

**HOW TO BEST USE
INDEPENDENT ADVISORS
AND
GET THE MOST VALUE ADDED**

- **What are independent advisors?**
- **What are advisory boards?**
- **What are the special issues with IT governance?**



What is the definition of an Independent Advisor?

Many companies are now beginning to discover that **Independent Advisors can serve as a valuable complement to the Management Team**. In fact, in today's increasingly complex and competitive marketplace, the introduction of Independent Advisors and Advisory Boards is helping companies develop crisp strategies with clear and effective value propositions in order to deliver a sustainable competitive advantage.

The term "Independent Advisor" is best described as: **experienced executives and professionals retained by a company to provide guidance and support on issues critical to the organization**. Advisors are **working** as opposed to honorary positions that offer **guidance** versus statutory governance, which **deliver great insight** without legal liability and administrative responsibility.

How to select and retain advisors with independent perspectives?

"Create a climate of trust and candor ... ensure individual accountability ... seek knowledge rather than names ... ruthlessly purge those with hidden agendas ... find people with a passionate interest in the business ... ignore recipes from governance consultants."

Dr. Jeffery Sonnenfeld, Yale School of Management and Founder of the Chief Executive Leadership Institute



Don't outsmart yourself by having no one to talk to ... but yourself

The simple rule of thumb is that any entrepreneurial CEO of a growing firm needs to form an advisory board or "**advice squad**" early in the evolution of their business made up of executives with experience in areas of business management where they are lacking. The advisory board members skills should complement their own.

Experienced business executives, with finance, banking, strategic planning, technology, legal, or operating experience usually make for excellent advice squad members. These are experts that you have to deal with in the evolution of your business anyway so why not have them function in more of an advisory capacity than just for a fee when needed. If these experts that you deal with professionally cannot become involved because of an ethical issue or conflict of interest, ask them to recommend a trusted colleague.

Obviously, there is no sense forming an advisory board without a plan for how you are going to use their individual and collective expertise. Likewise, you need to have some form on an incentive, or stipend per meeting, or annual fee for their participation with you and for their advice in growing the business. Then you need to meet regularly with them individually on specific day-to-day issues and collectively on a quarterly basis to review actual results against plan, as well as progress in terms of the strategic milestones in the business plan.

Having an unbiased expert to meet with periodically who is not wrapped up in the day-to-day aspects of your business is invaluable. Their objective evaluation of a situation can save you from making an embarrassing and expensive mistake. Even just offering up other options that you didn't think of can be very helpful.

At meetings just having an advisory board member ask "*why do you want to do that*" often sets in motion some additional analysis that can be extremely rewarding. **These meetings have an uncanny way of injecting sound business sense into decisions that have evolved often without the right level of common sense.**

Seriously, think about it and if you don't already have an advice squad get started setting up an advisory board of experienced professionals with skills you are missing, or just for their objectivity.

Robert M. Donnelly It's Lonely at the Top

CHIEF EXECUTIVE

Tips on using advisors wisely:

- Advisors **must participate in the definition of the problem and project**. Otherwise, they are *really not adding much value in knowledge and experience*, just extra manpower.
- You must trust an Advisor's integrity and align your goals and theirs. Trust your instincts on this ... NEVER hire someone who you do not "feel good" about.
- Advisors must be supported by your staff; *all the answers are usually there already but not surfacing*. So provide access to everyone.
- Always have regular two-way candid updates.
- The CEO and senior managers should always have a few Advisors with whom they have ongoing relationships - to call on for quick validation of major decisions, mentoring, or sounding board for ideas.
- ***A day spent with an independent advisor can save a fortune on bad decisions made with good intentions - when the entire management team is looking at all the same internal data, but lacks a broader outside perspective.***

The difference between what businesses think they need - and what they actually do need is the Independent Advisors value added

It is important to understand that an Advisor's value added is often what the business does not understand. For whatever reason you may be too close, too entrenched in the industry, or not see it due to very different experiences.

What this means is that if you could understand the problem fully and describe the solution - you would not need the Advisor at all and would probably already have all the **experience** and **skills** to solve the problem.

Therefore, it is critical that you have flexibility in the ***definition of the problem and the solution***, as ***the Advisor will be most effective then***. Part of the Advisors job should always be helping to define the problem and solution, not just solving the one you as the business define.

One reason we need Advisors is that their independent perspective can calibrate us to ***many outside changes that we may not have adjusted to*** - as they happened due to corporate inertia, culture and "tradition."

A good Advisor can quickly find problems you did not know existed and suggest solutions. However, they usually cannot implement the entire solution due to lack of authority and resistance from staff who will be affected. *The best Advisors understand this and define what you and others need to do to solve the problem.*

The best Advisors will deliver integrated **Expertise** that transcends any one industry and is applicable in many areas ... and **Knowledge** from experience, from having been-there done-that as an operational executive and participant.

Every company needs Advisors periodically ... Most need Advisors regularly for the knowledge and expertise they do not have in-house.

... Excerpts from **Bob Norton**

What is an Independent Advisory Board?

An advisory board is a group of independent industry executives and professionals that is retained by a company for the purpose of offering advice and support on a wide range of issues that are relevant to the organization.

The issues are likely to include areas such as **business development, industry trends, information technology, corporate partnerships, political agendas, international matters** and more.

Does an Advisory Board Matter?

The role of a board of advisors is different from a board of directors. A board of advisors operates at the discretion of the company and has no financial responsibilities. A board of directors is a legal entity whose members have a fiduciary responsibility and the liabilities that go along with it.

Ideally, an advisory board for a company should have six or seven senior members. With too many members, it becomes difficult to develop and maintain a relationship and to take advantage of what each has to offer. **Think of your advisory board as an extension of the management team.** Analyze where you need help and take advantage of the experience and expertise of each advisor to best support company initiatives.

It is a good idea to structure regular interaction with each advisor individually, as well as your advisory board as a whole. You do not have an advisory board just for window dressing so make sure you stay in touch with them and listen to their advice.

Make the most of the fact that you have an advisory board. List their names on your business profile, marketing materials and website. **Let them lend prestige, as well as advice, to your business.**

... from [The Importance of an Advisory Board](#) by **Kramer Communications**

What are the duties of an Advisory Board?

The advisory board does not generally get involved in issues that involve the administration of the company and should, as a rule leave such matters to a corporate board. It is up to the company and advisors to agree on the range and extent of duties to be performed.

The amount of work taken on by advisors can vary significantly. An advisor may be appointed because the company believes his or her prestige and public/business relationships alone will bring benefits. In some cases, an advisor may look more like a consultant and be heavily involved with the company on a day-to-day basis. There is not necessarily a right or a wrong way – you have to decide what is best for your company and then engage qualified advisors to ensure successful implementation.

What is the best size for the Advisory Board?

Advisory boards can vary in size from as little as two advisers up to twenty or more. The ideal size for a company will be a function of a number of things including stage of development, strategic goals, existing resources, investors, complexity of the business, number of products, external partnerships and complexity of the company's technology.

Most growing companies will probably find that an advisory board of between six and ten advisors is optimum.

What about Compensation?

If you are a company and you want to get the most out of your advisors, you need to compensate them. A lot of companies make the mistake of trying to get something for nothing. If you are thinking along these lines, remember the old saying, "**you tend to get what you pay for**". Advisors should be paid for their time. One component of compensation in many cases is stock options or restricted stock.

...from The Basics by BoardSeat

How to Build an Independent Advisory Board?

Advisory boards are hot, with more and more companies launching these formal panels to help them wrestle with tough strategic issues. But forming an advisory board is not the same as using it to the fullest. How do you make sure that you are squeezing the most value from this team of senior counselors you have assembled?

1. **Target your members:** Corporate boards typically seek directors with skill in specific areas, such as finance or mergers, but smart advisory boards make such strategic targeting a first principle. **“Every advisory board member should have a charter of what they are being brought in to do”** ... for example, if a big part of your success is strategic alliances, you would want an advisor with big company contacts to help as needed. Everyone should have a job description. This also adds to member accountability for results.
2. **Every advisory board needs someone in charge:** “You need someone to manage the board ... to give them actual assignments and talk to them once a week to make sure they’re moving forward.” These advisors by definition will be busy people, so they need a wrangler to keep them contributing for you. The advisory board can have its own **lead director** whose “specific role is to drive the meetings.” Seek an initial board member with the practical understanding to act as lead director from the start.
3. **Bring the board together:** It is vital to bring the board together a lot, especially for the growing company that needs to tap every resource. “Get them together every quarter to tell them the state of the company, and keep reintroducing them to each other ... the advisory board is more than just the individuals - when they come together there is synergy ... one advisor will know one piece of a strategic puzzle that another can fill in.” Some suggest an even stronger schedule of eight meetings a year to avoid “getting reacquainted every time.”
4. **Keep your advisory board tapped into the company:** First, bring the advisors up to speed fast by “having them meet with various business heads, and even customers or suppliers if possible ... get your advisors at the points of interaction, so they have a sense of the market, your employees, and suppliers.” The time and expense invested more than pay for themselves. And once the advisory board is up to speed, **keep advisors in touch with managers where they will do the most good.** Advisors will bring more hands-on support, so work to use it.
5. **Pay your advisory board:** You want to pay for performance, of course, but advisory boards are new enough that there is much room for creativity on how. Startups may begin with a distinct percentage of planned equity. Others lean toward cash - a retainer plus meeting fees.

Building an Advisory Board – Five Important Steps BOARDROOM INSIDER

**"Corporate Boards and Information Technology ...
...Too Much Talk, Too Little Action"**

A new survey of directors at publicly traded companies ... shows that **board members are for the most part failing to align IT with corporate strategy** though they know they should. "Directors are aware of the importance of information technology to their companies' results, but a significant gap exists between the emphasis the board appears to place on IT and the steps they are taking to address it ...

"Many directors and senior executives blame this gap on the number of other things that have been hitting the board's agenda and a resulting lack of time to properly address IT. However, this excuse is becoming less credible given the growing importance of IT."

Twenty-two percent of directors blamed IT at least partly for failure to achieve business goals.

Deloitte.

Creating an Effective IT Governance Process

Many companies recognize that their IT governance processes have significant weaknesses, but have difficulty implementing effective, sustainable improvements.

... from **GARTNER Research**

TREND: Independent boards for IT oversight ...

FedEx, Novell, KeySpan

A growing number of leading companies - including **FedEx, Novell, KeySpan**, and others - have elevated responsibility for IT oversight to independent boards in an attempt to ensure that they have qualified senior advisors involved in technology investment direction and decisions.

Novell established its board-level IT oversight committee at the beginning of the year. Richard Nolan, an outside director who chairs the committee, said he expects other companies to take similar steps as executives start to examine the **legal risks that IT investments pose under the financial reporting requirements of the Sarbanes-Oxley Act**. "This is an area where boards of directors will be named in stockholder suits."

Novell's committee, which includes four independent directors, monitors major projects and decisions about the company's technology architecture. Its duties include working with senior IT executives and addressing questions such as achieving adequate returns from its technology investments. Having independent advisors oversee IT activities "can shine a light on issues."

FedEx created an IT oversight committee four years ago that includes independent members. Like Novell's committee, the one at FedEx oversees major IT-related projects and architecture decisions and advises the IT management team, senior management and board members on technology issues.

Over the past few years, many large companies have created IT steering committees to help prioritize funding for high-cost projects. But most of those committees are made up of business unit leaders, CEOs and chief financial officers - but they have not included participation of independent senior advisors. According to **Forrester Research – outside, board-level IT governance and oversight committees are now emerging**.

... from **COMPUTERWORLD**

Technology Committees Catch On in Boardrooms –

... Pfizer, Hewlett-Packard, Medtronic

MORE COMPANIES are setting up board-level panels replete with tech-savvy directors, both in an effort to improve bottom-line results and to ease compliance with new governance involving technology.

About 50 publicly traded companies in the U.S. have some sort of board-level technology committee, according to the Corporate Library, a corporate-governance watchdog. These include pharmaceutical titan **Pfizer Inc.**, medical-products company **Medtronic Inc.** and technology company **Hewlett-Packard Co.**

But technology committees aren't limited to technology or pharmaceutical companies; delivery giant **FedEx Corp.** and financial concerns such as **Mellon Financial Corp.** and **PNC Financial Services Group** also have board tech panels.

While boards of most public companies rely on audit, finance or compensation committees to help steer them through financial or accounting issues, **the formation of science and technology committees is a relatively new development, according to information-technology and governance experts. The move, they say, is being driven by the increased complexity of technology issues now facing boards.**

Joshua Boger, chairman and chief executive of **Vertex Pharmaceuticals Inc.**, said his company's board decided to set up a technology committee in the past year, because Vertex is moving from being a drug-discovery company to one entering the product-commercialization phase. "We are getting more and more complex as a company," he said.

Dave Bent, chief information officer of **United Stationers Inc.**, cited the same reason for the formation of a tech panel on the board of his company, which is the largest distributor of office products in North America. "Technology is the central nervous system of the company; if the technology system goes down, the operations come to a stop," Mr. Bent said.

Mr. Feldman, the lawyer, said the dot-com bust helped boards focus on the risks connected with technology. **"There's a realization that the companies need a little help in understanding technology for issues such as acquisitions," he said.**

Mr. Smitherman said **technology now gives companies "unprecedented" tools to gather and evaluate private information about their clients. A technology committee can more effectively sift through questions about handling such data, including ethical issues, and then suggest policy changes to the overall board to better deal with privacy matters, he said.**

The Wall Street Journal

Web-based business applications provider's first advisory board ...
COGHEAD

COGHEAD (Redwood City, CA) -- Steve Bourne, John Seely Brown, Guy Kawasaki, Ariel Poler, Gerard "Rocky" Roccanova and Vishal Sikka joined this **Web-based business applications provider's first advisory board**. Mr. Bourne is the chief technology officer at **El Dorado Ventures**. Mr. Brown is a senior fellow at the Annenberg Center at the **University of Southern California**. Mr. Kawasaki is the managing director of **Garage Technology Ventures**. Mr. Poler serves on several boards of directors and has served as chief operating officer of **TextMarks** and **Mastil**. Mr. Roccanova runs **Rock and Nova** Inc. Mr. Sikka is senior vice president and general manager of **SAP's** architectural group.

The Wall Street Journal

Mobile services provider's first advisory board – EASYREACH

EASYREACH Corporation (Campbell, CA) -- Robert "Bob" Dusté, Clyde Foster, Tim Koltek, Richard Mosher, Roger Politis and Richard Walker were named members of this mobile services provider's first advisory board. Mr. Dusté is former chief executive officer of **Charles Schwab Europe**; Mr. Foster is vice president, global software sales for enterprise solutions for **Nokia**; Mr. Koltek is the CEO of **Terrapin Energy**; Mr. Mosher is general counsel for **SNOCAP**; Mr. Politis is cofounder and group technical officer of **Avanquest Software** and Mr. Walker is senior vice president, consumer PC business personal systems group, for **Hewlett-Packard**. The company plans to add more members to its board, according to a company spokeswoman.

The Wall Street Journal