

Advisory Boards - Overview

Any company with less than 1000 employees will likely benefit by having and using an Advisory Board Strategy. This paper describes establishing and using Advisory Boards to assist for-profit companies. Several Board constructs – alignments with different objectives – are discussed, along with the steps to establish and productively maintain an Advisory Board, and finally a set of Best Practices for Advisory Boards.

The term “Advisory Board” can refer to a wide variety of mechanisms that companies and organizations establish for various purposes. In this Overview, we are only referring to Advisory Boards associated with for-profit companies, and even then there are a myriad of intents for an Advisory Board. Some companies prefer to use an alternative name – like Advisory Council – to refer to an Advisory Board, but we will use the term “Advisory Board” to refer to the entire class of groups established to provide advice to a company – but have no fiduciary responsibility.

To improve readability, we use the following abbreviations consistently throughout the paper: **AB** – **Advisory Board**; **ABM** – **Advisory Board Member**.

ABs can be a very valuable complement to Management. This is even truer as technologies become more complex, customers have more options and information, and the business environment evolves more to a single world economy. The sad truth however is that over 50% of CEOs do not describe their ABs as “working Boards”, and of those 76% are honorary boards by default because the CEO and management “does not have the time” to engage with the AB and derive value.

For many CEOs, the question is: “How do I derive more value from the AB I have?” or “How do I establish an AB that has value to the company?”

ABs generally align with one or more of the following Mission areas:

1. **Image** – improve how a company is viewed in the marketplace.
2. **Relationship** – improve a company’s ability to access other people – often associated with winning new business or retaining existing business.
3. **Technology** – improve the ability of a business to tap into resources that are advanced in the fields of interest.
4. **Business Savvy** – facilitate the ability of the business to access business experts.
5. **Mentoring** – work with the CEO (or other Senior Manager(s)) with the goal of developing business skills.
6. **Customer** – directly connect with customers who can comment on the business.

Of course, a business may have other needs in addition to those main categories listed above, and an AB approach may well be an appropriate mechanism for accomplishing these other Missions as well. Generally, an AB will be a combination of the categories mentioned above – a combination best suited to the current needs of a company.

Image – improve how a company is viewed in the marketplace.

An Image AB is created and maintained to add credibility to a company. This type of AB is most common in smaller companies that cannot afford the type of talent that can be accessed with an AB structure. In these cases, very creditable and influential people can join an AB at a manageable cost to a small company.

The Mission of an Image AB is to get the message across that the ABMs think the company’s product is worthy of having an association with their personal names. Companies should seek ABMs that have high credibility by virtue of their education and/or market position (recognition). The aim of an Image AB is to positively influence stakeholders: customers, partners, suppliers, or even employees.

While an Image AB is often not utilized beyond a mention in a piece of marketing literature or a page on the company’s website, an Image AB can be even more valuable as a working AB. ABMs with credibility are authorities that always can contribute if properly utilized (and compensated – see below). Companies with an existing AB should consider ways to better utilize the AB, which can often be accomplished with concerted effort.

Companies that are early-stage or small and want to more effectively compete with larger players may consider an Image AB as part of an overall marketing effort to win new customers.

Relationship – improve a company’s ability to access other people – often associated with winning new business or retaining existing business.

Relationship ABs are focused on utilizing ABMs that have significant relationships and/or credibility that can be leveraged for the company's benefit. A main use of a Relationship AB is often to improve sales, but other uses are attractive as well – e.g. Business Development, Supplier Alignment, etc.

Virtually every company is concerned about sales to new and existing customers, and retaining existing customers. A sales-oriented Relationship AB consists of ABMs that are “door-openers” and personal connectors. Door-Openers can provide access to customer accounts where a company would otherwise have a difficult time getting a meeting. Connectors are people that maintain a large number of contacts and have a tendency to nurture those contacts so that they can one day be readily called upon for assistance if needed.

It is important to note that a sales-oriented Relationship AB is not a substitute for the company's sales force. The Sales oriented ABMs are people that through the normal course of their business activities will be involved in situations where it is appropriate to mention a company's product. Infrequently, a Sales ABM can be called upon for assistance with specific accounts – but the ABM must not overstep, and a company needs to respect the ABM decisions on how to proceed with certain accounts and when, and when not, to become involved.

Other objectives of Relationship ABs might be: retention and improved loyalty of customers, acceleration of sales cycles, access to markets and the right people/companies, etc.

Technology – improve the ability of a business to tap into resources that are advanced in the fields of interest.

Many companies are primarily involved in leveraging a technology to create or add to a business. The technology may be a new medicine, medical procedure, nanotech device, biotech compound, energy production device, dieting plan or another new-to-the-world approach. Such companies often utilize a Technology AB to further their business objectives. The explicit purpose of the ABMs in this case might be to “vouch” for the benefits provided by the new approach, to contribute to the evolution of the new approach where scarce skill sets might be needed, to help secure certain suppliers, partnerships, or even customers. The members of a Technology oriented AB are sought-out for their technological expertise rather than their business skills or non-technology connections.

Objectives for a Technology oriented AB include: contributions to innovation, checking-off on benefits, communicating in technical forums, providing personal quotes to be used in company literature, etc.

Business Savvy – facilitate the ability of the business to access business experts.

Business Savvy ABs are much like Technology ABs except the desired attribute of ABMs is business expertise not technology. A Business Savvy AB might be appropriate where a business skill is lacking in a company and a backstop or sanity check is needed.

Business needs that are sometimes fulfilled with a Business Savvy AB are: access to capital, strategic thinking, financial engineering, turnarounds, acquisitions, mergers, etc.

Mentoring – work with the CEO (or other Senior Manager(s)) with the goal of developing business skills.

A Mentoring AB is a special case of an AB appropriate for new companies and start-ups that have senior management in positions where they do not have a full set of experiences that allow them to perform optimally. Many business skills require time to develop – and much of the learning comes from living through a variety of circumstances, errors made and learned from, and observations of other managers. These skills cannot be taught in school, nor can they be learned in a very short time. Companies that have very new managers can improve the output and quality of selected team members through the use of a Mentoring AB. A Mentoring AB is typically very small and focused. A separate paper discussing this approach is available upon request.

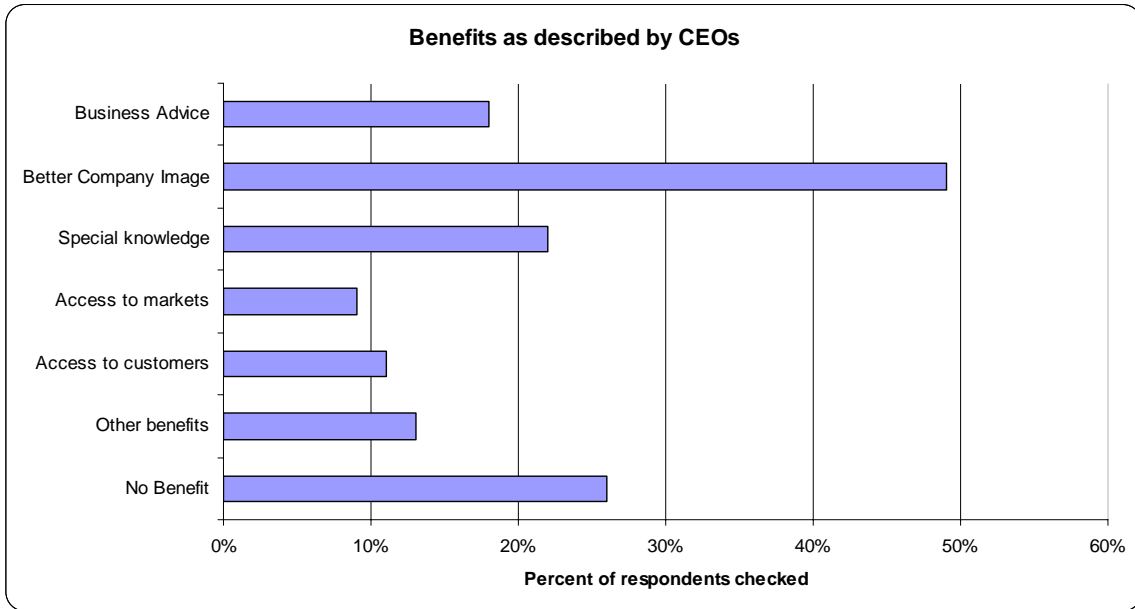
Customer – directly connect with customers who can comment on the business.

A Customer AB is another special – albeit - popular option. Customer ABs are made up of customers of a company and can play a vital role in the successful evolution and success of a company. The decision to pursue a Customer AB is separate from the other types of ABs discussed above and is the subject of a separate paper available upon request.

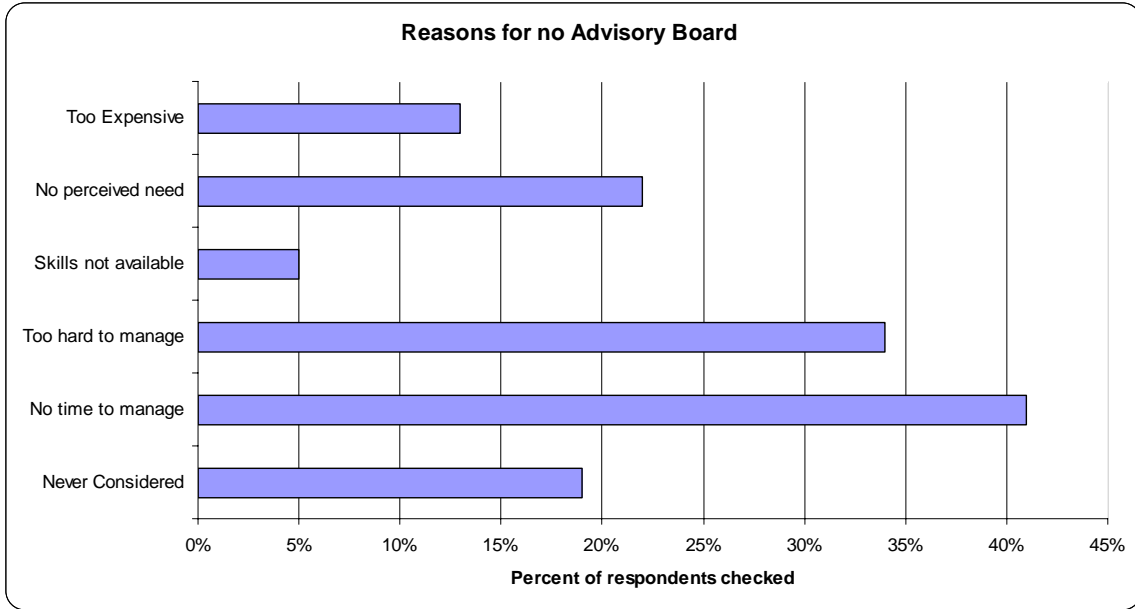
Data:

TrendIQ, Inc. (<http://www.trendiq.com>) has done a survey of companies using and not using Advisory Board structures – some of the results are included here.

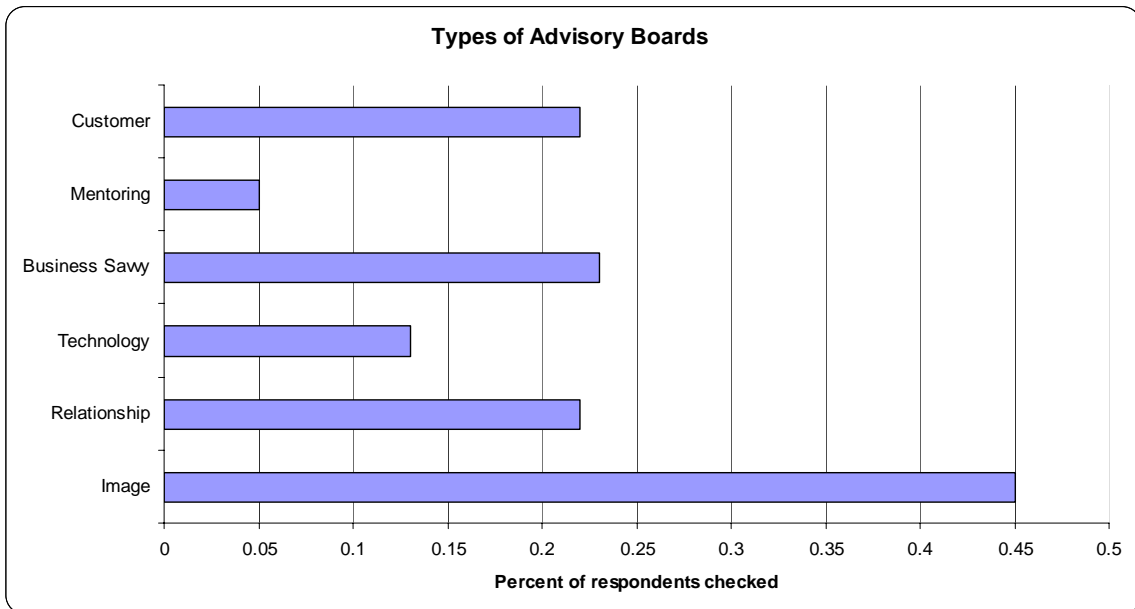
CEOs managing companies that have ABs say they derive the following benefits from their AB. Respondents were allowed to check more than 1 category so the results add to more than 100%. Sadly, 26% of CEOs say they are not presently deriving a benefit from the AB. The largest benefit was a better company image – checked by almost 50% of those responding:



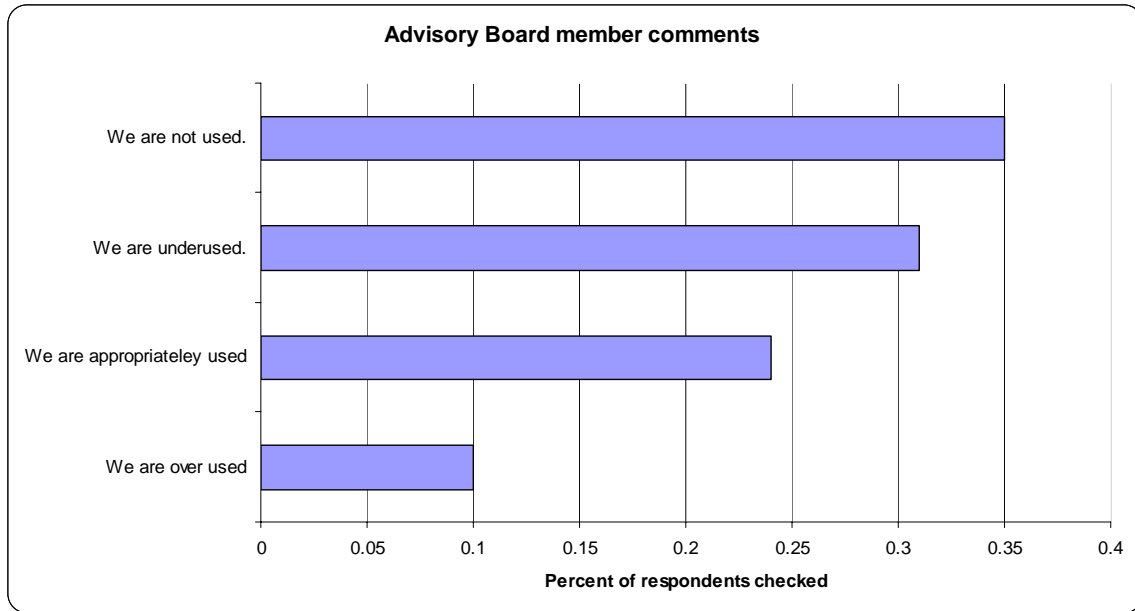
CEOs that manage companies that do not have ABs give the following reasons for not having an AB. Again, respondents could check more than 1 box so the results add to more than 100%. The two largest reasons for not having an AB are “no time” and “too hard” to manage.



For those companies surveyed and had ABs, the breakdown on which type of AB is presented below. The Image Board was checked by 45% of respondents, with the Mentoring Board only at 5%.



ABMs are not any happier than CEOs with the situation as shown in the following chart (where respondents could only check 1 alternative). Almost 2/3 of ABMs think the AB is underutilized.



The charts above point out the unfortunate reality for many companies – an underutilized AB primarily caused by management inattention.

Steps to Establish and Effectively Utilize an AB

Like other important business functions – establishing and productively maintaining an AB takes work. Models to ensure the work is done include leaving it to the CEO or other senior manager, or hiring an outside company to manage the process. Another option is to first recruit a AB Chairman who will agree to manage all the steps along the way.

Steps to establish and productively maintain any Advisory Board are as follows:

1. **Mission** – Establish and document a clear purpose for the AB.
2. **Compensation** – Establish and document how the AB will be compensated.
3. **Supporting Material** – Collect and organize additional materials necessary for recruiting AB candidates.
4. **Recruiting** – Finding, interviewing, convincing, and selecting the right AB members.
5. **Indoctrination** – Bringing each member of the AB up to speed on the business and industry.
6. **Managing** – Productive use of the established AB to accomplish the Mission.
7. **Communications** – Providing the AB with information and opportunities to improve their value to the company.
8. **Results** – Ensuring that the intended results are delivered.
9. **Continuous Improvement** – Evolving the AB and membership to improve results over time.

Mission – Establish and document a clear purpose for the AB.

Ideally, a Mission statement for the AB should be written and agreed upon before any recruiting process begins. ABMs should be recruited with the Mission in hand to both guide recruiting and to share with potential candidates. Within a company, Mission statements that are short and to the point are most highly valued, but the employees are the primary target – people who live and work to accomplish the Mission on a daily basis. For Company Mission statements, any misunderstandings can be made up as the

company progresses on a daily basis. An AB is different – the criterion for the Mission statement should be clarity regarding company expectations of the ABMs. For an AB Mission, brevity is not the issue, direct communication with people that do not necessarily understand your business in detail is the goal.

Answer the question: “What are we trying to accomplish?” “How will the business be better off?” “What are the expectations of the AB?” “What would the ideal AB member have as skill sets?”

Compensation – Establish and document how the AB will be compensated.

Remember that people will join your AB because of what they receive in return rather than what the company receives from the AB. Its not often said so clearly, but a little thought leads virtually everyone to agree on this important point. Therefore, it is important to think through the appropriate compensation for ABMs. Also, there is certainly some truth to – “You get what you pay for” – so it is also important to grapple with the amount of the company’s assets (money, stock, time, etc.) that will be allocated to ABMs.

The direct truth is that people join ABs for the compensation – money, stock, benefits, psychic rewards, etc. A compensation package for an ABM is potentially any combination of these reward categories. In general, the better the compensation package the better the results (if you actually actively utilize the AB to get results as outlined in this paper). There are circumstances where people will agree to be on an AB because of personal relationships with a CEO, to expand their network, or extend their own credibility – but these are increasingly rare for very good talent.

Each AB member need not be given the same compensation package – although that may be possible. A better system is to make it clear that different ABMs have different packages based on different circumstances. After a company understands the total amount of resources (money, stock, etc) it wishes to exchange for AB services, the recruiting can begin.

In general, the size and types of compensation offered are related to the size of the company. In a very small company an ABM may serve for Stock Options alone. In a larger company, cash compensation becomes more the norm – but most companies also include Stock Options to ensure “skin-in-the-game.”

Seemingly minor compensation items should also be thought through and communicated if selected. Examples might be a company email address, use of company office space and facilities, a posting on the website, mention in a Company Overview Brochure, an invitation to attend an annual industry conference, a training stipend, the opportunity for possible future consulting (or company employment), and many other possibilities. Different potential ABMs will have different needs and interests and a company should strive to maximize benefits to the company at the lowest cost (AB compensation).

In all cases, out-of-pocket expenses should be paid by the company – including travel and living to attend meetings, or purchases necessary to perform the AB role.

The compensation for each individual ABM should be memorialized in an AB Agreement (see below) which includes the explicit delineation of compensation. The AB Agreement should include a paragraph explaining that it is company policy to use different compensation packages with different advisors and that Advisors agree not to disclose their compensation package to anyone.

Supporting Material – Collect and organize additional materials necessary for recruiting AB candidates.

Before recruiting can begin, Mission and Compensation issues need to be completed. In addition, the following documents should be readily available (for attaching to emails, etc.):

1. Business Description.
2. Brochures and other business information helpful for someone to come up to speed quickly.
3. Non-disclosure Agreement.
4. Bios of Senior Staff
5. Bios of other (if any) AB Members.
6. Schedule of planned meetings.

Recruiting – Finding, interviewing, convincing, and selecting the right AB members.

A company should seek AB members with specific skills, contacts, capabilities, etc. depending on the needs (Mission). Capabilities that complement the company management team are generally most valuable. AB members can “fill-in” missing skills – but should not be relied on to do management’s job unless separately employed in a consulting mode.

There are many sources for ABMs – personal contacts of the CEO and top management, networking groups, recruiters, clubs, LinkedIn.com, ecademy.com, etc. Retired executives and cashed-out entrepreneurs often make very good ABMs. Introductory material should include the Mission and company materials – not any compensation, non-disclosure or additional material. In an initial discussion, the fact that there will be some type of compensation (to be determined) associated with being an ABM should be disclosed in order to answer the obvious question, but specific compensation discussions should come later after a confirmation of interest.

If a candidate expresses an interest after understanding the Mission and the company, discussions can move to Stage II which should include a non-disclosure agreement signing first, then more disclosure of company materials, interviews, compensation discussions, and finally a signed AB Agreement (see below for a discussion of an AB Agreement.)

AB candidates should explicitly understand the time commitment involved, company expectations, and why the company considers them personally valuable.

When using email or snail (snail-mail – traditional mail) to solicit interest, always mention that you will follow-up with a telephone call, ask what times might be appropriate to have a short chat, and include your contact details.

The number of AB members is dependent on the purpose and Mission of the AB. It could be as small as a single member (e.g. in a mentoring situation), or as many as 10 or even 20. An AB with a mission of helping to grow sales in 8 different markets might pursue 8 members one for each market – people with extraordinary access and connections within the target markets. An AB focused on providing technology advice might only have 3 members – but, may have many more depending on the Mission. Sometimes it is helpful to have an odd number of members so that a vote can be taken and a majority position available.

Indoctrination – Bringing each member of the AB up to speed on the business and industry.

The more an ABM knows about the business and the industry the better for the company. A company should take care with new ABMs to ensure that they have an opportunity to quickly come up to speed on the company and competitors. This might entail providing written information, company presentations, conference attendance, or one-on-one meetings with company managers. In any case, a company is advantaged by having more knowledgeable ABMs and should take overt steps to manage the process to maximize on the front-end.

Managing – Productive use of the established AB to accomplish the Mission.

Managing (you may want to use “Effectively Utilizing” depending on the sensitivities of your AB) the AB is where most companies fall down and fail to gain the full advantage of having an AB. ABs are established in order to help improve a company’s results – but sometimes fail for various reasons. First, almost always the person responsible for utilizing the AB is a company manager with many other operational responsibilities and AB duties are often sacrificed in the face of pressing daily demands. Second, management of an AB often takes a different management style than a manager would use with company employees. ABs have unique characteristics that make them different to manage. ABMs are often business peers or more experienced than company managers, ABMs are part-time, ABMs can have a significant impact on a company if they have a negative experience – even after leaving the AB, ABMs are often not a natural team and only come together rarely so that interpersonal relationships can take a very long time to establish.

The result of not managing an AB is compensated ABMs that are not providing the value the company needs. Even worse, the ABMs are frustrated that their advice is not even valued enough to be sought. While it might seem like people are fine with taking compensation and not providing value – very few good ABMs feel that way in reality.

There are a couple of solutions to the dilemma. Business issues will not demand less time and so there must be a conscious decision to set-aside the right amount of time to manage the AB if there is to be value derived. Another option is to specify a lead advisor or Chairman of the AB to manage the process

and have specific responsibilities for deriving the value from the full AB for the company. An AB Chairman acting with this charter spends additional time with the business in order to off-load the CEO and Senior Management of the responsibility for managing the AB while still deriving the benefits. Such a Chairperson does not get between the AB and management, but rather helps to optimize the interaction.

Communications – Providing the AB with information and opportunities to improve their value to the company.

The ABMs are not an integral part of the company and the communication flows need to be carefully managed. The ABMs need to be kept up to speed regarding publicly available company and industry significant happenings, but should not be buried in information that they – as part time help – will not have time or inclination to absorb. There are also company proprietary documents that are appropriate to share from time to time. These should be furnished under protection of the non-disclosure agreement and marked as company proprietary. A log of such distributions should be maintained.

The ABMs will also communicate to the company and its employees from time to time. A copy of all correspondence and input to the company should be maintained in a separate file for each ABM. Sometimes it is helpful for a single person to be the distributor of information to help insure that advice gets to the right place.

In many cases, the ABMs will need access to a collaboration platform. If the company does not have one – there are several available for free that perform the task quite nicely. One of these is Collanos (see www.collanos.com).

Board members should be issued company email addresses although should not be required to use them – i.e. they should be allowed to use their own private addresses if they desire.

Results – Ensuring that the intended results are delivered.

The main element in getting results from an AB is leadership – someone working to maximize the value of each ABM and the AB as a whole.

Meetings can be in person and telephonic. At least quarterly meetings are appropriate in any case, and sometimes more often. In-person meetings are also opportunities to build deeper relationships and maximizing the time together is important – including time not focused on specific business items. Meetings should have a defined agenda, materials should be provided a week ahead of scheduled meetings, and Minutes should be taken and distributed.

On an annual basis – the AB should take up the topic of self-improvement – how can the AB improve its value to the company and function more effectively.

Very few ABs are proactive – bringing unsolicited value to the company. Therefore, the company needs to be proactive with the AB. What problems or opportunities could the AB or an ABM assist with? If there is no answer to that question – consider thinking harder or changing out the current AB for new ABMs that are better suited.

Subgroups of the AB are often a good means to address an opportunity.

Continuous Improvement – Evolving the AB and membership to improve results over time.

As with any business function, continuous improvement is a good way of accessing more value now and in the future. As mentioned above, the AB should annually take up the subject and discuss ideas. However, the CEO or lead AB member should be thinking about continuous improvement every month. Sometimes it is a good idea to designate an ABM that will focus on specifically that question during a meeting and report out at the meeting end on suggested improvements.

After implementing strategies and tactics to improve and derive value from the AB, there is the option of changing out selective members to improve results. This needs to be done carefully so as not to offend the deleted ABM – and up-front expectations can smooth the transition. Up front expectations should include expectations aligned with a “working Board”, and an annual changing of ABMs if needed.

Notes about other "Board" Structures

Board Of Directors – has the legal responsibility for the operation of the company. The Board of Directors answers to the Shareholders, the AB typically answers to the CEO and top management. The Board of Directors manages the CEO; the CEO typically manages the AB. The Board of Directors have fiduciary responsibility, ABs do not.

Focus Groups – often confused with Customer ABs, Focus Groups are a selected one-time group to discuss a particular item of interest.

User Groups – again, often confused with Customer ABs, User Groups are most often found associated with Information Technology companies and provide technical input on specific products.

Notes about the Advisory Board Agreement

Leave open the possibility of individual consulting or temporary task groups with specific objectives. AB agreements should foresee the possibility of an AB member being needed in a consulting arrangement related to a discrete need.

Include a term limit (12 to 24 month), subject to renewal. The advice your business needs at \$500,000 in sales is different from what it needs at \$5 million (see ["Twelve Tips To Keeping Your Company Growing"](#).)

Specify the compensation clearly. Specify the purpose of the AB, expectations of participation and contributions expected. Specify the frequency of AB meetings. Specify why the ABM is important to the company and vice versa.

Include appropriate legalize.

Best Practices

1. A written ABM Agreement with each ABM.
2. ABMs should agree in writing not to participate as a Board member, AB member, or consult for a competitor. The competitors should be listed out. This agreement should remain in place for 2 years after an AB member leaves the company. Often included in the ABM Agreement.
3. AB members should agree to have their name, picture, and bio posted to a company's website – at the discretion of the company. Some circumstances may dictate otherwise however.
4. ABMs should meet quarterly at least.
5. An AB should be managed, not left to chance.
6. Use the concept of Correct Advice as a default. When the AB provides advice – first assume it is correct and focus on ways to implement before reasons why it should not be followed. In any case, always provide feedback to the AB on how advice was used or not used.
7. Appoint an AB Chairperson. This person is critical to obtaining the benefits sought from an AB. The Chairperson should meet with the AB in executive Session (i.e. without any company personnel present) so that untainted feedback to the company can be solicited. The Chairman should meet with the Company CEO some time after the AB meeting and deliver advice that came from the Executive Session – being careful not to disclose who said what for the more sensitive items of advice.
8. AB Members should sign Non-disclosure agreements with the company.
9. Company management should undertake an annual assessment of the AB and each member – making conscious decisions about need changes.

Final Notes

It is important for both the Company and the AB to understand what “advice” really is. The AB should be providing advice - not making decisions. They have no fiduciary responsibility to stockholders or stakeholders. Management makes decisions. The AB should not feel slighted if management makes a decision different than the advice, and management must feel free to do so. Management should not expect the AB to make a decision except in the sense of providing specific advice.

Legal

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