

# How entrepreneurs can get the most out of an advisory board

[Brad Cherniak](#) | August 13, 2014 12:31 PM ET



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Small to medium-sized private business owners get recommendations from many quarters to consider forming an advisory board, if not a formal and fully tasked board of directors. That is because, generally, boards will improve your oversight and corporate governance. But from the business owner's point of view, this seems like a lot of work, and money.

And for what exactly? What is "improved governance" in the real world of the entrepreneur?

To answer that question, you need to look at what a properly staffed and well-functioning advisory board should do, ignoring the resource requirements and cost.

The foremost function of an advisory board is to ensure the owner isn't lulled into a false sense of comfort in things going relatively well in the business, only to get caught off guard by some exogenous event.

Most business owners generally respond more to direct threats and opportunities — the burning fires — rather than valid but more conceptual challenges such as "could the business be run better" or "what could you be doing different to create more value in your business" or "how do you make your business easier to exit?"

If the fires are under control, the owner will be reluctant to tweak the business for fear of fixing what isn't broke. And, there is a degree of validity to this. The damage done by too-smart-by-half entrepreneurs and advisors to businesses is considerable, if hard to quantify.

But neither do business owners want to be closed-minded to improvements and innovations. Business owners often can miss fundamental changes in their industry or the overall economy, ending up with a strategically stuck business that has little value to anyone. But the board doesn't need to disturb the business to look at it through a fresh lens. The dialog between owner and the board need not involve the employees. It can even be held offsite and never become a distraction or concern to the operation of the business.

Board members with experience in business cycles, growth strategy and managing growth, or specific experience in the industry can act as tripwires to threats and opportunities that arise. For this to work, the business owner and the board need to have established a high degree of trust, professionally and personally.

The second critical function of the board is to understand the financial results, both historical and forecast, to ensure they hang together. This needs to be an ongoing and regular process, not a one-time thing. And it is as much a business process, as it is an accounting one. What are the reporting financial figures really saying? Is the owner digging deep enough, or are they missing or ignoring something?

Even more important, are your forecasts realistic? It is exceedingly easy to make small errors in a forecast that add up to huge effects on the forecast. A classic example is overestimating the effect of each

incremental salesperson on the timing and amount of increase in sales. Catching these errors can avoid wasting a lot of money on a failed initiative.

Another key element of monitoring the numbers relates to the value of the company. This also needs to be an ongoing process. How is the value of your company changing, and how does value intersect with strategy and the operations of your business? This will change over time based on what's going on in the business, and in the broader business world.

But this process should not be too cumbersome or expensive to do right. Having a fresh pair or pairs of eyes (and not only your accountant who prepares your financial reports and possibly your forecast) look at the numbers can be absolutely critical. It's not about getting big, expensive studies done, it can even be simple, back-of-the-envelope insights. Here, trust is absolutely critical for the exercise to be truly useful to the business owner.

The final main element is about helping the business owner step outside the day-to-day issues of the business to assess his or her position as an individual. It is the most sensitive of topics, and obviously the bar is highest from the point of view of mutual trust and respect required for it to work.

I'm talking about what the business owner really wants to accomplish. What are they doing exactly and why? It is a deceptively hard issue to address and find answers to. But we'll leave that discussion for future columns.

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