

A New ABC: Advisory Boards and Cash

**An AB Requires Educating Members About
the Business but It Can Help the Company Grow**

By Edward H. Pendergast

An Advisory Board can increase cash flow. For a private company, establishing an Advisory Board has been shown to increase profitability. Many smaller companies operate in a vacuum with little outside help in improving their business. These companies may have strong expertise in operations, for example, but little understanding of marketing, people management or finance. Because a business is small, CEOs think they cannot afford this type of expertise. Enter the concept of an Advisory Board.

What is an Advisory Board (AB)?

A regular Board of Directors has legal authority over a business and can hire or fire the CEO, for instance. For many closely owned or family businesses, this is too much authority to delegate to an outsider. An Advisory Board, on the other hand, is, as its name implies, strictly advisory. The owners and operators are free to hire or fire members of their Advisory Board. If constituted properly, an Advisory Board brings talents and advice to the owners or operators they could not otherwise afford to hire. Because an AB does not have the legal liabilities of a formal Board of Directors, it is easier to recruit members who would be reluctant to expose themselves to the legal liabilities of a formal Board of Directors.

Why establish an AB? A well-chosen AB will have connections in the community that the CEO and staff may not have. Having an AB brings accountability and structure to the owner/operators since they are

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required at each quarterly meeting to report what occurred since the last meeting and what their plans are for the future. A good AB forces the business to think more strategically. An AB is an opportunity to bring skill sets to the business it otherwise could not afford. As an example, an AB may be able to attract a senior Human Resources Management executive to help with the often thorny HR issues around attracting talent.

How do you form an AB and how can you attract high-level members? Many successful business people know the details of how businesses operate and enjoy sharing their success and helping other businesses grow. Because of their advisory nature, standard requirements don't exist for forming an AB, but the following guidelines cover the key points in forming an AB that serves your business. First, ask other business associates if they have formed an AB. What worked? What didn't? How did they find members? Who did they get help from? Next, your present professionals such as your accounting firm, your attorney or your banker, knowing your business, may have suggestions of successful ABs or may recommend a consultant to help organize the AB. After gathering this initial information, start to develop a job description

of the parameters of the AB to explain to prospective AB members what to expect. The parameters may include that you plan to hold quarterly meetings, indicating their duration, if they include dinner, if there is compensation and that there is no legal exposure as compared to a Board of Directors. You should consider what type of members you want to attract. As an example, if you are lacking internal expertise in HR, one member with HR expertise will allow you to handle HR issues more professionally.

What do you do with an AB? The most important elements for success are to manage everyone's expectations and to spend a lot of time educating the AB about your business. Managing expectations is important because it takes time for an AB to be productive. Educating the AB takes quite a bit of time. It may be a year before the AB gets comfortable understanding the business, and it may take you that long to feel comfortable with the AB and be as candid about your issues as possible. In the example, the Board alternated meeting at the business and off site. Meeting at the business allowed the AB members to see how the business operated and to meet the key employees, which allowed them to understand their strengths and weaknesses. Meeting off site allowed the AB to focus on

strategic issues and not be distracted by the usual interruptions. The first three meetings were spent bringing the AB up to speed on how the company operated, who the competition was, how strong the management team was and what the real issues were. Before each meeting, the President had a package of material developed, including an agenda, a set of financials, and a report from the President explaining the past quarter, projecting the next quarter and outlining the issues to be discussed at the AB meeting. At each meeting a different member of management makes a presentation. This helps the AB get an in-depth understanding of a part of the business, and it helps to develop the management team. A portion of each meeting is devoted to a strategic issue, frequently with only the AB and the CEO present. It gives the AB a chance to be candid with the CEO.

In between meetings, the AB is frequently available by telephone or e-mail to discuss issues as they arise. As an example, recently a CEO had an unsolicited offer for his company. He called a teleconference to figure out how to react. In another situation, a key person was demanding to have his employment agreement rewritten, and the HR member of the AB was able to help resolve the issue. Finally, the company had

an opportunity to make a presentation to a new customer, and an e-mail to the AB uncovered that one of the members knew the CEO of the potential customer well. She or he made a call that got the company in to the potential customer in a preferential position. Often the CEO may call on one of the Board members with a specific skill to address a problem.

In conclusion, an AB requires effort educating the members about the business and preparing for meetings. A well-run AB can help to grow the company, address thorny issues, and expand the company's capabilities and its reputation. All of which leads to improved profitability and positive cash flow. ■

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