

Advisory Boards “Frequently Asked Questions”

1. Why are Advisory Boards formed?

- Stakeholders want to move toward a partial or total diversification of their net worth – through a sale to a strategic or equity investor or by going public.
- Improve profitability.
- Establish a sustainable growth strategy.
- Instill organizational discipline and accountability.
- Assist in framing organizational structure and design.
- Mitigate shareholder/family disagreements.
- Management has hit the ceiling of complexity.
- Move from a lifestyle to professionally managed culture.
- Provide structure in an unstructured environment.

2. What are the Key Principles to Insure Success?

- Stakeholders and management should be willing to:
 - Listen
 - Change
 - Grow Personally
 - Be Accountable
 - Communicate Openly

3. What are the Deliverables?

- Tough questions are asked.
- Organizational accountability is established.
- Builds sustainable comparative advantage.
- Instills 30,000-foot viewpoint.
- Advances execution – accountability and organizational sense of urgency.
- Improves strategic focus.
- Expands networking capabilities.
- Provides experienced coaching and mentoring.

4. Who Serves on Advisory Board?

- Retired and semi-retired executives. The best candidates are former CEOs who have built transferable value in a company.

5. Why do Advisors Participate?

- Desire to put something back – “coach”.
- Continue to be involved in business.
- Make a difference.
- Assist younger CEOs to reach their goals.

6. What makes Advisory Boards Effective?

- Stakeholder commitment.
- Team culture at board level.
- Professional board process.
- Disciplined financial reporting process with complete transparency.
- Meetings facilitated by a non-executive chairman.
- Focus on strategy.
- Minutes with management action initiatives.

7. What is the Process for Forming an Advisory Board?

- Establish clear stakeholder objectives.
- Define the desired characteristics of advisors.
- Prepare specifications.
- Define the search universe.
- Develop a sourcing plan.
- Design an aligned evaluation process.
- Retain experienced professional to manage process.

8. How Many Times Should an Advisory Board Meet in a Calendar Year?

- Initially – the Advisory Board should meet every month. Once the team solidifies and clear direction is established with metrics – the Board can shift to four (4) to five (5) times a year.
- It's usually meaningful and worthwhile to have at least one offsite strategic meeting.

9. What is the Appropriate Number of Members?

- Usually, two (2) insiders (stakeholders/CEO) and three (3) outsiders.

10. What is the Compensation for Advisory Board Members?

- Current stipends are \$2,500-3,000 per meeting.
- Non-executive chairmen usually receive an additional compensation of \$1,000 per meeting.
- Consulting participation in non-board projects are compensated by negotiated rates.
- In many instances, a Change-of-Control Participation Agreement is instituted.

11. How Should the Company Communicate with the Advisory Board?

- A monthly report should be generated with the following components:
 - Executive Summary
 - Profit & Loss (Current, Budget, Prior Year)
 - Balance Sheet
 - Cash Flow (FASB 95)
 - Key Indicators (twelve-month graphed monthly comparisons)

12. Are Advisory Board Committees Appropriate?

- Both financial review and compensation committees are very beneficial.

13. Are there any Procedural and Protective Documents that need to be Implemented?

- An Advisory Board Charter and an Indemnification Agreement should be executed for each board member. The Charter outlines terms of service and the specifics germane to the mutual understanding of the engagement. The Indemnification Agreement provides financial support to the Advisory Board in the event of any legal action.

14. Are Advisory Boards Evaluated?

- The Charter calls for a yearly review of the Advisory Board's performance and fulfillment of stakeholder expectations.

As companies churn through the growth curve, they will outrun their money, people and systems. The Advisory Board concept is a meaningful process to provide stakeholders and management with the benefit of experienced mentors who can guide a team to improve financial discipline, gain operational excellence, build meaningful business development capabilities, establish a “gamebreaker” organizational design/structure and develop a sustainable strategic direction.

Advisory Boards assist leadership in staying focused on the right issues, establish internal and external clarity and insure that expectations are driven by a performance management system with completion timetables.