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The Formation and Use of Business Advisory Boards/Councils

The **WISE** business executive must employ any and all resources available to successfully build and manage a business in today's environment. Those resources include other managers, investors, elected board members, professional advisors and increasingly, **Business Advisory Boards or Councils**.

Definition: A Business Advisory Board (BAB) is an informal council of individuals that is set up by an organization (for profit or not for profit) for the purpose of mentoring and advising Executive Management and for expanding the knowledge base of the management functions of the organization either on a function-specific or general basis. It is a non-statutory group of advisors that are free to provide advice and council without fiduciary complexities and without the requirement of consensus. In other words, the business executive may take any, all or none of the advice or council given by the BAB members.

The two types of BAB's are differentiated primarily by the focus and subject-matter expert composition.

- A. Function-Specific:** Advisory Boards that are specifically focused on advising a particular function within an organization. Examples are Customer-centric, Sales, Technology, M & A transactions/strategy, Product/Service Strategy, International Expansion, etc. These may be formed on an ad-hoc basis or project-oriented basis.
- B. General:** Advisory Boards that are focused on the overall management, direction and strategy of an organization. These are most prevalent

Advantages of a BAB: There are several advantages of a BAB and they vary depending on who the BAB members are, their engagement with the organization, the information flow between the organization and the BAB and the interaction between the Executive Management and the BAB members. Some specific advantages of the BAB include:

1. Creates an effective brainstorming/problem solving forum;
2. Adds to the Executive Management's network;
3. Acts as a facilitator for problem solving within the organization management team;
4. Provides a "global" view to the markets and how the organization is executing within that market;
5. Provides "strength" in terms of credentials for Executive Management when dealing with customers, financing organizations, vendors and employees;
6. BAB members may fill in (through the BAB or with separate consulting contracts) for expertise that may be currently missing in the organization's management team;
7. Provides a mental safety net for Executive Management in terms of mentoring, solving problems validation of courses of action being contemplated by Executive Management;
8. As there is no requirement for consensus, the Executive has the luxury of hearing several points of view and making his/her decision based on a broader data set without influence (as opposed to a formal Board, for example); and
9. Opinions can be provided to Executive Management by the BAB members in the pure sense without any influence, fear or other factors that might otherwise stymie the advice or council.

Forming the BAB: The right time to form a BAB is **ANYTIME!** The fact is that the particular needs of the Executive Management change as organizations grow and therefore the composition and utilization of the BAB's will change as well. When BAB's are formed early in an organization's life cycle, they may be formed of friends, family, outside advisors and others that have an interest in the entrepreneur and the business and provide the very basic knowledge support. As the organization grows and the needs become more complex, then the required level of the expertise and involvement of the BAB may change. Consider the following when creating a BAB – either Function-Specific or General:

1. Determine the levels and areas of expertise required that will be most effective at the current stage of development of the organization.
2. Decide whether the BAB is Function-Specific or General; perhaps both are needed.
3. Develop a preliminary list of members of the BAB, obtain their bios/resumes and conduct interviews focused on the responsibilities of the BAB members.
4. Ensure that the potential BAB members do not have conflicts of interest and that they are familiar with the role of BAB's.
5. Ensure that the BAB members sign confidentiality non-disclosure agreements with respect to the organization's business affairs.
6. Ensure that the potential members understand that there is a time commitment involved with participating in a BAB;

7. Look for BAB members who understand the BAB function and who understand the requirements of a BAB member;
8. Ensure that the BAB members understand that they may be asked to participate with the organization's employees and/or others, i.e. customers, advisors, vendors, etc. from time to time with and on behalf of the organization.

Operating the BAB: The BAB, in order to be effective, should be reasonably informed about the organization, the market environment in which the organization operates and the general strategy which has been set by the Executive Management and the formal elected Board as applicable. Some recommendations:

1. Once selected, set the term of service on the BAB to be annual;
2. Executive Management should keep in touch on a regular basis with each of the BAB members – suggest monthly telephone calls, lunches, etc. for ease of communication;
3. At least each quarter, a BAB Meeting may be scheduled (evenings sometimes good to allow for Executive Management and BAB members to focus). Schedule these as far in advance as possible;
4. It is a good idea to develop a reporting package that would be sent to the BAB members at least 1 week in advance that may include: 1) Internal Financial Statements including B/S, Operating Statement and Cash flow for the past quarter (comparative to prior periods if possible), 2) Projections of the same material as in 1), 3) issues for the coming quarter as well as progress made on the key issues addressed in the prior quarter, 4) Opportunities and calls for assistance where the BAB members are placed on notice that you are looking for their input at the meeting on certain issues; 5) Organization successes where BAB recognition of the employees involved would be beneficial;
5. Keep track of discussions between BAB members and Executive management, especially in terms of assignments, critical suggestions, follow-up, etc.
6. Make sure that the BAB members, who they are and their backgrounds are communicated within and around the organization including the organization's management team, employees, possibly the customers, other company advisors, etc.
7. Allow for virtual meetings by teleconference with BAB members and subsets of the BAB membership.

BAB Compensation: The objective of the BAB is NOT to create financial hardship on the organization. In the early stages of an organization's development, there may be limited cash resources and the prospect of equity participation may not be attractive to a BAB member. This may affect the level of expertise of the BAB members unless it is a Function-Specific BAB where there may be a specific benefit to the BAB member. E.g. a Customer Advisory Board. (In some cases cash/stock compensation to these kinds of BAB members would be prohibited.)

Several forms of compensation may be considered and they may change, again, depending on the organization, its stage of development and the BAB member themselves:

1. Cash retainer – monthly;
2. Cash “per meeting” each quarter (including expenses if appropriate);
3. Options (consider vesting provisions);
4. Restricted stock;
5. A combination of the above or
6. Recognition only.

The structure should be kept simple and reasonable consistent and reflective of the added value of the BAB member.

In Summary: Business Advisory Boards (BAB’s) are powerful tools for an organization’s Executive Management. The key is finding BAB members that each have an incentive to contribute and form a shared vision with the Executive Management of the ultimate success of the organization. Like any tool, the more that the user is trained in using the tool and the better focused and defined the job to be done, then the better chance for ultimate success. BAB members may provide a competitive advantage and strength for the organization and may be a reasonable staging step for more formal involvement, i.e. elected board positions.



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