# Understanding the role of advisory boards

## There has been increasing interest in recent years in the appointment of advisory boards to assist both large and small, public and private companies in their month to month business decisions and in helping with strategic direction.

The key distinctions to be made between an advisory board and a board of directors are as follows:

1. The primary difference is the fiduciary responsibility. An advisory board has none. Whereas, the corporations law covers the board of directors responsibilities. As a result, members of a board of directors are registered with ASIC, and the information available to the public, whereas advisory boards are private and have no specific governance requirements;
2. The CEO or board is not compelled to act on any of the advice given by the advisory board, whereas the actions of the board have direct relevance on the company based on the legal responsibilities to the company's stakeholders; and
3. The nature of advice provided by an advisory board can be more operationally specific. They tend to be there to help fill a knowledge gap rather than a governance role as per the board. There is also an argument that because of the lack of fiduciary responsibility, advisory boards will give more candid and insightful advice.

A word of caution here, as advisory boards can evolve into decision making groups and as such, its members may become 'shadow Directors' with similar responsibilities and liabilities to that of directors.

### So why have advisory boards in the first place?

The most common use of advisory boards is in a private company situation. The CEO position can be a lonely one if s/he does not have the board and shareholder structure above them. If there is an issue or advice required where does s/he go? They may talk to family members; the accountant; a family friend; lawyer or indeed all of them. However, the issue here is that advisors may not hear the whole story and generally advise based on their particular skill set. For example, a CEO may ask a lawyer if it is appropriate to acquire a specific business but omit the fact that the company is up to the limit of finance available. It may be appropriate to acquire the business, but not if it would put the company under financial stress. An advisory board can act as a sounding board for these opportunities with varied expertise to draw on to give informed feedback and advise that may help in the decision-making process the CEO faces in the day to day business.

The world is also constantly changing, and technology is causing much of this change to occur at an increasing rate. Keeping up, as an individual, is becoming difficult especially when entrenched in the day to day activities of the business. A network and process to keep up must be developed to ensure a profitable long-term business. An advisory board can provide access to this up to date knowledge.

The formation of an advisory board, who meet regularly, provides a forum for the business manager to step away from the daily operations to determine if the business is on track to achieve its objectives. They will provide guidance on a strategic level about factors that may be influencing the business. In larger organisations, advisory boards can be very targeted and implemented to help address a specific requirement, for example, a potential sale, acquisition, technological change or strategic change of direction.

Advisory boards are most common in small to medium-sized private organisations where official boards have not yet been set up. Family businesses use advisory boards to bring in expertise to help them with the strategic business decisions and provide an independent view (through no vested interest in the business) that family members often do not have. New technology start-up companies are often encouraged to engage advisory boards to help guide them on rapid growth trajectories.

The advisory board can also act as a precursor to engaging an official board. It introduces the business owner to concepts such as regular board meetings, taking and maintaining minutes, collective decision-making processes and network access. Advisory boards also don't have the same governance structure as an official board does, and hence the cost structure is well below that of a board of directors.

Large organisations often engage advisory boards to help on a specific task; this could be a significant transformation event such as a sale or navigating through a crisis. In these circumstances, advisory boards can co-exist with official boards, but the advisory board will need a specifically defined mandate, which is often accompanied by a set timeframe to ensure there is no overlap and misunderstanding between the two.

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