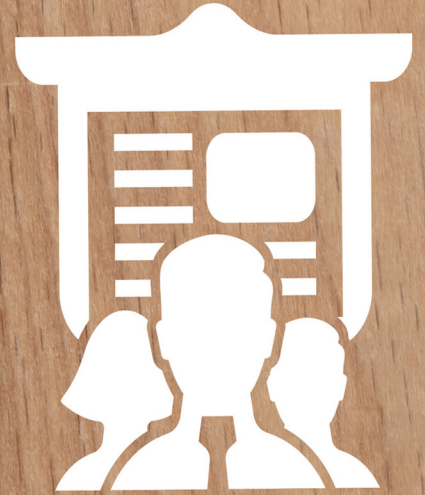


12/2023

**ADVISORY
BOARD**



*Advisory Board
Best Practice at Hand*

Advisory Board, Best Practice at Hand

Leaders have always surrounded themselves with independent councilors to advise and assist them in running their businesses. Advisory boards play an increasingly important role in today's corporate governance. The use of advisory boards in companies has not decreased. In fact, it is on the rise, especially in **Germany** and the **United States**. Advisory boards enable corporate executives and board members to fill gaps in their expertise, advance their strategic goals by providing a long-term perspective, and navigate growth cycles, while benefiting from critical, thoughtful, and, most importantly, **independent advice**.

Regardless of the path chosen, governance that is adapted to each stage of a company's development is designed to create long-term value and to foster the coalescence of talent around a common project.

1- Executive Committees: The Current Situation

While executive committees are widespread in the German, American, and British markets, they are less common in French companies.

However, there is a growing interest in these structures among directors of companies of all sizes. This trend has been accentuated by the ever-increasing influence of the corporate ecosystem as a whole (investors, suppliers, clients, collaborators, public and media) and the influence not only of activist groups, but also of social, economic, and public health disruptions, as well as of increasing government regulation, which make it more difficult to do business.

According to a recent study by the Advisory Board Centre (1):

42% of companies without a board of

directors or supervisory board are creating an advisory board

32% of companies already have a board of directors or supervisory board

26% of companies use their board as an informal information tool

2 - Key Trends in Advisory Board Formation

1/ Advisory boards are formed in start-ups, scale-ups, and small and medium-sized enterprises (SMEs) that do not have a board of directors or supervisory board.

They are typically used during periods of transition, when business leaders (CEOs and their associates) face significant challenges and/or opportunities. Advisory boards are supportive groups of reflection and encouragement for leaders, and interactions during their meetings promote critical thinking and greater confidence.

Representing the largest share of the market, advisory boards increase confidence in the decision-making process. This is their most important result.

They generally include two senior advisors and a chairperson, as well as two company representatives, whose contributions are not dependent on their place in the corporate hierarchy.

2/ Advisory boards can be found in companies, whether publicly traded or not, that already have some form of governance (a board of directors or supervisory board).

In nonprofit organizations, in universities, and in government organizations.



International firms looking for new ways to improve their process of making decisions can turn to advisory boards for expertise. These firms gain a fresh, impartial perspective and expert insight — which is not available internally — on the latest emerging issues. By taking a step back and deciphering trends, they are able to work sustainably over the long term.

A clear definition of the relationship between management and the board of directors (making decisions) and the advisory board (providing solutions) is important in order to avoid interference and to build agile and productive governance.

3/ Project-specific advisory boards

They are created to meet a specific need, regardless of the size of the organization. They can be used for any purpose and are the most creative and exciting movement in today's advisory board sector.

Project advisory boards are created to provide targeted advice about a specific time, place, or strategic goal. They are usually limited in terms of their scope and/or duration, which is generally from 3 to 18 months.

3 - Stakeholder Benefits

1/ Advisory boards are purely consultative bodies, which operate with flexibility, agility, and independence within the governance framework. Created solely by the will of the directors, they are characterized by the independence of their members, their high level of objectivity, and their integrity.

2/ They have a positive impact on the company's trust index.

3 Large companies, i.e., SA [Sociétés anonymes] cannot continually increase the size of their board of directors or supervisory board to include other executives with areas of expertise that have become critical.

Smaller firms, such as SAS [Sociétés par actions simplifiée] and SARL [Sociétés à responsabilité limitée] benefit from key

expertise at a lower cost. Board members interact freely with directors, without the constraints of hierarchy.

They have no voting rights and no fiduciary responsibilities. Advisory board members devote less of their time and receive less compensation than the company's executives.

Accustomed to complex situations and equipped with a rich and successful international professional experience, Senior Advisors seek to share their knowledge, broaden their horizons, and work with open-minded people in a stimulating environment.

Advisory board members are looking for intellectual challenges and the joy of being useful. For some veteran professionals, the discovery of intergenerational collaboration provides a revelation of the mindset and practices of younger generations and their deep sense of the new uses of digital technologies. Senior members willingly share their address books, allowing the company to expand its network significantly.

Independence is both a state of mind and a personal ethic. The members of an advisory board are chosen for their convictions, their ability to listen, and their sound, unbiased judgment. It is a delicate role that requires not only a fine touch but also courage. It is important to ensure that there are no conflicts of interest. When these criteria are met, an advisory board can be a powerful tool for improving corporate governance and providing long-term support for the company's management

4 - Advisory Board: Organization

The advisory board is charged with actively creating new solutions for the management of the company. This means that its members should have a wide range of complementary skills. The quality of the group as a whole is greater than the sum of its parts: the individual members who serve the head of the company, its board of directors, or its supervisory board. The quality of its deliberations depends on its diversity.

The professionalism of its organization and operation also contributes to its effectiveness. Regular meetings (5 or 6 per year to start), well-managed agendas, accurate



It is clear that business people with long and varied careers on the international stage have a rightful place on advisory boards, as do younger experts.

reports, and clearly defined management expectations allow each member to make a significant contribution.

In France, there is a great deal of freedom in the process because there are no legal constraints or predefined regulations.

In Germany, the scope is broader, and responsibilities can include monitoring the management team's achievement of its goals, assessing the viability of innovation and growth strategies, analyzing new market potential, ramping up digital transformation, and advising on the appointment or removal of members of the executive team.

5 - Evaluation of the Advisory Board

It is important to measure the impact of the advisory board on a regular basis and to ensure that it is meeting the expectations of the directors and their associates. These expectations may change as the company evolves, and therefore the advisory board also needs to evolve.

Companies that are seeking to diversify need an advisory board with different skills than companies that are expanding, changing their business plan, focusing on digital transformation, or entering new markets.

Advisory board chairs are responsible for carefully defining the board's scope and periodically reviewing its composition in order to ensure that it is closely aligned with the needs of decision makers.

For these reasons, we recommend that you review your advisory board on a regular basis and consider reducing the time that its members serve.

6 - Compensation of Senior Advisors

According to a 2022 study of German family businesses by PwC, the average annual compensation of members of an

advisory board is from €10,000 to €20,000.

The annual compensation of 45% of Senior Advisors is at least €20,000.

Chairs and Vice Chairs receive a higher annual compensation, **between €25,000 and €45,000**. This difference in compensation reflects the additional workload of these positions. They are responsible for preparing the meetings and are in direct contact with executives.

However, if the annual compensation of other board members is less than €10,000, this is not representative of the degree of their involvement and duties.

Since there are no similar statistics for the French market, we recommend using the German figures as a guideline for determining compensation.

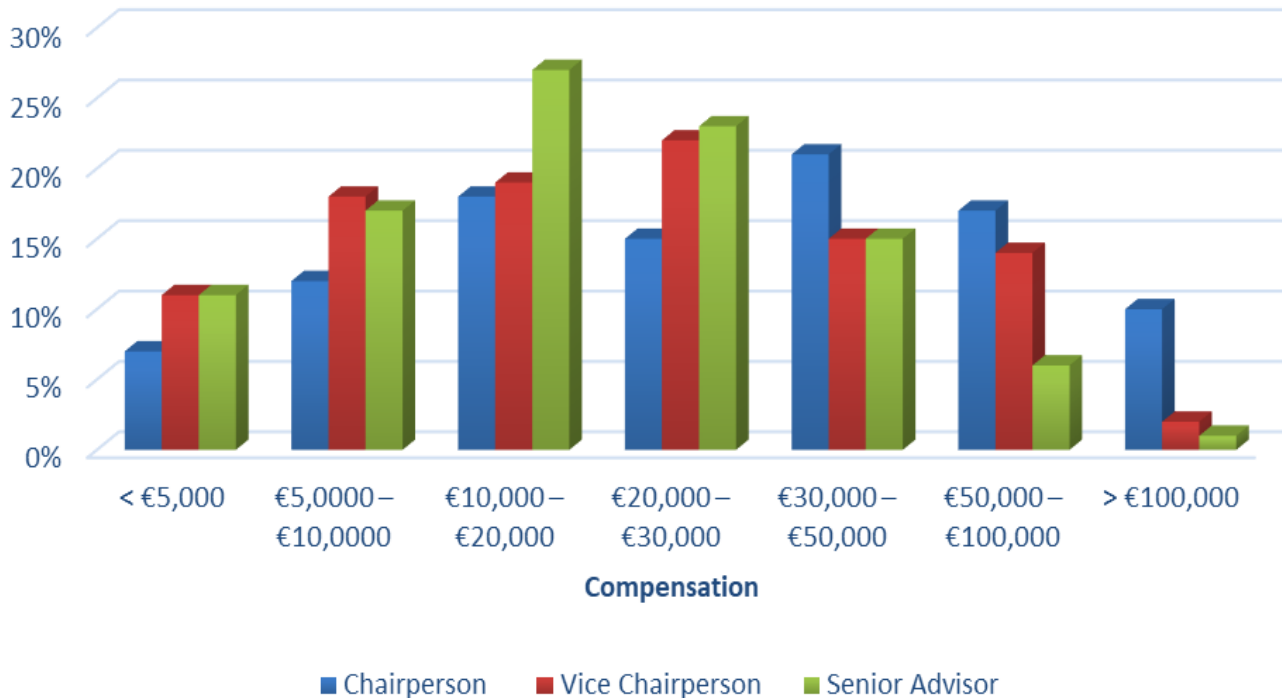
It is difficult to recruit the best candidates when compensation levels are not competitive. This is especially true when those who are invited to serve are already working as CEOs or as directors of other companies. Such people might be more inclined to participate in a board of directors or supervisory board.

7 - Conclusion

Entrepreneurs often associate corporate governance with control, monitoring, and a kind of administrative formalism that runs counter to their needs and expectations

In hindsight, however, many founders and directors have considered this governance to be an essential source of vitality, which allows them to stay nimble in moving the business forward, focus energy on the right issues, and benefit from the perspective and multiple options that collective intelligence provides. Otherwise, this intelligence would go untapped. Advisory boards are the key to a flexible and ambitious growth management.

Compensation of Advisory Board Members Family Businesses in the German Market (2)



Sources & Translation

(1) Advisory Board Center : <https://www.advisoryboardcentre.com/our-research/state-of-the-market>

(2) Der Beirat im Familienunternehmen (Advisory Board in Family-run Companies) from PricewaterhouseCoopers GmbH (Pwc Germany)

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INTES Akademie für Familienunternehmen (INTES academy of family-run companies)
<https://intes-akademie.de/beirat>

Die Stiftung Familienunternehmen (The Foundation for Family-run companies)
<https://www.familienunternehmen.de>

Translated by John Holland, <https://johnlandtranslations.com/>

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