



CORPORATE GOVERNANCE - ADVISORY or SHADOW BOARDS

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Successful companies worldwide have realized the value of the input of all its stakeholders in running the company. Sometimes, this will be reflected in the composition of its board which will not only include the usual owners of the company but also (for example) suppliers, contractors, employees, professional advisors and sometimes even consumers of the company's goods or services. Company directors are often hesitant in opening the often tightly guarded doors of its board of directors to all these various stakeholders.

One recent trend has been the establishment of what has been termed advisory or shadow boards.

A leading advocate of the use of advisory board, Jay Safer, Legal Counsel, IBM, Canada states "...advisory boards are expected to provide helpful insights through member's advice and counsel to the company's senior management. This will assist in the execution of its business strategies and objectives as well as provide individual and professional observations on future trends and opportunities that will lead to greater customer satisfaction and shareholder value".

The concept of an advisory board offers the opportunity of collecting and processing information from the people who have a vested interest in the company without they being actively involved in the day-to-day running of the company. The obvious advantages are that they are independent of influences of the board and they can bring new ideas to it while being immune from the obligations and duties of a legally constituted board of directors.

Generally, the advisory board will have certain functions and roles. In a nutshell these are:

- a. Providing opinions and advice of key stakeholders to the company's board and management;
- b. Studying the industry including emerging segments of that industry;

- c. Understanding all trends, strategies and goals of the company;
- d. Providing management and other senior executives with ideas and insights that are useful to the conduct of the company's business;
- e. Making themselves available to the company's regular board to provide advisory counsel on issues on which that advisory board considers; and
- f. Taking part in all social and business activities in relation to the company.

The size of the advisory board can vary, depending on the amount of stakeholders that are involved, but it usually comprises the chairman and managing director, financial officers of the company, as well as various stakeholders who the company feels have a vested interest in the company and whose advice and counsel will be of strategic benefit to it.

Jay Safer further points out that it is of particular importance to have members from as many industry groupings as possible as well as membership that will reflect the diversity of the country's population, environmental issues and related economic sectors. This will maximize the usefulness of the advisory board.

The advisory board usually meets regularly and its agenda is usually structured to ensure full discussion of the various concerns facing the stakeholders and their respective industries and how this will impact upon the company. The advisory board members should provide advice and guidance to the company's Chairman, directors and management. To ensure proper recordings of the meetings a secretary to the advisory board should be appointed who may also be the secretary to the regular board of directors. The advisory board members should be compensated and indemnified by the company.

A properly constituted advisory board, if seriously utilized by the management as a tool of decision making and information gathering is an excellent method to utilize dialogue with stakeholders to ensure that the company benefits. It can even help in proper planning, reviewing new products and services, obtaining focus group opinions and dealing with issues which may avert a crisis.

This writer believes it a good idea for companies in Jamaica to seriously consider utilizing advisory boards as this approach is a useful tool in communicating with and obtaining ideas from all stakeholders.

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