

Today in Finance for March 8, 2011

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Good Advice: Start an Advisory Board

For growing companies that want outside perspectives and expertise, an advisory board may be just the thing.

Alix Stuart - CFO.com | US

March 8, 2011

As optimism about the economy grows, companies are beginning to hire again. Some firms, however, are acquiring expertise in a less direct way: through advisory boards.

Advisory boards are separate from boards of directors and generally don't have legal obligations. They are particularly popular at growing private companies, which have either a management-only board of directors or no board at all. In the wake of the financial crisis, more executives are willing to admit they need outside perspectives on their businesses, says Bob Arciniaga, founder of consulting firm Advisory Board Architects. "We find more and more companies that can't figure out precisely how to get to the next level" and are looking for industry or subject-matter experts to help, he says.

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The appeal of an advisory board is that it can be helpful without being suffocating, experts say. Executives at a closely held firm "may be spooked by having an outside board of directors" that tries to exert control, says William Andronico, a partner at Boston-area accounting firm Moody, Famiglietti & Andronico who has helped several clients set up such boards. In contrast, advisory-board members are less likely to expect equity and therefore "can be more independent in their thinking," says Andronico.

CEO Kit Cooper wanted the extra expertise of an advisory board when he started Granada Corp., an outsourced customer-support service aimed at companies serving the Hispanic market, in December 2009. At previous firms, Cooper says, he sought "big names" for advisory boards to help establish the firms' credibility. But for Granada's board, he wanted senior-level executives who were a step below the C-suite, in order to leverage their practical knowledge. To make relationship building easier, Cooper also looked for advisers who were close to his Santa Barbara, California, office.

Currently, Granada's advisory board has eight members. The newest member is Jim Maloney, formerly vice president of information security for Amazon.com; he joined the board last week to assist with the company's information-security strategy. Other members have expertise in human resources, community relations, and software development. Granada does offer equity options to its advisers, a move Cooper says was not controversial among the other managers who hold shares. "The value they provide us exceeds what they get paid," he says.

At other companies, advisory boards work in parallel to the board of directors. Nine-year-old Leader Bank, which has five branches in the Boston area, has both kinds of boards. "The board of directors works on behalf of the shareholders, while the advisory board, which is comprised of local business leaders, is our eyes and ears in the community," says CFO Brian Taylor. The advisory board has also served a key marketing and referral function for the young bank, with a recent mention in a *Wall Street Journal* article about banks coming through one member.

What are the keys to a successful advisory board? Experts recommend the following:

- **Choose the right people.** "Composition is probably the most important thing," says Taylor, noting that Leader's 11-member board includes lawyers, business owners, and a financial planner, among others. "If they're not people you can trust, and they're not open with you, why would you want them there?"
- **Get a time commitment up front.** "You don't want to go after people who are completely stretched thin," says Cooper. He asks new board members to spend four 30-minute sessions per year

- **Don't forget compensation.** "You absolutely need to compensate [advisory board members] so there's a level of accountability," says Arciniaga. But the amount of pay and the mix of cash and equity (if there's any equity at all) are highly variable. After all, people don't join advisory boards "for the money, fame, or prestige," he says. "They're doing it because they want to add value somewhere."

Ultimately, as a company grows or goes public, the advisory board may transition with it. Leader Bank has already seen one advisory board member become a director. A similar path may unfold at Myriant Technologies, a privately held biotech development firm based in Massachusetts. Along with a formal board of directors, Myriant boasts an advisory board with such heavy hitters as Norman Augustine, former CEO of Lockheed Martin; James Woolsey, former director of the Central Intelligence Agency; Robert McFarlane, national security adviser to President Ronald Reagan; and, as of last week, J. Brian Ferguson, former CEO of Eastman Chemical.

"As an early-stage company, and with a limited budget, it's vital to have the advisory board, which serves as a wealth of experience and information at a moment's notice," says Samuel McConnell, senior vice president of corporate development at Myriant. "As the company matures, however, that experience either comes onto the regular board of directors or you bring it in-house."