

Do Advisory Boards work, and what makes them effective?

An Advisory Board is a body that advises the management of an organization, foundation or corporation. Unlike a Board of Directors, an Advisory Board has no authority to vote on matters, nor does it have any legal or fiduciary responsibility. Advisory Boards are becoming increasingly prevalent in markets across the world, including India. Egon Zehnder recently organized a forum of eminent CEOs and board members who have had the opportunity to participate in or leverage Advisory Boards. This white paper attempts to summarize the insights that emerged from their experiences.

Our discussion focused on five key questions:

1. When do you need an Advisory Board? Would it serve a purpose that cannot be served by the Board of Directors?
2. Are Advisory Boards equally relevant for MNCs and Indian companies / family-owned businesses?
3. What is the value in formalizing a network of advisors into an Advisory Board?
4. Why have so many Advisory Boards failed? What are common problem areas?
5. What are best practices in building an effective Advisory Board?

1. When do you need an Advisory Board?

Advisory Boards in India are not a new phenomenon. In certain sectors such as financial services, they are fairly widespread. In others they are increasingly gaining a foothold. What explains their popularity? Why would a company – particularly one with an existing statutory Board of Directors – constitute an additional formal board of advisors?

Our discussion highlighted several scenarios where an Advisory Board has been effective:

- a. *Providing in-depth domain expertise:* Examples are an R&D Advisory Board, or an advisory body constituted to provide input on a specific area like CSR or sustainability, where the Statutory Board may not have adequate expertise. In such a scenario, constituting a formal body of subject-matter experts provides valuable input to the company's decision-making process. Depending on the mandate, such boards may have a finite life.
- b. *Providing access and networks:* Advisory Boards can be effectively used to provide the high-level access necessary for lobbying or business development. Boards with an advocacy mandate are often seen in the pharmaceutical industry. Private equity firms often constitute boards with well-networked senior advisors from the local market. Companies establishing their local market presence also benefit from advisors who act as ambassadors for the organization and help promote the organization in the wider business community.

- c. *Providing market insights:* Advisory Boards that help the parent company or principal shareholder in interpreting market scenarios, the political landscape and regulatory issues are particularly relevant for MNCs that are entering the country or going through a period of transition (e.g. in a scenario where an MNC enters the market through the acquisition of a listed Indian business).
- d. *Attracting advisors who may be unwilling or unable to join a Statutory Board:* The New Companies Act has substantially raised the bar on governance – but has also made Board membership more onerous for Independent Directors. As a result, potential advisors may be reluctant to consider Board memberships of companies in certain industries or of a certain scale. Restrictions on the term of an Independent Director have also been introduced. Advisory Boards allow companies to access advisors otherwise reluctant or unable to join their boards. While this is a more tactical rationale, it is likely to become increasingly prevalent in the current environment.

2. Are Advisory Boards equally relevant for MNCs and Indian companies / family-owned businesses?

Advisory Boards are typically associated with MNCs that need eyes and ears in a distant geography. There are several success stories of MNCs with both foreign and Indian CEOs that have leveraged an Advisory Board to provide local market perspective to the parent company and provide domain expertise to the local management team.

However, Advisory Boards are not relevant for MNCs alone. In case of family businesses, Advisory Boards often step beyond the mandate of the Statutory Board by providing advice not just on business issues but also on family issues. This includes advice on inducting the new generation into the business and providing a dispute resolution mechanism for issues that arise within the family. In many cases, promoters who are reluctant to induct external professionals with veto powers into the Board of Directors are able to access their insights through an Advisory Board. Such boards can also participate at a group or holding company level, to address issues that encompass multiple group companies.

Large professionally-run Indian businesses have also had positive experience with such bodies, in cases where their mandate is focused on a specific domain. For instance, a leading Indian automotive player has leveraged a panel of global R&D experts to provide input into product entry choices.

3. What is the value in formalizing a network of advisors into an Advisory Board?

Several companies have an informal network of advisors whom they leverage individually from time to time. However, there are clear merits in formalizing this network into an Advisory Board. Doing so helps ensure that advice received is not just an independent point of view, but a collective perspective that has the benefit of context and debate. This elevates the quality of advice and adds value not just to the company, but also to the advisor, who benefits from the insights of his / her peers.

Building a Board of Advisors also creates a degree of formality and discipline that helps to raise the level of contribution of the advisors. There is an inherent need to gain “peer” recognition, and consequently advisors tend to take it more seriously and come better prepared.

4. Why have so many Advisory Boards failed? What are common problem areas?

Despite their widespread prevalence, Advisory Boards have a high failure rate. Some common problem areas include:

- Lack of real sponsorship from the CEO or absence of a senior internal client
- Sudden change of the internal client or of his / her priority
- Lack of alignment between the mandate of the Advisory Board and its design and staffing
- Perceived overlaps between the mandate of the Advisory Board and the Statutory Board
- An unbalanced team in terms of competencies, stature or commitment
- Lack of clarity regarding the mandate and how the Advisory Board will influence the company's decision-making processes
- Inadequate thought given to Advisory Board operations and maintenance, i.e. "what happens once it is set up"
- Risk of being perceived as a "toothless" entity, given its lack of enforcing powers

"Advisory Boards are often victims of the Halo Effect. They become a fashion statement with trophies on the board"

5. What are best practices in building an effective Advisory Board?

Our discussion surfaced four key success factors, which have been validated through Egon Zehnder's experience across geographies:

- A well-defined and relevant mission that is complementary to the mandate of the Statutory Board:* An Advisory Board must have a clearly defined and communicated mission that is outcome-based and relevant to the company at that point in time. This mission must be distinct from the mandate of the Board of Directors. The chances of impact and success are the greatest when collaboration between the two boards is achieved: in cases where an Advisory Board has been constituted to address a specialized topic or need (e.g. sustainability), for instance, its findings can be presented to the Statutory Board for necessary support and action.

"To set up an Advisory Board for success it is absolutely crucial that the mandate is complementary to the Board of Directors, rather than overlapping with it"

- b. *Senior-level commitment:* The CEO must be the sponsor for the Advisory Board, supported by senior management as relevant. This includes committing personal time, attending meetings and ensuring close integration with the Statutory Board.
- c. *Disciplined management:* Advisory Boards benefit from discipline and formality in operating processes, much like a Statutory Board. Advisors need clear guidance and support to perform their role – which includes planned induction and regular performance assessments. There must also be a clearly articulated framework regarding size, frequency of meetings and access to information.
- d. *Right choice of people:* Often, there is a temptation to staff an Advisory Board with “trophy”, without thinking through the relevance of the person’s experience and style. Hiring must be conducted strategically to focus on both skill sets and chemistry among the team. The board’s mission will dictate the type of skill set needed – e.g. a reputation-builder who provides access or a thought leader who provides insight. It is also important to look for the right interpersonal and influencing skills and a level of personal commitment to ensuring success and relevance.

“As CEO, I don’t want casual advice from just another big name. I’m looking for someone who is personally committed to my success; who will become a mentor to me over time”

Participants in the event:

	Name	Position	Company
1	Anil Kumar Sardana	Managing Director	Tata Power
2	Arun K Nanda	Former Executive Director & President, Infrastructure Development Sector	Mahindra & Mahindra
3	Ashok S Ganguly	Chairman	ABP Private Limited
4	Ashok Sinha	Chairman	4I Advisors
5	Bhasker V Iyer	Divisional Vice President, Commercial Operations India	Abbott Laboratories
6	Dileep Choksi	Partner	C3 Advisors
7	Harish Badami	President & Managing Director	Celanese
8	M K Sharma	Former Vice Chairman	Hindustan Unilever
9	Manu Anand	Head India & Asia Pac	Mondelez International
10	Naina Lal Kidwai	Group General Manager and Country Head	HSBC
11	Pradip P Shah	Chairman	Indasia Fund Advisors
12	Ramesh Palagiri	Managing Director& Chief Executive Officer	Wirtgen India Private Ltd.
13	Ravi Kant	Vice Chairman	Tata Motors
14	Sanjay Dawar	Managing Director	Accenture Management Consulting
15	Sanjeev Aga	Director	Idea Cellular
16	Shailesh Haribhakti	Chairman	Haribhakti & Co
17	Shashank Singh	Partner & Co-Head	Apax Partners
18	Shyamala Gopinath	Former Deputy Governor	Reserve Bank of India
19	Sunil Mehta	Former Country Head & Chief Executive	American International Group
20	Suresh Sugavanam	Managing Director South Asia	Underwriters Laboratories
21	Uday Chander Khanna	Former Manager Director & Chief Executive	Lafarge
22	Vishwavir Ahuja	Managing Director & Chief Executive Officer	The Ratnakar Bank Ltd.

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Our Board Consulting Practice

Egon Zehnder has a dedicated practice specializing in Board Consulting. The Group focuses its efforts on the highest level of an organization and works in a collaborative manner with the Chairman of the Board and its members. Typical activities include reviewing overall Board performance, appraising individual Board member contributions and recruiting directors whose independence, intellect, integrity and courage will strengthen the Board and create sustained competitive advantage.

Egon Zehnder identifies those critical competencies required of the Board as a whole, as well as its individual members, that will enable it to graduate from the traditional role of “oversight” to the more valuable role of “contribution”. An effective Board comprised of the right people, focusing on the right issues, and working in an environment of dialogue, not monologue, is a high-value corporate asset. We aim to ensure that the Board has a balanced perspective and that the collective wisdom of the directors is unleashed and utilized for the benefit of the company’s shareholders.

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