IN FOCUS

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A FRESH SET OF EYES

The Case for Advisory Boards

HALL CHADWICK

The Case for Advisory Boards

Following on from our recent series of articles with respect to shadow directors and the distinction between directors and professional advisors, this edition of In Focus reviews the concept of the advisory board.

Advisory boards have become increasingly prevalent over the last decade or so as business operators seek expertise that is not currently within their current boardroom or as organisations deal with growth and seek to remain competitive in an increasingly demanding business environment.

What is an advisory board?

An advisory board is usually comprised of an independent chairman and external advisors who provide independent advice and mentoring to the existing board of directors / executive team.

An advisory board enables owners / directors to get access to strategic expertise and support which might not otherwise be in the organisation.

An advisory board can be project specific or have an organisation wide focus.

Difference between board of directors and advisory board

A board of directors is legally responsible for its decisions. Directors have a fiduciary duty to act in the interests of the shareholders or members of the company.

An advisory board, as the name implies is intended to provide non-binding advice to the directors / executive team. Members of the advisory board are not authorised to act for or make decisions on behalf of the organisation.

An advisory board as a general rule will convene at regular intervals 4-6 times annually – although at times of high intensity/crisis – the organisation may call upon the board more frequently.

The structural framework of an advisory board is intended to prevent its members straying into shadow director territory.

Composition of an advisory board

Advisory board members are generally external professionals appointed due to their specialist expertise or experience in the company's industry sector.

An advisory board, can be at its most informal, semi regular meetings with one or two trusted business mentors.

Not surprisingly advisory boards have been found to be more effective where there is some framework surrounding the appointment of members, goals and objectives and performance measurement.

The most common structure of an advisory board is a chairman, 2 internal directors and 2 external appointed advisors. This provides a balance between external advice and implementation accountability.

It is considered best practice for members of the advisory board to not otherwise be, suppliers/ consultants to the entity to minimise the potential for conflicts of interest and ensure the integrity of the advisory board advice.

Use of advisory boards

Advisory boards have been found to be particularly useful for:

- High growth businesses;
- Family companies where specialist expertise may be outside the skill set of the proprietors and/or where a family company is looking to transition to a mere sustainable business / ownership model;
- Supporting a key transition in a company;
- Expanding into new markets / industries;
- Managing crises.

Due to the nature of an advisory board it is also considered best practice that its members be subject to turnover on a far more consistent basis than a board of directors.

In conclusion

Many family owned and SMEs businesses have a stable executive team. Whilst this can have undoubted benefits in terms of culture, it can also lead to a stagnation in ideas and innovation – with the mentality "that is always how we've done it here" prevailing. In the most extreme cases this phenomena, can end up being a competitive drag and lead to missed opportunities and reduced market share.

The use of an effective advisory board is an effective protection against this possibility.

High growth companies and companies going through a major transition will often contemplate the use of an advisory board.

It may be considered an unnecessary luxury by start-up businesses, although it could be a useful management tool, to a start-up - if nothing else it provides a reality check.

The use of an advisory board may be considered as businesses negotiate the economic challenges of the Covid19 era.

Current management may simply be overwhelmed by trying to maintain existing business and not be in a position to respond to opportunities that may present themselves.

Obviously the composition of the advisory board would be structured to fit the specific impacts of the economic disruptions associated with Covid19 on your business.

Consistent with the inherent nature of advisory boards, the skill sets of the appointed advisors during the Covid period might well be very different from those that may be appointed when more stable trading conditions are restored.

Some circumstances where an advisory band may be able to add value in the current climate are as follows:

- Identify opportunities for growth, new markets, or product/service realignment;
- Expense reduction;
- Financing options;
- Debt negotiations/restructuring advice;

In the event you are contemplating the formation of an advisory board, a good starting point would be a consultation with your accountant or other trusted advisor as to the appropriate framework suitable for your business.

If you have questions or need any further assistance please contact our office:

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