



Investigating the Effectiveness of Corporate Advisory Boards

CEMI Discussion Paper 0302

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CEMI Discussion Paper Series

ISSN 1448-2541

Discussion Paper 0302

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Morkel, A., and Posner, B. (2003) "Investigating the Effectiveness of Corporate Advisory Boards" CEMI
Discussion Paper Series, DP 0302, Centre for Entrepreneurial Management and Innovation, www.cemi.com.au

NOTE:

This paper was originally published by CEMI when it was part of the Graduate School of Management, The
University of Western Australia, 35 Stirling Highway Crawley WA 6009.

INVESTIGATING THE EFFECTIVENESS OF CORPORATE ADVISORY BOARDS

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ABSTRACT

While advisory boards have been around for a long time, they have become rather commonplace in Silicon Valley (USA) in the past decade. In fact, they are so common for new ventures as to be unremarkable and taken for granted. However, there is really very little empirical evidence about advisory boards, how they work, why they work, or don't work, and the like. The purpose of this research is to explore and to discover how advisory boards operate in practice. A number of tentative conclusions arise from this investigation, which can provide guidance to entrepreneurs in the composition and disposition of advisory boards, and also offers clues to future researchers for topics requiring more focused and in-depth inquiry.

Key words: Advisory Boards, advisory board composition, academics and corporate governance, board effectiveness, board ineffectiveness.

INTRODUCTION

Advisory boards are common in high technology companies, yet there has been little published about them. The literature on advisory boards, in fact, is more likely to be focused on community and not-for-profit organizations (for example, local authorities, environmental projects, organizations and foundations for the arts, museums, research, charities, hospitals, universities, business schools and such like) rather than corporate enterprises (Mueller, 1990, Conger, *et al.*, 2001). Textbooks on the subject of "entrepreneurship" are largely silent on this topic, except for the occasional reference to mentors, counsellors and consultants. Even the very specific Silicon Valley "how to do it" manual – *High Tech Start Up: The Complete Handbook for Creating Successful New High Tech Companies* – is mute on this topic (Nesheim, 2000). Most articles on advisory boards come from entrepreneurial business magazines and websites such as *Inc.*, *Red Herring*, *Business2*, *Kaufmann Foundation*, *Business Week* and *Fortune* (for example, Camber, 2000; Greco, 1997; Gumpert, 2000; Osborne, 2000; and, Ward, 2000). Most of the literature is anecdotal in nature and there are many aspects worthy of further study.

The reasons for forming an advisory board are fairly straightforward. A start-up venture can access expertise and credibility through its advisory board far greater than with a Board of Directors. A well-wishing prominent person may be willing to serve on an advisory board of a start-up venture but not on the Board of Directors with its concomitant legal duties and responsibilities. The founder and investors can form a small Board of Directors for statutory and other board duties while tapping into the expertise and connections of a wider advisory board, and through them into their wider networks. Advisory boards are unencumbered by compliance and other business issues specific to Boards of Directors and can provide the CEO and

management the benefits of experience, expert knowledge, contacts and credibility. Advisory board members as central nodes in a Granovetter-style of weak ties network can connect the fledgling venture with a wide range of useful connections. Some advisory board members are early seed investors.

Advisory board members can be chosen for expertise and to provide credibility to the business through their association. Advisory board members can be chosen for their experience and knowledge in start-ups, running a business, negotiation, marketing, finance and general business. They often act as listeners and to sharpen the strategic processes of the founding team as much as providing new information and advice. These would be competence-expanding (or complementary competence) roles. Where the venture is based on state-of-the-art technology, technical advisers can assist with research direction and problem solving and access to research networks within universities and R&D organizations. Thus a start-up in fibre-optic devices might have experts in fibre optics and glass technology on their advisory boards, in competence enhancing roles. In some cases a venture would have both business and technical advisory boards.

The sparse existing literature identifies several characteristics of advisory boards. Reinforced is the notion that advisers do not have legal obligations and that they provide important credibility for the start-up enterprise. Also noted is how advisory boards make it convenient for the entrepreneur (as the chief executive officer) being able to tap into the experience of former CEO's when they encounter the many challenges facing a start-up. Methods of selecting and recruiting advisory board members vary, with most coming on-board through a process of acquaintances, either directly known to the CEO or, more often, via an existing advisory board member. Rewards for serving on such boards are quite varied. Retainers or sitting fees are not often mentioned. Some advisers contributed their time without pay -- for the pleasure and stimulation of being involved in a cutting edge start-up -- and/or the possibility of benefiting from an early investment opportunity. Others were given small amounts of equity, some of which were vested. While some advisory boards met on regular occasions, others operated informally, sometimes only meeting on a one-to-one basis with the CEO. Advisory boards are fairly common among high technology start-ups, and perhaps other ventures, and the basic rationale for their existence is fairly clear.

SAMPLE AND METHODOLOGY

For this study we interviewed 22 individuals, all residing in, and involved with Silicon Valley (California). Within the sample were five (5) current chief executive officers (all with advisory boards). Twelve respondents were previous corporate officers now serving as advisory board or Board of Director members. Five university professors currently serving as advisory board or Board of Director members were also included the sample. Three of the current CEOs also served on other boards.

The interviews lasted about sixty minutes, with a few as brief as 30 minutes and a number as long as two-plus hours. Generally the interviews were tape-recorded when only one researcher was present, or one while the other asked questions took notes. All interview notes were transcribed and provided to those interviewed, giving the individual an opportunity to clarify and/or expand upon previous issues, questions, or responses. Verbatim quotes from these various interviews are included in each of the following sections to give testimony to the summary conclusions.

As a context for their perspectives, we asked respondents to indicate both their experience level with corporate advisory boards and their assessment of the value of this experience. These informants had a rich experience level with corporate boards, and among them they were currently serving on 42 advisory boards and 39 Board of Directors. Including previous experiences, the sample had personally served on a least double

this number of advisory boards and Board of Directors. This is a very conservative, even minimum, estimate. Some respondents have been on so many boards that they only gave estimates of past memberships.

Respondents were asked to provide a subjective assessment of the advisory board, which they were currently serving, or had most recently served. They responded using a five-point Likert-scale, with a 1 represented a “waste of time” and a 5 represented “very effective.” There was a reasonable range of variance in their assessments, with a modest slant towards effectiveness, as shown below:

1. Not very effective (waste of time)	7 responses (17%)
2. Somewhat effective	5 responses (12%)
3. Average effectiveness	11 responses (26%)
4. Mostly effective	12 responses (29%)
5. Very effective	7 responses (17%)

Since the literature on advisory boards gives few clues about their key characteristics or about possible contributors to their effectiveness, or lack thereof, we simply explored and were guided by the experiences of our respondents. We probed especially, given the range of effectiveness, about the factors, which made advisory boards most likely to function well and be worthwhile to the company (CEO) and the advisory board member (or not to function well nor be worthwhile).

The eight major categories of interview questions provide the organizational structure of this investigation. Each section begins with a summary statement followed by quotes from the respondents, which both back up and richly elaborate the conclusions reached. We can say, at the outset that given the exploratory nature of this investigation, the reader can expect guided and grounded research direction for investigating this topic more fully in the future, rather than conclusive answers. Practitioners, on the other hand, may gain immediate insights into key choices about the composition and effective functioning of advisory boards.

KEY QUESTIONS ABOUT ADVISORY BOARDS

HOW DO ADVISORY BOARDS FUNCTION?

Because advisory boards are free from the regulatory restrictions and traditions that shape a Board of Directors, they vary greatly in composition and function. According to the experience of our respondents, the size or number of members on an advisory board is fairly small. Nearly two-thirds (63%) were comprised of five or fewer members. Twenty-nine per cent of the advisory boards had between six and ten members, with the remaining eight per cent having more than ten members.

There are a number of different models for how advisory boards function and the roles that members take up in being on a board. Advisory board members as a group and/or as individuals were seen as fulfilling one or more of the following roles:

THE QUASI-BOARD

Start-ups and pre-IPO companies often have a very small Board of Directors (two or three members) to handle regulatory and fiduciary matters and a larger advisory board for broader issues. As a consequence, small

companies can often recruit advisory board members of higher quality than may be available to their Board of Directors. The high-powered advisory board can provide direction on strategy and draw on the executive experience of their “advisers” for dealing with tactical issues as well as stakeholder relations. These are functions a formal Board of Directors and internal staff would undertake in a well-established public company.

The dynamics in a Board of Directors can often be adversarial in nature, where the Directors representing the owners (i.e., shareholders) place performance and fiduciary pressures on the CEO and management team. The CEO was perceived as being more able to seek guidance and discuss problems in a more open and relaxed fashion with the advisory board, either as a board or individually, than with the Board of Directors. Advisory board members tend to be more supportive than Board of Director members – who are concerned with last quarter’s results. On a practical note, advisory board members can be both recruited and dismissed with considerably greater ease than can Board of Director members, although this may still be difficult in very early stage companies.

MENTORING BOARD

Many company founders lack deep experience and advisory board members, individually, and as a board, often provide mentoring in addition to advice – asking questions, providing encouragement and support, building confidence, and acting as a coach to the CEO. An oft-repeated comment went something like this: “The CEO is 34 years old and lacks experience in dealing with a board, board members, and how to make them effective – he or she needs guidance as much as the overseeing function of a board.” A mentoring board can help focus on the bigger picture and lift the CEO’s vision out of a fixation on short-term problems.

BOARD OF ADVISERS

The board and individual members provide business, technical and/or both, advice to the firm, and CEO. For example, guidance in doing market research or developing distribution channels, financing structure, R & D, etc. A small firm can attract top minds in specialist areas on their advisory board that would not agree to join a Board of Directors (or would not be suitable). Biotechnology firms, for example, would have prominent scientists on their advisory board; a role they are generally better suited for than being on the Board of Directors. An advisory board can provide access to expertise that a small company cannot often afford as employees or even as consultants. The CEO can generally form a more personal and ongoing relationship with advisory board members than with consultants. When these subject matter experts are paid in stock options, they are also generally less expensive (from a cash flow perspective) than consultants.

NETWORKING BOARD

Advisory board members can provide valuable contacts along the supply chain; for example, with suppliers, distributors and customers. Making a connection or talking on behalf of the founder and the company to a key person – over the phone, email or at a meeting – can provide the entrepreneurial management and credibility often essential to progress for a start-up (young) company. An introduction with supporting words is almost essential when approaching a venture capital firm for funding.

MARQUEE BOARD

The practice of using advisory board members only for their names was generally frowned upon. Marquee (or trophy) boards were not viewed as effective by any of our informants, even when some of them were clearly of “marquee-calibre” themselves. However, at the same time, people agree that an active and high profile advisory board member provides credibility, which is of great value to a relatively new firm trying to break out of the pack in terms of recognition. Well-known advisory board members were viewed as quite valuable on

any fund-raising document (especially when they were known to be investors as well in the enterprise). Others felt that this latter perspective was a myth.

THE THINK TANK BOARD

We encountered only two examples of the Think Tank advisory board, which did not seem so out of the ordinary where companies were at the leading edge of their field. These advisory boards consisted of a group of leading experts assembled to discuss trends and the future directions of a product and an industry. They were often assembled for a specific task and disbanded once it had been accomplished. Perhaps a core group would be retained in order to provide continuity and organize the following assembly. Some respondents did not consider Think Tanks *true* advisory boards but preferred to think of them as special kinds of focus groups.

OTHER FORMS

Focus Groups: There was a general view that pure client advisory boards employed by large companies as focus groups were something quite different from advisory boards used by start-up and young companies. At the same time experience and knowledge of customer needs were valued in some advisory boards in our survey.

Trial Roles: Advisory board membership was sometimes used to try-out a person for a senior management position or possible member on the Board of Directors. While rare, it had the advantage of minimizing the costs and trauma of separation if a wrong choice were made.

Involvement of Seed and Angel Investors: Seed and smaller investors were sometimes offered advisory board membership. Board of Director membership was typically reserved for venture capital and major angel investors.

INTERVIEW NOTES AND QUOTES:

- *There is a useful role for advisory boards that is different from Boards of Directors. For the CEO to have a non-judgmental sounding board (non-judgement does not exclude giving considered views). The Board of Directors is involved in decision-making and has responsibilities regarding the performance of the company. Board of Directors members are often investors and VC's and represent those interests. Advisory boards are there to assist the CEO, to mentor and give advice.*
- *Advisory boards are definitely different from Boards of Directors. The advisory board does not have the fiduciary/oversight function and people can discuss matters the CEO chooses in a free ranging out-of-the-box manner.*
- *The CEO is in a lonely position – you need someone to talk to where the relationship is not clouded by other relationships – superior/subordinate, or family. Even the Board of Directors' relationship with CEO is not the same as that of advisory board with CEO.*
- *Main reason for putting advisory board together is to provide contact with and conduit with people in the industry, field, key suppliers and customers....extending the reach of the executive team (CEO especially).*
- *Advisory board's work best as think tanks that allow wise and experienced people to process serious industry challenges. The CEO can listen without pressure of immediate action – in that sense different*

from Board of Directors – advisory board members do not have as much a vested interest in outcomes or whether their advice leads to specific actions.

- *Great to get out of a black hole. The CEO can become very absorbed in his problems and activities. Blinders are on, and way too much focus (narrow). The advisory board member sees a larger picture and brings a different perspective. Very valuable and definitely different from Board of Directors.*

WHAT CONTRIBUTES TO THE EFFECTIVENESS OF AN ADVISORY BOARD?

On the basis of our interviews we found the whole range on effectiveness – from advisory board’s that were a sham and a waste of time to ones being perceived as highly valued and being extremely effective. What accounted for the differences?

The CEO was the most important factor in the effectiveness of advisory boards. Attitude, along with putting the time and effort necessary into making the advisory board work effectively, was crucial. In one case the CEO did not have control over the composition of the advisory board and in this instance the attitude of some members hampered the effectiveness of that advisory board. The typical observation was something like this: “Effectiveness is CEO dependent.” “The CEO can make it work or not.” “It all depends on the CEO and his/her willingness to make the best use of the advisory board members.”

While the CEO must display qualities of leadership and provide direction, the willingness to open up with problems, to seek advice and to listen was essential to a well-functioning advisory board. Some felt, CEOs included, that; “The CEO must run scared before the advisory board can be effective.” In addition, in order for a productive relationship to be established, it was necessary for the CEO to stop “selling to” or trying to “sandbag” the advisory board.

The CEO has to recruit high quality advisers and make effective use of their experience, wisdom and expertise. Several advisory board members reported that CEO’s did not make full use of their availability or their willingness to help. While not fully explored in our study, it is a matter of CEOs finding time in their extremely full and demanding work schedules (characteristic of starting a new venture). The health club analogy is worth considering. No one disputes the value of regular exercise; the problem is developing a regular regimen. Some do so and benefit from the effort, while others never seem to get around to it, despite the best of intentions. The CEO must develop habits of involving members of their advisory boards on a regular basis with their problems and strategies so that their contributions can be effective.

INTERVIEW NOTES AND QUOTES:

- *My first advisory board was not particularly effective but over time I have learned how to work with them. My current advisory board is exceedingly effective. I get rid of ineffective advisory board members and I work very pro-actively with the others. The word spreads quickly between advisory board members about my expectations. To be effective the CEO must set clear expectations and spend the necessary time with the advisory board – in meeting and on a one-to-one basis. It is not a window dressing exercise.*
- *My advice? Try to get biggest names on the advisory board, give them stock and get them ‘greedy’ (to see the stock value grow). Big names for contacts. Form the advisory board as early as possible, when stock you give away is cheap. Pre-book meetings – diaries fill up – get your meetings listed in their diaries early on. Interview them to know their backgrounds, interests and capabilities. Bring your top team to advisory board meetings – for mutual benefit*

- *It is the CEO's responsibility. He recruits suitable people, arranges meetings and sets agendas. He must be sensitive to advisory board members and not overstep the time they are willing to devote to the advisory board. He has regular scheduled meetings with clear issues to discuss. He also calls members in ways that suit them – in one case he has a regular weekly phone call lasting a certain time (45 minutes) and he does not bother that person outside these calls. Another member can be called at any time. Another he meets at tennis and so on.*
- *They are as effective as those involved want them to be. One CEO is relatively inexperienced and appreciates the guidance, while another is someone who is not interested in listening and relegates me to talking to one of her VPs on specific marketing issues. I think the CEO has to be scared before they listen. They must be facing considerable challenges where he/she needs the advisory board adviser's advice. We learn more from failure than from success.*

WHAT IS THE BEST WAY TO RUN (MANAGE AND LEAD) AN ADVISORY BOARD?

Most advisory boards had only two or three meetings in a year, although CEOs called their individual advisory board members (in person or via the telephone) on a fairly frequent basis. The meetings were to bring advisory board members up to speed with how the company was progressing and for a general discussion of strategy and direction. Occasionally fellowship or team building was mentioned as a meeting meta-outcome. As with any other meeting, effectiveness depended on having an agenda, a well-prepared CEO and a set of skills for conducting a good discussion.

INTERVIEW NOTES AND QUOTES

- *The meeting agendas were carefully prepared. Half-day meetings consisted typically of about 30% of the time on update and the remainder talking about two or three very specific items. The discussions were deliberately oriented to looking at the future. The style was supportive and collaborative – in contrast to Board of Directors meetings, which are focused on performance review and tend to be adversarial.*
- *The CEO scheduled half-day meetings with agendas about three times each year; less often than quarterly. He made an effort to provide information and to make sure that relevant problems were discussed. Also called advisory board members individually as the need arose.*
- *Every six months or so he gets the advisory board together – six to ten members show up. It is fun and party oriented. They are well informed about the company and its activities on an ongoing basis and he does not use the full meeting for this purpose. The CEO talks to advisory board members on a very regular basis on a one-to-one basis – say once every two weeks to more than once a week (in response to our question he confirmed that it takes a lot of his time, but he feels it is worth it). The agenda changes over time, as the needs of the company change – and accordingly so does the membership of his advisory board.*
- *It's a mixture of formal and informal. The more effective advisory boards had meetings during which the CEO brought the group up-to-date with events and then posed questions and challenges. The informal part would involve phone calls; one-on-one meetings and requests to make introductions and make phone calls on behalf of the company. Quarterly meetings – people were not available to meet more often, but there is a real need to keep a regular schedule for meetings.*

WHAT FACTORS ACCOUNT FOR THE INEFFECTIVENESS OF ADVISORY BOARDS?

There were a number of reasons offered for why advisory boards were not very effective. They seemed to be somewhat idiosyncratic to the particular situation rather than generalizable across the instances of less-than-effective performance. Consider the following explanation or hypotheses offered.

MARQUEE OR TROPHY ADVISORY BOARDS

There was not much support for advisory boards that sought people with prominent names solely for their marquee value. Having names that “blessed the products and company by being on the board but little else” was considered misleading to investors and often contributed to the ineffective use of the advisory board.

INSUFFICIENT MEETINGS AND CONTACT:

In some cases advisory board members were never contacted beyond their initial request to serve. We received more comments that advisory board members were willing to give more, but were not asked, rather than the CEO had made too many calls or demands on the advisory board member’s time.

INADEQUATE BRIEFING AND POORLY RUN MEETINGS:

The CEO generally failed to send out information in advance of the meetings. At the meeting itself, it was not very clear what was being asked of advisory board members in terms of the items on the agenda. Often it was, said one advisory board member, “somewhat like ‘show-and-tell’ and there was nothing were we asked to do but sit and listen.”

USING ADVISORY BOARD MEMBERS AS CHEAP CONSULTANTS:

It was accepted that advisory board members would provide advice freely. But there’s a line, we were informed, that some CEOs overstepped, in treating their advisory board members like “free” consultants. The line seemed to be where an advisory board member is asked to spend considerable time on a specific task that would clearly be a project for a consultant.

CEO SELLS AND DOESN’T LISTEN:

This happened when the CEO stayed in the “selling mode” – typically used in initially recruiting the advisory board member – and does not progress to admitting openly problems and challenges facing the company with the advisory board members.

CEO IS FLOUNDERING:

There is only so much that an advisory board can do. In some instances, the CEO was doing so poorly (or so incompetent for the task at hand) that advice from an advisory board was of little value. However, because of the nature of advisory board interactions, it is often difficult to determine that this is the case

HIDDEN AGENDAS BECAME COMMON:

This occurred then there were tensions and politics in the company, at senior levels or between management and investors that the advisory board member only sensed but were not privy to. These hidden agendas and tensions interfered with advisory board meeting conversations and productivity.

INTERVIEW NOTES AND QUOTES:

- *We only have had a couple of meetings. The business model keeps changing and the founders are floundering. They are not sure what kind of advice they want. It is almost impossible for me to effectively offer advice and counsel.*

- *Advisory boards do not work with egotistical CEO's who did not respect the views of others.*
- *This advisory board is a sham. I was asked to join the advisory board and given stock options on the understanding that I would work with the founders when they needed me. They only met once – I was called to attend on December 26th – the day after Christmas – and found it a most ineffective meeting. The other two advisory board members were investors and seemed to know about matters being discussed at the meeting about which I had no prior information. In fact, without prior notice one of the advisory board members tabled a memo criticizing the CEO about financial matters that I had not received any information about.*
- *The company's advisory board was not effective. Nice people, nice meals but no clear agenda or useful discussions. They used their advisory board mainly to list the names on their web site and in brochures and other materials*
- *The CEO's of the companies that I've been an advisory board member have not used me effectively. I find that I am calling them, rather than the other way around. They wonder why I am calling them so often – so I have to pull back, but they just are not making use of my willingness to contribute, even though they pay about the same for me as they do for the Board of Directors members.*
- *I have a negative view of advisory boards. Founders and CEOs say they want a good advisory board, but it is marquee value mainly. Even from the beginning they did not work – I'm very willing to assist but am never or very rarely consulted. They talked about a meeting and having a retreat but it never happened. CEO's often start with good intentions but fall down on follow through and execution.*
- *One advisory board was so ineffective that I had forgotten about even telling you about it. In this case I was also invited to attend Board of Directors meetings – however when I showed up, the meeting date had been changed without letting me know. At the next Board of Directors meeting I was taken aside and informed that the CEO (who had asked me to join the advisory board) had been fired – and that was the end of my role as an advisory board member.*

WHY ARE PEOPLE ASKED TO JOIN AN ADVISORY BOARD AND HOW ARE THEY RECRUITED?

The recruitment of advisory board members is almost exclusively through personal acquaintances and networking. Advisory board members are recruited for their experience and for their credibility within their field (whether new venture creation, VC activities, industry connections and technical expertise, and the like)

INTERVIEW NOTES AND QUOTES

- *Advisory board members are found through networks – word of mouth and acquaintances. The companies of two of my advisory boards sell products to CFO's and as a CFO I could provide advice on the products, marketing, and the like for the businesses and also contacts to further clients. As CFO I had a strong role on the advisory board for the company marketing their products to CFO's. I also provided contacts and introductions – this is the way Silicon Valley works. Both sides benefitted from a good introduction – the VC or potential client can find the introduction useful for business. Your reputation does matter and one would not do introductions on behalf of companies that would waste time – however, no need to be over careful – they will judge and decide whether to do business on their own.*

- *Advisory board members are used mainly for their wisdom, collective experience and advice. At certain times the advisory board acted to encourage or urge me to move boldly and quickly, at other times it advised caution – say to hold off on a new technology. I usually came out of the meetings feeling more confident.*
- *I use my advisory board in a variety of ways. I use its flexibility – from using it for advice and contacts (as most others do), but I take it a step further. I involve them in very active discussions – once every two weeks to several times a week. I also use it as an interim stage for looking over potential new appointments at senior level, and for the Board of Directors. Instead of directly recruiting a VP of Marketing or of Finance, I have them join the advisory board with specific projects and an accelerated vesting period. I can get to know them better and separation will be easier if it does not work out.*
- *Advisory boards are often comprised of seed or angel investors. They become a source of early funding and it shows commitment by advisory board members, and this helps with credibility when approaching VC firms for further funding. The CEO's job is to identify the core skills needed for success in the start-up; for example, finance, marketing, managing technical staff, etc. And then to seek very able persons as advisory board members.*
- *Also select people who can provide early stage funding – say up to \$50,000 each. When invited to join an advisory board, one must assure one's self that the start-up team will not discredit or embarrass you – you must feel comfortable to recommend them to VC firms, potential customers, etc. and that they can use your name as an adviser or member of their advisory board. Usually a combination of personal relationship with CEO and professional skills contribution are the criteria.*
- *Being willing to make phone calls and use the advisory board member's network on behalf of the Company. Getting leads and using your connections important – in addition to giving advice based on expertise, experience and expert knowledge. The figurehead role is least productive.*
- *In some cases the advisory board member is chosen for special expertise – particularly in biotech companies where state-of-the-art scientists can make a contribution.*
- *If you have clear categories for your advisory board – public media, marketing/branding, recruiting, financial, industry (including a person well versed with Europe), and real estate, then with one to three people in each category, the numbers quickly add up to 11 for the Board.*

HOW DO ADVISORY BOARD MEMBERS GET COMPENSATED?

Almost all respondents, as advisory board members, were compensated in some form for their service, with most of this taking the form of stock options. These options were typically vested over a four-year period, with a one-year cliff, and acceleration clauses for takeovers, mergers or liquidity events. Amounts were either a certain number of options (say 5,000 to 20,000) and/or percentages (ranging from 0.1% to 1%, with most around a quarter to a third of one per cent). Stock options in private companies were not easy to cash in and advisory board members had to await liquidity events. Travel and other expenses were generally reimbursed and sometimes-modest sitting fees were also paid. In some cases the companies treated advisory board members well during retreats, choosing attractive venues and inviting spouses along

Most advisory board members had sufficient wealth that the monetary value of the stock options was not an incentive. They were on advisory boards out of interest, to help young entrepreneurs, for fun and networking.

The “Think Tank” advisory board’s attracted world-renowned scientists and industry experts and people joined to be part of such exciting events, and came well prepared not to be embarrassed in front of their peers. If the stock options turned out to be of good value, it would be a bonus. For academics and scientists, the compensation for serving on advisory boards could be attractive means of supplementing their income.

INTERVIEW NOTES AND QUOTES:

- *Some stock options are granted to show integrity. The main attraction, however, for being on a board would be the intellectual adventure – to meet with outstanding peers and discussing issues of the future. The recruitment of outstanding informed and wise people is a self-reinforcing loop – quality people attract other quality people. Treat them well – invite spouses – and meet in great venues. I like to start on a Thursday evening, convene Friday and Saturday, with members and spouses welcome to stay Sunday for relaxation. Pay well, make it serious and an honor to be invited. Then people will come having done their homework, not wanting to be ignorant in a gathering of such quality.*
- *Advisory board members are not typically paid in cash but in stock options, which is totally “risk capital.” The range can vary between 0.1% to around 1%. Typically between 0.2% to 0.3% as it is at the time. Stock compensation for a Board of Director would be more (1 to 2 %) and I feel they should assist much more, especially with fund-raising. Non-qualifying stock options vested between two and four years.*
- *Need to sort compensation out up-front. Early in the company’s founding you must be more generous. As the company obtains a history and a brand name the stock options are worth more and you can offer fewer. Depends also how valuable the person is you are trying to recruit. Amounts lie between 0.25 and 1% of stock. Advisory boards are for people with wealth – compensation is appropriate but is not the main reason for joining*
- *Stock options are the way to go. Usually the first year of service is without any vesting; thereafter monthly with one forty-eights options vesting; i.e., the number of shares acquired. If stock options are twenty-five cents a share you can opt to exercise the options as soon as they are vested, but you are usually prevented from disposing them for a lock down period of about 180 days. Should the company get taken over, etc., the vesting becomes accelerated.*
- *Cash payments of around \$350 to \$500 per half day meeting (this was in the late 1980s/early 1990s) also modest stock options. I had stock options issued to employees so issuing them to advisory board members was not a problem. Numbers were not large – mainly to thank them. As a private company the stock was not tradeable but they cashed in when we sold the company. Advisory board members could also be involved as consultants – but then they are compensated separately for those roles.*
- *Not always easy to find what percentage of stock is given to you – as far as I know, usually around half a per cent. I feel that stock options and acceleration schemes tend to bias advisory board members to advise to continue on with the business, even that it should be shut down. The advisory board members have no risk if it carried on while they would lose if it shut down.*

WHAT ARE THE TERMS OF APPOINTMENT FOR ADVISORY BOARD MEMBERS?

There was considerable consensus that the effectiveness of advisory boards was enhanced where expectations and terms of appointment were clear on both sides. However, not everyone felt that it was necessary to spell

everything out in a formal document. In several cases a paragraph or two in a letter of invitation and/or the document assigning stock options was deemed sufficient.

INTERVIEW NOTES AND QUOTES:

- *I was strong on documenting the agreement and nature of the role beforehand. I have an 'Advisory Agreement' that indicates and specifies, for example, the number and regularity of meetings, the main roles, activities and contributions expected from Board members, stock options and remuneration and so on.*
- *I tried a bit of this – to get it more formal, particularly on the one company where I chaired the advisory board. They sound useful, but the relationships and the company's needs change. One needs to be flexible. When I suggested it in one company, I could see it was creating tension and it would become dysfunctional. I don't have formal arrangements with my advisory board and don't find it useful to push the matter any further.*
- *The CEO was clear and up-front about his expectations. In addition existing members of his advisory board spread the word about his style and expectations. He puts his expectations in a formal letter or document of appointment.*
- *Clarity was essential. Taking the time to put this in writing was often not necessary or even desirable because it either changed so often or kept people from talking about expectations in order to remain "clear"!*
- *His style is to have matters such as appointment terms spelled out clearly and on paper right at the start. This includes matters such as expectations, time commitment, compensation and procedure for separation (from both sides).*
- *I agree that role clarity is important, but I wondered just how much of that can you anticipate and write down ahead of time.*

AT WHAT STAGE IN THE COMPANY'S LIFE CYCLE ARE ADVISORY BOARDS MOST USEFUL?

By the IPO stage and as a listed public company, companies have generally outgrown the need for an advisory board. The larger company can attract to its Board of Directors the quality of people it formerly could only get on an advisory board. It will also have acquired expertise within its own ranks and will be less dependent on the advice of members of its advisory board. Companies in biotech and other state-of-the-art technologies will continue to use world-class scientists and technologists on specialized advisory boards, but much more like customer (or market) focus groups are used in established companies and industries.

INTERVIEW NOTES AND QUOTES:

- *It is for the early stages of a company, while it is private. After IPO, the advisory board might become less useful and could be abandoned. The larger Board of Directors would take over that role.*
- *As a founder with long experience, I do not need the kind of advice and coaching and contacts many inexperienced founders need when they start-up. My use of an advisory board is at a more advanced level.*

CONCLUSIONS

Conclusions from this investigation can only be tentative. The sample, while having many robust characteristics is not particularly huge, over-represents the high technology industry, and is all located within a single geographic territory. Extending these interviews and discussions with executives from other areas (geographically and across more businesses) would help to increase our confidence in their generalizability. Empirical analyses would substantiate some of these claims around effectiveness, as would case studies of individual company success or failures (albeit due to many factors other than advisory board characteristics). Finally, it is important to note that this study explored advisory board effectiveness and not the effectiveness of new or start-up companies. The implicit premise, of course, is that an effective advisory board would contribute to the success of the enterprise (and vice versa) but this supposition would require more vigorous analysis.

With these cautions in mind, it is still very clear that our respondents, both CEOs and board members alike, feel that advisory boards can play a useful function. The primary consideration, in almost all cases, hinges on the competence of the CEO and his or her motivation to have an effective advisory board. In this vein, it may seem that advisory boards are no more effective than the CEO running the company.

A key factor that contributes to the advisory board's effectiveness is the clarity around the terms and responsibilities of service. This is true from both the CEO and board members' perspectives. While not everyone says that this relationship should be explicitly spelled out, or formalized in writing, they all agree that having a discussion about this topic, frequently reviewed and renegotiated as necessary, is essential for reaching the clarity that enables all parties to make meaningful use of one another's talents and perspectives. The onus is on the CEO. Although in rare cases, an advisory board member (not the board en to to) can coach and guide the CEO in this regard.

All of the other dimensions seem intuitively obvious about their contribution to advisory board effectiveness. Size is important, with five-to-seven members, providing the right balance between too small or too large, and being a quantity that the CEO can manage effectively in terms of relationships. The regularity of meetings may be more important than their frequency, in that each meeting brings a structured discipline to the CEO's organization and focus. Bringing individuals on-board because of their competence and experience, and especially their interest in the company or founder's endeavour or success, is crucial and more significant than the individual's reputation. Compensation is important to be clear about but is seldom the motivating factor itself for advisory board membership or energy. Finally, advisory boards have a critical role to play in the early stages of a company but their importance becomes relatively inconsequential past the public offering stage. For practical, and legal, reasons, in fact, they are typically replaced at about that point with a Board of Directors.

One final consideration in our study was an exploration of the role, if any, of academics on advisory boards. What we found was that the first choice for advisory board members is individuals with experience as founders, CEOs, senior executives, and members of other Boards of Directors or advisory boards. Leading scientists and engineers are invited for their technological expertise and reputation. Business school faculty can contribute in several ways – for their functional expertise (say in marketing, HR or finance), as well as their problem-solving skills, general analytical capability (including how to ask key questions), and their ability to facilitate meetings and discussions. However, business school faculty must become knowledgeable in selected industries, develop appropriate networks and become problem-solving oriented (from a “profit” or shareholder-return perspective) in order to be solicited and add-value to advisory boards.

Serving as an advisory board member can be a very meaning experience for academics. As one business school faculty member reported: "I feel that my Board activities have enhanced and complemented my academic activities. Studies done for the industry result in publications and my experience in the industry and being on Board brings both a currency and relevancy to my teaching. In addition, I am able to call on a range of industry guest speakers for my classes. I bring in research opportunities for other colleagues. If they showed interest and made the effort they could also participate at Board level – however, the initiative and drive must come from them. It will not happen automatically" Another explained: "The advantages to academics are involvement with current problems and business activities on a real-time problem-solving basis. This can also lead to privileged investment opportunities often not available to academics. In addition to content knowledge on the area of his/her expertise, academics are often skilled in asking relevant questions and being effective mentors. These are skills to be valued as they can make a good contribution to the thought processes of the CEO."

All in all, it is worthwhile to understand more about the role that advisory boards play in the success, or lack thereof, of start-up and emerging companies. The advisory board can add value in crucial ways to coaching and supporting the CEO who carries the heavy mantle of responsibility, ultimately, for the enterprise's viability. Learning more on-their-own about what advisory board members can do to perform this role can contribute significantly to enriching their effectiveness and, ultimately, that of the organization.

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