

How is an advisory board different from a board of directors - and which one is right for your business? In this article, we look at the role and strengths of each type of board.

Which type of board structure does my business need?

At MEIoD we work with a wide range of businesses, from startups to established organizations. One question we hear a lot is “do we need a board, and if so, should it be a board of directors, or an advisory board?” The advice we give, of course, depends on the specific structure, requirements, and goals of the individual company - there’s no single answer.

However, understanding the roles of each type of board, and the differences between them, is an important first step in assessing the right way forward for your business. In this article, we’ll look at a few key areas where the two types of boards differ, and what that means in practical terms.

Primary role and function

Boards of directors are most often associated with publicly traded companies - which are legally obliged to have one - but they are also becoming increasingly common within private companies too. Their key role is to act as a key governing body, ensuring that strategy and decision making align with the company’s best interests, protecting the interests of

shareholders, and overseeing proper management and operations.

Board of advisors, by contrast, are primarily concerned with advising, guiding, and supporting the executive function of a business, most commonly the CEO and other C-suite executives. They are generally motivated by a personal interest in the success of the company, although they may also receive compensation. Their main role is to provide a sounding board for new ideas, challenges, and risks, offering the benefit of their experience.

Voting rights

The board of directors of a company has significant power and influence over the running of the organization, conferred upon them by law. Board members, in exercising their voting rights, are able to confirm or veto major decisions related to strategy or operations, as well as having the power to remove the CEO or restructure the executive team if they feel it is in the company’s best interests to do so.

The members of an advisory board do not have voting rights, nor a defined legal relationship to the company, and therefore have very little direct power in terms of how the company is run. There is no obligation on the part of company executives to implement the advice they receive from the board.

Alignment of interests

The members of a board of directors are legally considered part of the company they represent, and therefore they have shared liability for the actions of that company. This means that their primary interest lies in the success and performance of the business. As a result, they are obliged to prioritize the needs of the company, which in practice means the needs of shareholders, above those of the management and workforce.

The main responsibility of an advisory board is to support an entrepreneur, founder, CEO, or executive team. As board members are not legally bound to the company, they have no specific requirement to represent shareholder interests, instead, their role is to direct, guide, and mentor the management function of the business. Whether their advice is implemented or not, they are not held personally liable for the resulting performance.

Operating expenses

The differences in responsibility and liability between boards of directors and advisory boards have a direct effect on the associated cost to the business. In the former case, as board members may be held liable for mistakes or performance issues, they expect a commensurate level of remuneration. This means that for many smaller businesses, appointing a board of directors can be an expensive, and often unrealistic prospect.

Members of an advisory board assume less risk and responsibility as part of their role, and so the expected remuneration is correspondingly lower. They are also often more motivated by a genuine interest in the business, rather than for financial gain alone. For businesses with limited funds, this makes forming an advisory board more accessible. Members are generally compensated with an annual stipend, or equity in the company.

Key differences, at a glance

Board of Directors	Advisory Board
Formal, legally defined body	Informal, unregulated body
Protects shareholder interests	Advises leadership
Makes decisions	Makes recommendations
Higher relative compensation	Lower relative compensation
Legally liable for actions taken	Not held liable for advice given
Financial interest in company performance	Personal interest in company performance

The benefits to companies

In our experience, appointing an advisory board can be a valuable transitional step for organizations without any board structures in place, introducing a level of oversight and advisory capacity without the formality and expense of a traditional board of directors. The advisory board can add a new dimension of expertise and provide the CEO and management team with more practical and targeted support.

From an external perspective, the addition of an advisory board to a company's website has a positive effect on the credibility of the business, as perceived by potential clients, partners or investors. It's also a valuable source of new networking contacts, as board members are likely to be well connected in the relevant industry or sector.

In practical terms, working with an advisory board introduces some of the structure and practices of board relations which may help prepare founders or entrepreneurs for more formal arrangements at a later stage.

Once companies are fully ready to formalize their government structure, they can establish a board of directors to further institutionalize corporate governance.

If you're looking to appoint an advisory board, you may be interested in MEIoD's Advisory Board Setup service, where we handle the creation, implementation, and running of your new board, including recruitment, onboarding, and scheduling of meetings.

To learn more about this and other services we provide, contact [here](#).

About the Author:



Maali Q. Khader is a highly experienced, effective, and trusted lawyer. Today she is a luminary in the corporate governance, sustainability, legal training, and advice sectors.

Maali holds a few concurrent roles, chief of which is CEO of the influential Middle East Institute of Directors (MEIoD), delivering advanced environment, social and governance (ESG) advisory and training to several prestigious organisations.

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