

A FORMAL BOARD VERSUS AN ADVISORY BOARD

OUTLINE

Companies are run by the Board (Directors) – they are not run by the owners (Shareholders).

If the Directors (in the Board Meeting) vote something is to happen – then there is no choice about it – the Management must implement that decision.

THE ISSUE FOR SMES

A majority of us know our businesses really well. While we might like some good suggestions, we often don't take too well to being told what to do.

If your company is run by a Formal Board and you sit on the Board with (say) 3 others, should the other 3 out-vote you then you will have no choice but to have your company undertake what has been voted on.

FORMAL BOARD DEFINED

In a Formal Board the Directors sign an acceptance to take on that responsibility and appear on the Companies Office register as a Director.

In the Board Meeting if one Director disagrees but the rest voted to accept, then it must go ahead. A Director that disagrees must accept it or if they consider it a critical matter their only option is to resign (even if that Director is also the owner).

A formally appointed Board Member is personally liable for quite a number of decisions made. Great care must be taken to ensure they only remain on the Board where they agree with the quality of the decision making. If a Director disagrees with the more important votes they should consider resigning to avoid potential liability from matters they do not support.

ADVISORY BOARD

Operates under all of the same principles of a formal Board Meeting but provides non-binding advice to the Management.

Unlike a formal Board, an Advisory Board has no power – they only make recommendations. It would be unusual to set up good quality advisers then not follow their advice, but you are free to.

The benefits of an Advisory Board to SMEs are:

- The benefit of a wider perspective of input into decision making (no one person knows everything)
- A recurring set time to Check & Measure (the past) and plan (the future) something we would not otherwise do on a regular basis unless we were held to account to do so
- Light weight – cheap and fast – giving the benefit of the wider input plus Check & Measure without getting bogged down in time, money and bureaucracy

This resource has been kindly provided by

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If you have any questions, please call 0800 CHAMBER (0800 242 623).

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