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Advisory Boards for Family-Controlled Businesses

By Susan Schiffer Stautberg and Sue Fernando

> The world is full of ideas waiting to be developed, be noticed, copied, adapted, or improved upon. —From *Trading Up* by Michael Silverstein and Neil Fiske.

To survive and thrive, family-controlled companies need fresh ideas; an advisory board can jump-start innovative thinking by infusing new perspectives into the business. A council of diverse outside experts can show families how to overcome inherent vulnerabilities and to navigate around pitfalls—including sibling infighting and hidden agendas that cause two-thirds of family businesses to fail after the first generation and three-quarters to fail after the second generation. The major problem is often the family itself and the transition of leadership from the entrepreneur to professional managers.

Bringing together outside individuals who have proven business expertise, are ready to give candid feedback, and will pose the difficult questions can provide a competitive advantage. Outside thinking is important for family-controlled companies because it enables both the entrepreneurs and professional managers to escape from the standard thinking within the industry about price, volume, demand, staffing, and so forth. The counselors import proven ideas and strategies from other industries and cultures.

An advisory board can assist in facilitating communication between generations, taking the emotion out of the decision-making process, realistically assessing family members' skills and strengths, and in monitoring the succession and ownership transition process. The advisors can also provide technical expertise in key areas such as business operations, industry trends, financial performance, risk, strategic alliances and partnerships, going global, technology, and reinventing or repositioning the company in the world economy. Expert eyes, ears, and minds help companies respond nimbly to new challenges and opportunities.

Director Summary: Advisory boards can help family companies by adding the outside perspective to insider concerns. Succession planning is particularly critical.

The Changing Business Environment

Sarbanes-Oxley requires publicly traded companies to create independent corporate boards. Fewer family businesses are choosing to go public these days because of the increased costs of assembling and paying an independent board and the high legal and accounting fees of setting up compliance. Many family businesses that would have gone public a year ago are not doing so today.

In this environment, to avoid being too inwardly focused, a family-controlled firm can create an advisory board to obtain outside advice without either the major expense or liability of a corporate board. The advisory board can also help instill confidence in customers and clients, who are more comfortable knowing that the company is in tune with and connected to the current business environment.

Unlike corporate boards, advisory boards give non-binding advice, possess no fiduciary or legal responsibilities, and are more flexible in size and composition. Members' skills and expertise are more important than their rank, and each can serve a one-year term (which provides leverage to change advisors as needed). The honoraria are less and advisors are often more open and forthright. The members can be "out of the box" thinkers.

If a family-controlled company is planning to go public, having an "outside" advisory board first can help the organization prepare for receiving and acting on input from independent directors. The advisory council does not threaten the established "inside" board of directors and can help the board and management ease into Securities and Exchange Commission regulations and compliance with Sarbanes-Oxley.

The Neglected Side of Family Business

In any family business, there is a delicate balance between maintaining harmony among the individual family members and running the company in the most efficient and strategic way. Some issues that may arise are:

- Whether a family member in a key position of management possesses the skills to fulfill his or her current and possible future responsibilities.
- Who will be the future chief executive.
- Conflicting views about the direction in which the company should go.

When family members try to resolve these issues among themselves, members can become suspicious of each other's motives, disagreements can become personal, and it becomes difficult to keep the focus on the issue at hand.

If there is an advisory board, family members can turn to the counselors for their objective take on difficult situations. Advisors can provide sound advice without bias to particular family members. Important policy decisions can be discussed by an advisory board in a professional setting and the council can promote an open dialogue among all members and help avoid confrontational situations.

An advisory board can be a sounding board for a realistic assessment of individual family members' skills and ability to contribute to the health and growth of the business. The council can help management make decisions on who should hold what positions based on skills rather than issues of personality. Coming from different businesses and industries and having had many years of management experience in their respective fields, advisors are in a unique position to visualize who has the skills that fit a particular position now and in the future.

Growing company executives often do not take the time to formulate either a strategic or succession plan. Too much is assumed, no strategy is drafted, and there is a lack of foresight.

Usually it is up to the CEO and the board of directors to choose a successor, but if there is no set decision-making or oversight process, succession planning fades to the background until it is too late. All of a sudden, due to death or incapacitation, the CEO is no longer able to fulfill his or her responsibilities. The result can be confusion and arguments that have the potential to lead to the demise of the company.

Even when the CEO has chosen a successor, the selected executive may not have been sufficiently trained to take over the business. Entrepreneurs are often reluctant to relinquish control. Creating an advisory board can help establish a forum for introducing the next generation to the many aspects of the business and to provide them with mentoring and training to be the future leaders of the company.

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The New Generation

The advisory council can also be a strong ally for the entrepreneurial generation. An advisory board that has been in place and operating effectively for a period of time provides stability and continuity. The business owner feels secure in knowing that there are committed people who can, after his or her retirement or death, help steer the company and advise the new leaders.

As a family business grows, company executives will want to get the best possible talent, even if it means going outside the family. Counselors can identify, evaluate, and assist in hiring and mentoring new talent. Having an advisory board can enhance the firm's networks and give access to a wide range of candidates. An advisory board, which can be an indicator of a maturing and expanding family business, can also ease any prospective managers' concerns that he may feel like an outsider within the family company.

Conclusion

During periods of change, both within the family managing the company and in the world, there is a good deal of uncertainty about which paths to follow. In these times marked by rapid globalization, questions about governance, a barrage of risks and the urgent need to be ahead of the moment, good thinking and sound judgments are key to providing appropriate road maps and to ensure that family-controlled companies don't "under-imagine." An advisory board composed of people with a range of diversity, including expertise and backgrounds, can be a competitive advantage. ■

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