Heidrick & Struggles

CEO & BOARD PRACTICE

Creating an advisory board

Forward-looking companies use advisory boards to bring fresh perspectives on strategy, economic trends, and specific geographic markets—as well as alerting statutory boards to issues that may not be on their radar.

Leading public companies are increasingly creating advisory boards to augment the firepower of their statutory boards.

Unilever created a Sustainable Living Plan Council in 2015, made up of external specialists who guide and critique the development of the company's sustainability strategy. Three years ago, Target announced the formation of a Digital Advisory Council, a panel of technology leaders who help the company accelerate its digital transformation and omnichannel go-to-market strategies. And medical device maker St. Jude Medical last year announced its intention to set up a Cyber Security Medical Advisory Board to provide advice on cybersecurity standards for its medical devices.

While statutory boards may include a specialist or two in critical emerging areas of business, boards have few dedicated seats thanks to low turnover, required financial expertise, and preference for CEOs and other generalists. That's where advisory boards come in.

Similarly, despite high-profile security breaches in recent years, the evidence suggests that statutory boards are adding few new members with experience in either cybersecurity or digital transformation. As our firm's forthcoming 2017 edition of *Board Monitor* documents, only about 10% of the 421 new directors appointed last year had any digital or social media experience at any point in their careers. And the percentage of new appointees with experience in risk (financial or cyber) at any point in their careers was only about 6%.

Not all advisory boards are narrowly focused. Banco Santander has created an eight-member International Advisory Board that will provide strategic advice on a broad set of issues, including innovation, digital transformation, cybersecurity, new technologies, and changing customer expectations. Chaired by former US Secretary of the Treasury Larry Summers, the advisory board will also offer insights on capital market trends, corporate governance and talent, brand and reputation, and regulation and compliance.

Why an advisory board?

As the example of Santander suggests, advisory boards may be created to supplement the statutory board's knowledge on any issue deemed important to the company's future and provide access to leading experts on those issues. These include disruptive new technologies in the company's industry, such as blockchain and fintech in financial services, the Internet of Things in industrial, driverless cars in automotive, or wearable monitoring devices in healthcare.

Advisory boards can also provide fresh perspectives on strategy, economic trends, or specific geographic markets and regulatory regimes, and they can alert statutory boards to issues that may not be on their radar.

Further, the numerous mandated duties for which statutory boards can be held legally responsible—audit, compensation, compliance, risk management, and succession planning—necessarily take precedence over more specialized concerns or rumination on big-picture, long-range trends. And for directors of companies, the demands on their time and attention can be exponentially greater in extraordinary circumstances—a company crisis, M&A activity, or the appearance of an activist investor.

For instance, the board of a leading global bank facing a major crisis conducted more than 50 meetings last year (most of them by phone); the number of meetings for a major technology company believed to be in play exceeded 100 (again, most by phone).

Figure: **Example of an advisory board member skills matrix**

Skills/ knowledge	**Proposed candidates**									**Alternative candidates**
	Candidate 1	Candidate 2	Candidate 3	Candidate 4	Candidate 5	Candidate 6	Candidate 7	Candidate 8	Candidate 9	Candidate 10
Technology and innovation					●	●	●	●	●	●
International economic trends	●	●	●		●		●		●	●
Financial and capital markets	●	●	●	●	●		●	●	●	●
Specific industry expertise	●	●		●						
Strategy	●	●			●	●				

The fresh perspectives that advisory boards offer can help statutory boards resist groupthink, supplement their knowledge, and arm them for more nuanced oversight. At the same time, the advisory board's suggestions are just that—nonbinding suggestions. The statutory board and management are free to incorporate as much or as little of the advice as they judge appropriate. For CEOs, advisory boards can provide a sounding board for new ideas, a source of potential mentors (which are in short supply for chief executives), and a wider network of high-level contacts.

Advisory boards can also offer the following benefits to attract highly accomplished leaders and experts who would otherwise be unavailable:

- Advisory board members are not subject to director liability or to the intense public scrutiny that statutory boards face.
- The tighter focus of advisory boards enables fewer but more efficient meetings, typically two a year, reducing demands on the time of already very busy people, many of whom might be otherwise fully "boarded up."
- Advisory boards, as with statutory boards, offer members the opportunity to expand their experience and knowledge and network with other members.

Creating and operating an advisory board

Companies enjoy wide latitude in the composition and use of advisory boards because they are not governed by statutes or regulations. While best practices include many of the proven principles of statutory board governance (for instance, using a skills matrix similar to the figure above), it's important to adapt them to the unique character of advisory boards. A sampling of the best practices we've observed includes the following:

- **Be clear about aims.** Unlike statutory boards, whose aims are established by law, advisory boards are free to focus on whatever the company deems desirable. That focus should be clearly defined, whether it is on a particular issue such as cybersecurity or larger issues of strategy. The general profile for members should also be specified. For example, the profile specification for an advisory board focused on digital transformation might read, "Members shall be prominent and respected executives or practitioners with significant experience in artificial intelligence, machine learning, social media, digital marketing, or digital strategy."

- **Clearly define relationships.** Draw a clear line between the function of the advisory board and the statutory board. Simply put, the advisory board offers advice; it does not make decisions. Nor should it be used to fill gaps in competencies such as financial acumen that more properly belong on the statutory board. As a practical matter, the statutory board and CEO should determine who is the most appropriate point of contact with the advisory board, who should have direct access to it, and who should join the advisory board at its meetings.

- **Create a charter.** This document lays out the structure, responsibilities, and terms of service for the advisory board and its members. Because advisory boards entail no legal requirements for committees or compliance duties, this document can be far shorter than a conventional board charter.

- **Determine how members are to be proposed and approved.** Members might be proposed by the chair of the statutory board, the lead director, or the CEO—perhaps in consultation with the relevant functional leaders when the advisory board is to focus on their disciplines. In any case, advisory board members should be approved by the full board.

- **Manage the composition of the group as a portfolio of skills.** Don't merely aim for a panel of all-stars (though, given the appeal of advisory board service, you are likely to attract eminent individuals in any case). As with the statutory board, assemble a set of members whose competencies complement each other and collectively best address the specific purpose of the group. That purpose, and the range of competencies required to fulfill it, will help determine the size of the board. For example, if you find a candidate who brings two essential skills, you can reduce the number of members accordingly.

- **Keep members appropriately informed.** Because advisory boards typically meet only two to four times a year, their members have even less contact with management and the ongoing affairs of the company than do statutory directors. Therefore, it is particularly important, during the gaps between meetings, to provide them with a steady, manageable stream of well-organized information relevant to their purpose, rather than simply burying them under a mountain of material immediately before a meeting. You should also have appropriate confidentiality agreements in place and withhold information that properly belongs only with the statutory board.

- **Organize meetings for maximum effectiveness and efficiency.** Unencumbered by time-consuming committee work or other formal duties, advisory board meetings can be tightly focused while leaving considerable leeway for exploration and discussion. Prereading materials and a carefully constructed agenda, distributed in advance of the meeting, are essential for keeping what could otherwise be a freewheeling bull session on track. The agenda is often created by the advisory board chair in consultation with the statutory chair or CEO, with input from functional leaders when appropriate.

- **Formalize feedback.** Determine what form the advisory board's output will take—a set of recommendations, general observations, a summary produced by an attendee, or individual summaries from each member. Decide how those results will be distributed, to whom, and with what expectations in terms of a response or action. In many cases, we are finding that the chair and the CEO are asking the advisory board members to submit a written review of each meeting.

- **Consider term limits.** All boards benefit from processes that ensure the group is periodically rejuvenated and replenished with fresh ideas. Term limits help accomplish this for advisory boards—just as they do for statutory boards. Setting term limits also gives the company a valuable chance to reevaluate the advisory board's mix of skills. Consider setting a four-year term that is extendable.

With the attractiveness of advisory board service and the absence of legal requirements, establishing and populating an advisory board is less demanding than creating, for example, the statutory board for a spin-off. Company leaders should ask themselves one question: Given the state of our industry, the circumstances of our company, and the burdens on our statutory board, could we benefit from the high-level, specialized knowledge of experienced leaders?

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CEO & Board Practice

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