



Executive Action

Managing the Web

No. 96 May 2004

New Ways to Innovate . . .

Creating a Corporate Advisory Board

by Nancye Green and Susan Stautberg

Establishing a corporate Advisory Board can be a cost-effective way to gain critical expertise and skills in areas outside a company's core competency. Advisory Boards can foster a spirit of innovation and, of course, contribute to the corporate bottom line.

As companies try to achieve more with less, grow and innovate while holding down costs, they are creating Advisory Boards for guidance. Though it is difficult to identify the exact percentage of companies that make use of Advisory Boards, or whether the trend is actually growing, companies which do use Advisory Boards include Avon, CIGNA, Bank of America, Hewlett-Packard, Procter & Gamble, Deutsche Bank, Goldman Sachs, Merrill Lynch and Avis, as well as many smaller family-controlled businesses and non-profits.

Success can bring on managerial blindness—the notion that “if it worked in the past, it will continue to work in the future.” Outside advisors help companies move beyond this limited vision and break out of the cycle of mediocrity based on unimaginative benchmarking and simple imitation of rivals. Instead, the creation of an Advisory Board can help executives reshape old industries, inspire innovation in larger

and more established firms, drive young companies to new frontiers, and cost-effectively import critical skills beyond a corporation's traditional competencies.

Advisory Board Basics

Advisory Boards are comprised of outside experts who help organizations manage change, reposition or reinvent themselves, make informed decisions on technology, innovation, design, and seek new strategic positions and alliances to expand globally. Perhaps more importantly, Advisory Boards help implement the great ideas that will differentiate a company from the competition.

Unlike traditional corporate boards involved in governance, Advisory Boards give non-binding advice, possess no fiduciary or legal responsibilities, and are more flexible in size and composition. Members' skills and expertise are more

important than their rank, and Advisors are often more open and forthright than traditional “collegial” boards. The practice generally is for each Advisor to serve a one-year term, which provides a company with the leverage to change Advisors as needed.

Advisory Board members are not compensated at the same scale as directors who serve on the main board. Advisors usually receive between \$1,000 and \$2,500 per meeting. However, some companies, like large pharmaceutical and consumer products companies, give larger honorariums to their Advisory Board members.

An Advisory Board can provide a company with talent it might not otherwise be able to afford. Highly-placed executives who do not have the time or are unwilling to assume the liabilities of a traditional corporate board, find that these Advisory Boards are an attractive option. The personal benefit for Advisory Board members include gaining a new learning experience, furthering their knowledge, and building networks with other leaders and trend setters.

Advisory Boards help executives expand their perspective from a sometimes narrow and limited inward focus to an outward view that considers a full range of opportunities, changes, and threats. Coming from different businesses and industries, the Advisors are in a unique position to visualize possibilities synthesized from insights and technologies used in other industries.

When providing advice on improving efficiency and effectiveness, an Advisory Board might deal with a number of target areas including:

- strategy and execution;
- culture and organization;
- leadership and talent management;
- innovation;
- marketing into new product or regional areas;
- evaluations of global economic trends; and
- mergers, joint ventures and partnerships.

The Benefits

For smaller companies, advisors can open up their networks to provide access to investment bankers, venture capitalists, and individual investors. Identrus LLC, a global identity assurance resource company and SCRAM Technologies Inc, the creator of Scramscreen™ and other versatile, multifunctional display technologies, created Advisory Boards as a way to build business contacts and find sources of financial investment.

Carefully chosen Advisors can also discuss building businesses, exploring new markets, and deploying marketing resources. Bank of America used Advisory Boards as a cost-effective way to explore new markets in Philadelphia, Detroit, and Minneapolis. Global Asset Management, a premier international asset management company, created five Advisory Boards based on geography and a specific issue—U.S. East Coast, U.S. West Coast, Canada, South America, and Philanthropy—to aggressively expand into new markets. The Government of New Zealand organized an Advisory Board in the United States to help expand worldwide markets for the country’s goods and services. The board has been so successful that New Zealand is creating similar boards in Europe, Singapore, and Australia.

A firm that wants to expand globally may benefit from advice on strategic alliances. Avon, which entered the health and wellness market, created an international Advisory Board of women doctors and healthcare writers to share their expert knowledge about global issues and trends. The Counselors also proposed new products and strategic alliances.

Advisors can also provide “expert eyes” to keep an organization abreast of the latest innovations in the field. In this fast-paced world, companies need to be on the leading edge of ideas, systems, services, and technology. The United Nations Office of Project Services (UNOPS), commissioned a Business Advisory Council to help enable the multinational organization to provide UN agencies everywhere with the best technology, products, and services from anywhere in the world.

Abercrombie and Kent Destinations, a luxury hotel suite/holiday home company, is creating an Advisory Council to discuss the latest innovations and trends for products and services in the high-end travel club niche. Third Age Media, which recently launched a website in partnership with Yahoo, is putting together an Advisory Board to address the latest issues of concern for the ageless market and to strategize on the most up-to-date Internet technologies to facilitate inter-personal connecting via this medium.

Creating an Advisory Board

Mission

The purpose of an Advisory Board should be clearly stated. For example, a clearly defined mission for a Design Advisory Board might read: “To place value on design as a way of thinking in order to promote innovation and enhance the customer experience at every level, from product design to packaging and marketplace presentation.”

The Pros and Cons of Setting Up an Advisory Board

Pros

- Costs are generally modest. The fee for an entire Advisory Board with two to four meetings a year is less than the amount many companies pay for one marketing expert for the whole year.
- Gives non-binding advice and possesses no fiduciary or legal responsibilities.
- Flexible in term length—each Advisor generally serves a one year term which gives leverage to change as needed. Can be created to address a specific organizational need and disbanded as soon as goals are met.
- Flexible in composition—draws “out-of-the-box/off-the-grid” thinkers.
- Can attract people that companies might not otherwise be able to hire.

- Stimulates greater innovation and creativity among a company’s own executives.
- Big-name talent can provide contacts, credibility, and capital for small companies.
- Closer to the community than statutory boards.

Cons

- Advisors give a limited time commitment to the company.
- Experts can give advice but cannot carry out ideas as they have no legal authority.
- Can be created for the “wrong purpose” i.e. creating an Advisory Board for show only and not listening to the Advisors.
- The initial enthusiasm and momentum may fade within six to twelve months, unless the company invests sufficient time and focus.

Mandate

In order to be effective, this initiative must derive from and report to the highest office in the company. The board and its mission must be perceived to be integral to the strategy of the company. The CEO should be present as much as possible and maintain a high profile in support of the Advisory Board.

Members

The person leading this Board internally should report to the CEO and should be highly respected within the organization. The outside members should also be well-respected professionals who represent the breadth of disciplines relevant to the company and its products. They should be leaders in their fields and also be team players. The quality of what they can accomplish together will depend on their ability to think and work together with teams within the company.

Commitment

Potential Board members should be aware that this is a serious commitment. They must be fairly paid and made aware that attendance is mandatory if accepting this assignment. Schedules should be set for the year. Agendas and preparatory materials or pre-work requests should be sent in advance and meetings should be well organized.

Presentations

Company teams should be invited to present very specific problems or projects to gain input and insight from the Advisory Board. Teams should include those who have something to learn as well as relevant senior management. The presentations, specific responses of the Board, and insights into the topic being presented should be documented and circulated shortly after the meeting.

Follow up

Advisors should be kept informed of teams' progress and internal managers should assess effectiveness of input. Process should be constantly monitored and improved.

Board Quality/Size/Terms

In order to maximize effectiveness of the dialogue, an Advisory Board should be comprised of different disciplines and points of view, but kept relatively small (no more than 6 to 8 members). Members should be strategic thinkers and capable of working well together. In order to remain flexible, terms should be short so that effective members can be invited back and less effective members can be cycled off.

Publicize/Communicate

The purpose of the Board is to infuse new thinking and values into the organization. Therefore, the mission and work of the Board and its presence within the organization should be well publicized. Company teams should be rewarded for presenting and gaining the attention of the CEO.

Who Serves on Advisory Boards?

A few examples of individuals who serve on corporate Advisory Boards:

Former Federal Reserve Chairman *Paul Volcker* is on the U.S. Advisory Board of Swiss Re, a leading Zurich-based reinsurer and the world's largest life and health reinsurer. The Advisory Board is helping the company expand its operations in the U.S.

Walter Wriston, former CEO and Chair of Citicorp is on the Advisory Board of IntraLinks along with former CEO and Chair of American Express, *James Robinson III*. IntraLinks provides its clients with secure digital workspaces to conduct financial transactions, exchange documents, and other flows of confidential information, and the Advisory Board's mission is to help IntraLinks foster new strategic partnerships, create relationships with new clients, and develop marketing strategy.

Sam Skinner, former Secretary of Transportation, serves on the Advisory Board of EnerTech, a venture firm focused on early - to expansion stage software, technology, and services businesses serving principally the energy and communications sectors. The Advisors help to more effectively predict trends and anticipate changes in EnerTech's areas of focus.

Reg Brack, former Chair and CEO of Time Inc. serves on a number of Advisory Boards both in Europe and the U.S., including Intercontinental Hotels and Abercrombie and Kent Destinations LLC.

Trends in Advisory Boards

Family-controlled companies

As new ways of thinking and fresh perspectives become increasingly important in a diverse and rapidly changing environment, tightly-controlled firms, such as family businesses are turning to Advisory Boards. As family businesses mature, these Boards can help take emotions out of the tough business decision-making processes, deal with succession issues, and discuss how much day-to-day involvement specific family members should have.

Some examples of family companies that use Advisory Boards are Crowley Maritime, The McClatchy Co., Chronicle Publishing Co., Levi Strauss & Co., Shorenstein Co. LLC, Altria. Boardroom Inc, and STRATCO. Boardroom Inc, a family-run publishing company in Stamford, Connecticut uses an Advisory Board composed mostly of financial experts to discuss risk, effects of legislations, and management of capital. STRATCO, originally based in Kansas City and now in Phoenix, used an Advisory Board to help create the strategic plan for growth, share relevant market information, and identify new markets. The Advisors helped build and prepare the company for eventual sale of its alkalization component to DuPont.

Non-profits

Non-profit organizations are also using Advisory Boards to help bring in funds and to become more strategic in the planning process. Non-profits have to adopt a more business-like approach to attract funds and inspire the confidence of potential donors. An Advisory Board can help a non-profit increase its credibility within the community, advise on efficient management of funds, and bring in fresh perspectives without threatening the established board of directors.

Innovation Network, which builds the evaluation capacity of nonprofits and grant makers, created an Advisory Board to help identify relevant global and U.S. issues/trends, provide input on the development of technology, and help create a support network for the organization.

The Council on Competitiveness, an association of corporate CEO's, university presidents and labor leaders created an Advisory Board on Strategic Communications and Development to aid in its efforts of strengthening U.S. innovation and security, upgrading the workforce, and benchmarking national economic performance. The Center for Women's Business Research, which conducts research, shares information, and increases knowledge about women business owners and their enterprises worldwide, has an Advisory Board of committed individuals to provide vision, voice, and resources to the organization.

Global

Increasingly, companies are creating International Advisory Boards to be in touch with the global consumer base, to gain an even broader perspective, and to prepare themselves to be major players in the future. Fortune 500 companies like CIGNA have global Advisory Boards because non-home country nationals can provide insights into international markets and serve as links to governments, regulatory agencies, and corporations in other countries.

Other global companies who have had Advisory Boards include Asahi Brewery, the Financial Times, Fuji-Xerox, Hitachi, J.P.Morgan Chase, Teleglobe Inc, and Toyota.

Technology

Technology Advisory Boards are becoming a new trend. Northwestern Mutual brought together informed individuals with outside perspectives to evaluate the insurance giant's current processes and jump-start its own Internet presence. Hewlett Packard formed a technology advisory board to stay ahead of the next tech revolution. Members of these committees include engineers, scientists, academics, business executives, and others. The Advisory Board can help management better understand current technology requirements and help define long-term strategic direction to stay ahead of the next big tech revolution.

Wild Cards / Futures Advisory Boards

Anticipating wildcards, those unexpected events that can have important, potentially life-changing consequences, can help companies prepare for the future, capitalize on opportunities, and cope with crises. Organizations should consider the possibility of a market collapse or unexpected rival. A Futures Advisory Board can help a company to deconstruct its existing perceptions of reality and pursue off-the-grid thinking and scenario-planning, where multiple outcomes, including worst-case and the most unlikely possibilities, are considered.

Applied Industrial Technologies (AIT), a NYSE-listed Cleveland-based distributor of industrial products has a Futures Committee and uses it to discuss crucial decisions such as whether to develop its own e-commerce program or join one of the existing e-marketplaces. Several years ago, the committee supported implementation of AIT's own system and the result was an award-winning e-commerce program that was a huge hit with customers and implemented at minimal cost.

New Market or Community Advisory Board

Advisory Boards can be closer to the community than statutory boards. Business is under pressure to adopt “environmentally friendly” technologies, to work with schools and community groups, and to participate in other local activities

Companies are looking for diverse candidates and more females to be on their Advisory Boards. These members can help a company to be more sensitive to the needs of women and minorities, to position themselves effectively, and to reach these markets. Goldman Sachs and PNC have created women's Advisory Boards to help develop financial initiatives/services to address the needs of this lucrative market. Other companies that have created women's Advisory Boards are Avis Rent-a-Car, CIGNA and Wyndham Hotels.

Advisory Boards can provide new strategic approaches and concepts to apply to projects, services and/or initiatives. It is becoming even more difficult for businesses to be confident that decisions about plant location, marketing initiatives, and other key issues will continue to appear wise even two years into the future. Merrill Lynch created an Advisory Board of lawyers from across the nation to advise on critical up and coming private wealth management issues.

Design

Design has become a key differentiator in the marketplace. A Design Advisory Board is a way for a firm to jump start new ideas and fresh approaches to product form and functionality, packaging, and retail presence as well as overall marketing strategy and customer intelligence. Procter & Gamble has created a Design Advisory Board of experts across a range of design and marketing disciplines including top designers and academics.

Conclusion

Intellectual and social capital (what you know and who you know) is the “new coin of the realm.” Advisory Boards bring this capital together efficiently, inexpensively, and with focus. The counselors can concentrate on advice—both for strategy and execution. They serve as a catalyst to reach beyond what individuals bring to meetings. Catalysis occurs when the combination of chemical elements is right. The right people in the room, from the right areas of knowledge and diversity, create surprising and innovative ideas. Creative capital can arise from unusual juxtapositions.

Good thinking and sound judgment are key to providing appropriate roadmaps and to ensure leaders don't under-imagine. An Advisory Board composed of people with a wide range of expertise and backgrounds who seek to expose the positive as well as the negative of major decisions can be a competitive advantage.

Case Study: A Design Advisory Board at P&G

Claudia Kotchka, vice-president for design, strategy and innovation at Procter & Gamble, had a mission - to build design into the DNA of Procter & Gamble. She decided that establishing a Design Advisory Board comprised of outside experts across disciplines and industries, would give her access to the diverse experiences and perspectives she was seeking. Kotchka knew that CEO, A.G. Lafley, would value and make use of a high-caliber talent pool and that, if orchestrated correctly, this group could become an invaluable resource to teams within the company. The Design Advisory Board would combine leaders in their fields who are “top of their game.”

At the full-day Advisory Board meetings, P&G teams are invited to present problems and opportunities and then, along with senior management, participate in conversations with the counselors. Afterwards, to tie up the recommendations and bring closure to the presentation, teams are debriefed. A testimony to the success of the Advisory Board meetings is the waiting list for teams

who want to participate. The input has been both insightful and actionable. P&G CEO Lafley attends, takes notes, and contributes, underscoring the fact that design and innovative thinking is valued at the top.

From the Advisors’ perspective, the experience is engaging and carefully orchestrated. Members are treated to interesting and well-organized presentations, and enjoy stimulating conversations with other high-caliber professionals from diverse backgrounds. Pre-work is kept to a minimum. Each meeting is laced with presentations of new and thought-provoking topics, ideas, and strategies. The P&G Advisory Board meets four times a year.

Kotchka, P&G’s first chief design officer, is pleased with the results. “The Design Advisory Board is a powerful tool in P&G’s mission to evolve a new order. We have historically pioneered some of the most progressive product innovation and marketing practices in our industry and we believe that making design and design thinking part of our culture will enable us to continue to be innovative.”

About the Authors

Nancye Green began her career as a designer and founded, managed, and sold a well-known design/branding/marketing consultancy, Donovan and Green, in 1996. Today she serves on P & G’s Design Advisory Board and several Boards of Directors – Hallmark, Waterworks, and Asphalt Media. She maintains a consulting practice; is a partner in Sphere Advisors, a consultancy that advises C-Level executives on issues related to their intangible assets; and is a founder and Chief Marketing Officer in a direct –to–consumer skin-care company, Esteem by Naomi Judd.

Susan Stautberg is President of PartnerCom Corporation, which assembles and manages Advisory Boards globally for businesses, governments, and non-profits. She has created or served on the Advisory Boards for Avis, Avon, Bank of America, Cigna, The Council on Competitiveness, Deutsche Bank Private Wealth Management, Goldman Sachs, Investment New Zealand, Merrill Lynch, Northern Trust, Northwestern Mutual, PNC Advisors, SunTrust/, UNOPS, and others.

For more information on Corporate Advisory Boards contact:

Susan Stautberg
212.987.6070
partcom@bellatlantic.net

or

Nancye Green
212.924.5322
nancye@dgtwo.com

About The Conference Board’s Global Corporate Governance Research Center

The Global Corporate Governance Research Center provides a unique opportunity for senior corporate executives and institutional investors to network in small, highly interactive, and non-adversarial settings. Together, these groups meet to advance cutting-edge corporate governance practices and participate proactively in landmark research on corporate governance issues. The Center’s objective is to assist corporations to enhance their governance processes and thereby inspire confidence and facilitate capital formation in today’s globally competitive marketplace. For more information visit www.conference-board.org

The Directors’ Institute

The Conference Board’s Directors’ Institute conducts highly interactive sessions for corporate directors only. Directors’ Institute programs meet director education needs by providing high level forums for public company directors to review real world governance and business challenges. The Institute offers intensive, one-day Director Dialogue Sessions throughout the year focusing on corporate governance, audit committees and compensation committees. For more information visit www.conference-board.org/directorsinstitute.htm