



Licensing Executives Society
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The Value of an Advisory Board

by

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In creating a new venture, there are many critical parts to the formulation. Besides experience of the founders and their level of commitment, the assembly of an Advisory Board is an absolute necessity. I state this, based upon my 60+ years of creating more than forty companies, almost always as part of a founding team. They provide credibility and contacts, plus advisers working together establishes guidance as the result of debate, something individual mentors cannot match.

An Advisory Board has the flexibility of offering judgments and accumulated decisions that are not bound by the legal or fiduciary requirements of a Board-of-Directors. Founders need to carefully analyze their strengths and their weaknesses and attempt to balance both with a diverse AB that will oftentimes not agree with the strategic planning of the officers and directors. I have seen cases where AB was assembled based upon the personal ego of a founder, to pacify their importance and judgment decisions.

A successful Advisory Board is comprised of individuals with experience in both successful management, hopefully for a company with similar products or services, or from a hands-on situation that will merit their abilities and advice. It is very often suggested that those with degrees in academics, law, medicine, accounting, etc., serve because of their credentials and reputation. In selecting the members, the founder(s) must define the company's key success factors that will determine the strategic challenges that will be faced. The mission is critical, and must be agreed upon by all involved. It is not defined as "Rich and famous."

The AB members should all have lived the trials and tribulations that the founder(s) have not yet experienced. It is also critical to evaluate your resources and how the members will be best utilized for advice and for possibly raising funding. They all need to be compatible and put their personal egos aside. You are now thinking, how many should there be on the AB? My usual response is based upon where you are in your growth, and where you believe the company can be within three to five years. Starting with a minimum of three and adding more later is fine, except in situations where you are at a growth level that now justifies perhaps having five or seven members when launching the AB.

How do you compensate them? Another question I have heard countless times. Almost always, they are provided with stock options or compensation notes to be paid when the company reaches a certain plateau. Upon accepting to serve, they realize that whatever the compensation will be, it will be forthcoming when a certain level of success is achieved.

You need to find advisors that are preferably employed and believe your story, being intrigued by the opportunity and the challenge. Board members, in my opinion, should not be family or friends with any emotional attachments to you or the business. You need to have a very clear definition of what will be required of each and the frequency of meetings along with the time, since you do not want to imply or even insinuate that you are taking advantage of them. You are providing them with an exciting opportunity to be involved in the building of a new company that they can personally benefit from.

In the soliciting process, do not jump to conclusions. You are evaluating them and how they each will fit with the other team members, both AB and employees. Give them time to think about your request and discuss it with their significant other. Since you are asking them for one of their most valuable assets, which is time, you are asking them to forego something else in their lives, both personal and business. I suggest you start with a one year commitment, allowing you to see how they will work out. You need to value their time as much as you do your own.

The frequency of meetings will be determined by where the company is in the growth cycle and it is not necessary that each meeting be in person. You can conduct conference calls as long as the agenda is well planned and with time frames per subject. You must maintain a strategic focus. Always ask for suggestions and explanations. Send out a series of questions in advance, so they have the time to consider a response and also reduce the meeting time. It is critical, and a corporate requirement, that someone keep accurate minutes of the meeting for the company's records.

I have seen many cases where a founder/entrepreneur has allowed their ego to get in the way of good sound logic and acceptance of advice. This creates a very dangerous situation. Once again, if the founder owns the majority interest in the company, they may not be as reasonable as the Advisory Board would want. The result can be a disaster. This is especially true if greed rears its ugly head, and the founder's decisions and judgment are clouded by his or her success.

Another consideration of the AB should be at what point in time would the company either sell to a larger firm, or be acquired through a variety of ways, or perhaps if successful beyond what was planned, a possible IPO. So, in summation, my advice is to carefully assemble a team of advisors that you respect and will listen to, and after detailed consideration, follow their advice. No one person has the answers to all of the questions.