

THE BENEFITS OF AN ADVISORY BOARD

Article



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HAVING AN ADVISORY BOARD BRINGS NUMEROUS BENEFITS TO THE COMPANY WHEN THE ADVISORY BOARD IS WORKING EFFECTIVELY. AN ADVISORY BOARD IS A SELECT GROUP OF 'INDEPENDENT' PEOPLE WHO PROVIDE NON-BINDING STRATEGIC ADVICE AND SUPPORT TO THE OWNERS/SHAREHOLDERS/DIRECTORS OF AN ORGANISATION.

Unlike the board of directors ('the main board') appointed under the Corporations Act 2001, they are informal in nature and therefore have greater flexibility in how they are set up and managed. They can be created to deal with a specific matter or can be ongoing in nature. They provide non-binding strategic advice to organisations and hence are informal in nature. This gives greater flexibility in how they are structured and managed, when compared to a board of directors.

Whereas formal boards of directors have legally defined responsibilities, advisory boards are not regulated under the Corporations Act or corporate governance codes. Advisory boards advise. They do not make decisions like a formal board. However, calling a board that has a governance function an 'advisory board' will not preclude its members from their legal duties.

Why establish an advisory board?

An advisory board enables the owners or managers of the business to have access to an independent view and/or a "safe" place to discuss issues of major significance. The role of the advisory board will evolve over time, but it is useful to document a charter to provide some direction for its members.

The role of an advisory board

- Provide an independent source of information and advice to the owners/directors on strategic issues or risks confronting the business
- Create a "learning forum"
- The advisory board is not a decision-making forum

Each company will need to determine the roles and responsibilities of its advisory board to best suit its particular circumstances and needs.

Suggested roles and responsibilities for advisory board members include:

- Develop an understanding of the business, market and industry trends
- Provide "wise counsel" on issues raised by the owners/directors or management
- Provide the directors and management with insights and ideas which can only come with distance from the day-to-day operations
- Encourage and support the exploration of new business ideas
- Act as a resource for executives
- Encourage the development of a governance framework that enables continued growth, whilst not stifling the spirit or vision of the founders
- Monitor business performance and challenge the directors and management to consider options for improving the business

When would a small or medium business need an advisory board?

Every company will be in a different stage of their 'SME growth journey'. So at what point does the owner or manager recognise that an advisory board can be a powerful resource?

Benefits of an advisory board

- Draw on the skills and knowledge of directors/advisors who have practical experience in growing a business
- Enhance the company's reputation and credibility in the marketplace

- Increase consumer and investor confidence
- Attract superior employees by demonstrating a commitment to company growth
- Create a potential source of members for the 'main' board as the company grows
- Test the quality of "outsider" contributions to the business (for family companies)

When would a small or medium business need an advisory board?

An advisory board may prove a valuable resource in any multitude of scenarios, including the following:

- A company experiencing rapid growth
- A company needing to raise funds
- A company wanting to build strategic partnerships
- A company facing major decisions and/or changes in direction, including entering new markets, products or geography
- A company establishing more formal structures involving professional managers
- A company dealing with succession issues
- A company managing the development stages in the business and assisting with staff development
- A company facing challenges with other shareholders
- A company wanting to raise the level of strategic conversation in every aspect of the business
- A company with specific technical and functional issues

Selecting an advisory board

Selecting advisory board members is a very important task - and a number of questions emerge from the process. Perhaps the three key questions are:

- "Why am I doing this"?
- "What input do I need"?
- "How can this person supplement/complement our existing skills"?

In addition to specific business development issues, there may be family or staff development issues to address.

Essentially there is no single answer; each owner/director has to consider the particular needs of the business at that time. Specific considerations may include:

- **Independent thought:** Where can I source the best advice from someone that understands my business and the environment I operate in?

Will members of the extended family, such as a spouse or older children offer a new perspective, or will I need to look externally?

What if they work in the business? What about other senior staff?

What skill gaps require filling, such as strategy, human resources, marketing, legal, technology, operations and finance?

Value congruence, or culture fit: A shared commitment to the development of the business and your own personal development. This implies a level of trust and respect beyond ordinary business relationships.

- **Wisdom and courage:** Advisory board members should be people you respect as much for their personal qualities as for any technical competence they may offer. Advisory board members need to "say it as it is" and feel comfortable in the event that the owner may reject the advice in pursuit of their own business agenda.

Meetings

Advisory board meetings are typically held between six to eight times a year and very seldom more than that. The meetings are not meant to be a decision-making forum.

In some cases, the owner may meet with advisory board members on an individual basis, rather than in a more formal board style meeting.

Compensation

At the simplest level a daily fee (plus expenses) is standard compensation. If there is more to the role than occasional meetings, it may be appropriate to negotiate a monthly or annual retainer for access and assistance between meetings.

To learn more

Visit companydirectors.com.au, for further SME resources such as:

- Online SME Guides – for more information about how good governance can help you grow your business see our other online guides for SME business owners/directors:
 - Introduction to the owner/director's role in growing their small to medium business

- Good governance – A roadmap for growth
- The benefits of a board
- Articles
- Video: Kochie’s Business Builders, Interview with Brand Hoff, 15 November 2009
- Frequently Asked Questions (FAQ’s)
- Director and Board Education Courses – including:
 - Foundations of Directorship Course – available for directors of small and medium companies
 - The Role of the Director – an e-learning course
 - Company Directors Course – a comprehensive program for directors
- Events, books and other information to support you in your strategic role as a director

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Publication Date: February 2015 (04829-2_15)