



# The Role of Advisory Boards

Who, what, why and how?



## About Odgers Berndtson

Odgers Berndtson is one of the leading international executive search firms and the largest in the UK. Our reputation for excellence and integrity has been established over 40 years. We act as trusted advisors to clients who need help recruiting for important positions.

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We work with a wide range of FTSE and AIM-listed companies, international groups, private equity-backed businesses, family-owned organisations, and small and medium sized enterprises.

We have a thorough understanding of board and committee structures, and board dynamics. Our team includes experienced directors of publicly quoted and privately-held companies. In short, we know how boards work.

Odgers Berndtson has been an influential voice in the corporate governance debate. We understand how the principles of good governance, applied practically and not by rote, can help create strong, effective boards that add real value to an organisation.

Our wide experience and deep knowledge is brought to bear on every board appointment we undertake.

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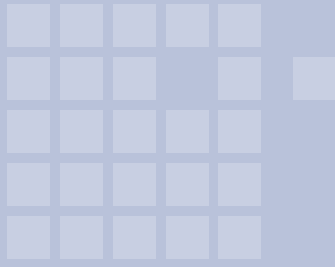
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## Introduction

An increasing number of organisations are appointing advisory boards.

There are many good reasons for a company to do so. It could be to ensure it receives expert advice on emerging technology or scientific advances, or to gain insight into doing business in diverse global markets.

An advisory board may also assist a company to sell its products and services to government customers, or to provide counsel on public relations and reputation management.

Advisory boards are no substitute for statutory boards of directors. Indeed, properly constituted, advisory boards should complement and strengthen the existing board.

Equally, to be effective, advisory boards need a clear remit. The board's objectives and terms of reference, as well as the expected time commitment, should be established from the start.

This paper, based on Odgers Berndtson's extensive experience of helping companies to appoint advisory board members, looks at the role and contribution of advisory boards more closely.

We conclude that advisors can play an increasingly significant role in assisting companies through this period of economic uncertainty, regulatory change and intense global competition.



## What Is An Advisory Board?

It may be best to start by establishing what advisory boards are *not*. They are not substitutes for statutory boards of directors and do not have authority over the governance of an organisation.

The selection and oversight of management, monitoring of performance, approval of strategy and assessment of risks are all subjects properly reserved for the main board. An advisory board can support the board by providing expert insight or contacts, but it must be clear where ultimate decision-making authority and collective responsibility lie.

This point is well made by Owen Jonathan, an executive board director at PricewaterhouseCoopers UK, which has an advisory board: “The phrase ‘board’ is somewhat misleading. They don’t assume a level of formality that a board of directors would. Members don’t stand in any supervisory or independent non-executive function. The board of directors and the advisory board sit as separate but parallel bodies.”

Having established clear water between an advisory board and the statutory board, it follows that advisory boards have considerable freedom of manoeuvre in terms of make up and remit. Because they have no governance authority or statutory responsibilities, an advisory board can meet less frequently, be consulted on an *ad hoc* basis as required, or focus on a narrower set of issues than the full board must necessarily confront.

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Diane Coyle, Vice-Chairman of the BBC Trust and an advisory board member at EDF Energy and ING Direct, underscores this argument. She says: “You are not constrained by the same narrow interpretation of responsibilities, similar to those found in a non-executive role.”

Advisory boards can be considerably more ‘light touch’ in terms of process. There is no need for elections, term limits, committee structures or extensive disclosure of the advisory board’s role, remuneration or performance. They are therefore free to concentrate their energies on their core role, namely to complement the main board by providing specialist experience, knowledge and contacts not readily available elsewhere.

How they do so, and on what topics, will depend very much on the organisation in question. Some companies may wish their advisory board to provide intelligence on the latest scientific or technological developments. Others will draw on their advisors for knowledge of international relations and government affairs, while some may seek insight on public relations and reputation management.



Large overseas multinationals may seek to appoint country-specific advisory boards to develop in-market expertise and to understand local business and political culture. Other organisations will seek advisory board directors who can help develop business by opening doors and making introductions, or to act as an ambassador on behalf of the company at industry events or social functions.

Owen Jonathan says: “Our advisory board is an amalgam of individuals that are there fundamentally to provide client advisory services. They act as a disparate group of interested specialists.”

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The fact that advisory boards can be more flexible, informal and light touch has a flip side: they necessarily have less influence. As Sir John Scarlett, a senior advisor to Morgan Stanley and former Head of the Secret Intelligence Service, argues: “There must be a readiness to accept the limitations as well as the advantages of the advisory role. If advisors sit as frustrated executives, the advisory board is unlikely to function effectively.”

## Why Create An Advisory Board?

Most businesses decide to create advisory boards when it is apparent that there is a subject area where expert outsiders can augment the knowledge, understanding and strategic thinking of the board and management team. Experienced advisory board members can provide technical or specialist advice and extend the range of skills and understanding of management and the board in areas beyond their day-to-day fields of expertise.

There is a critical balance to be struck, however. When considering the composition of the advisory board, the company should give thought to what skills and experience rightly belong on the main board. This point was recognised by Paul Myners, formerly chairman of Marks & Spencer and subsequently a UK government minister, in his 2001 review of institutional investment.

Myners wrote: “One would not for example expect to find a board of directors of a pharmaceutical company with no scientific qualifications and no experience of R&D, arguing that this was not a problem as they took advice from a firm of expert scientific consultants.

They would certainly take advice and there would be directors who lacked R&D experience, but collectively, the board would have the experience and skills to challenge the advice received at a sophisticated level.”



Companies should seek advisory board directors whose qualities complement the existing board, while remaining mindful that an advisory board should not be used to mask gaps in knowledge or skill that rightly belong on the main board.

Advisory boards can be a useful way for the main board to challenge its own assumptions, particularly on specialist or technical matters. As Bill Emmott, former editor of *The Economist* and a prominent advisory board member, points out: “They are there to give focus to or sometimes challenge research and intelligence work being done in the company, thus avoiding groupthink and giving direction on big-picture issues.”

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Advisory boards provide access to talent that boards would otherwise not be able to tap. Owen Jonathan adds: “They are a way of getting expert advice from a range of experts whom you might not be able to source in a more formal capacity. They develop propositions and provide acquaintance with factual information that businesses don’t have.”

## Who Should Serve?

The composition of the advisory board will depend on an organisation’s goals and priorities. A board intended to give a company clout in Westminster and Whitehall is likely to look quite different from one that offers insight on political change in emerging markets or an understanding of the latest medical or scientific research.

Denise Collis, a member of the advisory board to the business schools at both Leeds and Exeter Universities and Group HR Director at BUPA, says: “It’s about context and expectation. The value that people can add is commensurate with what the advisory board needs and aspires towards.”

Sir John Scarlett adds: “You are looking at experienced people who have an understanding of all the challenges that come with running an organisation as well as working in a particular industry. After that, it is a question of the particular skills they have and where their speciality lies.”

The main consideration for the composition of any advisory board is absolute clarity about what role it is intended to fulfil. Is it there as a business development tool, to raise profile and make introductions? Or to help fill gaps in the main board’s knowledge and understanding of specialist issues? In all cases, the advisory board’s objective will determine its composition.



As with any board of directors, a mix of experience and knowledge can help enhance the performance of an advisory board. Emmott argues: “Advisors who understand different geographies and come from different intellectual disciplines can provide insight into key economic and geopolitical challenges. They can help the board think outside the box.”

Finally, and regardless of the expected role of the advisory board, it should be expected that every director will have a real enthusiasm for the business. As Emmott says: “Advisory board members can open doors and provide connections. But to make it successful, there has to be some genuine association with the company.”

## The Critical Role Of The Chair

While the best advisory boards have a clear remit and are constructed accordingly, they will struggle to succeed if they lack the clear leadership of an effective chair.

Denise Collis argues that the first priority for any chair is to determine the appropriate size of the advisory board: “In my experience, an effective advisory board works better with a smaller number of people on the board whilst requiring the same level of commitment as a public board. If you don’t get that, you get members who dip in and dip out and you lose that sense of purpose and continuity.”

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Although advisory board meetings may not require the same level of preparation as a formal board meeting, Collis says that the chair must set the tone of advisory board discussions. “It’s about creating a culture where there is a real expectation that the papers have been read and that the people who come along bring ideas to the table, shape what’s happening and really get stuck in,” she says.

To make the advisory board function effectively, it is important for the chair to establish and foster a good working relationship between the members of the advisory board, and between the advisory board and the main board or management team as appropriate.



## How To Make Advisory Boards Work

Successful advisory boards are clear about their purpose. We have seen examples of companies forming advisory boards and only then thinking about how they wish to use them. This is unhelpful to all parties, and usually results in the organisation extracting little value from the board.

Clearly setting and communicating the roles and expectations of individual advisors and articulating the mandate and purpose of the board is essential. As Sir John Scarlett makes clear: “The advisory board must have an unambiguous mission and definition. The structure, research background and financial arrangements must be clear.”

An important first step is to ensure that the main board supports the concept of appointing an advisory board, and understands its purpose and remit. The balance of responsibilities between the main board and the advisory board should be clearly understood by all sides.

On appointment, it is important that the company and the advisory directors have a shared view of the time involved. Having agreed the commitment, both sides must stick to it. At one extreme, it is easy for ‘mission creep’ to develop so that advisory directors are called upon far more often than anticipated, or than the remuneration justifies. Equally, if there is too long between each contact, the individual directors may become disconnected from the business and lose interest and focus.

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It may be that most of the advisory board’s work will be informal, carried out via phone and email contact or attendance at company events. Nevertheless, it is a good discipline for the advisory board to meet in person perhaps quarterly or twice yearly to bring together the participants in a boardroom setting and create a formal structure for the board’s work.

The organisation and advisory board must establish how they will work together. It should be clear who from the company’s side can make contact with the advisory board, and on what issues. To ensure contact is kept focused and at a high level, it may make sense to restrict informal contact with the advisory board to the chair and chief executive.

An advisory board should be seen as a resource that can usefully be tapped to aid the company’s success. It is helpful, therefore, if the executive team have the opportunity to shape the agenda and highlight the topics on which they would like the advisory board’s advice and insights.





Equally, dialogue must be two-way so that the advisors can alert the company to relevant developments or important contacts. The company secretary can be a useful intermediary to ensure that communication flows are kept open and uncluttered.

Finally, how much should advisory board directors be paid, and how? While there is no requirement to disclose fees paid to advisors, and therefore companies can be more flexible in how they reward advisory board directors, in reality a rough market rate will apply. A fee range of between £1,000 to £2,000 per day is realistic, with the chairman being paid towards the top of that scale and the other directors perhaps closer to the lower mark.

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In contrast to the fees paid to non-executive directors, rewards to advisory board directors may include a performance element. If business development is one of the advisory board’s core roles, then a bonus paid for contracts won as a result of the board’s work may be appropriate.





## Conclusion

Shorn of the formal responsibilities and liabilities attached to a statutory board, an advisory board can be nimble, flexible and able to focus on a narrow set of issues.

An organisation may draw on an advisory board to strengthen its understanding on any number of topics, including technology, economics, demography, geopolitics, or the thinking of an individual government, to name a few.

An advisory board adds value by exposing the management and main board to new thinking, thereby broadening horizons, improving understanding of a company's markets, risks and future drivers of growth, challenging assumptions and guarding against groupthink. Advisors can widen the networks of contacts and opportunities available to the organisation and so directly benefit the bottom line.

There is no one way in which an advisory board should work. It may meet infrequently, providing high-level, long-term strategic insight to the board. Or its role may be more akin to that of a business development consultant, seeking to make introductions, open doors and generate new leads.

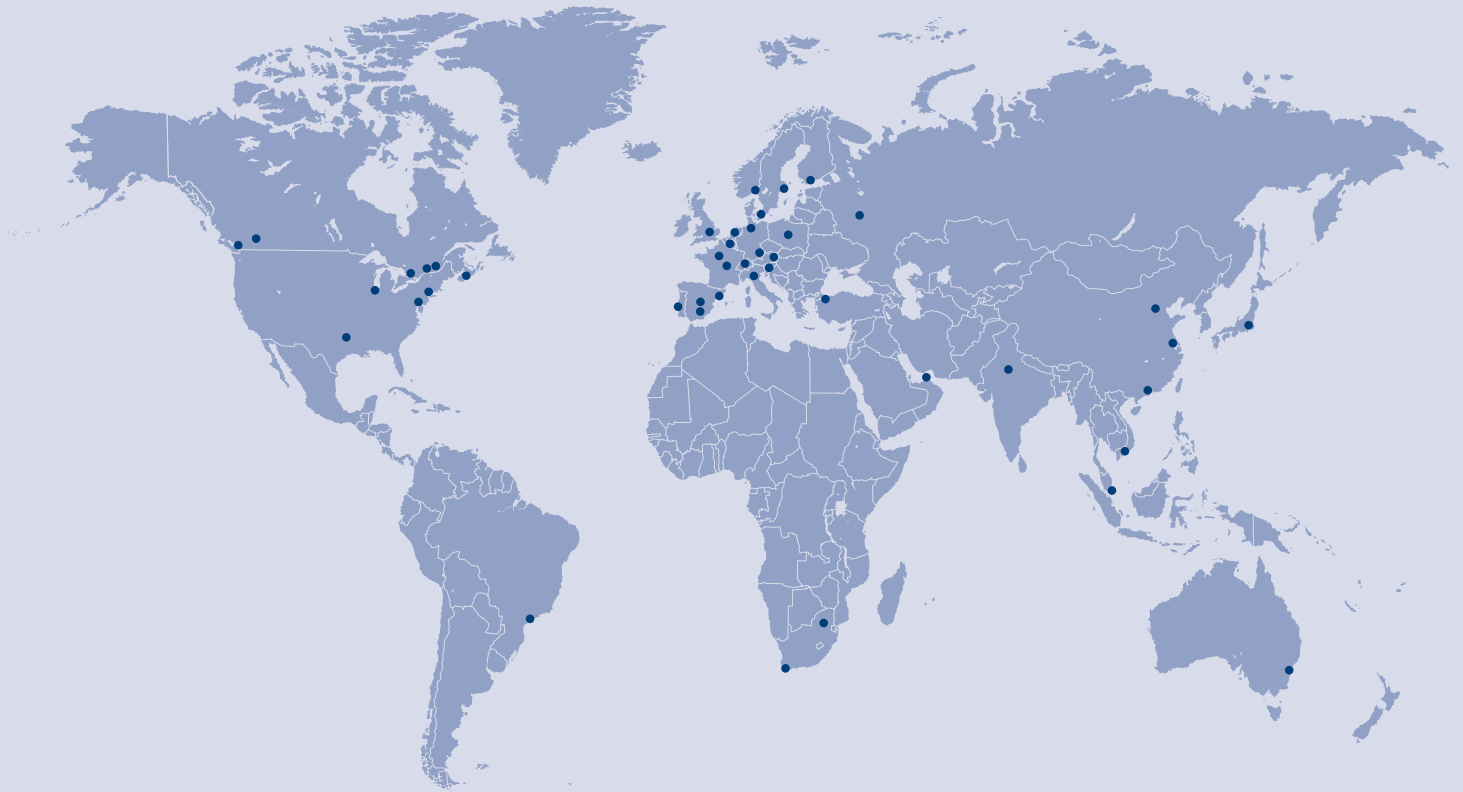
Either way, the advisory board must be clear about its purpose and mission from the outset. And the board should be structured, resourced and led accordingly.

With a clear mission and the right composition, a board of advisors can be a powerful, value-adding asset in a changing business environment.



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