



A good advisory board enriches a company with fresh thinking and expert insight. Unlike a regular board, which represents shareholders and is bound by legal responsibility, an advisory board is required to do nothing more than provide advice. More informal than a statutory board of directors, it is also far more flexible in terms of its application.

John Allen FAICD, principal of John Allen & Associates, chairs the advisory board of the Australian Government Solicitor (AGS). While the AGS provides legal and related services primarily to Australian Government departments and agencies it also operates on a fully commercial and competitive basis. Allen and his fellow advisory board members counsel the CEO on strategic development and financial performance.

“A statutory board hires and fires the CEO and the CEO then reports regularly to the board,” Allen says. “By contrast, our very clear brief is to advise the CEO. The CEO asks our advice and uses us as a sounding board for her ideas. This sets up a very different culture around the board table.”

Catherine Harris FAICD is chairperson of Harris Farm Markets and sits on two advisory boards. She says that, with fewer obligations and limited legal ramifications, members feel more able to offer wide-ranging and open advice. The downside is that this advice might be less informed.

“The main difference that I see is that the executives ask our advice but have absolutely no obligation to take it,” she says. “Though, clearly, if the executives go in an entirely different direction to the advice you’ve given it may be time to resign!”

Peter Mavridis GAICD, Group Managing Director of leading IT services company S Central, set up an advisory board within the first year of starting the business. At the time he was the sole director with five employees. Ten years on, with 400 employees and around \$250 million in revenue, he is still the sole director – and he still has an advisory board.

“I sit on the board of a small bank and the main difference I see between the two is that an advisory board has no focus on governance,” he says. “I feel I’m getting the best of both worlds; the advisory board just focuses on the strategic aspects of our business while we have professionals taking care of the governance.”

**When to set up an advisory board**

James Beck GAICD, Managing Director of Effective Governance Pty Ltd, believes that an advisory board is a good choice whenever ongoing professional advice and contacts would be of value to the executive team.

“An advisory board with the requisite professional skills will serve as a sounding board and a source of ideas and expertise,” he says.

Mark Vaile’s recent appointment to the Australasian Food & Agribusiness Advisory Board of Rabobank is typical. The board’s mandate is to provide advice on strategic agribusiness and agricultural issues and Vaile, who is former deputy prime minister and leader of the National Party, was chosen for his experience in international trade negotiations, policymaking and agricultural issues.

“Mark has played a pivotal role in agricultural and trade policymaking and negotiations at the highest level,” says Bruce Dick, Australia & New Zealand CEO. “The insights he brings from this – and from his career-long involvement campaigning for the interests of rural and regional Australia – will provide a very valuable contribution to our advisory board.”

There are also times when a company needs additional expertise to support a specific stage or project. Harris suggests it would be a good idea to consider an advisory board when an organisation:

- is making the transition from a private company to having a fully established board;
- has a large number of stakeholders and needs to be sure of receiving wide-ranging and wise advice;
- is accountable to the government or private investors;
- is poised to grow but hesitant to take the next step;
- is making the transition to the next generation.

“In the case of succession planning, an advisory board can be particularly useful in helping an owner get an objective view on the potential successors and what they might require in terms of skills building, and to help facilitate transition in ownership and/or management,” says Beck.

Many Not For Profit (NFP) organisations have advisory boards, particularly those in the educational and research fields. Phil Ruthven FAICD, founder and chairman of IBISWorld sits on the advisory board of the Applied Economics and Social Research Institute of Melbourne University.

“It’s considered a helpful sounding board for ideas and the direction in which the Institute might travel,” he says.

Harris, however, has grown very cautious about accepting new positions on advisory boards in the charitable sector.

“Some are looking more for your network or a potential donor than advice,” she says. “In this case, the board becomes frustrating and a waste of your time.”

For Mavridis, an advisory board enabled him to bring together a senior and very experienced group of people when his business model had yet to be proven.

“I was 27 when I started the business,” he says. “All of the advisory board members are in their sixties – people I consider to be advisors or mentors. They helped us to avoid making mistakes.”

Lee Trevena is CEO of Synetek Systems. Like Mavridis, he chose to establish an advisory board early on.

“When we were starting up we pulled in the expertise we needed to help us get off the ground,” he says. “Now we’re drawing on different kinds of expertise to help us to expand into other markets – people who are based overseas and people who have transacted internationally. For instance, one board member lives in US. Depending on the project he and I might speak once a month or be on the phone every night. An advisory board can be very flexible in that way.”

### **Making sure an advisory board is effective**

“The selection and appointment of board members is one area where mistakes are often made in establishing advisory boards,” says Beck. “A company should focus on the necessary and desirable competencies of board members. Similarly, there should be a process for regularly reviewing the advisory board’s capability requirements against the mix of composition. This will ensure that the advisory board can develop and evolve in line with business requirements.”

Harris stresses the importance of recruiting advisors with the skills you need as opposed to the ‘friends’ who will say what you want to hear. She also recommends a professional approach, with formal documentation, papers, an agenda and a set day for meetings. Establishing a tone which encourages open and honest communication is crucial and, if their advice is to be meaningful, members also need an appropriate level of information.

“Most members now demand some private information about the company or organisations which the executives may not feel comfortable giving, and this can cause conflict,” adds Harris.

Another potential flashpoint is an advisory board member in conflict with the management team.

“It’s one thing to ask questions or to play devil’s advocate, but if you have someone who is a ‘genius’ at sales and marketing telling the VP of sales and marketing what to do, that’s going to cause a problem,” says Trevena. “Where a member of the management team is directly responsible for an area of business under review we have found it’s better to bring in a consultant. Paying for the service creates a very different dynamic. An advisory board isn’t just a way of avoiding consultancy fees, they have separate roles to play, though these can easily be confused.”

### **Why join an advisory board?**

Clearly, advisory boards can be of benefit for organisations of all sizes – but what’s in it for the people who join?

“I think the experience is a huge learning opportunity,” says Allen. “It’s also an opportunity to make a significant contribution to a business without having to have the depth of knowledge and insight required of a statutory director.”

A useful first step for someone considering a directorship, an advisory board can also provide an opportunity for those who no longer enjoy the rigours of a formal board to stay involved in business, learn about new industries and share their expertise. Spending time with able and accomplished peers can also be pleasurable and personally satisfying.

“You don’t want an advisory board to be too rigid and formal, but I do think there need to be an understanding of how much input is required,” says Trevena. “If people are doing it purely as a favour it’s going to be harder to get value.”

So should members of an advisory board be paid?

“As an IT start-up, we didn’t have the financial capacity to pay anyone on the advisory board,” Trevena continues. “Instead, we provided equity opportunities.”

Ruthven points out that, if you're advising an NFP, you obviously won't be expected to be paid. "Even if you're a for-profit company, I think you would be looking more for an experience that was interesting and a challenge," he says.

While an advisory board has none of the formal legal responsibilities for the overall performance and well-being of the company, it isn't entirely free from risk.

"Participants should take care that they are not deemed to be 'shadow' directors," says Beck. "It is important that members of an advisory board are not described/ titled as being a director, with some advisory boards being titled as an advisory council, to ensure there can absolutely be no misinterpretation of the legal position of the advisory board/council."

Ben McLaughlin, a Partner at global law firm Baker & McKenzie, warns that a member of an advisory board could also be considered to have a fiduciary duty to a client.

"The fiduciary duty is to act with such propriety that the interests of the person or company to whom the duty is owed are paramount," he says. "It is the most demanding standard of responsibility that the law prescribes."

To avoid any breach of fiduciary duty, a board member should remain very conscious of any benefits associated with the position, particularly financial, and also possible conflicts of interest.

"Advisers may have many other roles, offer different services and have a broad client base and will thus face a variety of conflicting interests," says Baker & McKenzie Associate Antonia Abelson. "A fiduciary duty in such circumstances may be very onerous; people joining the advisory board should ensure that their contract with the company specifically excludes this."

Accepting an invitation to sit on an advisory board is effectively a vote of confidence in that organisation.

"If the outfit you're meant to be advising looks to be going pear-shaped it could do damage to your own reputation," says Ruthven. "As a member of an advisory board you have no power, but you're still subject to collateral damage."

**Don't miss the session on *SMEs – Advisor or Board? Taking the next step* which will be presented at AICD's Company Directors Conference 2009 in Cairns from 10 - 13 June 2009. For more information, visit [www.companydirectors.com.au](http://www.companydirectors.com.au)**