

ADVISORY GROUPS/BOARDS

Boards: Value Add or a Necessary Overhead? There is still mystique and a general miss-understanding what relevance boards have for SME's.

Do you have a high performing board or advisors, inspiring your business? SME business owners continue to shy away from establishing or maximizing the value of their board or advisory group. These business owners are missing out on the most cost-effective business tools.

For many, it could well be a throw back from what appears to be era of dysfunctional corporate boards i.e. the lack of good role models. For others, perhaps they simply do not know what they are missing out on.

SO WHAT CAN YOU EXPECT FROM A GREAT ADVISORY GROUP OR BOARD?

Great board's bring:

1. Value to the company – improving the performance, beyond what would be achieved without them
2. Awareness of the fiduciary responsibilities and risk management, but not acting as a permanent hand brake on the business
3. Fresh thinking – challenging the norm – creating a new futures, not just repeating the way they did in the past
4. Personal support and motivation to the CEO – owner, as well as other key executives of your company, keeping them on track to achieve their goals
5. A “radar” for problems, with a willingness and capacity to act, rolling up their sleeves as an immediate response unit in times of crisis.

Your board needs to be the best performing, value for money team in your business. If not then CHANGE THEM.

Start with an Advisory Group and then migrate to a formal board later on.

Relevance for Start-ups If you have a business plan, then you are ready for your first step into governance, establish an advisory group now.

Why an Advisory Group Not a board? Experienced directors will not want to sign up to become a formal director, without having a good look under the hood. As a formal director they will be financially liable for the company. Company law says if the advisory group / board acts like a formal board it is deemed to be one. So you need to be careful how it operates. But from an operational sense it is a great first step.

Where do I find them? Ask around your networks, as to who are they using. Look for experience in growing companies, not huge compliance focus. Google the candidates – see what people say about them.

Check out linked-in group Springboard (New Zealand) on linked-in, this is a group of emerging NZ Directors.

Ask your accountant – lawyer to recommend: in most cases I would not recommend using a lawyer or accountant as your first board member, but they will have connections and networks of great people.

Without research you will end up with the directors and investors you deserve! Check that your prospective advisory board members, have a good values fit with you and what it is like to work with them.

Get two outside advisors, so you can debate stuff, rather than falling into the common trap of a “parent – child” relationship - simply doing as the advisor says.

How often to meet: I would say monthly for 2-4 hours – but have a kick off briefing meeting of a full day.

Make sure you provide your AG with relevant information at least 3 days before a meeting, so you can maximise your time together

Pay them or Not? The median based non exec directors are typically paid \$32,000 and chairs \$54,000. But for most start-ups this is unaffordable and inappropriate, certainly pre revenue.

Don't fall into this trap: Shareholders Association chairman Bruce Sheppard said (Herald Feb 2010) good directors were underpaid but as few as one in 10 directors fell into this group. Most others were “head noddors” or “habitually stupid” and were not worth paying at all. Full article http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=10625855

With payment you get commitment, even if is nominal. I would start with a nominal budgeted fee \$600 – \$1200 per month. If it works increase it each year.

Note: Some philanthropic advisors may be bought for some fine food and great bottle of wine. If you are really short of cash, find a fellow entrepreneur and do a swap for services.

Warning: **Do not give away equity for payment to advisors** – you are stuck with shareholders forever (or close to). If you must use equity make sure you only issue stock on completion of activities eg 0.X% per period.

IF IT'S NOT WORKING GET RID OF THEM!

Set up clear expectations over what you expect from your AG and have regular reviews. If it's not working fix it or get new members.

- Make sure you create a wish list for the characteristics of your most wanted board member and be open to how you meet it.
- Make sure you select people who “get” businesses of your size and culture. Experience on the board of Telecom could well be a hindrance to your \$2M a year turn over company.
- Don't sign locked in contracts, if they do not work you need to be able to quickly exit them.
- Don't pay by the hour, you need to feel comfortable the relationship is not being measured by the clock.

RECOMMENDED READING:

“Changing Gears” Going from kitchen table to the boardroom by David Irving is a must read.

This resource has been kindly provided by



If you have any questions, please call 0800 CHAMBER (0800 242 623).

DATE: MAY 2015

The Auckland Chamber of Commerce and the provider of this resource make all reasonable efforts to ensure that the information published in this resource is accurate and up-to-date. However the matters covered are subject to regular review and no warranty or representation can be provided regarding the accuracy of such information. The Auckland Chamber of Commerce and the provider do not accept liability for any losses or damage arising directly or indirectly from reliance on the information. www.aucklandchamber.co.nz

JOIN US

- Benefits of Membership
- Join Now

BUSINESS SUPPORT

- Find Staff
- Business Support
- Mentoring

GLOBAL

- Import and Export Services

EVENTS & TRAINING

- Event Calendar
- Event Profiles

BUSINESS CONNECT

- News
- Chamber Social Media