

# Advisory Board vs. Board of Directors: Does My Nonprofit Need An Advisory Board?

8 min read



## Key Takeaways

- The Advisory Board: No law requires nonprofit organizations to form an advisory board.
- Tips To Successfully Building An Advisory Board: The first step after forming an advisory board is making sure you have clearly defined roles.
- Actionable Insights: When you have visibility into the economics of your programs, you are able to assess the value of each program output

As any Nonprofit Executive Director knows, an effective board and your organization's success go hand in hand.

At one point in time, you may have asked yourself. "How do I help to properly structure an effective board?" This question can lead to another critical question: Does your nonprofit need an Advisory Board?

While Nonprofits are required to operate with a board of directors, many also form and operate with the help of an advisory board.

Understanding the differences between the two types of boards and their purposes will help you see how to use both to the advantage of your organization.

## **What's the Difference Between an Advisory Board and a Board of Directors?**

Before we dive in, let's rehash the basics...

### **The Board of Directors**

The law requires every nonprofit organization to form a board of directors.

Above a nonprofit's executive committee, the board of directors acts as the ultimate, legal governing body of the nonprofit. As such, members of an organization's board of directors have voting rights and are required to carry out their duties in the best interest of the nonprofit they serve.

The board of directors is responsible for attending board meetings and the overall management of the organization. Its members hold the collective power to make decisions on behalf of the organization. As a governing body, they have both fiduciary and managerial responsibilities.

The board of directors must deem the best use of the organization's funds, ensure accurate [financial management and reporting](#), maintain regulatory compliance, and even carry out decisions regarding staffing and executive positions.

### **The Advisory Board**

No law requires nonprofit organizations to form an advisory board (sometimes referred to as an advisory committee or advisory council). However, the formation of an advisory board can be advantageous for nonprofit organizations when managed and used properly.

The [goal of an advisory board](#) is to provide valuable assistance, advice, and expertise to the board of directors. As its name suggests, an advisory board should consist of individuals who can serve your organization in an advisory and/or ambassadorial manner.

An advisory board could include individuals who possess a long list of philanthropic contacts to help fuel your fundraising efforts. You might also consider including individuals who can help increase the footprint of your outreach with industry knowledge or an appropriate network of connections in your service area. Also, useful on an advisory board are individuals whose names will simply carry weight on your organization's letterhead and website.

## **Does Your Nonprofit Need an Advisory Board?**

Legally speaking- no. If you have a board of directors, then your organization is covered.

But don't stop reading just yet. You might still benefit from the formation of an advisory board – especially if the individuals who sit on your board of directors were selected primarily for their legal, financial, or managerial expertise.

In many organizations, the board of directors and advisory board form a symbiotic relationship.

In this relationship, the advisors use their creativity, connections, reputations, influence, and passion to drive the nonprofit's cause while the board of directors organizes, controls, and directs that drive to the sole benefit of furthering the nonprofit's mission.

There are other instances when an organization would be strongly encouraged to form an advisory board.

For example, when an organization like a co-op has yet to receive its own 501(c)(3) designation and is fiscally sponsored by a parent organization, the co-op will benefit from the formation of an advisory board to organize and lead it. Since this type of organization is not yet considered to be a fully-fledged nonprofit, it cannot legally have its own board of directors; instead, it operates under the control of the sponsor organization's board of directors. If the fledgling organization decides to incorporate separately in the future, its

existing advisory board will be able to transition smoothly into serving in a new role as the board of directors. [1]

★ **Important:** If you do decide to form an advisory board, be sure you do so with a strong commitment to set aside the time necessary to make the most of the people you bring in. If you can't commit enough time to an advisory board, then you could wind up tarnishing relationships and doing more harm than good for your nonprofit.

## **Tips To Successfully Building An Advisory Board (To Maximize Outcomes)**

If you decide to form an advisory board for your nonprofit organization (or if you already have one), the most important step you can take for success is to clearly define (or review) and communicate the roles, rules, requirements, and expectations of both your board of directors and advisory board members.

### **Defining Roles and Responsibilities**

The first step after forming an advisory board is making sure you have clearly defined roles. Well-defined roles are critical in allowing key management and board members to collaborate seamlessly.

It's essential to define the roles and responsibilities of both your board of directors and your advisory board so that the members of each will clearly understand what's expected of them and what they should do to fulfill their duties to your organization.

We typically see mentoring functions of advisory board members falling into one of [three categories](#):


1. Industry Mentor – Someone who knows the ins & outs of the industry your nonprofit hopes to service. These members can give strategic advice and make introductions.

2. Company-building Mentor – Mentors who have experience in building companies. These members will be helpful in assisting governing boards with the business and leadership aspects of running an organization.
3. Personal mentors – Similar to a life or business coach, these members work with board members to develop their knowledge of governance and help them recognize and use their talents to advance the organization's mission.

After clearly defining roles, the next step is to make sure clear rules are set in place to discern the different responsibilities between your advisory board and your board of directors.

Here are some common examples we've seen:

- The board of directors has voting power, and the members of your advisory board do not.
- The board of directors has the responsibility of selecting a candidate to fill the executive director position, but the advisory committee might be responsible for providing a list of vetted candidates.
- The board of directors will vote to agree on a budget for the new fiscal year or a strategy for the upcoming fundraising quarter, but the advisory committee might provide suggestions for new directions the organization could take and feedback regarding what did and didn't work with previous projects.
- The board of directors can instruct the staff to take certain actions, and the advisory board can provide suggestions to the board of directors for what those actions might be. However, the advisory board never holds the power to make decisions or direct the organization's staff.

 **Tip:** One way to clarify the distinction between members of the board of directors and the advisory board is to simply choose to refer to your advisory board by another name. Calling it the advisory committee or advisory council will clear up any confusion about who is on "the board" and who is not.

## Actionable Insights = Better, More Strategic Meetings

Just like your board meetings are driven by your board reports (well, they should be...) having accurate, [actionable data at your fingertips](#) during these meetings is key to having high-level conversations.

Here are some example financial and non-financial metrics that will make it easy for your board(s) to have more strategic discussions...

## PROGRAM ECONOMICS

When you have visibility into the economics of your programs, you are able to assess the value of each program output. This will help your boards stay focused on a macro level, and assess how efficiently your nonprofit is fulfilling its mission statement.

- **# of Clients served**
- **Program enrollment vs. Program attendance**
- **Program Expenses / Total Expenses = Program Efficiency**

## CLIENT DONOR ECONOMICS

Looking at your donor economics will help determine your most successful events, fundraising channels, and donor types. You can see whether any fundraising channels are costing your organization more money than they're generating.

- **Donors by Type:** Individual, Foundation, Government, Corporation
- **Donor Retention Rate:**  $(\# \text{ of donors this year} / \# \text{ of donors last year}) \times 100$
- **Donor Growth Rate:**  $(\# \text{ of donors this year} - \# \text{ of donors last year}) / \# \text{ of donors last year} \times 100$
- **Donation Growth Rate:**  $(2020 \text{ donations} - 2019 \text{ donations}) \div 2019 \text{ donations} \times 100$
- **Laps Donor Rate:**  $(\# \text{ of donors from last year that did not contribute this year} / \# \text{ of total donors last year}) \times 100$
- **Donor Acquisition Costs (DAC):**  $\$ \text{ donor acquisition spent in given time period} / \# \text{ of new donors}$

## SERVICE ECONOMICS

Service unit economics allows you to measure financial effectiveness across each program. This will help you compare programs to see which are most effectively using your funds.

- **Cost per Service or Unit:** [These reports](#) will help have a strong understanding of how programs are linked to stronger engagement, strategy, and external leadership.

## Enhance Nonprofit Board Operations and Collaboration with Sound Financial Systems

Whether you choose to form an advisory board or simply continue operating solely with a board of directors, it's vitally important to ensure your nonprofit has sound financial systems in place.

[Nonprofit accounting](#) and financial management is not an easy job. It's the responsibility of the executive committee and the board of directors to ensure sound accounting systems are in place and that they're used efficiently and accurately.

We recommend implementing an integrated system of tools that will streamline the process of expense tracking and categorization, fundraising, donation tracking, and donor management.

An advanced bookkeeping and accounting system will ensure your board of directors and executive committee members have all the financial tools necessary to gain a clear understanding of the organization's financial health and to make smart, data-driven decisions on behalf of the nonprofit.

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[1] <https://www.councilofnonprofits.org/tools-resources/fiscal-sponsorship-nonprofits>