

What is the difference between a Board of Directors and an Advisory Board?

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Fast growth demands proper supervision. This is certainly the case for scale-ups and their founder teams. Digital growth enterprises can benefit from support from a Board of Directors or an Advisory Board.

Installing an Advisory Board as the initial step towards becoming a more mature organisation provides three important types of leverage for the management team: the creation of a committed body alongside the operational team, which provides cadence in the life of the enterprise and puts the focus on a limited number of issues that are discussed in the board.

The advice emanating from an advisory board is usually more specifically focused on the operational growth leverage of the venture and the role of the entrepreneurs within it, while the advice coming from the board of directors goes into a wide range of issues that are significant for the legal entity behind the company. An advisory board therefore usually aims more at the growth and acceleration than the board of directors. We go further into the differences between both forms of support.

Binding nature

An advisory board is an external sounding board of experts whose function is to advise management. The advice is not of a binding nature. This group of people have been brought together informally. The formalities and administration of the board are limited.

This contrasts sharply with a board of directors. This is the highest level of management within an organisation. The board of directors supervises company management. The board members have voting rights and the power to enforce change within the enterprise.

Liability

This difference influences liability. This is at a much higher level with the board of directors than it is with the advisory board. The board of directors would be responsible if a company ended up going in the wrong direction. This is not the case with an advisory board as its advice is not binding.

Member motivation

The board of directors is all about the company, specifically the legal entity and its welfare. Many directors have a direct interest in the success of the company and are investors for example.

With an advisory board the accent is on providing management or the founder team with support. An advisory board is composed of external experts who have no direct interest in the success of the company. The aim is to help the entrepreneurs to make a success of it, without having any (financial) interests.

Costs

The costs associated with an advisory board are lower than for the board of directors. For example directors' and officers' liability insurance is not required. Attendance fees are typically limited and represent mainly payments for expenses.

Advice

Both groups have the intention of providing advice. Although this is done at different levels. The advice given by the board of directors is aimed at the continuity of the company. The board of directors has a wider focus, because it makes decisions about essential issues.

Then on the other hand there is the advisory board. The board has a narrower focus and normally supports management with critical activities or a specific growth scenario. The advice therefore is usually aimed at (a number of) management’s goals.

These issues can possibly provide help for your specific context so that you can arrive at an initial support structure. Any more questions? Asking advice from other entrepreneurs or experienced coaches is never a waste of time. An outside view of your situation can often put things into perspective. More information on the Sirris services in this context can be found at https://www.myadvisoryboard.be.

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