THOUGHT LEADERSHIP · OD INSIGHTS · CORPORATE GOVERNANCE

Advisory Board or Board of Directors: the right question isn't *which*, but *when*.

The decision doesn't depend on the size of your company, but on the stage of institutionalization it is in and what you set out to achieve.

THE STARTING POINT

The misunderstanding that costs dearly

When a company decides to "set up a board," it usually runs into the same simplistic advice: if it's large, a Board of Directors; if it's barely growing, an Advisory Board. It's a convenient—and mistaken—rule.

Both are corporate governance bodies, but they serve different objectives and carry very different responsibilities. Choosing wrong—or not choosing and continuing to decide everything from a single head—has a concrete cost: decisions that don't scale, partner conflicts that erupt too late, improvised successions, and investment that falls through for lack of a structure that inspires confidence.

The question has a better version. It's not about which body is "superior," but about what stage the company is in and what it needs the board to resolve.

TWO BODIES, TWO NATURES

The Board of Directors is the formal governance body established by law. The Advisory Board does not replace the decision-making body: it brings external judgment, strategic challenge, and non-binding recommendations. The real difference lies not only in the quality of the judgment, but in the authority, legal protection, and enforceability its decisions acquire—and it is best seen across the axes that truly matter.

THE AXIS THAT MATTERS	Board of Directors	Advisory Board
Authority	Decides; its resolutions are binding and legally enforceable.	Advises and challenges; does not replace the formal decision-making body.
Legal nature	Formal body established by law (in Mexico, LGSM / LMV); its powers also derive from the bylaws and the authority granted by shareholders.	Voluntary body, with no mandatory legal recognition.
Liability	Fiduciary duties of care and loyalty; financial liability for administering the corporate interest.	Assumes no formal fiduciary duties; its responsibility is set by contract: confidentiality, conflict of interest, and scope of the advice.
Composition	Equity, related, and independent directors.	External advisors chosen for their experience.
Formality	Regular meetings, minutes, and committees: formalities with legal effects toward third parties.	Flexible.
Focus	Governance, strategy, risk oversight, accountability, succession, and protection of the corporate interest.	Specialized advice and specific challenges.

If an advisory board member in practice makes or directs decisions, they may be deemed a **de facto director** and incur the very liability they believed they had avoided: informality is not a shield.

THE DECISION FRAMEWORK

What stage is your company in?

Instead of measuring size, measure the degree of formalization and what you need to resolve. These signals help you place yourself.

ADVISORY BOARD

The better choice if...

- The company is growing, but decisions remain concentrated in one or two people.
- You want external experience without yet touching the legal structure or ceding authority, control, or decision-making power.
- You're preparing for investment, new partners, or a professionalization process.
- You want to "rehearse" governance with external voices—contrasting views and collegial decisions—before the formal commitment.

BOARD OF DIRECTORS

The right step if...

- Several partners, executives, or business areas with differing interests coexist.
- There is a risk of unilateral decisions or conflicts better channeled through clear rules.
- You aim to institutionalize, attract capital, or formally prepare succession.
- There are investors, creditors, or a regulatory framework that demand accountability.
- Strategic, equity, or long-term decisions must be backed by formally adopted and documented resolutions.

> *An Advisory Board is not a second-rate Board of Directors: for many companies it is the antechamber to institutionalization.*

THE VISION

It's not "A or B": it's a path

For many companies—family businesses in particular—the Advisory Board is the space where the owner rehearses what it means to govern with others: bringing in independent members, testing committees and meetings, and building the muscle that will later make a formal board viable. When a new generation arrives demanding objectivity and results, the ground is already prepared. That is why it should be seen as an evolution, not a permanent dilemma. In fact, both can coexist, provided there is a clear separation of mandates: the Board of Directors decides and oversees, while the Advisory Board complements it with specialized knowledge—technology, expansion, succession, culture, or risk—external perspective, and technical judgment. The caveat: if the goal is formal governance, the Advisory Board should be a bridge, not a destination.

THE REAL RISK

The greatest risk is not starting with an Advisory Board, but turning it into a decorative body—without a strategic agenda, without enough information, and without the real capacity to challenge the owner or management.

A well-designed Advisory Board can be the first serious act of institutionalization. But without a mandate, agenda, information, and the capacity to challenge, it does not institutionalize: ***it merely simulates governance.*** Because institutionalizing is not "having a board," but producing decisions with legitimacy, traceability, and legal force—which is what truly inspires confidence in partners, investors, banks, and potential buyers.

What stage of institutionalization is your company in?

We institutionalize companies and boards with evidence-based models of governance, risk, and compliance.
Authorized firm for PRIME® Certification.

LET'S TALK

contact_us@theodcg.com

The OD Consulting Group

MEXICO CITY
Corporativo Antara I
Ejército Nacional 843-B, Floor 5
Mexico City 11520, Mexico
+52 (55) 8000 2419

MIAMI
2665 S Bayshore Dr, Ste 220
Miami, FL 33133, USA
+1 (786) 829 1602

CONTACT
theodcg.com
contact_us@theodcg.com
LinkedIn · YouTube · Spotify