Structured governance — boards

Structured governance involves having an advisory board, a board of directors, or both. Boards can help you with things like making better decisions, setting up growth strategies, creating a vision, or ensuring financial stability and credibility. Find out about the two types of boards, what they each are and aren’t responsible for, and the basics of running board meetings.

New support for companies impacted by COVID-19

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Advisory boards

The role of an advisory board is to provide expert advice, without having any legal obligations. The type of advice the board might give depends on your business. For example, you might need technical, scientific, or medical advice. You might need advice specific to start-ups, or advice about finances and fundraising. Advisors might tell you about industry trends or warn you about risks. Because they’re not in the day-to-day running of your business, they’re well placed to offer insights and fresh ideas.

Setting up an advisory board can be a first step to better governance and taking your business to the next level. You could set one up to get broad advice, or to focus on a specific matter. You might want an advisory board to:

- give you guidance on a range of things, right down to day-to-day management
- add some long-term planning and big-picture thinking to your day-to-day expertise
- focus on improving your operations and solving any problems
- be a sounding board when your business is growing or changing.

An advisory board can also improve your case when seeking investors. It shows investors your business is ready to meet future challenges.

What advisors are and aren’t responsible for

Advisors aren’t directors, so they have no powers over your company. They don’t make decisions for you and they have no financial responsibility. You don’t have to take the advisory board’s advice if you don’t want to.

Advisors help you figure out what’s not working, what needs improvement and how you can achieve it. This is why it’s usually better to appoint advisors that you don’t already know. If you’re personally close, they may not be comfortable giving you frank advice. Ideally, keeping your advisors external means they can help you see the ‘big picture’ and avoid becoming complacent.

An advisory board is a way to get hands-on, expert advice and guidance, when you need it most.
The benefits of having an advisory board

Advisory boards can help you:

- run your business more professionally
- develop your own style of governance
- provide fresh ideas and challenge you to consider improvements
- shape your products or services before taking them to market
- prepare for milestone events, such as entering a new market
- think about longer-term issues, like how to pass on the business when you leave.
- reassure potential investors that you’re confident in your abilities.

Case study

Amit’s apps — good advice means better business

Amit’s app-developing start-up is going from strength to strength. He met his advisor Liza through a business meet-up group.

Liza and Amit’s meetings started off as informal chats, but Liza has become increasingly impressed with his progress. Amit has recruited more staff and taken on projects for larger clients, leading Liza to see investment potential. She’s taken on a more formal advisor role in return for a share in the business if it reaches a certain turnover.

However, Liza realises that Amit’s business is rapidly expanding to the point where he needs more specialised advice. She knows a growing business needs advisors with expertise in finance, marketing and risk management. Setting up an advisory board seems like the best option. She suggests a couple of contacts from her network who are interested in becoming advisors too.

Amit can’t afford to pay the advisors at this stage, but for now both are happy to give time and advice for free. They’re keen to see Amit’s work succeed, and they know Amit’s skills may be useful to them in future. In time, he may be able to repay them in kind.

Boards of directors

If you’re the only director of your business, you’re officially the board. But for structured governance, you need more than just you.

The role of a board of directors is to help make decisions that affect the business and ensure its success. A board also helps keep the business financially on track and minimises the chance of insolvency (being unable to pay debts). This means a board has major responsibilities and legal and ethical obligations, as does each individual director.

A board of directors is:

- legally required to act in the best interests of the company
- legally liable for its actions
- ultimately responsible for the success of the company
- expected to supervise the business, not run it
- able to pass company resolutions or formal decisions that need a vote
- appointed by shareholders, eg people who’ve invested in the business.

Being appointed to a board is not just an honorary position. All directors need to take their role seriously and be of good character, which includes making good decisions, being honest, and taking responsibility for actions. They may also choose to invest in your business.

A board with around six members is ideal, as it makes for a streamlined decision-making process and prevents directors relying on others to ‘take the slack’.
The exact number of board members is less important than getting the right mix of skills. A small business may find that three or four members works well. Or you could start even smaller — with just you plus one other.

If you run a smaller company, you may find you don’t even need to add formal directors to your board. An advisory board may be more suitable, providing mentoring when you need it. You’re best placed to know what will suit your business, depending on what stage it’s at.

**What the board is responsible for**

The board’s responsibilities include setting the company’s strategic aims and helping to achieve them. It should regularly monitor how the company’s performing against those aims and make sure everything’s being managed properly.

The board has to ensure the company remains solvent and report to shareholders (if you have them). It should also look out for risks and opportunities that could change the course of the business. The board should then create strategies to maximise opportunities, and plan how to lessen or deal with any risks. It should also advise on selecting and developing senior managers, as well as on how much to pay them.

**The board chair**

While the CEO publicly leads the company, the board chair leads from behind the scenes. This means the chair’s job is very different from the CEO’s, but the relationship between the two is strong and critical. For example, at a board meeting the CEO focuses on getting decisions and guidance, while the chair ensures that all views are heard and considered.

The overall role of the chair is to set the tone for the board and keep it on track. This calls for unique skills. It’s important that other board members have confidence in the chair.

One of the chair’s key tasks is to set up and guide the structure of board meetings, eg keeping to time. The chair prepares other board members for each meeting and sets rules about acceptable agenda items. By shaping the agenda and putting processes in place, the chair sets the board on the right path.

The chair must be neutral. They’re the voice of the board. The chair helps to create a culture where board members bring a robust, independent view to the table. They ensure decisions are made, recorded, and properly understood. The chair will also have their own view on issues and will want to contribute to the debate. They must do this without unfairly influencing the discussion. Any decisions they make need the support of the other board members.

**The directors — executive and non-executive**

Boards can have two types of directors — executive or non-executive. Many boards have a mix of both, which is ideal.

**Executive directors** work in the business. Because of their inside knowledge, they’re often good at giving in-depth reports on an organisation’s performance.

Executive directors need to learn how to juggle roles or switch hats. They’ll wear a management hat for operational discussions and a governance hat for board meetings. If they struggle with this, non-executive directors can help guide them.

**Non-executive directors** don’t work in the business. They’re more likely to give unbiased opinions, because they’re outsiders with a professional interest in the business, rather than an emotional one.

Non-executive directors are removed from internal politics, so they can help to prevent managers making decisions based on personal gain. You should aim for about half of your board to be non-executive directors. Boards with too many insiders can be seen as less accountable.

Non-executive directors can be independent or non-independent. An independent director has no other relationships or associations with the business that could interfere with their judgement, eg someone with a small proportion of shares might still be considered independent. A non-independent director holds other ties to the business, eg a former employee or a major shareholder.
A typical board might have a mix of executive and non-executive directors with skills in:

- law
- marketing
- operations relevant to your organisation, eg including international experience
- the major industries that your organisation operates in
- human resources
- risk management
- mergers and acquisitions (if relevant)
- finance (for small businesses, having one independent board member serve as a financial expert and audit committee is critical).

What it means to be a good director (/business-performance/governance/being-a-good-director/)

Involve the right people (/business-performance/governance/laying-the-groundwork-for-good-governance/#e-18060)

External independent directors in your board can add fresh ideas to your strategy.

The benefits of having a board of directors

As a business owner, you start out ‘wearing all the hats’. This may cause you to feel increasingly pressured as the business grows. Having a board of directors is a way to share some of the ‘hats’ — tasks and responsibilities — with other people. It also helps you ensure you make decisions that are best for your business, rather than best for you personally.

Non-executive directors can be objective and truthful because they aren’t distracted by the day-to-day running of the business. This means a board that features non-executive directors can help you make better decisions. Boards enable you to draw on decades of industry knowledge and networking that would be hard to gain by yourself.

Having a board is an advantage because:

- it brings expertise, skills, and connections your business doesn’t already have
- it provides vision, strategic thinking, support and guidance
- it helps you run your business with more structure and discipline
- it shows you’re serious about growth and creating a strong brand
- experienced directors will keep you on the right side of the law while helping you see the big picture
- board members might invest in your business later on if they like what they see
- a board with independent directors can prevent any conflicts between shareholders.

Separating ownership from control

It's easy to get confused about the boundaries between governance and management. The board is in charge of governance, ensuring smooth running of a business by focusing on accountability and oversight.

Governance also ensures that the business has a future-facing strategic plan. This plan is then translated into day-to-day operations by the managers.

If you choose to be on the board, you can clearly separate working on the business from working in it.

Case study

Creating a board helps Jim to develop new ideas with confidence

Jim is the new Managing Director of The Kiwi Paper Company, a manufacturer of paper products with 30 employees. He’s been with the company since leaving school, working his way up from the factory floor. The company has reached a plateau and is looking for new ways to grow. Like many
other businesses sourcing materials from primary industries, they feel under pressure to move towards increasing the value they extract from resources. The last managing director, Sione, was the founder of the company. He tended to focus on operations, not devoting as much time to governance.

Jim wants to prepare the company for expansion into new products, starting with a line of sustainable craft materials — he knows that sustainability is becoming more important, and is a major concern for younger people. He also knows that crafts such as origami are becoming more popular. However, Jim is wary of moving into a new market without being able to see the ‘general health’ of the business first. He knows that a board will help him with challenges such as timelines, budgets, and strategies for finding new retailers to work with.

Jim can appoint directors under the current company setup. He appoints the operations manager to sit on the board with him and also invites Sione, meaning he’ll be able to draw on Sione’s experience while creating his own management style. Jim also decides to bring in an independent director with no past connections to the business. Jim hopes this person will challenge their usual way of doing things and provide fresh thinking along with solid advice.

How a board of directors makes decisions

As your business expands, more stakeholders will begin to take an interest in how it operates. To prove that your business is operating correctly, the board will need to demonstrate that it’s made decisions carefully, using relevant information.

While differing opinions add value to a meeting, decisions must be based on facts, not feelings. The board should have defined processes for approaching decisions. This includes deciding whether to discuss an issue in the first place, to ensure that the board makes the best use of its time.

A board can be set up to use different decision-making methods for different circumstances, such as:

- vote — deciding based on what the majority of the board prefers
- consensus — finding a way that a decision can work for every member of the board.

Board members need to understand the context they’re making a decision in. This includes what competitors are doing, how customers will view the decision, how they’ve made this kind of decision in the past, and how the decision will affect the future of the business. This information should be set out in board papers.

When the board makes a decision, every member needs to understand exactly what they’re agreeing to. The decision must be recorded in the minutes so that you can refer back to it if you need to. This is vital for showing that the board has met its legal obligations.

Provide board papers (/business-performance/governance/structured-governance-boards/downloadpdf#e-18280)

Take minutes (/business-performance/governance/structured-governance-boards/downloadpdf#e-18277)

What makes a good board member

A board member is expected to speak their mind while respecting everyone else’s views, however different they are. Board members with lots of experience can give great advice — but hearing opinions from people of different ages will help you see all sides of an issue.

Each board member should offer:

- knowledge of the context your business is operating in
- knowledge of legal issues that may affect your business
- knowledge of emerging issues in your industry
- strong communication and teamwork skills
• commitment to their role
• integrity and credibility
• respect, trust, enthusiasm and honesty
• strategic thinking.

Involve the right people ([/business-performance/governance/laying-the-groundwork-for-good-governance/#e-18060](/business-performance/governance/laying-the-groundwork-for-good-governance/#e-18060)) has information on how to choose board members.

Winning a race is invariably a team effort. You might try to do it on your own but success is more likely with the right support crew.

[The governance metaphor](https://www.iod.org.nz/FirstBoards/What-is-a-board/The-governance-metaphor) — Institute of Directors

Basics of board meetings

Meetings for advisory boards and boards of directors have a similar structure. Both have a chair to facilitate, and formal procedures and requirements. Here’s a few basics to give you the general picture.

Set the right frequency

**Board of directors meetings** take place regularly. Choose a timing that suits your business — anywhere from once a month to once a year. You may also need to call a meeting when a major decision needs to be made. If you hold board meetings once a quarter, this allows three months for the business to implement any ideas or decisions before the next meeting.

**Advisory boards meetings** can happen whenever your business needs specific governance advice.

Keep meetings focused

To make the most of your members’ time, keep each meeting tightly focused. For advisory boards, shorter sessions are more effective than longer ones, and members may not need to be involved in every topic or every session. For boards of directors, sessions can be anywhere from short and sweet to several hours long. For either type of board meeting, build in a short refreshment break to keep everyone energised.

Set a clear agenda

As directors are often busy with other commitments, it’s important they know beforehand what will be discussed in each meeting. This will give them time to prepare.

An agenda will help you structure each meeting and make the most of everyone’s time. You should limit the number of items you aim to discuss. It’s usually best to cover the most important issues first (while everyone has the most energy) and allow more time for complicated topics. The agenda template below has more detail.

[Board meeting — agenda template [DOCX, 226 KB]](/assets/Uploads/Documents/board-meeting-agenda-template.docx)

Take minutes

Taking accurate minutes (a record of key points and actions) is important for holding directors accountable for what they decide. Minutes let the board refer back and track the progress it’s made.

Minutes are an official record that show directors are fulfilling their duties and responsibilities. They must be an accurate reflection of what happens in meetings. Be sure to record any important decisions, or difficult or complicated issues facing the business.

Minutes don’t have to record every word of the meeting — they just need to summarise inputs from board members and record any action points.
Provide board papers for boards of directors

Board papers are vital to proper governance. They’re written by people working in the business, such as senior managers. They inform directors, provide points of discussion, or ask them to make a decision. Papers should be brief but make their points clearly, and should be distributed at least a week before the meeting to give board members time to read them.

The basic papers that you’ll need for most board meetings are:

- the minutes of the previous meeting
- the CEO’s operational report
- a financial report
- a disclosure of any conflicts of interest.

Papers should include:

- an explanation of the decisions the writer is asking the board to take
- what they recommend the board should do and why
- risks involved with the decision
- who’s been involved in creating the paper.

Recognising the efforts of board members

Not all board members are paid for their work. For directors who are paid, a fixed fee is the most common type of payment. Alternatively, you could pay them on a per-meeting basis, so that their advice only becomes an expense when you need it.

Board members might be prepared to give their time for free (for example, if they’re retired but looking for a project to involved with). Advisory board members often work on a voluntary basis, with their reward being the recognition they get for helping, and the improved performance of the company.

Another approach is to reward directors ‘in kind’ — with something other than money. A small proportion of companies offer directors some of the company’s stock, which has the benefit of giving them a personal interest in the company’s success. You could also contribute to their professional development, introduce them to your network, recommend them to other boards, or publicly acknowledge their work somehow.

The important thing is to be clear about what you can offer, what the directors would like from you, and what you’re willing to negotiate.
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