

# Advisory Board v Independent Non-Executive Directors



The board's role is to be legally responsible for the company and ensure that it has effective leadership. In the early stages of a company's development it may be more appropriate for the board to act informally without the bureaucracy associated with larger companies.

There will come a time when a company needs outside help that is beyond the expertise of the management team.

However, an interim step to becoming an independent board could be the creation of an advisory board which would be outside of the governance structure of the company and would not have decision-making responsibility.

An advisory board is an informal group of advisors to provide advice to the board and acts more like a sounding board for the company rather than a decision-making body. Its main aim is to provide advice on how to manage, grow or transition the business.

An advisory board can be made up of experienced and knowledgeable individuals who can provide expertise and connections to startup companies. They can help founders navigate the business landscape and provide insight and guidance to succeed such as identifying potential challenges and opportunities. They can also help build relationships with potential investors, partners or customers to help them establish themselves more quickly and efficiently.

## The advantages of an advisory board include:

- ▶ Providing industry skills, expertise and knowledge;
- ▶ Enhances credibility; and
- ▶ Increases customer and investor confidence.



Setting clear expectations and defined goals from the outset should be established by outlining the scope of work of the advisory board, such as having terms of reference, which set out the remit of the advisory board and would include the constitution, their function accountability and responsibility. A company should also set out the time commitment required and what they will be paid. The advisory board should be diverse with experts in various subject matters and different backgrounds

Therefore, having more formal governance processes should be introduced as the company grows and becomes more complex. As the company develops, inviting independent directors to join the board can help play a crucial role and is a key step in the development of unlisted company's governance arrangements. Having a board with the right mix of skills, expertise, professional background and diversity is key to having an effective board.

## Independent Directors

The next step from having an advisory board is appointing independent non-executive directors (NEDs) to the board. NEDs can act as a trusted advisor to a board and can fill the skills or knowledge gaps that the management team don't have.

NEDs provide third party guidance and oversight to ensure the organisation is being well run by executive management. They will have access to all board materials and attend regular board meetings.



Although NEDs do not have the same day to day involvement with the business, they will have a higher degree of involvement than the advisory board. NEDs have the same legal responsibilities of an executive director and therefore will need to ensure that they can meet their legal obligations so will require much more information.

Having NEDs can help with decision making as NEDs are able to make independent and impartial decisions. They can also bring discipline to the holding of board meetings as they likely to be more regular to discharge their responsibilities effectively. NEDs will need the right information in a timely manner to provide their input to board meetings.

A board of directors that included NEDs might be the right decision:

- ▶ If you want to adopt a more corporate structure;
- ▶ Improve top level management; and
- ▶ Improve decision making.

It's important to note that whether advisory boards or independent non-executive directors are beneficial or not can vary depending on the specific needs and circumstances of the company. Some companies may benefit from one or both of these structures, while others may not find them necessary or effective.



# Key Advantages and Disadvantages of an Advisory Board and Independent Non-Executive Directors

Aspect	Advisory Board	Independent Non-Executive Directors
<b>Advantages</b>		
<b>Strategic guidance</b>	Provide external expertise and strategic advice to help navigate business challenges	Offer strategic insights, guidance, and direction to enhance corporate strategy
<b>Diverse perspectives</b>	Bring diverse backgrounds and experiences to decision-making	Offer diverse viewpoints, adding depth to board discussions
<b>Specialised knowledge</b>	Offers specialised knowledge and industry insights	Possesses deep industry knowledge and expertise in relevant areas
<b>Network and connections</b>	Provide valuable industry contacts and introductions	Leverages network to connect with potential partners and stakeholders
<b>Independence</b>	Not tied to management and can provide objective advice	Impartial and independent in board decision making
<b>Disadvantages</b>		
<b>Costs</b>	Fees and expenses	Fees and expenses
<b>Conflicts of interest</b>	Potential conflicts if members have other business interests	Need to manage conflicts between their role as a director and their own business interests
<b>Limited accountability</b>	No legal accountability	Have formal fiduciary duties which can lead to legal liabilities
<b>Limited decision making</b>	No decision making authority	Have joint responsibility for decision making with executive directors
<b>Potential ineffectiveness</b>	May not provide actionable advice or add value	Will depend on the individual's skills and experience



**Beyond Governance**

Creating clarity, improving business



# 5 WARNING SIGNS

that you need a board committee



Setting up a board committee can be an effective way to address specific issues or responsibilities within an organisation's governance structure.

Here are five warning signs that may indicate the need to establish a board committee:



1

### **AMBIGUOUS ROLES AND RESPONSIBILITIES:**

If the board lacks the necessary expertise or knowledge to effectively oversee a specific area of the organisation's operations, setting up a committee with relevant expertise can help ensure effective oversight.

2

### **INCREASING COMPLEXITY OR RISK:**

If a specific area of the organisation's operations is becoming increasingly complex or risky, a committee can provide additional oversight and ensure that the necessary controls and safeguards are in place.

3

### **EMERGENCE OF NEW ISSUES OR OPPORTUNITIES:**

If new issues or opportunities arise that require specialised attention, a committee can be established to provide dedicated resources and oversight.

4

### **STAKEHOLDER DEMANDS OR EXPECTATIONS:**

If stakeholders, such as investors, regulators, or customers/clients, have specific expectations or demands related to a particular area of the organisation's operations, setting up a committee can help ensure that these expectations are met.

5

### **NEED FOR MORE EFFICIENT OR EFFECTIVE DECISION-MAKING:**

If a particular area of the organisation's operations requires more efficient or effective decision-making, setting up a committee with relevant expertise and authority can help facilitate faster and better-informed decision-making. This will have the added benefit of freeing up board time which can be used to consider other matters and make board meetings more efficient.

In general, setting up a board committee should be considered when there is a clear need for additional expertise, oversight, or resources to effectively address a specific issue or responsibility within the organisation's governance structure. Committees can be effective tools for improving decision-making, managing risk, and enhancing stakeholder engagement, but should be established with clear goals, objectives, and terms of reference to ensure that they are focused and effective.