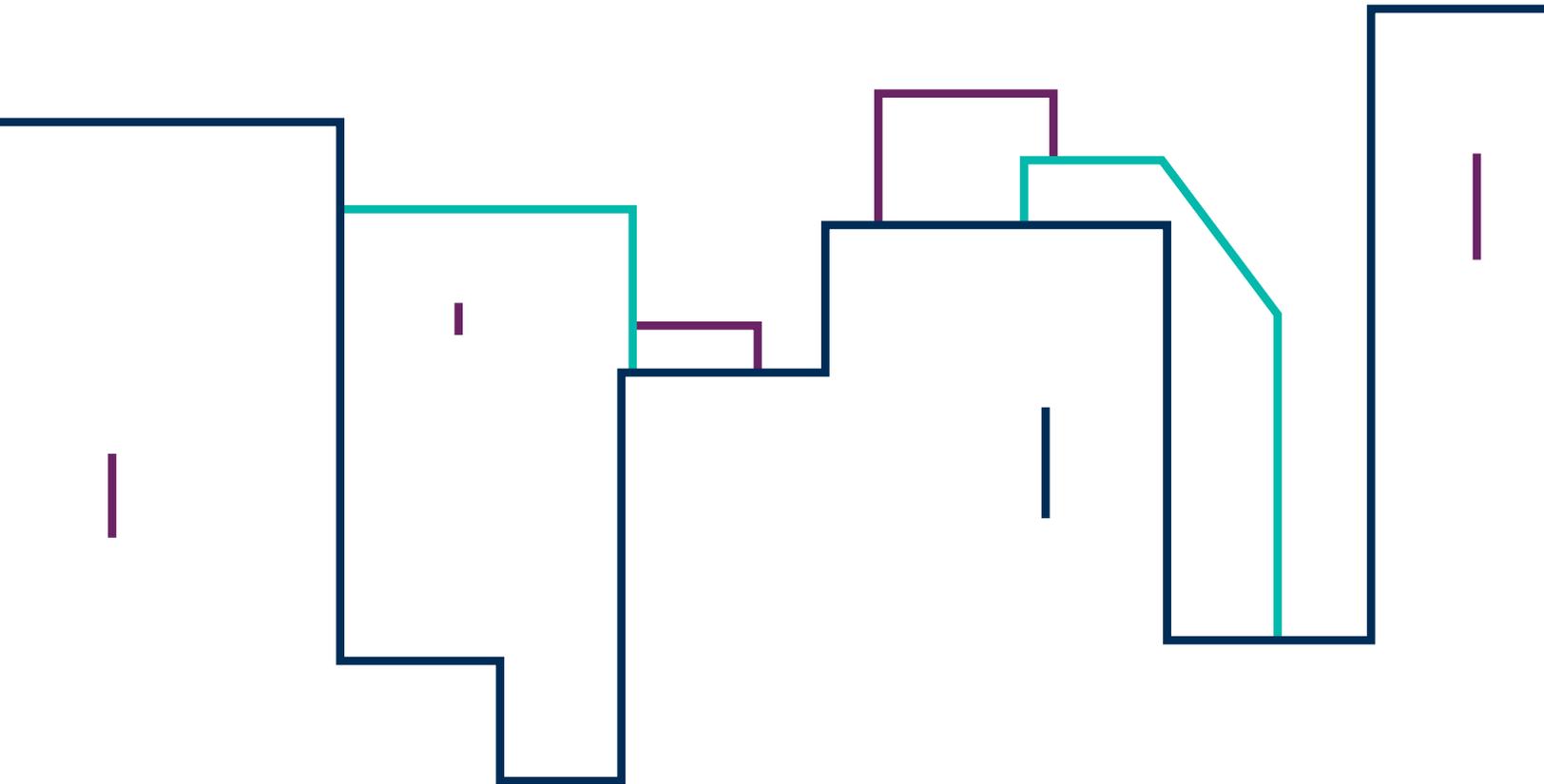


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Insight on Demand:  
**The Opportunities and  
Challenges of Advisory  
Boards**



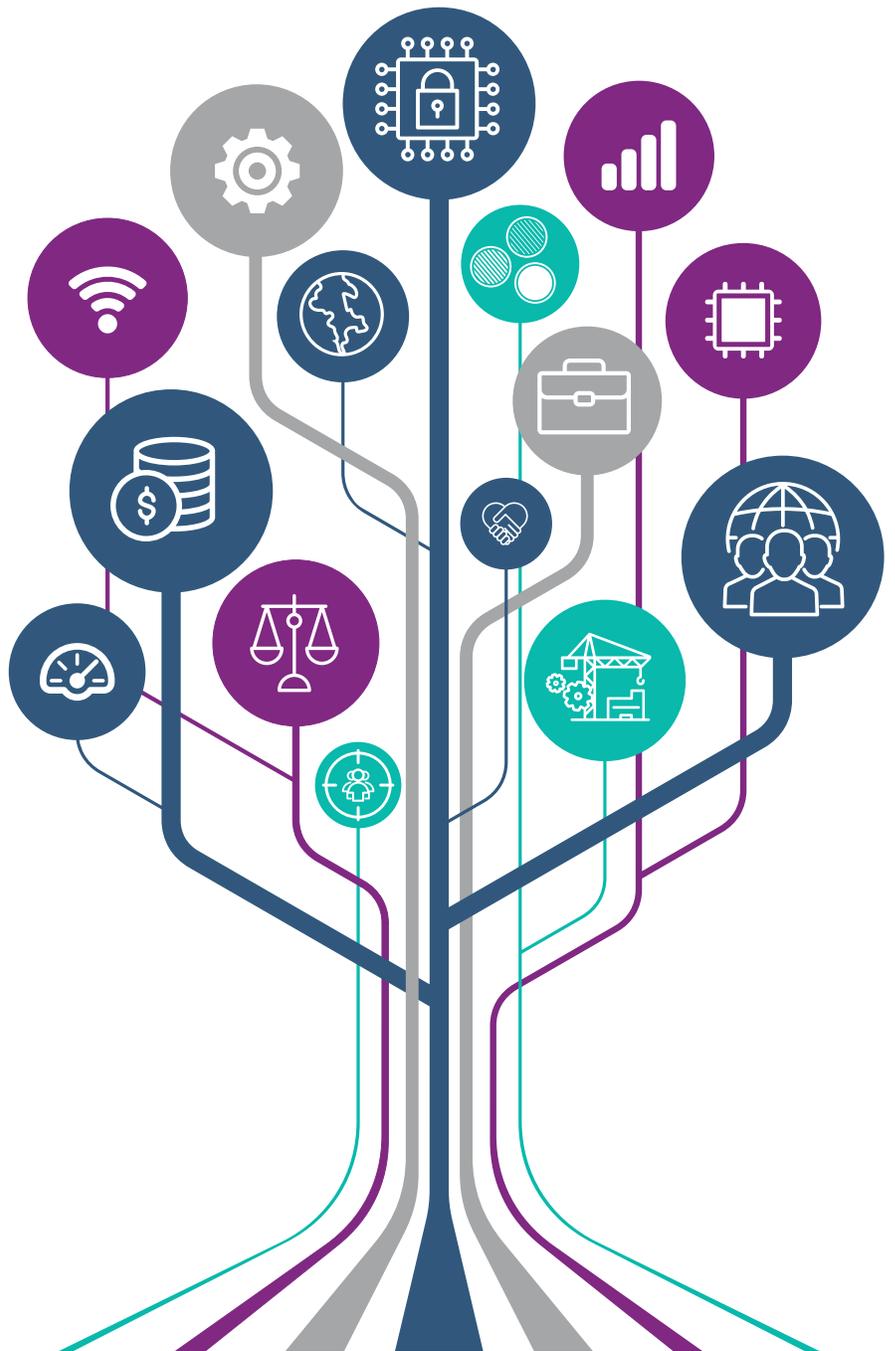
At some point, nearly every corporate board will face the same existential crisis: Should the board only include executives with high-level general management and strategy experience – or should it be filled with individuals who have deep expertise in key priority areas?

This debate has been bubbling for more than a decade. What began with a movement to add financial experts to boards now extends to emerging topics such as diversity, cybersecurity, and unique needs within specific geographies. To date, the typical resolution has been to find directors who have both general management experience and some subject-matter expertise, such as a CEO with experience in an industry of particular interest to the company.

This resolution is often exactly the right one to meet the mandate of the board. However, it risks leaving the board with blind spots in critical areas.

As a result, some companies create stand-alone advisory boards comprised of executives or subject matter experts for additional help. While start-ups have long relied on this strategy, it's now common among large public companies as well. Not surprisingly, the idea has gained the most traction around emerging technologies, which by their complex and ever-changing nature are difficult to fully incorporate on a standard corporate board.

Here, we look at some of the top reasons companies create technology advisory boards, and what they can and cannot do for a company.



## Five benefits of an advisory board

- 1 Stay cutting edge on an emerging topic**



This is the primary starting point for creating an advisory board. Do cybersecurity threats keep board members and executives up at night? What about blockchain technology? Or the industrial Internet of things? An advisory board that includes members with deep and current expertise on these relatively narrow topics can help both company employees and board members stay up to speed without appointing experts to the board.
- 2 Create a platform that involves both employees and board members on a given topic**



Many companies have internal executives oversee and participate on technology advisory boards alongside external experts. In fact, Avon Products Inc. announced the creation of its digital board – comprised of Avon employees as well as outsiders – in the context of hiring a new chief digital officer last August.<sup>1</sup> This structure affords board members a comprehensive view on a topic and also allows the employees who are closest to daily operations to quickly test and implement new ideas.
- 3 Gain more agility with less administrative burden**



Most corporate board directors are appointed with the expectation they'll serve seven to 10 years, often to lend a longer-term perspective to company strategy than a management team can. While this timeframe has its benefits, it is a mismatch for gaining expertise on emerging topics that may become standard practice – or lose relevancy – within a year or two. Advisory boards, by contrast, come with no pre-set tenure expectations and can more easily change out members as needed – in large part because companies are under no obligation to disclose any information about them. For public companies, this means that unlike for corporate board members, compensation for advisory board members does not need to be disclosed, and their appointments do not need to be confirmed by shareholders.
- 4 Build the board candidate pipeline**



While this is not a primary objective, some companies may find that advisory board members have or develop the general management perspective necessary to serve on the corporate board. In these cases, the advisory board can become a helpful proving ground to see how an executive would contribute to broader, strategic discussions and how they would fit into the culture.
- 5 Gain new perspective on old problems**



GlaxoSmithKline, maker of Aquafresh and Polident, recently set up a digital advisory board comprised of external experts to help it re-think branding and marketing efforts around established products.<sup>2</sup> The idea, according to Louise Kristensen, the company's digital and ecommerce director for Northern Europe, was to develop a "cultural shift" that allowed leaders the freedom to dump ideas that were not working and move onto new ones. While not directly connected to the board, advisory arms such as this can help further broad change efforts that are on the board's agenda, but not within their direct control.

## Five problems to avoid in setting up an advisory board

While an advisory board may seem like a logical solution to a pressing issue, it is not without its risks. Companies need to think carefully about the problems that might arise if they have both a board of directors and an advisory board operating in parallel, and how an advisory board will interact with management or other parts of the business. Specific challenges may include:

- 1 Initial enthusiasm may turn into persistent under-commitment**



Commitment issues can come from either side. For the company's part, trying to extract expertise without sufficiently compensating members for their time is a sure path to an ineffective advisory board. (With successful advisory boards, companies typically pay members nearly as much as they would a corporate board director.) From advisory board members' side, the pressures of their full-time jobs may also interfere with their ability to attend meetings or offer detailed advice.
- 2 Advisory boards might stray into execution and strategy**



The bright line between management and oversight is well known, and while senior executives have every right to get advice from different sources, it's critical that those sources don't start trying to serve a managerial role. Advisory boards exist to do just that: Advise.
- 3 They might conflict with the board of directors**



It's entirely possible that an advisory board will make recommendations to management that are at odds with the guidance given by the board of directors. In those situations, it's critical for the CEO to know how to prioritize the advice. They may choose to leverage their discussions with the advisory board to give them a clear perspective and point of view on a given topic, then engage with the board to align that view with the broader goals and objectives of the enterprise.
- 4 Picking the wrong people can lead to poor advice**



In recent years, boards of directors have significantly matured their director identification and selection methods, leading to better qualified and better performing directors. Advisory boards lack that history and rigor, and as a result they could easily include members who just aren't right for the role, for the organization, or for collaborating with the other advisory board members.
- 5 Other parts of the organization may fail to mature**



By going outside for advice on a specific topic, CEOs are making a wise move to get deeper expertise, but risk getting answers without helping the broader organization grow and benefit from the effort. Advisory boards must be formed with an educational or developmental component, so they help improve the whole organization, rather than simply operating in a vacuum.

Advisory boards cannot replace full-time executives. But for both corporate boards and executives, they can serve many purposes and yield unique benefits. They provide needed expertise, without the legal and administrative costs of adding a new board member or hiring a new executive. They can also help build the pipeline of future board members. For these reasons and more, building an advisory board is a tactic worth considering when a board weighs how to deal with new and disruptive trends.

<sup>1</sup> Steven Norton, "Avon Looks For Tech Makeover with New Hires, Digital Board Plan," Wall Street Journal, Aug 13, 2018. <https://blogs.wsj.com/cio/2018/08/13/avon-looks-for-tech-makeover-with-new-hires-digital-board-plans/>.

<sup>2</sup> Charlotte Rogers, "GSK launches brand incubator as it shifts to fail-fast culture," Marketing Week, Oct 10, 2018 <https://www.marketingweek.com/2018/10/10/gsk-launch-brand-incubator/>. Also [https://www.warc.com/newsandopinion/news/gsk\\_digital\\_transformation\\_formula/40654](https://www.warc.com/newsandopinion/news/gsk_digital_transformation_formula/40654).

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