BUSINESS SEN$E

Next Level Tools for Entrepreneurs & Small Business Owners

LEADERSHIP AND GOVERNANCE SERIES

Creating a Board of Advisors

Why is this important?

When creating an Advisory Board, two items are of utmost importance.

1.) An advisory board is not a quick fix for problems. Advisory boards work best over a period of time where you create a long term strategy/plan and work to achieve short term goals against the long term strategy/plan.

2.) As the business owner, you must be open to hearing opinions and advice that may be contrary to the way you have always thought or acted.

For both of these reasons, you should choose advisory board members who you respect, have a range of experience and knowledge to complement your own, who ask good questions, and who will tell you the truth. Remember that your advisory board is not a business coach nor do they serve as consultants. Rather your advisory board will help you think of creative ways to optimize your business processes, people, vendors, channels, sales and marketing and identify growth in areas where none were previously seen. With their expertise your goal should be to create or refine a long-term plan that holds you and your team accountable for your stated business goals and Key Performance Indicators (KPIs) or other metrics.

Vermont Sustainable Jobs Fund

In today's competitive business environment, organizations frequently seek outside expertise to help the company grow and prosper. Traditionally, companies seeking external advice invite advisors to join their Board of Directors. However, the formality, liability and expense of a Board of Directors is fueling the popularity of an informal, budget-friendly alternative for small and medium sized LLC entrepreneurs – a Board of Advisors.

A Board of Advisors is a team of people invited to guide, counsel and advise a company's managing owner, CEO and/or management team. A Board of Advisors is particularly useful in start-up and small companies, providing fresh ideas and unique perspectives to a growing organization. Advisors from different disciplines can complement the strengths and expertise of the organization's in-house leaders and provide broader management knowledge. An advisory board can also enhance an organization's credibility with clients and investors and expand a company's networking contacts.

A Board of Advisors holds some advantages over a traditional Board of Directors and even more advantages over having no regular external advice and feedback on how to best run your business. A Board of Advisors is:

Easy to Create and Expand: An advisory board is an informal group of experts and advisors handpicked by the managing owner, CEO and/or management team. It is relatively easy to create, expand or decrease the size of an advisory board in order to meet the needs of the organization. Moreover, members of a board of advisors can be recruited to serve only as long as they are needed and can be easily replaced. By contrast, a board of directors has legally defined responsibilities and is usually elected by the shareholders and governed by the corporation's bylaws. The ability to create and expand its board of directors is restricted by law and corporate policy. Moreover, directors are elected for established terms and may be difficult to remove.

Less Costly: Companies frequently obtain Directors and Officers Liability (D&O) Insurance to indemnify directors against claims from shareholders, employees and clients. Sarbanes-Oxley and other recent legislation have raised the accountability of corporate directors, increasing the risk that they will be found liable for acts performed in connection with their duties. As a result, the cost of D&O insurance may be too expensive for small companies to afford. Employing a board of advisors instead of a board of directors eliminates the need for costly D&O insurance, since a board of advisors cannot be held liable for advice given since decisions still rest with the CEO. Members of an advisory board may or may not be compensated for their time. When compensation does occur it often varies from a small equity interest in the company, a small per meeting or yearly stipend (e.g., $250 per meeting), or a nice meal and travel reimbursement.

Beholden to the Management Team: The fiduciary duty of a board of directors requires it to place the needs of the organization and its shareholders before the needs of its employees. Conversely, a board of advisors has no such duty to the company; directing, mentoring and advising the managing owner, CEO and/or management team are the advisory board's foremost priority.

How to Create an Effective Board of Advisors

Here are some suggestions for how to form and work with an effective Board of Advisors:

1.) First-hand experience is key: If you've never participated on a board of any kind (e.g., a non-profit board of directors, a business colleague's board of advisors), it may be a valuable experience to start with. It may help familiarize you with how groups handle issues of governance, strategy, and overall direction, and give you a chance to witness both strong and weak meeting management practices. BoardSource, a 501(c)(3) dedicated to nonprofit governance, offers essential tips and information for anyone thinking about forming or serving on a non-profit board. Their website lists in detail the typical responsibilities expected of individual board members and the particular skill sets and characteristics you'll need in order to be a successful board member. **This can serve as a template for setting expectation for your own advisory board members**.

2.) Take time to find the right candidates: When you're ready to form your board, it's vital that you choose individuals who will offer real value and contribute to your success. Start by considering the experience, skills, and capabilities most valuable to you. Don't just look to your friends or immediate network – widen your search to find skilled, reputable candidates who understand your business and industry and/or have

widely applicable skills and experience (e.g., banker, lawyer, trade association leader). Also, don't recruit replicas of yourself. Instead, seek out candidates who offer specific knowledge or experience that you currently lack. Prioritize which set of expertise is the most important before you begin to extend invitations to people to serve on your board.

3.) Communicate your expectations: The next step is meeting with the interested candidates who best fit your goals so you can evaluate their potential. Consider the following questions regarding potential board members: "What kind of time commitment should they be willing to make? Where do you most want them to add value for you and your company? What compensation will they receive for serving on your board?" Make sure the members you select are willing to dedicate the time and expertise required. The last thing you want is to get stuck with a board member who offers little value to your growing company.

4.) Use advisors' time effectively: Since you are asking highly skilled professionals to take time out of their busy schedules to give you advice, it's important that you don't waste their time. Determine a schedule that works for your needs and for their availability. Will you meet monthly or quarterly? Send out agendas, background material and financial information in advance (ideally one week in advance of a meeting). Focus on problems and opportunities that really matter. Don't spend your time justifying your actions or assuring them that everything is fine. Your board members are there to help you succeed and push your company beyond what you hope to achieve, so use them. Lay out the goals, issues and challenges you need to tackle, and strategize solutions. Think big picture and listen to feedback – which is not always easy. Since your board members will ideally come from diverse backgrounds, you just might hear assessments or criticisms that hadn't occurred to you before. Be open.

5.) Keep them in the loop: Send out brief meeting notes that focus on key takeaways and actions you intend to make regarding the topics discussed. It's your call whether to follow any advisor's advice but it shows respect to share how you've used their counsel to make decisions on the issues you bring them.

Additional advisory board resources available here: https://www.vsjf.org/programs/vermont-farm-to-plate-investment-program/vermont-advisory-boards/

Business Sense is a no-fluff source of information that gets right to the heart of what small business owners need: essential tools and informational resources to help their businesses grow. Written by our team of business coaches, this series shares their decades of experience in areas such as financials, operations, sales and marketing, human resources, leadership, and governance. Business Sense is designed to provide entrepreneurs and small business owners in various sectors, including agriculture, forestry, waste management, renewable energy, and environmental technology, with recommendations and practical advice to help their businesses not only survive but thrive.

Our business management coaching and Business Sense Resource Guide are designed to accelerate the growth of the enterprises we work with and expand the leadership capacity of the entrepreneurs who own and manage these businesses.

Let Us Help You and Your Business

The Vermont Sustainable Jobs Fund provides tailored business management coaching, entrepreneurial support, and training to position Vermont-based entrepreneurs and small business owners in our designated market sectors for growth and long-term success. We partner with state government, private sector businesses and nonprofit organizations to build a thriving economic, social and ecological future for Vermont. Learn more at VSJF.org

Vermont Sustainable Jobs Fund
Accelerating Sustainable Economic Development

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