

C.H.A.L.L.E.N.G.E.S.[®]

Working with Families in Business

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The way of the fool seems right in his own eyes,
but he who listens to advice is wise.

- Proverbs 12:15

Family Business Rule #6 **Expand your Advisors**

In many family businesses it is rare for us to find a well established advisory board or board of directors. In the early business years, the founder did not see the need for outside advisors or a board. Later, the excuse becomes, “This business is too small.” As the business grows and new family members come aboard, many founders hold on to the hope that the family can work things out themselves. They believe if a solution cannot be found, they will end the discussion, make the decision themselves and everyone will abide by that decision. Period.

Unfortunately, this approach does not work too well when family members would like to have a “voice” in how things are run and a bigger role in the overall direction of the company. It gets worse when the working “next generation” family members have families of their own, are not sure where they fit in as a part of the decision making process nor are they sure of their role and responsibility regarding their individual stability (on ownership and voting shares) within the company. These challenges and other tough issues can be objectively addressed with the right advisors or board members in the mix.

Identifying a network of people who the family can trust to “bounce” ideas off of and receive unbiased feedback from is crucial to the long term success of most family businesses. These trusted advisors should be selected by all of the adult working family members because many of them may continue to advise the “next generation” as succession takes place. Allowing all working family members to have a voice in this decision results in a group of outside advisors or board members to whom everyone will listen due to the fact that they will not be seen as being on dad’s, mom’s, bother’s or sister’s side.

The advisors must commit to the concept that the only good decisions are those made with the best interest of the family and the

business in mind. They can help work through some of those difficult family business decisions mentioned previously as well as issues dealing with family member compensation, family member career path development, and where family members may “fit” on the organizational and succession charts. Outside advisors can bring remarkable clarity to many of the operational (including people) challenges that arise from time to time in family business settings. These advisors will be invaluable in the development of strategic initiatives as well as financial oversight.

It is recommended that the advisors be experienced business people who understand the “business of business.” *Family business* experience is a plus. They will be able to keep the family on “target” during those times when the family may become side-tracked by some of the old baggage following them into the business. The family should identify what they are looking for in an advisor; particular competencies the existing family members lack is a good place to start. If making decisions by the “numbers” is a weak spot, look for assistance from someone in the financial arena. Need marketing experience? Find a successful person from that profession. It is recommended that you do not choose your attorney, accountant, banker or life insurance agent. The reason is that the advisors or board may find it necessary to suggest that you change banks, or get an accountant with more tax experience etc. It is difficult to change a relationship with a provider if the representative is sitting on your board or advisory team.

Each working family member should have the opportunity to suggest a person that meets the experience requirements of the advisor or board position. The family should agree anonymously so no favoritism will be shown. The family should develop a job description for the advisors or board members so they are aware of what is expected of them. A board or advisor fee should also be developed and agreed upon. Remember, a member of the board of directors will have fiduciary responsibility and insurance coverage should be considered. Confidentiality and non-compete agreements should be signed by all members of the board of directors or advisors.

The better your advisors, the better your decisions and the stronger more successful your family and your business will be. In the book of Proverbs 15:20 it states, “Walk with wise men and you will become wise.” Who are you walking with?

If you would like to put together a group of advisors or a board of directors, let us know. We can help.

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