

## Know your ABC

**Advisory Board composition** - ever considered assembling one to add ideas and expertise to your business? I've recently guided two medium sized companies in this area. Here are some thoughts...

### Spot the Difference: Advisory Board and Board of Directors

Advisory boards are another form of governance – a body that provides independent advice and support to aid management and directors in the performance of their roles.

But the two types of boards should not be confused. Here are the main differences:

Advisory Board	Board of Directors
- External advisors only	- Mixed internal & external members
- Responsible to Board of Directors or Management	- Responsible to shareholders
- Informational & strategic focus	- Operational, oversight & strategic focus
- Counsels and advises	- Decides and acts
- Minimal legal responsibilities	- Many legal responsibilities

### But how will an AB benefit my company?

In two ways:

- 1) **Actively**, by way of advisors sharing information, providing guidance and making introductions.
- 2) **Passively**, by you leveraging their association with your company.

The **active** component may include contribution to strategic planning, attending events, advising on specialist matters or opening doors to key individuals or communities of interest.

The **passive** component can generate company credibility. Clients, business partners and potential employees may be impressed that the Company has the support and advice of such people. Obviously parameters need to be established based on the advisor's comfort in the leveraging of their name.

### Who should be my first draft pick?

Analyse the make-up and strengths of your existing directors and management team. Map those against your strategic plan and ask yourself: where are our gaps? Is it industry expertise? International presence? Sector specific connections?



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Typically start with one appointment, gauge the return on investment and build from there. The calibre of the initial person will set the tone for future appointments. To maximise the passive benefit the person should have as higher profile as possible but remember: substance should always preside over form.

### **Advice on advising advisors**

Formalise the engagement with a one-two page agreement. This should include:

- Time commitment, term of engagement and fees
- The role and expectations of input/outputs
- Outside interests and confidentiality
- Indemnities and insurance

Generally advisory boards carry no liability however it is important that they do not make decisions or act like de facto directors. A prudent approach would have them indemnified under the constitution and covered by Directors & Officers insurance.

Meet with your advisors regularly (at least monthly). Build clear lines of communication between the advisors and the Board of Directors and between advisors and management/staff. It's important that the team on the coal face also get exposure to the knowledge and insights.

### **Show them the money**

The simplest method is to pay advisors a monthly retainer based on either a time commitment or the perceived value to the company. Please contact me if you would like more substantive figures. It would not be the norm for advisory board members to have equity as a component of their remuneration.

### **Helping hand**

If you are based in Aotearoa, New Zealand Trade & Enterprise may be able to support you with funding your advisory board up to \$3,000 per year.

*Source: Great Governance: How the Best Boards Work. Doug Matheson. 3Media Group Limited 2008.*

