### Differences: Board of Directors vs. Advisory Boards

#### Board of Directors
- Governance, Binding Advice,
- Not very flexible
- Fiduciary and legal responsibilities
- Regulated by Sarbanes-Oxley (SOX)
- Majority independent
- Committees
  - Audit
  - Compensation
  - Nomination
- Board self assessment
- Executive sessions 3 year terms.
- Expected to be reelected 3 times.
- Total 9 years.
- More commitment of time by directors and management
- Higher fees to directors
- D&O insurance

#### Advisory Boards
- Flexible in term length (PartnerCom recommends a one year term which gives leverage to change as needed)
- Guidance, Non-binding advice
- No fiduciary or legal responsibilities
- Flexible in mandate.
- Can be created to address specific organizational needs and disbanded as soon as goals are met.
- Less commitment of time by directors and management
- Flexible in compensation
- Skills and experience more important than rank
- Can attract people companies can’t afford to hire
- Lesser fees, creative compensation, or stock
- Candid, forthright Advisors
- No D&O insurance

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Getting Started

• Before creating an Advisory Board, the Executive team’s first task is to identify the objectives for the first year.
  • “What do you want?” If any objectives are broad enough to cover a myriad of subtopics, only some of which would be important in this context, it is necessary to “drill down” to ensure the council is focused on priority needs.
  • “Why don’t you have it?” The Executive team or the Council “Chair” searches out the reasons why this problem has not already been solved.

• Like any major initiative, any Advisory Board, requires buy-in from senior management.

• Selecting the right Board members, and mix of members, is also tremendously important

• Advisory Board members themselves cite several key reasons for participating: they meet interesting people, are stimulated by the dialogue and learn, and because they want to help a company feel the satisfaction of making a difference

• This means that it is the company’s responsibility to design an experience for Board members that is stimulating and well organized, and then to make sure that Board members feel their advice is valued and applied
Best Practices For Advisory Board Creation and Success:

• **Homework:** Give the Advisory Board members simple ways to get ready for the meeting: e.g., reading a succinct brief on a problem to be discussed or going into the market to get smart about the context of a category to be presented. Share the questions you plan to ask so advisors have time to think about issues and back up their responses with examples, if possible.

• **Preparation:** Executives who manage the Advisory Boards within a company are critical to its success. Preparing the agenda as well as the teams who participate and following up are critical if ideas are to turn into action.

• **Presentations:** Presentations should be well edited, free of jargon, concise and designed to stimulate thinking rather than get buy-in. Questions are more important than answers.

• **Participations:** When the intention is to spark new thinking that translates into the real activities of the company, it is critical that team leaders and key “doers” are equally represented in the room. The richness of the thinking and conversation at an Advisory Board meeting are as important as the actual recommendations. Leadership needs to be in sync with those who will be expected to take action.
A Sample Charter for An Environmental Advisory Board

Greening Your Corporation

- Create a charter and put key points in the invitation letter
- Scan the environment to identify and anticipate global and national issues which will arise in the coming decade (energy, availability of resources, changes in technology, etc.)
- Assist the corporation in planning, organizing, and evaluating local environmental principles, and strategies.
- Help the company coordinate its environmental programs with those from different companies or organizations.
- Connect with selected citizens affected by lack of environmental regulations who might want to have a role in the formation of the environmental policies or programs. Help foster a constructive relationship between citizens, the corporation, and those responsible for law enforcement and environmental regulations.
- Help develop an excellent public relations program with private environmental organizations, as well as special or ongoing efforts.
- Act as a sounding board to discuss environmental policy under review or consideration by elected officials internationally, nationally, and locally.
- Provide leadership for improving existing environmental programs to better serve the health interest of stakeholders and citizens.
- Offer advice on improving citizen knowledge or environmental issues so they can be better consumers and better focus their participation and comments when constructive assistance is required.
- Provide a forum for officials responsible for environmental programs to discuss their programs and goals.
- Discuss environmental issues and lifestyle changes that may be necessary to ensure a safe and sustainable environment.
- Acquaint the corporation and its communities with the status and progress of past, current and ongoing environmental policies, programs and work. Develop an enlightened corporation with advanced environmental knowledge, leadership, and appreciation of the complexity of environmental operations within the community.
- Encourage through discussion and review, with guest speakers or specialists, and otherwise seek to inform staff members of ways to ensure environmental programs' success.
- Make more efficient use of environmental expertise and other resources if a review of options seems appropriate or is requested by elected officials. Assist the corporation in solving operational problems or reviewing new environmental impacts or activity, either in the existing work plan or as requested by elected officials or other authorities.
- Involve the corporation's decision makers in responses to far reaching environmental needs and concerns.
Advisory Boards for Family Controlled Businesses
Expert Eyes, Ears, and Minds Help Companies Respond Nimbly to New Challenges and Opportunities

- An advisory board can assist in facilitating communication between generations, taking the emotion out of the decision-making process, realistically assessing family members’ skills and strengths, and in monitoring the succession and ownership transition process.

- Advisors can also provide technical expertise in key areas such as business operations, industry trends, financial performances and partnerships, going global, technology, and reinventing or repositioning the company in the world economy.

- The advisory board can also help instill confidence in customers and clients, who are more comfortable knowing that the company is in tune with and connected to the current business environment.

- In any family business, there is a delicate balance between maintaining harmony among the individual family members and running the company in the most efficient and strategic way. Some issues that may arise are:
  - Whether a family member in a key position of management possesses the skills to fulfill his or her current and possible future responsibilities.
  - Who will be the future chief executive
  - Conflicting views about the direction in which the company should go

- If there is an advisory board, family members can turn to the counselors for their objective take on difficult situations.

- Advisors can provide sound advice without bias to particular family members. Important policy decisions can be discussed in a professional setting and the council can promote an open dialogue among all members and help avoid confrontational situations.

- Coming from different businesses and industries and having had many years of management experience in their respective fields, advisors are in a unique position to visualize who has the skills that fit a particular position now and in the future.

- An advisory board can help establish a forum for introducing the next generation to the many aspects of the business and the provide them with mentoring and training to be the future leaders of the company.
New Trends in Advisory Boards
Digital Advisory Boards Are a Win-Win For All

• As cyber security, cloud computing, e-commerce, and digital/social media are rapidly developing, businesses around the world are under increasing competitive pressure to undergo a digital transformation. Corporate directors and senior executives often do not want to allocate a valuable board seat to a digital/IT expert, who is often in his or her 20s or 30s and without financial, management, or regulatory expertise. Instead, they are creating technology, or digital, advisory boards.

• Who is creating them and why?
  • AmEx/OPEN, Medtronic Diabetes, Unilever, IBM, and Clubcorp, among others, are creating these new advisory boards to:
    • Help anticipate digital trends that will be shaping the expectations of customers and demands of suppliers.
    • Address structural issues, such as whether social media should be a separate discussion or integrated throughout the corporation.
    • Provide dialogue on social media, big data, or mobile technology initiatives.
    • Provide input on the ways to drive new customer revenue outline.

• In addition to providing outside-in-thinking, companies utilizing advisory boards are gaining diversity and better understanding of young customers.

• These advisory boards also serve as role models for younger employees as companies seek to cultivate this kind of talent from within the organization.

• As board nominating committees evaluate prospective board directors, advisory boards also function as “proving grounds” for director candidates.