# Advisory Boards for Family Business

**By Richard Randall**

Many successful family business owners consider an advisory board of directors to be an essential tool. Advisory boards are not to be confused with the boards of directors at public companies. Those public company entities are governing boards. Some of the key differences are listed below.

| Advisory Board | Governing Board |
|---|---|
| • Selected by owners | • Elected |
| • Provides advice | • Provides governance |
| • Low compensation | • High compensation |
| • No liability for advice | • Fiduciary responsibility |
| • Verbal agreement | • Written agreement |
| • Uninsured | • Insured by company |

Many family companies have a governing board, often made up of family members and/or other investors. An advisory board provides a way for owners to reach outside this inner circle for a broad spectrum of knowledge and experience.

**A good advisory board can bring a number of important benefits to the business.**

### Supplemental Knowledge and Experience

Advisory board members can help fill gaps in the knowledge and experience of ownership. If owners are strong in sales but weak in operations, a board member with a strong operations background can share that expertise. Family businesses can tap into experience in mergers and acquisitions, human resources, supply chain, international business and other areas. This expertise may be financially out of reach on a full-time basis.

### Strategic Thinking

Advisors are not wrapped up in the day-to-day business. They can and should bring a strong strategic perspective to the owners. In most businesses there are plenty of people already working *in* the business, and very few working *on* the business.  **A good advisory board looks to the future, forcing ownership and management to consider the challenges and opportunities ahead.**

## Avoiding Myopia

Business owners surrounded by relatives, long-time friends and employees can easily develop a myopic view of the business and the outside world. A good advisory board puts new points of view in front of ownership and challenges the sacred cows and tribal knowledge that can stymie progress.
Advisory board members are not highly compensated so they have the ability to give ownership the brutal facts.

**Selecting good individual board members and the overall composition of the board is a critical step.**

Interviews with numerous owners and advisory board members revealed these attributes as most important for a family business:

- Integrity
- Sense of duty and commitment
- Competence
- Demonstrated track record
- Objectivity
- Willingness to speak the brutal truth
- Lack of ego

There is no need to expand on integrity, competence, a track record, objectivity and willingness to speak up. Duty and commitment are important because though board members are not highly compensated, there is a need for full participation in all meetings and outside preparation before the meetings.

Lack of ego is essential because the board members need to understand their role in serving on an *advisory* board. Owners won't always heed their advice. If a board candidate is going to have an ego problem with that, he or she should not be selected.

The composition of the board should complement the knowledge and skill set of the owners.  Good advisory boards will have at least one member with strong financial skills, one with good content or industry knowledge, and others with strong business backgrounds. However, board composition can change over time depending on a number of factors.

- A new business may need board members with more "start-up" and financing knowledge than a more mature business.
- When ramping up a rapidly growing business, human resources expertise may be essential.
- A new generation of owners in the business may want broad managerial and business advice and counseling.

- Families transitioning to new ownership may seek board members with that specific experience.

Some references on this subject recommend starting out with the so-called "Big Four" advisors; your accountant, banker, insurance agent and attorney. The successful family business owners and board members interviewed for this article unanimously disagreed for a number of reasons.

These professional service providers are or should be available to the owners on a daily basis. Their involvement and thought process is typically *in* the business, not *on* the business. They may be great at their jobs, but may not be strategic thinkers; they may not want to speak the brutal truth to owners who employ their businesses.

That is not to say that it is a bad decision to have your CPA, for example, on your advisory board. However, the CPA should be there because of a good fit with your board composition needs and board member attribute needs, not because of membership in a simplistic "Big Four".

**Once the owners know what they want, the next challenge is finding the right individuals**.

It is important that owners know what they are getting when they make the offer of a board seat. This may be difficult for new business owners who may not be well connected in their business community.

A good place to start is with a core of trusted business associates; people who you have personally seen in action. Once you have selected one or more of these associates to serve on your board, you can proceed to the next level, which would be board candidates whom you don't know well, but have been referred by your trusted associates.

If the above steps are not possible, the next step is to seek referrals from your service providers. Your banker, attorney, CPA and insurance agent are likely to know many capable people in your business community.

**Board compensation should be commensurate with the resources of the business and should be sufficient to send a message of seriousness.**

Advisory board members do not carry the responsibility of governing boards. There is no reason for compensation to be lavish. Being on an advisory board is not a career. But being on a board is serious business requiring a commitment from the board members and from the owners. Board meetings should be treated as critical business events requiring serious preparation by all parties.

Not  all advisory boards are compensated. However, compensation plays a part in setting a tone of formality and professionalism. As I was told by a person who has been both a family business owner and an advisory board member, “If your board members aren’t worth the small amount you pay them, they shouldn’t be on your board.”

Our research found compensation up to $2500 per meeting. However, the more common range appeared to be from $500 to $1500, depending on the size and resources of the business. Most businesses also provide a meal before, during or after the meetings, and some cover travel expenses.

**Defined terms and term limits are a good idea.**

Many advisory boards are set up based on a verbal request from the owners to a prospective member. These are often open-ended requests. This can cause problems, especially if a board member is long-time friend or associate and the owners are a bit queasy about dealing with conflict.

It is the owners’ responsibility to deal with board members who are not working out, either for reasons of competence, commitment or chemistry. A surprising number of owners have difficulty meeting these challenges.

Defining board term limits  as one year with options to renew may help to remedy this situation. The owner can wait out the year, thank the member, and not renew his term for another year. In most cases, owners will want to renew because it will take two to three years for new board members to get up to speed on the business and have their greatest impact.

**Advisory boards can and do fail for a number of reasons.**

Ego is a major cause of death for advisory boards. It can be the board member who can’t stand it when the owner fails to take the advice, or it can be the owner who never listens to anyone and shouldn’t be wasting the advisors’ time.

Poor advisor selection can result in bad advice and bad chemistry, and can also kill a board. Selection of friends and relatives without regard to their abilities and the needs of the business will, at the very least, guarantee mediocrity, if not outright failure. Another advisor mistake is the selection of “Names”, board members selected because the business owners believe their names will look good in their publications. If these members are only contributing their names, the advisory board will be an empty shell.

Lack of trust will hamper a board. Failure to share key financial information and other intelligence essential to the board’s function will result in advice that is, at best, based on a superficial understanding of the business and ,at worst will put the business at risk.

Commitment is a key to success and lack of it will lead to failure. Owners who cancel meetings or come to them unprepared send a clear message to the board members. Board members who do the same things fail to meet their most fundamental obligations to the owners.

**In doing our research we found a number of best practices mentioned by successful owners and board members**.

Three to five advisors and one to three owners/managers appear to be a generally accepted range. Many businesses keep the number odd so they can hold votes without ties. Once a board, including the inside members, approaches ten members, most parties see it is as becoming unwieldy.

Successful boards have formal meeting agendas, published minutes, and generally follow accepted rules of order. The best boards have their practices documented in written bylaws. Agendas are prepared and published well in advance of the meeting, and are part of significant pre-meeting preparation by the owners.

Meetings are held quarterly. Board members receive the agenda in advance, along with recent financials, other metrics and information specific to topics which will be discussed at the meeting. All the meetings follow a similar agenda, but different key topics are covered depending on the time of year or current issues of importance to the business.

Full disclosure of information and open honest dialogue are hallmarks of successful advisory boards.

Far more time in the meetings is spent on the future than on the past.

The requirements for success are not complex and the benefits can be great. Generally, the first hurdle is the decision to bring in outside advisors, to share sensitive information and to listen to possibly uncomfortable input in front of a group of people. Once that hurdle is cleared, the road to success with advisory boards is well-marked and well-traveled. Owners who go down that road will find a new source of energy, ideas and experience open to them.