

NEWSLETTER

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ADVISORY BOARDS: COMPETENCE CENTRES FOR DIFFICULT MARKETS

What is an advisory board and what does it do? As the name suggests, an advisory board is a committee with a purely advisory function.

Unlike the management, an advisory board has no decision-making powers. In contrast to supervisory boards, advisory boards also have no formal control function. Advisory boards have no governance tasks or legal responsibilities. This means that companies are free to compose their advisory boards as they please. There are no rules as to who can join an advisory board, how often the board meets and what issues it deals with. Formal elections, term limits and disclosure of advisory board remuneration are not required.

Advisory boards: in-house consultants and networkers

The objectives of advisory boards vary from company to company. Some companies are interested in information about new technical developments, others hope to strengthen their networks in politics or foster their reputation. An advisory board can also help to develop knowledge of foreign markets and to understand the business culture of a specific target country.

Most companies choose to set up advisory boards when experienced individuals "from outside" can enrich the knowledge and strategic planning capabilities of the management team.

Advisory boards can act as „sparring partners“ by questioning management’s assumptions, for example on technical issues. In short: Advisory boards are an opportunity to use expert advice without hiring an external consultancy agency. The company and the advisory board are in the same boat - they work together in the long term and are united in their interest in the success of the company.

Advisory boards in the emerging markets

Countries like India, China, Iran or Russia can be difficult environments, especially for small and medium-sized companies. It is not easy to keep up with the constant changes in the regulatory area and the ever-changing economy.

The local subsidiary companies are sometimes small, local management is often too absorbed in day-to-day business to be able to focus on strategic issues. In such a constellation, it makes sense to install a local or regional advisory board.

The advisory boards - experienced local managers from the respective company environment or the relevant target industries - support the local management with their experience by providing a „bird’s eye view“ and acting as coaches of the management.



Christian Tegethoff
Managing Director
CT Executive Search

With their market understanding based on experience, the advisory boards help to avoid costly mistakes and to identify the direct route to the goal.

A skilled advisory board can also provide their contact network to build and maintain relationships with customers and other stakeholders. Renowned names help to increase the company's visibility and improve its image. These strengths are beneficial for working with (potential) customers, government bodies and a strategical approach to business development.

As trustworthy and valued lawyers for their respective markets, the advisory councils can help to promote understanding of the local specifics at the company's headquarters. In doing so, they support country management in fulfilling its intercultural bridging function.

When does an advisory board make sense in Eastern Europe and the emerging markets?

The typical tasks of a regional or country-specific advisory board include:

- imparting market understanding and support in strategy development;
- maintaining contacts with key customers, especially at the owner level;
- facilitating contacts in politics and administration;
- assistance in interacting with joint venture partners;
- establishing contacts to potential customers and partners.

The decisive factor for the usefulness of the advisory board is the consistent appointment of personalities who bring the required skills and networks with them.

How can advisory boards be composed effectively?

CT Executive Search supports companies in identifying and approaching candidates for advisory board positions.

As a rule, these are personalities from the local economy and/or politics who, based on their experience, can bring added value to international companies. We leverage our local networks in countries such as Russia, Ukraine, China and India in order to identify candidates for advisory boards who measurably increase companies' success.

CT Executive Search composes entire advisory boards or places individual advisors with specific competencies, tailored to the requirements of local or international management.

“COMPANIES BENEFIT FROM SMARTLY SELECTED ADVISORY BOARDS”

How popular are advisory boards in Iran? How do they usually operate?

Advisory boards are not particularly common in Iran as a distinct institution. However, the typical functions of an advisory board - mainly advising and establishing contacts – are carried out differently.

The boards of directors and supervisory boards of Iranian companies are often staffed with more people than in other countries. One reason for this is that some of these directors perform tasks that are covered by advisory boards in other countries.

Many Iranian companies also work with long-term consultants who are referred to as “Advisor to the Managing Director”. In the European understanding, such positions include functions often delegated to members of advisory boards.

What experience do you have in advisory boards?

I have worked on the boards of several private companies for many years, and my positions were comparable to that of a member of an advisory board.

The tasks included advising the management on strategic and operational issues. In some constellations, I specifically represented the interests of the shareholders.

A job in a German-Iranian joint venture was particularly interesting. There were various challenging situations in which I could support the German side without hurting the Iranian side; thus, ensuring a balance.

Can you give examples of how companies have actually benefited from advisory boards?

Many Iranian non-governmental companies want to take advantage of opportunities abroad, also against the background of the economic turmoil in their own country. They want to go international, but lack the internal resources to do so. The target markets for Iranian companies are mostly the neighbouring countries in the Middle East, sometimes also the African markets.

How can the potential of such countries be utilized? What does market entry look like? Are there any suitable local partners? What are the legal requirements?



Dr. Alireza Azimzadeh

is the founder of the legal, management and financial consulting companies Persia Associates, Persia Consulting and Persia Financial based in Tehran. He is also the official representative of the German Federal Association for Small and Medium-Sized Businesses in Iran and holds advisor positions in various companies. As a Senior Advisor for CT Executive Search, Dr. Azimzadeh assists with project execution in Iran and the neighbouring countries.

In this situation, most companies rely on one or more individual consultants instead of an external consulting firm. Ultimately, these consultants function as advisory boards. With regard to this situation, they are experienced professionals with in-depth experience in the areas of export and international business development.

However, there are also examples of foreign companies that employ the services of an advisory board. For example, in the opening phase, when the nuclear agreement was signed in 2015, there was great demand for advice on entering the market.

How do you do business with the National Iranian Oil Company? What are the decision-making and sales channels in the Iranian oil industry? Advisory boards with a background in the oil and petrochemical industry were able to help with such questions and support companies with their professional networks, and by identifying the decision-makers and opening doors to them.

What recommendations can you give to companies that want to set up an advisory board?

Personally, I believe that the vast majority of companies would benefit from a smartly selected advisory board - this is true for Iranian and international companies alike.

I find it surprising that foreign companies in Iran rarely make use of this opportunity to bind competencies and networks to the company.

To support international business, it is crucial not to set up the advisory boards with a broad function, but to bring the required skills on board to fit. For example, I would advise against an „Advisory Board on Internalization“ located only at the corporate headquarters, which generally deals with international activities.

It is more advisable to set up individual advisory councils for each country or region. These can then be staffed with professionals who are connected in their respective countries, know the local realities and can therefore provide specific and valuable support.

Securing continuous, long-term advice is of course particularly recommended in markets such as Iran, with its complicated and constantly changing environment.

“ADVISORY BOARDS TIE KNOW-HOW AND NETWORKS TO THE COMPANY”

What specific tasks were associated with your advisory mandates?

At Expobank, I worked as an independent member of the supervisory board, in an advisory role. My agenda at Expobank was heavily influenced by financial issues. The quarterly meetings of the supervisory board dealt with the financial situation of the bank, such as credit risks or accounting issues. In addition, of course, there were also strategic questions, such as answers to the crisis of 2014 and 2015. There were also issues in the area of corporate management.

For me personally, the area of government relations also played a role, especially, after the acquisition of subsidiary banks in the Czech Republic and Latvia. Expansion into Western Europe was then put on hold, following the sanctions imposed on Russia.

At the construction supplier, I mainly dealt with financial issues and the general market situation, which has developed very dynamically in Russia in recent years. In addition, technical issues also played a role, this company produces in several factories in Russia.

I found the work very interesting. The job gave me deep insights into the everyday life of a company that produces in Russia, develops and expands its business. I believe that as part of my work on the advisory board, I was able to provide impetus, particularly, in the area of corporate governance. I also helped maintain productive government relations.

How much time did you spend on the advisory board?

First of all, there were quarterly meetings, each taking about half a day. Also, working groups met that were either permanent institutions or were called ad hoc on special topics. Holding a meeting is only half the task - these meetings have to be prepared and be followed up on. The workload associated with an advisory role should not be underestimated.

Who were your contacts in the respective companies?

I worked with the local management at the construction supply company. This had also given the impetus for the cooperation, of course in coordination with the European company headquarters.

As a member of the supervisory board at Expobank, I mainly dealt with the CEO and the Chairman of the Board of Directors.



Dr. Frank Schauff

is the immediate past CEO of the Association of European Businesses (AEB) in Moscow, a position he left at the end of April 2020. He served as senior advisor of several companies in Russia, including a Western European construction supplier and Russia's Expobank. He is also a member of the CT Executive Search Advisory Board.

How were the advisory boards composed?

For the construction supplier, I was the only advisor in Russia. I worked with various members of the management team – e.g. those responsible for production, legal affairs or HR.

At Expobank, I was the only independent member of the supervisory board. The other members represented the shareholders.

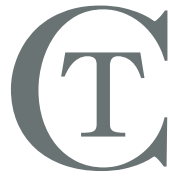
In what contexts does it make sense to establish an advisory board?

Advisory boards can be useful for dealing with topics for which there are no internal resources in the company. An advisory board can help with strategic orientation by bringing a different perspective and specific knowledge that can help the company. Ultimately, it is an „insourcing“ of consulting expertise - external know-how and contact networks are tied to the company and can be accessed continuously.

Incidentally, many Russian companies resorted to foreign advisors and independent supervisory board members to bring international expertise to the management teams, improve their corporate governance and promote the internationalization of their business models.

However, this trend has been severely dampened by the Russia sanctions, largely, by those imposed by the United States. Today, there is a fear of being targeted by punitive measures and then having to dismiss the foreign advisors.

Perhaps surprisingly, foreign companies in Russia rarely resort to advisory board support. However, I do believe that companies working in Russia could benefit from a strategically composed advisory board, especially, in uncertain times.



EXECUTIVE SEARCH



EXECUTIVE SEARCH EXPERTS IN EASTERN EUROPE AND THE EMERGING MARKETS

CT Executive Search focuses on placing key positions in Eastern Europe and the Emerging Markets – in Russia / CIS, Africa, the Middle East and Asia. We are experts in cross-border search processes and identifying high-performing candidates, adding value to international companies. Leveraging a broad network of analysts and consultants across Eastern Europe and the emerging markets, CT Executive Search has established itself as a reliable partner to well-reputed multinational companies.

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