

# Advisory Boards

Creating a competitive edge



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Strategy | Succession | Advisory boards | HR

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# Overview

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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 advisory board gives greater flexibility in structure and management compared to a regular Board of Directors. Unlike the board of directors, the advisory board 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 advisory boards in order to benefit from the knowledge of others without the expense or formality of a regular Board of Directors.

# Why an AB

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SME 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 push the President and the senior management team to plan and be better prepared.

SME: Small and medium size enterprise

# Role of the AB

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

# Who should be on the AB

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- 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 AB agenda

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

# Important consideration

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*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

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- External directors should be compensated
- Average compensation for an independent AB member is in the range of \$ 1'000 to \$ 3'000 per day. Compensation is much higher for public companies
- Ideally, compensation should be made of two parts: (a) an annual retainer fee ( \$6K to \$12K ) and a per meeting attendance fee (\$ 500 to \$ 1'000)
- Reimbursement for travel and out of pocket expenses

# Some guidelines..

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- 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

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- Manageable numbers of members (5 – 7)
- Age consideration (seeking a balance)
- Independence preferred
- Attendance (80%)
- 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 senior 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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# 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](mailto:hugh@hughlatif.com))

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# Non-financial Metrics

Attachment A

What are the key nonfinancial metrics used by your board to set CEO pay?

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

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	<b>71%</b>
The board's monitoring of strategy execution	<b>67%</b>
Board's contribution to strategy development process	<b>67%</b>
Oversight of risk management	<b>58%</b>
CEO succession planning	<b>58%</b>
Quality of dialogue with management	<b>58%</b>
Follow through on recommendations coming out of board meetings	<b>58%</b>
Candor of board discussions	<b>58%</b>
Oversight of M&A	<b>57%</b>
The rigor of board decision making	<b>56%</b>

Source: NACD 2018 Governance Outlook

# Key factors most critical to reputation and brand image

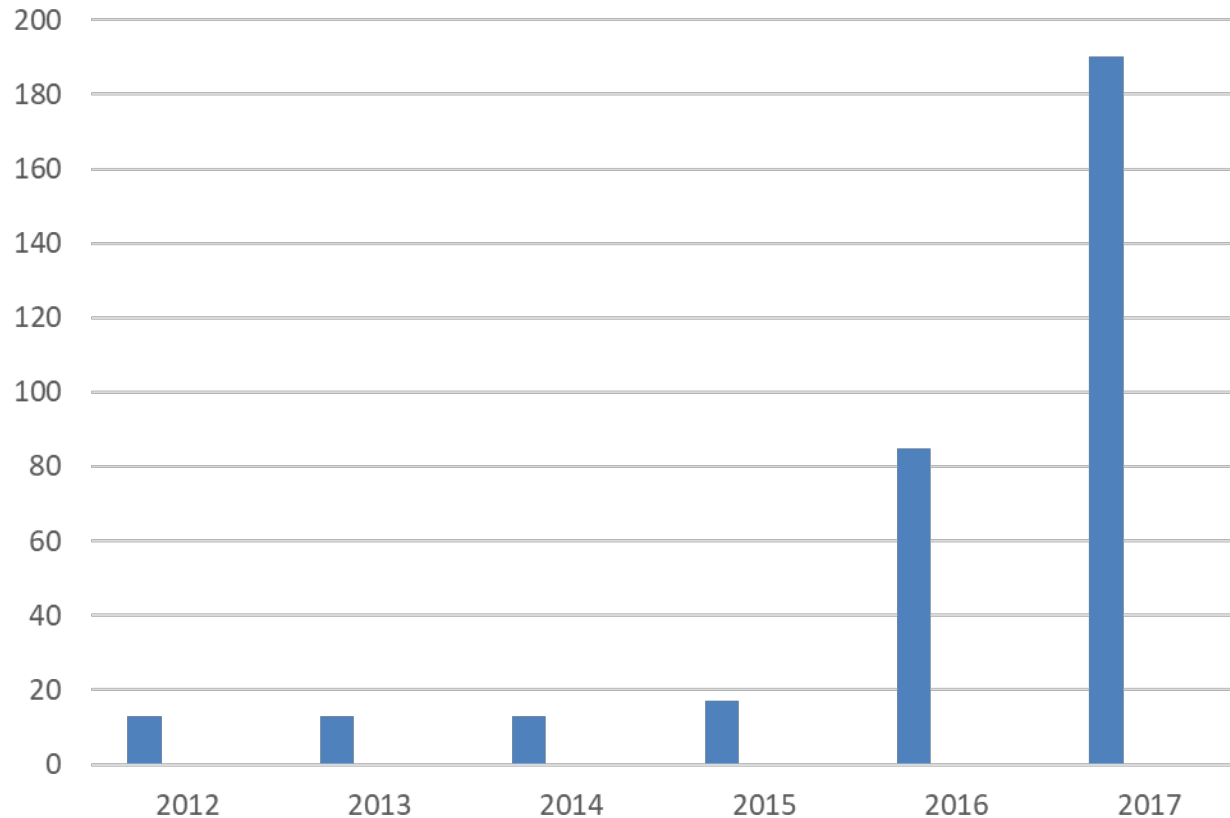
Attachment E

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

Source: NACD 2018 Governance Outlook

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

Attachment F



Source: NACD 2018 Governance Outlook