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Advisory boards are a powerful resource for growing companies

A great resource for growing companies is a group of key advisers to help guide management and ownership through the turbulence that comes with growth.

Advisory boards can help the company develop strategy, confront difficult issues, create important external relationships and attract key people.

Why have an advisory board?

The real boards of startups and companies in the early stages of growth typically consist of the founders and any key investors who are close to the founders.

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Fearing loss of control, founders, friends and family keep control of the company closely guarded. This leaves little room for outside directors and can often lead to an insular view of the company, its market and its opportunities.

This can also result in a limited ability to develop meaningful strategy. What is missing is the perspective of experience that can be added to the decision-making processes by those who have weathered the storms of company formation or have unique expertise.

That being said, most founders and initial investors do not want to relinquish control by recruiting outside directors to the real board of the company.

To gain the valuable insight of people with diverse perspectives and experiences, and to augment the company's team, consider creating a nonvoting advisory board. It's never too soon to do so.

Who should serve on the advisory board?

Populate the advisory board with four to six people with whom there is a pre-existing relationship and who have diverse backgrounds, expertise and experience. Professional advisers — lawyers, accountants, investment bankers and investment advisers — important customers and clients, industry experts and retired executives are examples of such resources.

Recruit people who have unique expertise in the industry, have a track record of starting and building a successful company, have capital markets expertise, have experience in sitting on boards or other valuable skill sets that can serve the company as it pursues its mission and grows.

Seek out strategic thinkers; those who have experience sitting on private and public company boards, who understand the role of boards and who can help shape the strategic direction of the company.

Why serve on an advisory board?

There are many reasons why people are willing to contribute time and expertise by serving on an advisory board.

There is typically an existing relationship with the founder or a member of the management team and a genuine interest in helping the entrepreneur build a successful company.

If the adviser has a business relationship with the company, such as a client, vendor or customer, the growth and success of the company can directly contribute to the growth and success of the adviser's company. For a retiree, being on an advisory board can provide a platform to share the lessons learned during his career with willing listeners and contribute real value. And, as an added factor, serving on an advisory board can afford the members valuable networking opportunities.

Structuring the advisory board.

The most effective advisory boards are those that function like a true board. There should be regular meetings at least twice a year that should combine a structured agenda with social time. There should be full disclosure of information about the company, and full and open discussion on critical issues.

The focus should be on three key areas: Financial and operating performance including historical performance and forecasts; critical issues facing the company today, and; development and execution of strategy, both short-term and long-term.

Advisory boards need not delve into the company's day-to-day operational issues. Those are best left to management. There can, however, be real value in assessing whether the company is progressing in accomplishing its strategic initiatives.

What about compensation?

Compensation for advisory directors can take many forms. If there is an existing personal relationship with the owners or an existing business relationship with the company, the advisory director may serve without compensation. If not, the company can compensate the advisory director with cash (say $500 a meeting), options or a combination of the two.

Whether the compensation is in the form of cash or options is typically driven by where the company is in its growth cycle and the company's culture related to incentive equity programs.

Integrate the real board and the advisory board.

It is very important to integrate the advisory board with the real board. This can be accomplished in several ways.

There can be joint meetings on a regular or occasional basis. Minutes or notes of the meetings can be shared as appropriate. The chairman of the board can also chair the advisory board and provide linkage between the two groups.

However this is structured, the keys are transparency and alignment. So long as the two groups have an aligned view of the company and information is shared, the advisory board can be of enormous value to the real board and to the company, at least until the company grows up and the two are merged into a real board populated with many independent members.

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