Ontario

High Performing Advisory Boards

CEO PERSPECTIVES

LEADING GROWTH FIRM SERIES

report 9

HIGH PERFORMING ADVISORY BOARDS

CEO Perspectives

Introduction

Some of the most interesting questions concerning businesses today have to do with boards and their role in the success or failure of firms. These questions have most often focused on formal boards of directors. In the wake of the recent very public disasters of firms such as Enron and WorldCom, enormous attention has been focused on the roles and responsibilities of boards of directors.

Less has been written, however, about a different type of board, an advisory board. Advisory boards do not have the legal responsibilities and authority of a board of directors, but can play a very important role in the success of a firm.

An advisory board is an informal group of advisors chosen by a CEO to provide guidance and advice, but is more structured than an ad hoc group of peers. Advisory board members typically have a more detailed knowledge of the firm or of specific aspects of the firm and have invested time and energy in familiarizing themselves with key operational issues. As a body, an advisory board is also different from a management committee in that it includes individuals from outside the company.

Because advisory boards are often of particular value to growing firms, this report offers CEO perspectives on the key elements of effectively creating, managing and measuring the impact of advisory boards to drive growth. The report is primarily aimed at CEOs of firms who do not have an advisory board. It is also useful as a benchmark for those CEOs who currently have a board.

The report does not deal with issues concerning formal boards of directors except to briefly highlight current changes in the corporate governance environment in the addendum on page 22, which may be of interest to private companies who wish to attract investors and who may be considering going public at a future date.

The CEO profiles in the report range from CEOs discussing their experiences with formally structured boards to more informal advisory boards. The profiles illustrate specific ways in which boards add value to the performance of a firm.

The charts in the report are findings from a CEO questionnaire of Leading Growth Firms on advisory boards undertaken in September 2002. CEO respondents could choose multiple responses to many questions, therefore, the numbers add up to more than 100 percent.

Leading Growth Firm Series Mission Statement

Sharing and adopting the effective management practices of successful growth firms is a powerful strategy for any company to improve competitiveness and productivity.

The value add of an advisory board

An advisory board has two facets. It is part of the CEO's formal network and it is a discipline for decision-making that forces a degree of formality and rigour that may be less developed in companies without a board. When operating well, a board becomes a source of competitive advantage to the firm. It may go beyond mere advice, serving to cement key relationships or providing a platform for managing the relationship with key advisors. A board is also part of the evolution of a CEO as a leader, as he or she moves from playing the dominant role in the firm to leading a management team.

Why CEOs have advisory boards

- Getting advice from others who may know more than the CEO on specific issues
- Strengthening key relationships with others who have a direct stake in the firm, such as major suppliers or customers
- Gaining experience with an external group that provides an oversight function
- Training for a more formal governance structure such as a board of directors
- Getting an independent point of view in a 'non-threatening' environment from individuals who may be more willing to offer criticism
- Attracting potential investors through demonstrating good governance practices

It is never too soon to have an advisory board. In the early days of my first business, I never had business advisors and could have well used some outside advice.

– Michael Kehoe, President and CEO, Innova LifeSciences Corporation

One of my strengths is 'vision.' I also have a penchant for risk. This company would have been bankrupt if it was I on my own. The experience from all my boards has tempered risk and has been a great reality check.

– Jeff Cullen, President, Rodair International Ltd.

Creating high performing advisory boards

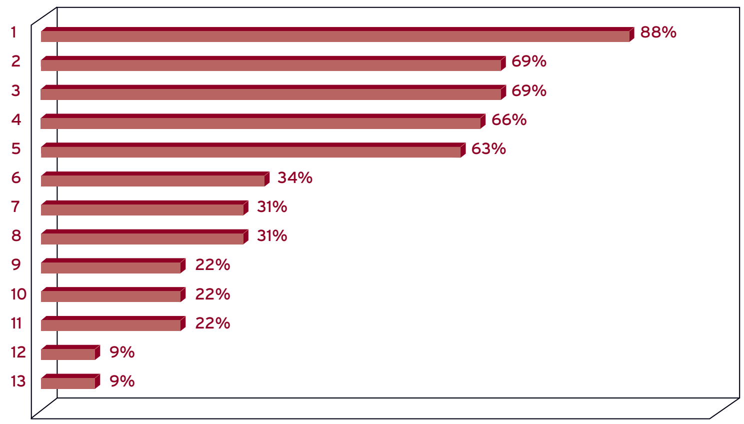
How boards make a difference to Leading Growth Firms

The question about advisory boards is not whether they are a good idea in principle, but whether the substantial effort in terms of time and organization provides a sufficient return on the investment. Based on the results of the questionnaire developed by Queen's Centre for Enterprise Development (QCED Inc.) for this report, the consensus of the 200 CEOs who responded is that effective advisory boards can deliver significant returns. One reason for this may be that leaders of fast-growing firms often find their jobs to be somewhat isolating. The pace of change and complexity of issues facing the firm make it difficult to quickly respond to all the challenges and opportunities that present themselves. CEOs have found that an advisory board can offer external, thoughtful advice that even the best executive management team cannot provide.

On a scale of 1 to 10, with 10 being the highest, CEOs with advisory boards reported an average satisfaction rating with their performance of 8.1.

Beyond general satisfaction, the key question is how advisory boards add value to the company and why CEOs rate their performance so highly. As the chart below shows, there are many different, and mostly complementary reasons, why CEOs consider setting up an advisory board.

Potential contributions of an advisory board as perceived by CEOs

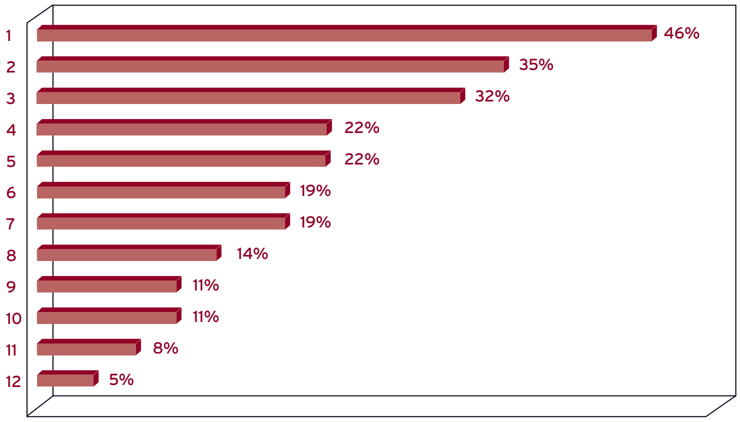


1 Sounding board
2 Strategy setting
3 New ideas
4 Management issues
5 CEO mentoring
6 Management mentoring
7 Business contacts
8 Business and competitive intelligence
9 Executive recruitment
10 Investment contacts
11 Training for formal board of directors
12 Direct investments
13 Other

> The independent entrepreneur definitely needs outside perspective. An advisory board provides this, and can give you 'tough love' advice, the advice you really need, but might be avoiding.
>
> – Craig J. Christie, P. Eng., CEO, Electro Canada Limited

Advisory boards have many purposes and most CEOs use their boards to fulfill multiple mandates. Nevertheless, when CEOs were asked for the most important contributions actually made by their advisory boards, their responses indicate that value added to them personally as leaders of the firm ranks very highly. The chart below shows the most important advisory board contributions actually received by CEOs.

Actual contributions of an advisory board



1 Strategy setting
2 Sounding board
3 CEO mentoring
4 New ideas
5 *Other
6 Management mentoring
7 Training for formal board of directors
8 Management issues
9 Investment contacts
10 Executive recruitment
11 Direct investment
12 Business and competitive intelligence

*'Other' contributions (22%) included:

- Supporting CEO accountability;
- Establishing credibility in the marketplace;
- Providing a sense of perspective; and
- Assistance with partnership issues.

The bottom line is that advisory boards can add significant value to a company and to the CEO. Starting with a clear focus on what you want the advisory board to deliver is the first step to success.

I am 58 and want to step back from the business in five to seven years, and I need to start planning for this. An advisory board will help to take my company to the next level.

– Jim McCabe, President, McCabe Promotional Advertising Inc.

Use formal structures to manage boards globally

Jeff Cullen, President, Rodair International Ltd.

Rodair International has been a great success story over the past six years, developing global logistics solutions for business to business and business to consumer clients. Jeff Cullen started the company as the youngest of four partners with one office in Ontario. Today, there are over 150 employees in sixteen offices worldwide in six countries (including Canada, U.S., U.K. and Hungary). As the company has expanded, formalized boards have been set up in each country to help grow and manage the business. Less formal advisory boards are also involved on a case-by-case basis.

The first board in Canada consisted mainly of investors. Cullen sits on each of the four boards with a variety of shareholders. Cullen brings energy, passion and vision. "We all have different strengths and skill sets. Some members owned businesses in the past. We complement each other. We challenge each other. And we collaborate," says Cullen. The time commitment is demanding though, as Cullen now spends three to four months a year traveling to ensure the boards are well integrated to support growing Rodair.

For Cullen, it is time well spent. "It is important to have a formalized structure to manage your board," stresses Cullen. As a private company, the boards in other countries were initially less formal. However, Cullen has helped to implement formal structures and guidelines. Examples include documented voting procedures, guidelines on spending limits for items outside agreed annual budgets, and specific voting percentages needed to move certain action items forward.

"You have to have formal processes. You can't have a free-for-all."

A less formal advisory board, consisting of accountants and lawyers who were originally involved in setting up the company in Ontario, now offers advice in other countries on matters such as strategy, budget and funding. "They've attended meetings to advise on items such as ESOPs (Employee Stock Option Plans), the legality of contracts and where to get funding," adds Cullen. "They are our reality check."

Formalized structures and clear division of roles and responsibilities have helped Rodair create boards that are integrated in strategy and execution, yet flexible enough to act independently. For example, in the companies outside Canada, each shareholder has individually invested a different percentage in the business, presenting potential issues of inequality. Formalized processes were implemented to resolve this concern and ensure things run smoothly.

In addition to having one board in each country, every board member is an active shareholder who also works as a director for one of the Rodair Group companies. To manage this duality, board meetings are defined by purpose. 'Shareholder' meetings deal with issues of equity in the business. All votes are equitable in shareholders' meetings and clearly outline what voting percentages are needed to carry a motion. 'Director' meetings deal with other matters pertaining to the business. Each board member at a directors' meeting has equal voting rights regardless of what their investment is. Cullen explains, "Initially, it was much harder when we had two non-working investors. There were differences in opinion, spending and strategy. Now that all investors work as directors for Rodair, everyone is on the same page." There is a rotating chair for every meeting and formal agendas for approving strategy, budgets, business plans and other topics. Boards meet twice a year if everything is going according to plan, or more often if needed.

Cullen cites two examples of how Rodair's formal and informal advisory boards really helped to impact profitability and expansion.

"One of our offices was struggling with profitability. Its executives were too close to the action and had too close of an affinity with its people. They kept saying, "let's keep slogging along and we'll turn this around." Our three associate boards and informal advisory board (of lawyers and accountants) acted as very humane and positive change agents to help coach this office." The office is now more profitable than ever. At the end of the whole process, executives said, "The board really forced me to admit what I knew anyway. They gave me the push to stop hesitating," recalls Cullen.

Another concrete example of how the boards have added value was assisting in plans for expansion. "The vision for one country was to originally open one office. Instead, we were able to open five offices in a day, cutting a five-year process to two years, thanks in large part to the advice and experience of the board members."

Cullen believes boards are invaluable. "It forces me and the rest of the board members to put a formal presentation together when we have ideas," says Cullen. "After discussions, we may act on two out of ten ideas. Now we put discipline in everything we do."

The board challenges you. We bounce off each other and benefit from everyone's strengths and weaknesses. At times, it's easier to make decisions alone, however, if you can get buy-in for an idea, it means the idea is great.

– Jeff Cullen, President, Rodair International Ltd.

At a glance

2002 Sales:	$35.9 million
2002 Staff Count:	150
3-Year Growth Rate	1999-2002
Sales:	64%
Staff:	150%

Managing advisory boards: from good to great

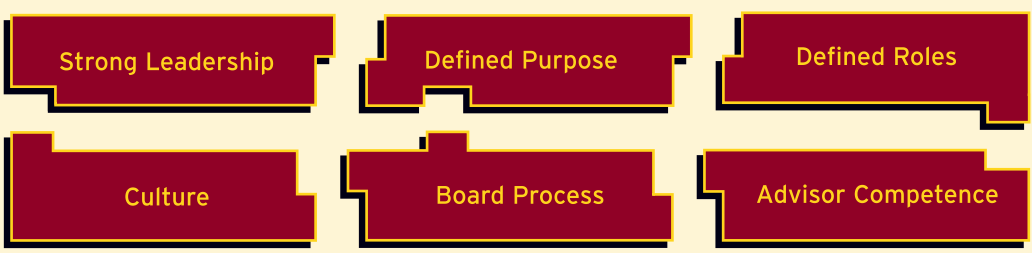
Maximizing performance

Six determinants of advisory board performance that contribute value-added benefits to a firm have been identified through research at the Queen's School of Business. The diagram below summarizes these key determinants.

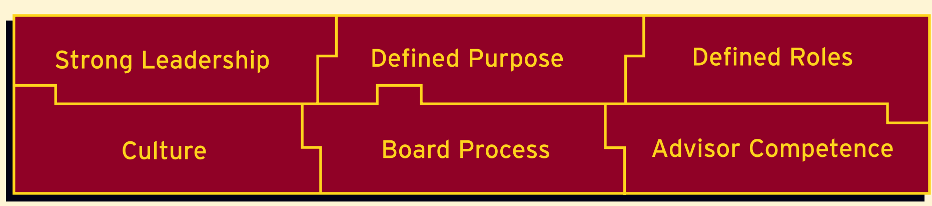
The most significant determinant of the success or failure of any board is the leadership ability and performance of the chairperson, regardless of whether it is the CEO or one of the advisors. The chairperson needs to ensure all the other pieces of the puzzle are in place including:

- Articulating the mandate and purpose of the board;
- Identifying and selecting high quality advisors against well-defined criteria for individual advisors, as well as for the board as a whole;
- Clearly setting and communicating roles and expectations for individual advisors;
- Ensuring meeting materials are prepared and sent out well in advance of meetings;
- Setting the tone for discussions;
- Running effective meetings;
- Taking corrective action if necessary; and
- Refreshing board membership as the firm evolves.

6 Key Determinants of Advisory Board Performance

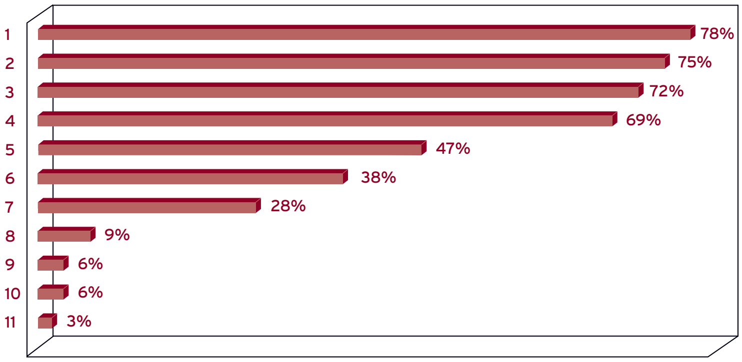


High Performing Advisory Boards 'Satisfy' all 6 Key Determinants



CEOs also identified the following processes as important to the successful functioning of their board.

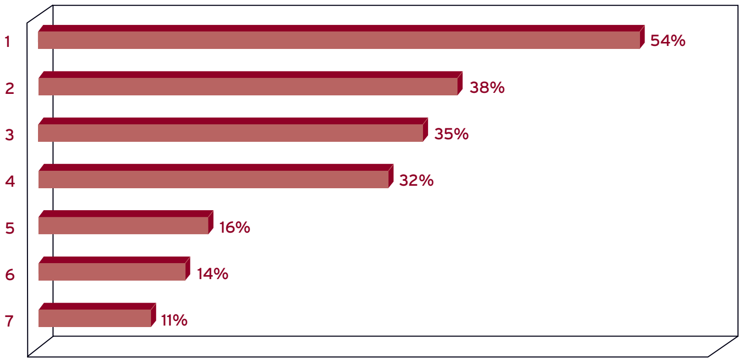
Operational processes important to an advisory board



1 Set agenda
2 Regular meetings
3 Minutes
4 Strategic plan
5 Norms
6 Designated chair
7 Subcommittees
8 Other
9 Team building
10 Performance reviews
11 Acculturation

In addition to clear leadership, board processes, such as well-run and regular meetings, are important. Meeting schedules range from once a month to once a year. On average, advisory boards meet every two months.

Information shared with advisory board



1 Financial data
2 Sales information/plans
3 All data
4 Strategic data (including business plans)
5 Performance metrics (other than financial)
6 HR/personnel information
7 Technical/R&D information

The open sharing of information contributes to obtaining the best value from an advisory board.

CEOs identified additional factors that can help move an advisory board to a higher level of performance. These include:

Have a full and frank exchange with advisors about the CEO's capabilities

A CEO who has had several advisory boards over the course of his career identified this as a critical success factor. He said that he always shares his strengths and weaknesses with his advisors, so they know how to help him address his weaknesses in any discussion. He also noted his lack of formal business training to his advisory board and mandated the advisors to augment his formidable operational skills with their business acumen.

Don't look for 'yes' people as advisors

A number of CEOs strongly advocated selecting advisors who are not afraid to challenge the CEO's views. As one CEO noted, if any advisor is a 'yes' person, then one of you is redundant.

Leave enough time on the agenda for vigorous discussions

Several CEOs indicated they enjoy having strong discussions at board meetings. One uses the 'vigour' of the discussion as an informal measure of his advisory board's performance. He believes if there is no 'heat' in the discussion, there is likely to be little creativity in solving problems or addressing issues, diminishing the value of the board.

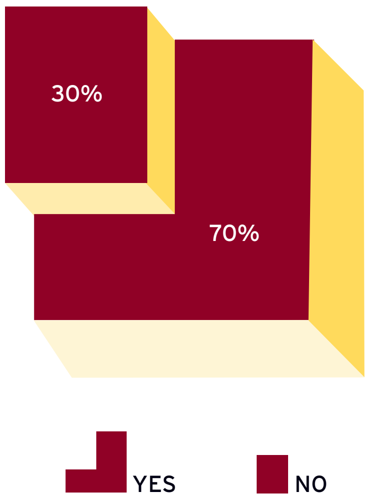
Agree on the best time to meet

One CEO noted that although he would choose to meet in the morning, his advisors prefer late afternoon meetings. This way, they can go to their respective offices, prepare adequately for the meeting, and be fully engaged in their advisory duties later in the day.

Compensating advisors to achieve high performance

CEOs did not indicate that compensation is a key driver in the performance of an advisory board. Compensation of some form is expected, but there is no single answer to the question of what is the appropriate amount or type of compensation.

Are all advisors on the board paid the same?



How much per meeting is each advisor paid?

- Average fee $1,395
- Lowest fee $250
- Highest fee $6,000

How are advisors compensated?

- Fee per meeting 49%
- Other 16%
- Fee + equity 11%
- Honorarium 5%
- Equity 3%
- Unknown 16%

Other methods of compensation:

- Paid as consultants
- "A good meal"
- Expenses reimbursed
- Bonus based on new sales generated through advisor

The advisors must be asked to do things they feel are novel, important and that justify their time commitment.

– Laurence Whitby, President, IMS Machining Inc.

Dealing with challenges in running an advisory board

While initial issues revolve around setting up an advisory board, ensuring that the board evolves in response to the changing circumstances of the firm and the business environment can become a priority.

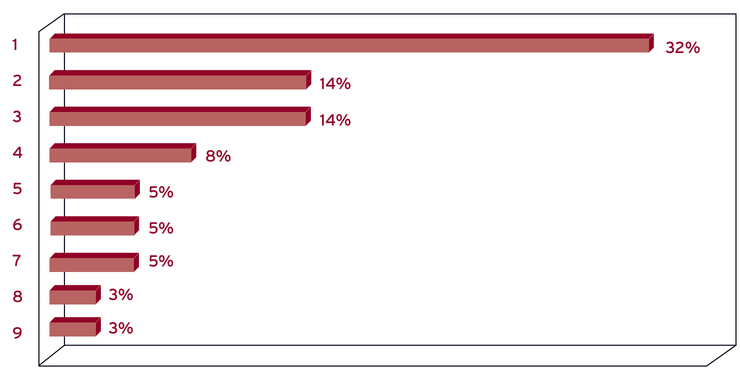
Advisors who are extremely valuable in the early stages of a firm's growth may not be as important as the company grows.

Ensuring the successful evolution of a board

- Stagger the terms of the advisors so the board is 'refreshed' regularly as circumstances change.
- Set clear expectations up front with your advisors, letting them know that they will likely be there for a defined period of time.
- Informally and regularly review the performance of the advisors.
- Continually ask advisors if they believe it might be time for a change (good advisors will know when it is time to leave the board).

CEOs identified a number of difficulties in running an advisory board. The main difficulty experienced by CEOs was finding time to prepare and meet, for both the CEO and the advisors. Other difficulties related to board member interaction and processes.

Challenges of an advisory board



1 Availability/ time constraints
2 Lack of strategic thinking
3 Conflicts of interest/ personal agendas
4 Not critical/ frank enough
5 Poor advice
6 Infighting/conflicts
7 Lack of expertise
8 Poor communication skills
9 Other (no stake in outcome, no accountability)

The time issue can be resolved if the value of an advisory board is perceived to outweigh the time and energy required to make it work. Tactics to reduce the burden of preparation include: timing advisory board meetings to coincide with regular financial reviews and/or strategy reviews, keeping meetings focused on one or two key issues at a time, and limiting the size of the advisory board to a few key individuals.

Ensure that the knowledge, expertise and commitment of advisors is superior. The CEO and advisory board should be seen as working in tandem.

- Barry Wood, President, C F N Precision Inc.

Define the mandate and scope of your advisory board

Michael Kehoe, President and CEO, Innova LifeSciences Corporation

Michael Kehoe is an expert on advisory boards. As founder and CEO of several successful companies prior to Innova LifeSciences Corporation, Kehoe has had considerable experience with many different types of advisory boards.

Kehoe has created what he calls a technical advisory board to provide a link between the professionals that Innova LifeSciences Corporation sells to, mainly health care specialists, and the company itself. Kehoe draws a very clear box around the role of this technical advisory board. "Their say is limited to technical advice and product safety, quality and effectiveness," says Kehoe. The clear expectation is that the advisory board focuses exclusively on validating the range of products and services that Innova now offers and could offer in the future.

"Clarity around mandate is absolutely key."

Kehoe does get business advice, but from his board of directors. The two boards have no interaction. This makes measuring the value of the advisory board more straightforward. Individual advisory board members validate the quality of Innova's products and services. Prospective customers can evaluate Innova's product claims in part by reviewing the advisory board membership and their implicit approval of the products. In this way, the amount of new business secured and success in new product and service launches serve to measure the value of Innova's advisory board.

Kehoe identified several lessons from his experience:

- Know the strengths and weaknesses of advisors and set your expectations accordingly;
- Define the mandate and scope so that there is no confusion; and
- Ensure that they work together as a team.

Finally, Kehoe speculated that recent governance-related business bankruptcies will reduce the unstructured time that boards of directors have to discuss general business issues. In this case, advisory boards will become even more important in the future as CEOs need other vehicles to get sound and objective advice.

At a glance

2002 Sales:	$19.5 million
2002 Staff Count:	60
3-Year Growth Rate	1999-2002
Sales:	70%
Staff:	10%

Measuring advisory board value

CEOs identified two types of performance indicators. The first includes operational measures that provide an immediate sense of return on effort. The second involves longer-term measures of actual outcomes that provide the ultimate test: "Did the board help make the company more successful?" There is little research to date on advisory board performance that is directly linked to growth indicators. There is, however, increasing recognition in the marketplace that good governance creates significant value. Most of this work has focused on boards of directors, but many of the lessons learned apply equally to advisory boards.

I never had an opportunity to run a company before, and all of a sudden I'm employing hundreds. So I rely on an advisory board that includes a group of people whose opinions I respect. I have learned an awful lot from my board members, and also from other CEOs with growing firms.

– Neil Clark, President, Greeley Steel & Surplus Inc.

Below is a summary of the most commonly reported measures for advisory board performance.

Operational measures

- Quality of discussions at meetings
- Degree of preparation for meetings
- Attendance record of advisors
- Post-meeting follow up with the CEO, including further input
- New ideas generated
- Degree of camaraderie and teamwork
- New competitive and customer intelligence

Actual outcome measures

- Sales/revenue growth of the firm
- Profitability improvement
- Successful recruitment of key management
- Financing raised or financing agreements
- New products or services launched
- New alliances or partnership agreements

For some CEOs, the ultimate test of advisory board performance is whether or not value was added to them personally. "Did the board hold my ego in check? Did the old adage 'two heads are better than one' result in better decisions being made? And the ultimate test, did the board help them 'sleep better at night'?"

A trusted sounding board and mentor to the CEO

Neil Clark, President, Greeley Steel & Surplus Inc.

Neil Clark has an advisory board that he values highly and relies on to help him run the business. As a successful, first-time business owner, Clark already has just over 200 employees and two manufacturing sites. Without a formal business education, Clark relies on his hand-picked advisors to provide on-the-job training and help in successfully navigating his learning curve.

Clark's advisory board consists of advisors from his management team (his operations manager and controller) and several outsiders, including his chartered accountant and another business owner. His wife is also on the board. As Clark points out, "I get the compassionate view from my wife, and the cold-hard-cash view from my CA. Meetings are a great place to vent. You have to park egos at the door. My controller is ruthless with me. When he says 'no, you are on a spending freeze,' I listen." Clark thinks he will add a lawyer sometime in the near future as the legal aspects of his business are becoming more complex.

Clark has a simple format for his board. Initially, they met once every two weeks, now it's monthly. Meetings are typically one and a half hours in length and very focused. Only one or two issues are tackled at any one time. Clark makes it a point to do some informal team building and keeps a sense of vitality at the meetings.

Why does Clark value his advisory board so much? His comments are similar to other CEOs. As a CEO, there are certain things you cannot always discuss with your management team. You have to be able to seek outside advice from others who have diversified experiences to make the best decisions on critical issues.

Clark also points out there are benefits of having a few advisors from your management team on the board. Outside advisors obtain a broader picture of the organization's vision, goals and challenges from inside managers with set objectives in corporate or departmental plans. Management team board members gain additional perspective and learn from outside advisors. "Having inside and outside advisors on the board helps us to deal with the demanding pace of organizational change and growth," adds Clark. "It offers a mix of experience and viewpoints."

At a glance

2002 Sales:	$10 million
2002 Staff Count:	200
3-Year Growth Rate	1999-2002
Sales:	150%
Staff:	567%

My advisors give me constructive criticism. The respect I have for them ensures that I listen and, more importantly, that I do not take it personally.

– Neil Clark, President, Greeley Steel & Surplus Inc.

Great advisors

What makes a great advisor?

CEOs were asked to rank the criteria they used to identify and select their advisors. Here are their top 10 criteria from most important to least important:

1. **Industry experience**
2. **Functional experience**
3. **Passion**
4. **Fit**
5. **Experience in a growth firm**
6. **Industry connections**
7. **Advisory experience**
8. **Working relationship**
9. **Time and availability**
10. **Reputation/credentials**

The first two criteria, industry and functional experience, are relatively easy to identify.

'Passion' is somewhat more difficult to ascertain. It requires a CEO to dig deeply into the experiences and prior conduct of a potential advisor. If the chemistry is right, and all parties share a passion for the business, an advisory board can be a powerful business tool.

'Fit' can often only be determined through observation and interaction. Informal networking or social activities and thoughtful observation are the keys to assessing 'fit.' One CEO noted that it only takes one poorly selected advisor to spoil the board. CEOs also noted that they want advisors who understand the challenges and opportunities of running a fast-growing firm.

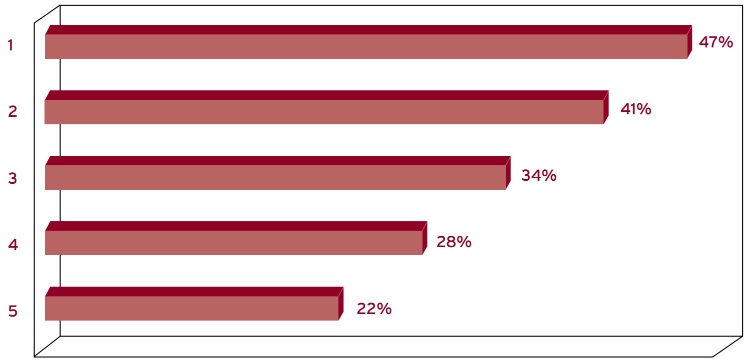
Passion for the business is one of the most important criteria for selecting potential advisors. In searching for advisors with the requisite, I look for indicators of passion in the advisor's own business, or even a passion for extracurricular activities. If he or she has a passion for something, it is likely that they will care about my business.

– Anton Rabie, President, Spin Master Ltd.

Where to find great advisors

CEOs who were asked to identify their most common sources of advisors frequently said their personal networks. As the chart below shows, they also relied heavily on referrals from trusted sources. *'Other' identified sources included business networking groups, clients and customers, a firm's own management team and organizations and consultants that specialize in assisting entrepreneurial firms.

Most common sources for advisors



1 Personal network
2 Referrals
3 *Other
4 Former colleagues
5 Investors

As an example of one such source, Queen's Centre for Enterprise Development (QCED Inc.) has a database of pre-qualified and experienced advisors available for active participation on different types of advisory boards.

I am in the process of setting up my advisory board. I have hired a former CEO to find individuals to sit on my board. We are a lean organization and setting up an advisory board can be a time-consuming activity. The former CEO has access to people and ideas of who can be on my advisory board, whom I can then interview.

– Kevin Brady, CEO, The Brady Group

What great advisors have to say: the other side of the coin

Experienced advisors were asked to comment on the best advisory boards they had served on. Their comments are summarized below in relationship to the six determinants depicted on page 8.

Leadership

- The CEO/founder immediately established board norms
- Advisors assisted in establishing norms
- Chairperson dealt with non performing advisors
- Chairperson always ran good meetings

Defined purpose

- Advisors expected to contribute to strategy setting
- Advisors expected to leverage their networks

Defined roles

- Roles were clearly defined right from the beginning
- CEO came to meetings with specific issues
- Not a board of cheerleaders and spectators

Board culture

- Team spirit created early on
- No 'group-think,' encourage vigorous discussion
- Open dialogue between advisors and CEO
- Fun, challenging, stimulating... but not chaos

Board process

- Lots of advance notice for meetings
- Sharing of critical company information
- Maximum time to discuss difficult issues
- Clear follow-up mechanisms and accountabilities

Advisor competence

- Carefully thought out criteria for selection
- Intrinsically motivated to be there
- Ability to make a time commitment

"The best organizations I've been an advisor for have a CEO who understands completely what he wants from his advisors, is not afraid to share sometimes sensitive information, and has great listening skills." – Einar Westerlund[1]

"My favorite companies have been those in which great chemistry has developed among the advisors. We all know that four heads are better than one. When I am part of an advisory team with the right chemistry, we provide the CEO with world class advice." – Paul Kennedy[2]

Diversity among board members makes a difference

Anton Rabie, President, Spin Master Ltd.

Spin Master Ltd. has been an incredible success story. As a developer and manufacturer of toys, Spin Master has enjoyed spectacular growth in the past few years. Anton Rabie has been very busy over this period, but not too busy to extract considerable value from an advisory board.

Rabie has not established clearly defined metrics for measuring the value of his board, but he does know just how valuable it can be. "Our advisory board is very vocal, even though we operate it much like a formal board of directors," says Rabie.

He looks for three things in how his board operates in order to gauge its value. Firstly, taking a look at the key issues facing the business, the entrepreneur is forced to pause and reflect. "Reflecting on the key issues and preparing for the meeting is very valuable for any entrepreneur," Rabie notes. Secondly, is a "good board that challenges you on your real core competency." Rabie states, "They challenge you to think about and explore other markets you could be involved in, which in a healthy way creates good dialogue and discussion." And finally, Rabie looks for post-meeting contact with advisors. In other words, it provides a key group of advisors you can call on day-to-day, who are up-to-date with the business and understand the people. "It becomes a group of advisors that you can access when needed."

One of his fundamental beliefs is that advisors must have a broad spectrum of experiences in their background.

"Diversity in all dimensions is important."

An advisory board for a high growth company needs a mix of entrepreneurs and corporate people, insiders and outsiders, diversity in functional experience, industry diversity, diversity of age, gender, and any other dimension that might be relevant.

The bottom line for Rabie and Spin Master Ltd. is that a $50 million company is now a $150 million company and the advisory board helped immensely and is still needed.

At a glance

2002 Sales:	$150 million
2002 Staff Count:	98
3-Year Growth Rate	1999-2002
Sales:	1,328%
Staff:	113%

Fit for the future

SIX STEPS TO SETTING UP AN ADVISORY BOARD

Step 1:	**Answer the question "How can an advisory board add value to me and my firm as we undertake rapid growth?"** The main areas identified by CEOs requiring advice and assistance include strategy setting, management issues, sounding board, new business contacts, CEO mentoring, new ideas and business intelligence.
Step 2:	**Identify the type of advisors needed and their roles.** An advisory board of between four to seven individuals is optimal for a fast growing SME. Ensure adequate diversity in demographics, functional and industry experience, large and small company experience, and that the mix of advisors is appropriate for the purpose(s) identified. Finally, establish the criterion for selecting advisors.
Step 3:	**Perform due diligence on a short list of potential advisors.** Strategies for finding great advisors include tapping into your personal network or business networking groups. Let business associates, customers, suppliers and service providers such as lawyers and accountants know that you are looking for advisors with certain attributes and experience.
Step 4:	**Recruit advisors.** Test for fit against the proposed mandate of the board.
Step 5:	**Brief each advisor about his or her role and responsibilities.** Set clear expectations around what you as a CEO will do and what you expect from each individual advisor, as well as the board as a whole. This is one of the most critical steps in creating a high performing board.
Step 6:	**Prepare for and hold the first meeting.** Include time on the agenda for a review of the historical and current status of the firm, critical issues and brainstorming. High performing advisory boards establish norms of conduct, set expectations about performance, determine how they will manage themselves and deal with any performance issues, and generally how they will work together and with the CEO to add value. In short, the first meeting is about taking a group of advisors and building an advisory team.

A barometer to measure profitability and performance

Jim McCabe, President, McCabe Promotional Advertising Inc.

Jim McCabe has just set up his advisory board after thinking about doing so for a few years. His board has a total membership of seven including McCabe and his business partner, his chartered accountant, his lawyer and the presidents of three slightly larger companies in comparable industries. The final push to create the advisory board came as Jim was reflecting on why, having tripled in size in the last five years and won numerous awards for business excellence, his bottom line wasn't better.

In thinking about setting up his advisory board, McCabe jotted down the following reasons:

- Measure how well I'm doing as a CEO, by tracking our sales growth, quality of job performance, stature in the community and overall profitability;
- Assist in the transition of the ownership of the company;
- Provide input and advice on issues and share views with advisors on what they have done when faced with similar circumstances; and
- Ensure an objective assessment of how, as a company and CEO, we can do better.

Nine months down the road, McCabe is enthused about the performance and value add of his advisory board. He's held three meetings already, one per quarter, and has already made significant changes to both the board and the business, based on their discussions. McCabe maintains that one of the keys to success thus far in the board is that clear expectations for advisors were laid out right up front, one of which was that advisors had to commit to attending all meetings. When one advisor couldn't make the second meeting, McCabe found himself in an awkward position. Nevertheless, he'd been clear on his expectations, and in an upfront amicable discussion, McCabe suggested the advisor might not have the time he needed. The advisor concurred. McCabe replaced him with another advisor he had also short-listed.

The third meeting of the board focused on two gut-wrenching issues McCabe had been struggling with: two expensive and under-performing executives. As McCabe notes, "The discussion with my advisors gave me the courage to do what, in my gut, I knew had to be done. I let both of them go and replaced them with better-fitting and cost-efficient executives."

"I would have lost time and wasted more money, had I not had that critical discussion."

Apart from validation of his gut instincts and providing more confidence to him personally, McCabe figures that advice from the board should add an additional $150,000 to the bottom line in the next 12 months, and help him take his company to the next level through assistance with a few key acquisitions. When asked for advice for CEOs thinking about setting up an advisory board, McCabe notes simply, "I wish I'd done this three years ago."

At a glance

2002 Sales:	$8.5 million
2002 Staff Count:	38
3-Year Growth Rate	1999-2002
Sales:	56%
Staff:	8.6%

Addendum: trends in corporate governance

In contrast to a formal board of directors, advisory boards have no legislated responsibilities and are therefore not subject to the same rules and regulations. Some confusion exists over the differing roles and responsibilities of an advisory board and a board of directors.

A board of directors is mainly concerned with corporate governance in the areas of control and enhancement. Recent well-publicized business failures have resulted in a number of new initiatives in Canada (and the US) to strengthen corporate governance and improve financial disclosure in publicly traded companies. Concerns about director and management accountability to shareholders have resulted in the Sarbanes-Oxley (SOX) Act in the US and similar initiatives in Ontario.

The amendments to the Ontario Securities Act, together with changes in the corporate governance area by the Toronto Stock Exchange, have greatly changed the corporate governance landscape, attracting the attention of directors, senior executives and officers of all corporations, private and public.

Many public companies in Ontario are required to comply with some or all of the new rules either because they are inter-listed in the US or have operations or shareholders in the US. Many Ontario companies, private and public, will choose to meet the new SOX standards in a number of areas, if only to maintain competitiveness. Good corporate governance produces direct value to shareholders and can translate into share value. Generally, institutional investors review corporate governance practices in terms of their investment decisions and will pay a premium for a well-governed company.

In the post-Enron world in particular, all investors are examining the corporate governance practices of issuers and their relationship to corporate performance. Similarly private companies who want to attract investors or go public at some later point are well advised to pay attention to these new Ontario initiatives.

For further information on corporate governance visit
Baker & McKenzie at www.bakernet.com

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Endnotes:

- 1 – Einar Westerlund is a Regional Director of Queen's Centre for Enterprise Development (QCED Inc.) and recently a senior partner with Silicon-Valley-based Strayer Consulting Group.

- 2 – Paul Kennedy is a Business Advisor (Knowledge Angel) with Queen's Centre for Enterprise Development (QCED Inc.) and was most recently president of the Canadian operation of International Data Corporation.

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