

## **Advisory Boards can be your secret weapon for success**

The world has changed quite a bit during the last two years and while the North American and the global economies are slowly coming out of the recessionary environments of 2008 and 2009 when companies like General Motors, Chrysler and NORTEL go bankrupt, one has to stop and wonder what is going on?

In reviewing the list of the largest 15 corporations worldwide, we can easily note that over 1/3 are in trouble. How could that happen? These large corporations have technically all the elements of success: strong brand names, access to capital, the latest technology, intellectual assets, markets, worldwide resources and the list goes on... In short, they either have what is needed to be successful or could with relative ease acquire what they are missing; so what happened?

If you read the business media, many reasons are given such as the lack of strategies, following the wrong strategies, poor execution, incompetent senior management, rapid change in market conditions, taken over by technology etc. However in my opinion all these reasons are more like symptoms rather than the real reason(s). At the heart of these challenged corporations, most of the time, you will find a **“too comfy” board of directors that went to sleep at the steering wheel.**

**So what is the role of the board?** Simply said, the board has six specific key functions:

1. Review and **approve** the company (or organization) strategy
2. **Monitor** the company's performance and **evaluate** management
3. **Authorize** compensation
4. **Make sure** the company complies with all laws and regulations, maintains high integrity of the financial numbers, adheres to ethical standards and insures that risks are properly evaluated
5. Provide **advice and counsel** to management
6. Makes appropriate **recommendations** to the shareholders.

Note that the role of the board is not to make strategies but to approve the strategies developed by senior management and then monitor if management is doing a good job. Looking at these six functions, it is easy to conclude that the boards of these large companies were “out to lunch”. Let me give you a simple example:

Let us just imagine you are a member of the board of a major auto manufacturer, let's say GM; is it too difficult to ask the following questions and then formulate these simple strategies?

- Our **hourly labor cost** is double the hourly labor cost of our competitors. Strategy 1: We need to implement a strategy that will **reduce our labor cost** to within +/- 5% of our competitors. Whether we are unionized or not is not the question. We need to work with our unions to be competitive.
- **Oil price** may fluctuate for the short term but it is safe to predict that it will most likely continue to increase over the long term, hence, customers' needs will continue to shift to smaller more

economical cars; our present car line-up consists of only 10% or less small cars. Strategy 2: We should **increase our small car line-up** and increase this percentage aggressively over the next 3 years.

- As the **prices for oil continues to increase**, customers will be looking for different types of cars with alternative engines. Strategy 3: We should **invest in alternative engine technology** such as electric engines and other types. We need to bring to market electric and hybrid products faster.
- Most if not all our competitors have **one or maximum two brand** names while we market our product line with over 8 brand names; and we have 8 organizations and 8 cost structures; our competitors are profitable and we are not. Strategy 4: We should **simplify our marketing mix by reducing the number of brands we carry!**
- It seems that the present **management team is convinced** that we need to produce many millions of autos to become profitable; but how come much smaller competitors are profitable producing a much lower number of units? Strategy 5: We **must lower our break-even point** significantly and succeed in making a profit at a much reduced volume.
- We have been **losing market share** consistently and steadily over the past 15 years. Strategy 6: We need to **change the sales and marketing strategies and tactics** we have been using and introduce new ones.
- When we compare the **remuneration levels** of our senior management to the remuneration of our competitors, it is evident that our compensation is much higher. Strategy 7: **We need to review our compensation to senior management and bring it in line with key competitors!**

I am sure GM needs more strategic initiatives, but just these 7 easy observations and straight forward strategies could have made a big difference. By all means, this does not seem like rocket science to me.

Since 1996, I have successfully completed over 200 consulting assignments for mid-size privately owned Canadian companies. Clients served were in diversified lines of businesses and most of these assignments consisted in helping companies formulate strategies to fuel sales and profit growth. Once these assignments were completed successfully and the clients' businesses had returned to growth in sales and profits, the **challenge was to sustain the good performance**. Similar to a soccer game, it is one thing to score a goal in the game; it is another thing to defend your winning position until a final victory. **You need to keep your strategy and tactics updated because nothing is constant in business except change.**

Your competition will most likely re-group and will be back to attack; over time customers will be more demanding as more options become available in the market place. Rapid improvement in technology may help competitors and so on... nothing is constant but change!

In today's global market place, **size is also no more a guarantee for success**; so if large corporations with access to many resources miss the mark, how can privately-owned medium sized businesses sustain a good performance?

Creating an advisory board that can provide professional counsel to management and to whom management can be accountable to can be a **definite competitive edge to stay nimble and sharp**.

Today the global economy represents **immense threats** to medium sized businesses but at the same time, it also represents **incredible opportunities**. Take for example the ease with which companies

can use technology, telecommunication, transportation and free trade to compete on a world-wide basis and to leap-frog over competition.

On the one hand, you are no more competing with domestic or regional competitors, you are **competing with companies that are halfway around the world**; companies that you did not even know existed. Yet, on the other hand, when a potential client accesses your website and let's say the IBM website, both websites appear on the same sized monitor. IBM has "technically" the same "space" as you have to pitch their resources and capabilities as you. In other words the playing field has been somehow leveled to a large extent. What an opportunity!

**Speed of execution** is another eye opener. It took a company like salesforce.com less than 10 years to reach sales of one billion and they principally sell a business service through the internet. Google today is trading at +/- \$500 a share when Microsoft is trading around \$30 a share. These examples clearly demonstrate that the tools for succeeding in today's global and dynamic market place are changing.

An advisory board can no doubt bring a decisive competitive advantage to a privately owned and managed mid-size company. Here are **7 specific skills or key functions a well balanced advisory board can provide to the owner(s)/manager(s)**:

1. **Financial:** It is not enough to have orderly "accounting books" to compete in today's aggressive market place, you need senior financial wisdom, adequate financing, intelligent budgets, in-depth cost analysis, flexible and sharp procurement processes. You need not only experience but experience mixed with up to date financial knowledge.
2. **Sales and Marketing:** In a world where your competitor is several thousand miles across the globe, you need serious competitive intelligence to not only know what a competitor is doing but **what is he most likely going to do in future**. Similar to a chess game, you need to anticipate your opponent's move. Social media marketing for example has revolutionized the basic fundamentals of marketing and advertising in record time. You need to constantly update your sales and marketing strategies.
3. **Operations Management:** In a global market place, it is not sufficient to achieve a productivity gain of 2 - 3 points every year to stay ahead, you need to re-invent yourself aggressively, invest in up-to-date technology, train and develop your team like never before and make sure that you achieve results with optimum safety, adherence to increasing regulations and while also being as "green" as you can be. Expert help can make a difference to your cost structure and help your productivity and quality.
4. **Technology:** is galloping at an incredible pace. How can your local IT person possibly stay up-to-date when technology changes over night? Making use of the latest technology in a practical and efficient manner can be a decisive move.
5. **Human Resources Management** has always been the heart of successful businesses. Today skilled labor and knowledgeable workers don't even need to travel to perform their work; companies can outsource almost 90% of the business functions with relative ease. Multi-million dollar corporations are run efficiently by a handful of people in terms of head-count. HR management is not about compensation, benefit and training only but about putting together a nimble, aggressive and sharp team like a SWAT TEAM or the A TEAM seen only on the TV and in movies!
6. Aggressive **Research and Development** and constant innovation are today an absolute must. Staying on the cutting edge of technology and providing laser sharp solutions in a speedy

manner to customers are the norm to staying ahead. You need to make innovation part of your company DNA or growth will be hindered.

7. Sound **strategies** of course will continue to be the key to creating and sustaining healthy growth. But with so much specialized knowledge and speed of change, constant revision and update to your key strategies are essential let alone excellence.

Strong technical experience, deep understanding of the bottom line and competent managerial skills are simply not enough to achieve success. Surrounding yourself with well balanced, experienced and qualified board members with proven insights in their specific area of expertise and a solid performance record of achieving results will clearly improve your odds of success and then sustaining your success.

When ownership and management are the same, **a good advisory board can help protect the owner(s)/manager(s) from themselves.** My experience clearly demonstrates that when ownership, family and management are inter-twined, making the right decisions becomes very difficult. This is simply due to the emotions and family issues that inevitably get in the way. An independent and experienced advisory board can bring a **discipline process to making important decisions;** especially when strategy is involved. Strategic errors can be very expensive to fix and some errors are fatal.

Putting together an effective advisory board, however, requires experience and investments; board **members must be carefully recruited.** You cannot form an advisory board composed of friends and family members; you need independence. Advisory board members must also be **adequately remunerated.** This is not a social club; board members will have to dedicate quality time, attend meetings, research subjects etc. They must do their homework and come to the meetings prepared. A good advisory board must work well together and also gain the trust and respect of the senior management team.

An advisory board should be composed of at least 5 members, 2 from inside the company (or ownership) and 3 external independents; you may after some time (2 years or so) increase the board to 7, to make room for turn-over. Remember also that a board with an odd number is preferred because you are more likely to avoid a tie if the board uses a voting process. The board should meet a minimum of four times a year and the use of committees can be very effective to focus on particular functions or issues (finance, HR, R&D, technology, foreign markets etc.).

Passing on the baton between generations is never easy. A good **advisory board can also help plan and execute a smoother succession plan.** 😊

Private businesses just like major public corporations need the best persons to run the business and the best persons may not necessarily be the owners of the business. They also need a body that will watch over management to insure management is doing a good job. **Consider creating an advisory board, it may be your secret weapon to achieve success in today's competitive market place.**

## Hugh Latif & Associates

*Management Consultants & Corporate Governance*

135 Park Home Avenue, Toronto, Ontario, Canada, M2N 1W7

Tel. (416) 229 0520 Fax. (416) 223 8849

[www.hughlatif.com](http://www.hughlatif.com)

For past issues of **Marketing Instincts** please visit [www.hughlatif.com](http://www.hughlatif.com)