Have regularly scheduled meetings and stick to them.

- Have a timetable for your meeting, including time for each item on the agenda, and try to stick to it.
- Have an agenda, and circulate it with background materials in advance of the meeting.
- Let members add matters to the agenda at the beginning of every meeting, and adjust your timetable if necessary.
- Carry over unfinished items from previous agendas, if appropriate.
- Keep minutes of each meeting, have them typed up, and refer to them as required. Some boards have minutes from the last meeting approved as the first order of business at the next meeting.
- Present financials results, a sales and marketing report, an operations report and a president's report at every meeting.
- Avoid committees; most owner-managed businesses do not need them and they can become burdensome.
- Senior managers should be present as required to make meeting most effective. Having senior managers make presentations from time to time will be good for you. You will get to see how your management team performs, and they may say things to the board they might be afraid to say to you. In addition, the board will be able to assess them and how well they are performing, and will be able to give you frank and honest feedback that might differ from your own assessments.
- However, do not be afraid to ask senior management to leave the meeting if and when it is necessary. You might even implement a standard practice of finishing the meeting without them so that your outside advisors can be frank with you.
- Remove people from your board who do not attend.
- Remove people who do not contribute or are too negative, adversarial or domineering.
- Do not remove people who challenge you, especially if they are doing it sincerely and in your best interests. Good board members know they are there to be a "devil's advocate".
- Do not leave a meeting confused about what people really think. Know for sure if they are being a "devil's advocate" or really mean what they are saying.
- Pay your members before they invoice you. Consider having their cheques at the meeting; it shows respect and appreciation, and makes it less awkward to change them before the next meeting if you so desire.

As with most things, the more you put into your advisory board the more you will get out of it. It has to be balanced, as you still have a business to run and life to lead. However, in the long run, the benefits should far outweigh the costs.

Concluding Thought: An Instant Competitive Advantage

Most owner managers are very comfortable controlling their business and are afraid of anything that threatens that control.

Very few owner-managed businesses actually have a board of advisors, despite the fact everyone acknowledges it is a good idea to have one.

Odds are most of your competitors do not have a board of advisors.

Therefore, simply having a board of advisors will put you a cut above most owner managers. In fact, this may be the best reason of all to have a board of advisors. Your board will provide you with immediate competitive advantage over most of your competitors, not just in your succession planning, but also in everything that you do.