



The Pros and Cons of Forming a Board of Advisors

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Entrepreneurs often ask me if they should form a Board of Advisors (or "Advisory Board"). My answer is always the same: it depends.

The first thing you should understand is that there is a big difference between a Board of Directors and a Board of Advisors. A Board of Directors is a legal entity with well-defined responsibilities and real authority. Once you form a corporation, you automatically have a Board of Directors. For small startups, the Board may consist of one person - you, the owner --- but you can always add other members. Each member of the Board of Directors has voting rights, and the Board as a whole is (ultimately) liable for the company's actions. For large public corporations Board members are usually well-compensated (usually with stock and often with cash and other benefits), and always insured against lawsuits.

A Board of Advisors is a very different animal. First of all, the Board of Advisors has no legal responsibilities and has no authority. Members may be compensated, but the compensation is usually much less. Since the Board of Advisors has no real authority, members are not usually insured against lawsuits because there is no basis for suing them. In many cases, there isn't even a formal agreement between the company and the Board of Advisors.

A Board of Advisors can provide the following benefits:

1. **Diversity of opinions.** A good Board of Advisors will have a diverse mix of personalities, talents, and areas of expertise. You should also get a blend of opinions from different points of view. If they all sing the same song all the time, then you should consider swapping some people in and some people out to mix things up. A Board of Advisors might include one or two industry experts (usually not direct competitors, however), one or two marketing/sales people, and one or two financial experts, but the exact mix depends on you and your company.
2. **A large rolodex.** Ideally each member will have a significant network of high quality professional contacts that you can draw on when needed. These might include potential management team members, potential business partners, vendors, clients, or investors. Just be sure not to abuse this privilege or you will quickly wear out your welcome.
3. **Credibility.** Some people form a showcase Board of Advisors where all the members are famous. The idea is this will attract investors. There is no harm in doing this as long as you have realistic expectations about what each member can and will do for you. Don't expect the CEO of a Fortune 100 company to sit down with you for coffee twice a month.



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In general, I prefer a board where the members are respected in their professions, but approachable.

Generally, it makes sense to form a Board of Advisors if any or all of the following apply:

1. Your company is growing so large that you are starting to lose touch with your employees (customers, vendors, suppliers, partners, etc.). A Board of Advisors can help you stay grounded and also keep you on your toes about important issues that your management team and/or staff may not want to tell you.
2. You plan to raise capital from outside investors at some point. A Board of Advisors can help you weigh your funding options, evaluate your growth plans, and provide credibility to your business (and thereby help you attract the capital you need).
3. You are so busy running the day to day affairs of the business that you simply cannot think about strategic issues and long term plans. If you have the money, you should at least consider hiring an outside strategy consultant. However, if this is not an option, then a strong Board of Advisors may be just what you need.

Note that there are also situations where a Board of Advisors is NOT the right solution.

- ✓ If your company is small or growing very slowly you probably don't need a Board of Advisors. You may better off simply joining a peer networking group --- it takes less work and it's easier to get out of it if it just isn't working.
- ✓ If you have a low tolerance for other people's opinions or you are excessively paranoid about competitors. You should consider other alternatives.

Earlier in my career I worked for a well-known international company. The company was profitable and growing by 10%-15% per year. However, operations were a mess, there was no long term strategy, and most importantly, their closest competitor was growing nearly twice as fast. One day we learned that the CEO had formed a Board of Advisors. Everyone in middle management was very excited. However, it quickly became clear that the whole thing was a dog and pony show; the CEO had no interest in using the board to actually solve any problems. The CEO would routinely hide important facts about the company, and had absolutely no interest in hearing what the board members had to say. The whole process was a sham, and everybody knew it. Fortunately for the company, the CEO had good instincts about his customers so the company was ok, but any potential benefits from having an outside group of experts reviewing his business were completely lost by keeping them in the dark about real problems and only telling them what he wanted them to hear. If deep down in your heart you know you just can't be honest with a room full of peers, then don't form a Board of Advisors. You will just be wasting everyone's time, including your own.



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How many members should be on your board? As a rule of thumb, I would limit it to 5-9 people. Larger companies might have more, but for a smaller company, this seems about right.

How often should the Board meet? I recommend holding formal meetings once a quarter, or possibly even once every month, but definitely no more than once a month. You might want to take individual members out for coffee once in a while to make things more personal.

Recognize before you start that everyone will not be able to attend every meeting. However, it is a good idea to set some guidelines up front and let people know that you expect them to attend at least 2 out of every 3 meetings (for example).

As a final recommendation, make sure you pick people that you respect, trust, and can work with. If you pick someone just because of their impressive resume, you could quickly regret your decision if you find they dominate every conversation and won't listen to anything you or other members have to say. Also, try to pick people who are compatible with each other. If your board regularly splits into two angry factions at every meeting, you probably won't get much value out of your meetings.