

### “Advisory Boards for Family Businesses”

Family and closely held businesses often lack the breadth of vision and diversity of experience they need to take the business to the next level or the highest level possible. Creation of an Advisory Board made up of outsiders who are experienced business leaders is a way to “push the envelope” and cause the owners to examine directions and possibilities they might not otherwise consider. It has been known that in some businesses if the “right person” does not introduce an idea, it simply doesn’t get a reasoned consideration. In those cases, the business becomes insular, static and risks becoming no longer relevant to the market place. An Advisory Board can make the business stronger, increase shareholder value and better position the company to capture the opportunities that are available in the market place. Advisory Boards are ideal for those companies that are not yet ready to have a “full charge” board of directors. A board of directors has power to direct that actions be taken while an Advisory board is just that, *advisory*. Their decisions are not binding.

An Advisory Board is not there to “tell” the owners what to do, but rather to ask penetrating questions that cause a more thorough, in-depth examination of the opportunities. They often ask the questions that insiders are reluctant to ask. The business owners benefit from outsiders looking at their business and making a comprehensive review of all activities.

Properly constructed, the Advisory Board gives owners access to high-level executive and management talent beyond those employed by the company. In some cases, it means having access to millions of dollars of executive talent at only a fraction of the cost to hire this level of talent. In creating this kind of forum, the owners come up against those who have had different, complimentary and sometimes broader experience within or outside a particular industry, thus leading to a more thorough consideration of issues, decisions and financial management.

Advisory Boards create a forum in which active owners, in concert with other advisors, impact the strategic issues facing the company. Owner decisions are less insular and are often tempered by the broader perspective of Advisory Board members. Advisory Boards have no formal, legal function. Members do not have any fiduciary exposure and thus have no legal exposure when serving on such boards.

**Scope of the Advisory Board** – Advisory Boards have complete access to all information about the business. This includes financial statements, bank covenants, shareholder agreements, special arrangements or contracts within the owner group, extant strategic plans and other such information that will

enable them to give sound advice on all matters. The Board makes non-binding recommendations on strategic issues, including but not limited to any financial transaction that represents more than 15%\* of the company's beginning of fiscal year equity. (\*This percentage needs further discussion in each business. The intent is to include all matters that are strategic, regardless of the financial requirements, and to exclude those issues that are not strategic and below a certain financial level.) Once established, the Advisory Board can *only* be abolished by a unanimous decision of the active owners.

**Composition and Terms of Service** - An effective Advisory Board is comprised of four individuals, plus the active owners of the company. The length of the term of service for each of the four should be staggered such that there is a beginning and an end to the time of the appointment. Two, three and four-year terms are advised, with two of the four members taking the three-year term, and after the first cycle, all terms become 4-year terms. This allows for overlap of experience, re-configuring the board as owners gain experience with having such a group advise them. It is also a graceful way of changing the Board should any of the members be "not quite" the right advisor. Members may serve more than one term, should that be deemed appropriate.

Of the four outside advisors, one of them is to have clear Financial Expertise; one is to be known as a "Visionary" in the industry and one is to be known as a person who "thinks outside of the box." The fourth Advisory should be about the age of the youngest generation in the family, and be known as a "go getter" in the industry, one who is viewed as a future business leader. This latter advisor can be identified by the younger generation working in the business.

Often when forming an Advisory Board, owners will think of appointing their accountant or their lawyer. Experience suggests that the talents of these professionals are best utilized when they are engaged professionally to provide the services of their profession. After all, the business owner should be getting their best advice as a result of the fees that are paid. Further, including them on the Advisory Board violates the fundamental purpose of such boards, to have a different viewpoint become part of the discussion of important matters.

In the first year of operation, the Advisory Board meets three times. The general model requires Advisors to arrive at the meeting location in time for dinner the day prior to the meeting. Advisory Board meetings may run from four to five hours, depending on the nature of the issues to be discussed. Meetings will always include a "rolling 6 month" projection of business opportunities. Once the Board is in operation, Board members will receive an information packet five days in advance of the meeting that they will review before the meeting.

Compensation for members of the Advisory Board will vary by industry and from country to country. Compensation ought to be at a level that makes it attractive for the person to serve on the Board. In some cases, companies have offered

alternative compensation, such as use of company perks or the company plane, up to a certain value, in lieu of compensation. This is a negotiable matter.

**Putting the Advisory Board into Operation** – It is important to set dates for meetings far enough in advance so they can easily fit into the Advisors schedules. As the board becomes fully operational, it is often helpful to set the meetings a full year in advance.

### **Sample First Agenda**

At dinner – Introductory session – What we do as a company.

Next Day -

- “Show and Tell” – visit all plants and other facilities
- Discussion of Company special processes, patents, and/or exclusive opportunities that influence the business.
- Complete Financial Review
- Understanding existing owner agreements.
- Current Market Position.
- Strategic Plans for near-, mid- and long-term.
- Operation of the Advisory Board – Terms, Information Advisory prefers to receive in advance, formalizing the meeting Schedule.

If this concept appeals to the you, try it for a period of two years and see if you like the results.