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The Boardroom Report

The dos and don′ts of setting up an advisory board

Small businesses can reap many benefits by setting up an advisory board, but there are also a number of mistakes they should avoid on the way, warns Dr Greg Chapman.

A common mistake is to take half a step towards forming the advisory board and then not follow it through, says Chapman, a small business adviser, coach and author of *Married to the Business: Honey I love you but our business sucks*.

"In a family business, stuff happens and it gets personal. So it's about keeping the vision clear while things are happening. This is easier to do if you are director in someone else's business. It's hard to have that objectivity if it's your business and family."

Chapman's advice to directors joining an advisory board is: "Remember it's personal and you are being invited into a family and are just a guest. They might ask you to leave at anytime. You are walking on eggshells. It's their business. You can attempt to persuade, but it's not like a formal board which has legislative requirements and directors' liability behind it. This means the owners are freer to do what they want and you have to be more sensitive to that personal dynamic."

The main concern about setting up an advisory board tends to be the cost to create the infrastructure even if that cost is just time. "It can be a distraction, but I tend to find that businesses get to a certain size and can't grow until they take this step."

But once business owners take the step, Chapman says the most common benefit is freedom. "Many are suddenly able to have a holiday. They can go away and know things will continue. The theme behind it all is to have the reporting systems in there that inform the board. So even if they aren′t there, they know things are happening the way they should."

Chapman says the time for small businesses to consider forming an advisory board is when they get to the point where they find the business is so busy that they can′t manage. "You can′t change until you take that step to establish the reporting relationships. Otherwise it will basically be like Groundhog Day."

His advice to the owners of small family businesses is to initially bring on business advisers who are more generalist than a specialist. "Earlier on, you need that general view. You already have an accountant who will be giving you advice anyway. And, legal problems in small businesses tend not to be that great. The focus initially is far more strategic, so what you need at first is a strategic adviser," he says.

"Do your research to find someone. There is no shortage of people out there and you need to sort the wheat from the chaff. If the prospective directors have the right experience and you know them, that's a good thing. The danger is choosing someone you know if they don't have the skills you need right now."

Chapman advises small family companies to grow their advisory boards slowly. "As your business continues to grow, you will need advice in different areas, and at some point the directors will have to step out because more specialist directors will be needed to take the firm to the next level. So it's important for business advisers to know when their skills are needed and when someone else may be better to take on the role."

Chapman adds: "Quite often what you find as the business grows is that there will be a family council as well as the advisory board. The family council effectively informs the owners what the family desires, so when the owners go to the advisory board they have an idea of what the family needs."