

Advisory Boards

Creating a competitive edge



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Strategy | Succession | Advisory boards | HR



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Overview

An **advisory board** (AB) is a body that provides non-binding strategic advice to the management of a corporation or an organization. The informal nature of an AB gives **greater flexibility in structure and management** compared to a regular Board of Directors. Unlike the board of directors, the AB does not have authority to vote on corporate matters or bear legal fiduciary responsibilities. Many small and medium size businesses and organizations choose to have an AB in order to benefit from the knowledge of others without the expense or formality of a regular Board of Directors.



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Why an AB

SME (Small and Medium Size Enterprise) is usually a “ one-man band ” with the President personally seeing every detail with the business. Frequently, the President would have family member(s) in key positions. Presidents of SME often feel **isolated and stressed** by the demands of the day-to-day.

An AB allows entrepreneurs to **get out of the isolation and to have few trusted advisors** that can advise on strategies and bring unbiased and independent financial and operational expertise.

Most importantly, a good AB will encourage the President and the senior management team to plan and be better prepared.

SME: Small and medium size enterprise

Role of the AB

1. Review and approve the company **strategy**
2. Monitor the company **performance** (Execution of the strategy)
3. Advise on important **policies**
4. Provide **advice** to senior management
5. Make recommendations to the shareholders and appraise / evaluate **risks**
6. Provide **coaching – mentoring** to the CEO (Optional)



Who should be on the AB

- The shareholders (or representation)
- Senior Managers (selectively)
- Two to three **independent** directors
- Best number is 5 to start. May go to 7 with time to allow for turn-over
- AB Directors must have earned the President trust and possess excellent business experience. They must bring value and must be committed to the AB (Attendance and engagement)



Example of AB agenda

- (Review) **Financial Results** (Quarterly results)
- (Assess) **Progress on Key Objectives / Strategies**
- (Review) **Forecast** (Against yearly budget)
- (Approve) **Capital Expenditures**
- (Evaluate and advise) **Strategies and Execution**
- (Update/Introduce) **Policies**
- Other Business



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Important consideration

The AB neither manages the company nor makes the strategy. The Senior Management Team is still the real “driver” of the business. The AB is there to make sure management is doing a good job and to offer advice when needed.



Compensation



- **External independent directors** should be compensated
- Average compensation for an independent AB director is much less than a regular director because there is no fiduciary responsibilities.
- Ideally, compensation should be made of two parts:
 - (a) An annual retainer fee (\$6K to \$12K Per year)
 - (b) A per meeting attendance fee (\$500 to \$1'000)
- Reimbursement for travel and out of pocket expenses

Some guidelines..



- **Be prepared** (Send agenda and documents ahead of time to allow AB members to review and be prepared)
- Start meetings on time and end on time
- Stay on meeting's topic and agenda
- One speaker at a time and no interruptions
- No cell phones and no calls allowed during meeting
- Be respectful of others
- Achieve your objective(s)
- Be concrete but stay away from the details

Some practical points from experience

- Manageable numbers of members (5 – 7)
- Age consideration (seeking a balance)
- Independence preferred (Preferably no friends)
- Attendance (80%)
- No conflict of interest
- Evaluation of the CEO (even in private companies)
- CEO has VETO rights
- Yearly Budget and Business Plan
- Update of Strategic Plan and Succession Plan
- Kick-off meeting and on-boarding of new AB directors



“ You don’t build a business. You **build people...** and then people build your business “

Zig Ziglar

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AB are most effective for...

- Preparing for an EXIT Strategy
- Preparing for a Succession Plan / Succession Development
- Growing through acquisitions
- Coaching and developing a new generation of Managers
- Embarking on new strategies

“ Setting a goal is not the main thing. It is deciding how you will go about achieving it and staying with that plan“

Tom Landry

Former Dallas Cowboys Coach

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Launching an AB (step by step)

- Preliminary research, overall evaluation and key objectives
 - Draft Strategic Plan
 - Review of Vision, Mission and Core Corporate Values
- Phase A
- Recruitment of independent AB directors
 - Experience and behavioral assessment (Optional)
 - Chemistry and overall fit
- Phase B
- On-boarding and first year
 - Chairing the AB and initial launch
 - First year review and self-evaluation
- Phase C

Research and Surveys



Attach A	Non-financial metrics
Attach B	BDC AB Surveys
Attach C	Most common risks
Attach D	Improvement areas
Attach E	Key factors for reputation and brand image
Attach F	Class actions (M&A)
Attach G	A solid team of professionals

Non-financial Metrics

Attachment A

Employee Engagement	37%
Risk Management effectiveness	34%
Customer satisfaction	33%
Maintaining good standing with regulators	28%
Regulatory compliance record	27%
Workplace safety	27%
Product quality	27%
Environmental measure	11%
Workplace diversity	11%
Employee turnover	11%
Other	15%
Nonfinancial measure not used	20%

Source: NACD 2018

AB Study Highlights (BDC March 2014)

Attachment B

- **Canadian SME's with AB's perform better financially than those without AB**
- Only 6% of all Canadian SME's have an AB
- Only 19% of all SME's have a board of directors
- Average annual sales and productivity of SME's with AB's compared with SME's without AB:

24% Higher Average Annual Sales
18% Higher Average Annual Productivity

Source: BDC March 2014

Most common RISKS

Attachment C

- Cybersecurity
- Government Policies and Regulations
- Technological Disruptions
- Environmental Regulations and Restrictions
- Stakeholders Interests Groups
- Litigations and disputes
- Disaster(s)
- Competition Bureau of Canada
- Safety and Health

Source: VERCERTA



Top 10 most important board improvement areas

Attachment D

The board's understanding of risks and opportunities affecting company performance	71%
The board's monitoring of strategy execution	67%
Board's contribution to strategy development process	67%
Oversight of risk management	58%
CEO / Succession planning	58%
Quality of dialogue with management	58%
Follow through on recommendations coming out of board meetings	58%
Candor of board discussions	58%
Oversight of M&A	57%
The rigor of board decision making	56%

Source: NACD 2018 Governance Outlook

Key factors most critical to reputation and brand image

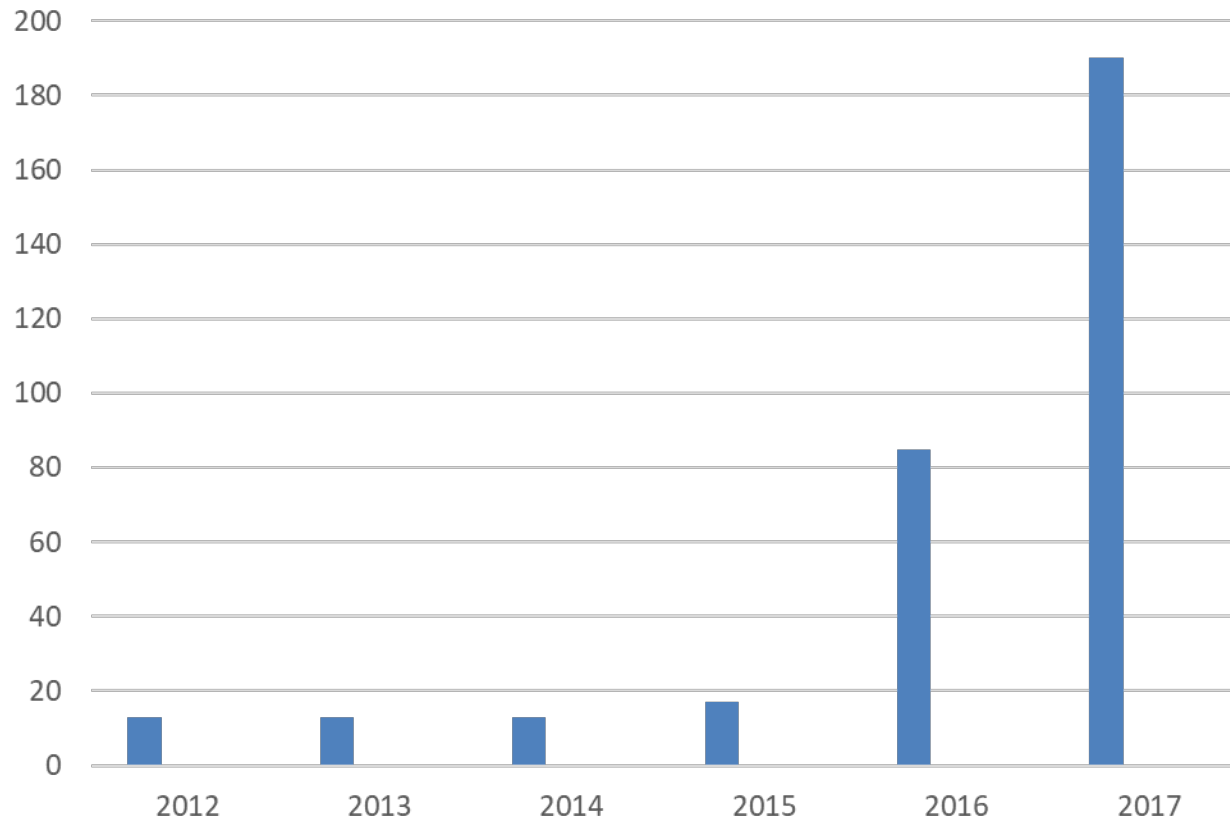
Attachment E

Quality of products/services	90%
Customer service	89%
Conduct of senior management team	84%
Treatment and relationship with employees	80%
Financial performance	80%
Treatment and relationship with suppliers	75%
Overall mission or sense of purpose	74%
Business culture	71%
Innovation around products and services	64%
Environmental impact of operations	58%

Source: NACD 2018 Governance Outlook

Federal class actions involving M&A transactions filed per year (USA)

Attachment F



Source: NACD 2018 Governance Outlook

A solid team of professionals



Attachment G

Hugh Latif & Associates have assembled a unique team of senior consultants across a wide range of disciplines and fields. All consultants held senior executive positions in their earlier careers and then moved on to consulting. These men and women have not only strong academic qualifications behind them and extensive years of consulting experience, but all of them have passed the prolonged experience test for providing impeccable client service and adhering to the highest standards of professional conduct. For advisory boards, we work closely with CAUSE LEADERSHIP providing a full range of HR solutions, NEWHOUSE Partners for financial services and the ENPOWER GROUP for IT and lean enterprise management . For further information on our roster of senior consultants please visit: <http://www.hughlatif.com/the-team>



Hugh Latif Professional Profile

Hugh has over **40** years of experience in management consulting and general management. Since 1996, his management consulting practice has successfully completed over **350** consulting assignments. He specializes in strategy, succession planning, advisory boards and HR. Previously he held senior executive positions with the Dun & Bradstreet Nielsen Group heading 4 companies in Canada, Italy, Brazil and France. He is the author of **Maverick Leadership** and a frequent contributor to The Globe & Mail and various other trade publications. Hugh lives in King City with his wife of 40 years plus. He enjoys tennis, biking and plays the guitar at The Followers Mission in Toronto. He is a member of several associations and advisory boards of private companies and not for profit organisations. (Contact info: Tel. 416 229 0520 EM hugh@hughlatif.com)

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