Building a Family Business Advisory Team

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"It was, perhaps, one of those cases in which advice is good or bad only as the event decides.

Jane Austen[1]

The true value of advice is sometimes not clear until events have developed. The same might be said of advisors. However, if advisors are chosen well and managed effectively, their presence can help a family business prosper in a way that might otherwise prove difficult. Indeed, one might argue that the objectivity that can be achieved by using external advisors means that in the context of a family business, advisors have a particularly important role to play.

Is there anything to be gained from giving thought to building an advisory team? Many might say that such a team surely develops organically and according to need. Additionally, owner managers may be confident that they know what is best for their business without the need for external (and often expensive) input. In a small family business that might be an accurate view (or an economically necessary one!); however, a business does not need to be terribly large before the need for external advice arises and, like it or not, as a business grows advisors will inevitably become part of the team. The development of an efficient advisory team is likely to be a gradual process. However, when the need for an advisor *does* arise, those involved in the appointment process should bear in mind a number of guidelines. Set out below is a (by no means comprehensive) list of what these guidelines might be. This chapter also sets out a cast of players, some of whom might comprise the family business advisory team.

[1] Jane Austen, Persuasion *(1818).*

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Considerations when building a team

Defining the advisor's role

This, arguably, is one of the most important elements to bear in mind. Advisors need to understand precisely what they have been asked to achieve. This can be a particular issue given the dynamics of a family business:

> *Providing inter-disciplinary family business advice is a relatively new concept when it comes to professionals and family business owners alike, so it is essential to carefully consider how the various professional advisors deliver their services*[2]

A clear brief for advisors that sets out precisely what is expected of them will help all those involved to understand what is expected. There are a number of obvious reasons for this: avoiding the duplication of effort; clarifying responsibilities; ensuring the correct information is provided to the decision makers; and avoiding 'mission creep' whereby an advisor looks to increase their remit where it is not wanted! Typically, a summary of an advisor's expected role would be set out in an advisor's 'retainer' letter. However, the business might usefully decide to take this further and set out in a less formal way any other important expectations regarding the advisor's role. For example, this might address the question of whether the advisor is expected to be proactive or simply reactive. It might also set out the expected lines of communication, identify the circumstances in which the advisor may alter the personnel involved (and those when they may not) and make clear any other points that are significant for that particular business.

In a growing business the absence of a firm demarcation of roles is likely to increase the risks of confusion both internally and externally and the risk of matters inadvertently not being addressed.

Understanding the business

Advisors should be educated as to how any particular family business operates. This is of course important on a practical level, but advisors should also take time to understand as much as possible about the particular family dynamics surrounding a family business. Why are the family members in business together? What motivates the family? Where does the family want to take the business? As a consequence of doing so, advisors should be better able to understand their role and what is expected of them. This in turn should mean not only that advice is accurate, but also that it reflects the particular characteristics and values of the family concerned.

[2] Mark Evans, Head of Family Business and Philanthropy, Coutts & Co, London, December 2008.

This process is arguably more important when a business is supported by a *team* of advisors. By achieving a common understanding of what is required, a family business advisory team should be able not only to enhance communication among the participants in the family business, but also advise with a greater confidence and efficiency than might otherwise be the case. This 'family brief' may typically be included in a family constitution or similar document.[3] If necessary, the brief should be discussed and agreed by the family members (with the help of advisors if required) to clarify precisely the family vision – it would not be uncommon for this vision to differ from member to member at the outset of the process.[4]

Breadth of advice as well as depth

Management questions can often be best approached if they are considered by advisors from a number of different disciplines. Mark Evans again (December 2008): *"Often, if you focus on one area only, it impacts on others, so you may need to consider the overall picture."*

This can be illustrated in the context of advice regarding succession planning. Professionals advising in this area must always be alive to the fact that a business should not lose flexibility or any other advantage as a result of the planning – even though significant estate tax savings may potentially be achieved. Henry Krasnow comments as follows:

> *Lawyers and accountants, like people in all other professions, often feel most comfortable focusing on things they understand and minimizing those they don't. Because many lawyers and accountants are not taught and rarely understand the importance and subtleties of management and its implications on the future of a business's profitability, many estate plans save the maximum taxes while creating stock ownership that destroys or discourages the future success of the business.*[5]

With this in mind, consideration should be given to whether advice that is received should be balanced by another view. This might be done by asking the advice provider to copy their advice to another of the family's advisors involved in a different discipline, or by the advice being passed to a suitably experienced member of the family for critical review.

It is often helpful to view the estate planning process as primarily a business process rather than a personal one. It would then seem a natural step for advice on the subject to be reviewed not only by the family but also by other members of the family advisory

[3] For a fuller explanation, see Part V on "Governance and Management", Business Families and Family Businesses: The STEP Handbook for Advisors, 2009, Globe Business Publishing, London.

[4] It is interesting to note that the provision of a comprehensive brief to advisors is not a modern notion – in the words of Abu Bakr (Muslim ruler 632 to 634*): "when you seek advice, do not withhold any facts from the person whose advice you seek."*

[5] Henry Krasnow: *Family Business Review* Vol XI, No 3.

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team; in this way the planning outcome should meet the personal needs of the family whilst retaining an appropriate business structure.

Advisor selection

This is clearly crucial. There are two distinct points that should be borne in mind here and these are set out below.

- **Select advisors who can work together**

  When technical specialists come together to work in a team environment, it invariably takes some time before they function efficiently as a team. An advisory team that comprises members who have an element of professional 'chemistry' is likely to be one that is able to communicate freely and one that can offer candid analysis and assessment. By contrast, the efficient functioning of an advisory team can be stifled by fragile egos that need to be managed, or toes which are prone to be trodden on!

- **The appointment decision**

  It is up to the family to choose their advisors carefully, bearing in mind among other matters the need for cooperation among their advisors. Appointing advisors only after a 'beauty parade' (rather than simply on recommendation alone) should go some way to achieving this. As well as working among themselves, advisors should also have the buy-in of the family. As the managing director of one family business observes,

  > *It is important that the advisor has the respect of family members and can get on with them.*[6]

  In many ways this appears a straightforward point; however, it is a key one to get right. Owners might also consider whether advisors should be on a 'virtual probationary period' at the end of which the board might consider whether or not the advisor is 'one of us'. The inconvenience of replacing an advisor who does not blend well should be minor, compared with the benefits brought by an efficiently functioning team.

Surprisingly, family businesses often fail to ask the right questions before they hire an advisor or consultant.[7] If the appropriate questions are not asked, nor proper checks made on the advisor's professed areas of expertise, the business runs the risk of incurring time and expense in retaining the services of an advisor who is not equipped to deal with its particular characteristics. A useful step for any business might be to find out

[6] James Staughton, managing director, St Austell Brewery, Cornwall, January 2009.

[7] See for more information the Family Firm Institute's article "Choosing a Consultant" available on the FFI website, www.ffi.org/default.asp?id=250.

whether the advisor has previously worked in a similar 'team' with other professionals and approach the members of that team on an informal basis to obtain their views.

The composition of a business advisory team should be reviewed regularly and if necessary aligned with the changing needs of the business as the business's circumstances, priorities and tax laws change.

A family business should be alive to the potential of one (or more) advisors exerting significant influence over the family or over one particular member. A consequence of this might be that the business maintains its problems, but with the illusion of progress. For example, an advisor might have a long-standing relationship with a family business, and perform many activities for them. However, whilst the family may appear to listen, the damage is that no sustainable change or progress is achieved. In this situation the advisor can fall into the trap of becoming 'a member of the family' and in so doing allow the reliant business family member a way to escape responsibility for his or her performance, actions or problematic events.[8] With a view to avoiding this (and other potential perils), a family business would do well to review regularly (at least annually) its business advisory team against measurable performance indicators as part of a formal performance review process. It must be remembered that "…advisors should always been seen as impartial; they are not there to represent the interests of one family member."[9]

How should advisors be retained?

On occasions there may be no choice as to the arrangement under which an advisor is retained. For example, an advisor who is an employee will be retained under a contract for services with their employer. Equally, circumstances might present opportunities for alternative arrangements: an advisor might be engaged as a consultant, offered a more permanent secondment or taken into the business as an employee. There are of course costs and benefits to each arrangement. An agreement under which an advisor is retained as an external consultant (on a rolling short-term contract, for example) should bring a flexibility that enables the advisor to be easily replaced if the service is unsatisfactory. On the other hand, an advisor who is retained under a longer-term arrangement might show a greater commitment to the role and take more time to understand better the business and all its subtleties. Whatever arrangement is reached, the business should keep these arrangements under review as circumstances change. Indeed, expanding the management tier by retaining on a full time basis advisors who are formally under contract might bring collateral benefits by developing the business structure.

[8] Many thanks to Ron Sparrow of SourceLine (www.sourceline.ca) for his wisdom on this subject.
[9] James Staughton – see note 6 above.

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As Geoffrey Dovey of Dovey Premium Products comments in relation to the circumstances of his business:

> *…we needed to bring into the company a number of external specialist managers, to augment the family skills sets, and provide a platform for growth. This necessitated a more formal reporting structure….*[10]

As an alternative, a family may look to a "family office" to manage their family's affairs. The family office is usually seen as having more of a personal role than a business role; however, the provision of services to the family business by members of a family office can be attractive for a number of reasons including familiarity, confidentiality and flexibility.

Non-executive directors

The subject of non-executive directors is relevant when building an advisory team, for two reasons. First, non-executive directors are sometimes viewed as something of an external consultant and the remit they have will need to be dovetailed with the role given to non-director providers of advice. Secondly, non-executive directors can present an objectivity[11] that can usefully be used to benchmark the impartiality provided by an advisor. It appears that the use of non-executive directors as advisors to the family business is increasing, at least in the United Kingdom.[12]

Non-executive directors are also a potential interface between an advisory team and their principals. With the best will in the world, the relationship between an advisor and their principal might not run smoothly all of the time. Involving non-executive directors in the process of developing and operating an advisory team can be a useful way of managing communication between that team and those that retain them.

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[10] "Planning to Succeed": *Generation*, Issue 6, Spring 2008, p 25.

[11] See the Association of Chartered Certified Accountants research report number 63: "The role of non-executive directors in United Kingdom SMEs" (Berry and Perren, 2000).

[12] The United Kingdom PricewaterhouseCoopers Family Business Survey 2007/2008 (www.pwc.co.uk/eng/publications/business_families_2007.html) reported that British firms are more willing to rely on external management than in other countries, with 34% of those businesses that had drawn up succession plans indicating that they intended to appoint non-family members to all the senior roles in the business (compared with a global average of 17% who intended to do this).

The members of the family business advisory team

Possible members of the team (in alphabetical order) and their probable roles are as set out next.[13]

- ***Accountant***

  Generally, accountants provide business, financial and management advice and, at times, help with the training of worthy successors. As a group, they deal with tax planning, preparation of returns and other aspects of financial management and reporting, including the design of new systems and the interpretation of financial statements. They often help with business transfer, succession, estate, personal financial, retirement, and family-legacy planning. They may also assist with compensation situations. The accountant is typically the closest advisor to the owner and his or her family.

- ***Banker***

  Bankers make loans, set up operating lines of credit and assist where appropriate to meet demands for liquidity. At times, bankers will also assist in the financial learning process for next-generation participants and sometimes prompt timely discussion about business succession, family estate planning and wealth management. (See also "Investment Banker", below.)

- ***Executive Coach***

  Executive coaches can be retained to provide an ongoing partnership to help business owners produce fulfilling results in their personal and professional lives. A coach can also help people improve performance and enhance the quality and balance of their clients' lives. Coaches are trained to listen, to observe and to customise their approach to individual client needs and, in so doing, provide support to enhance the skills, resources, and creativity that the client already has. Employing a coach is often seen as an alternative to sending a family member on a course. Whilst many courses are beneficial, a coach can provide a level of bespoke assistance that is often more relevant and that provides a more intensive and efficient way of educating team members.

[13] For more information, see "How to Choose & Use Advisors" by Ward and Aronoff, 1994, ISSN:1071-5010.

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- ***Family Business Advisor***

  These practitioners typically work with business families who want to get better at what they already do well. Typically their role is to help family businesses negotiate transitions of ownership or management.

  A family business advisor will often help with the creation of family and corporate governance systems, processes and structures as well as help families achieve their aims at many stages of the life cycle of a family or a business. Family business advisors are also trained to develop results-based outcomes within the business family's capacity for change – for example, an owners' exit strategy and entry strategy. In most cases, a family business advisor will also help organise, negotiate, mediate and improve family dialogue and meetings, encouraging family unity, communication and cooperation. They can also advise in connection with common family business challenges such as family compensation and liquidity issues. In many situations, they encourage the family to embrace ongoing learning, documenting a constitution, professionalising and organising the firm and the ownership situations, helping to build independent outside boards or developing private philanthropy. A family business advisor will typically have a more relationship-based engagement than a technical one.

- ***Financial Advisor***

  These consultants can work with family members to address the liquidity and capital needs of the business. They can help identify appropriate investment strategies and educate the business family about financial management and corporate finance.

  The members of a family may not necessarily be employees in any of the enterprises owned by a family: indeed the family members may not have a professional interest in the business that generates family wealth. In this situation the advisor required might be less a financial advisor and more a wealth advisor. The financial advisor may assist in placing the funds on behalf of the client but may also help the family members better understand the issues of wealth management, their family values and its effect on investment choices and may guide the making of strategic investment decisions. In some instances a wealth advisor will also assist in establishing a family office.

- ***Health Professional***

  Family members' health is an important facet of being able to face facts, manage relationships, organise resources, regulate emotions and make decisions. Medical doctors, psychologists, psychiatrists and family therapists are often overlooked in this respect but can become an addition to the team that can add real value. At times, a health professional is the appropriate referral when unexplained depression or anxiety is observed, substance abuse is suspected and/or other stress episodes appear to undermine general health and a positive family connection.

- ***Human Resource Consultant***

Human resource consultants typically bring organisational development skills and in so doing can help build teams, create a cohesive working environment, improve communication and help a family ensure that their values are indeed driving the business and its culture. Human resource consultants may also help identify and recruit key non-family managers and directors, including hired hands who are brought in on a short-term basis, for example as interim CEOs. Human resource consultants may also develop compensation and performance management systems, help in designing career learning paths, and develop training programmes for management and staff.

- ***Insurance Professional***

Insurance professionals help business owners protect themselves against large, unpredictable demands for cash to pay taxes or to confer financial security at death or disability. Insurance is one of the most useful methods to ensure that a business is not dependent upon the health of a shareholder or partner.

- ***Investment Banker***

These individuals deal with mergers and acquisitions as well as valuing assets and businesses. They may also help in dealing with outside investment and designing shareholder redemption programs.

- ***Lawyer***

Lawyers help determine the form of business ownership and capital structure and will help negotiate contracts and other shareholder documents. They often assist in governance issues and review board-level transactions. Like accountants, lawyers can also sometimes assist in the development of next-generation leaders. Lawyers can be valuable in helping to resolve disputes, either between family members or on behalf of the family business. Lawyers can also prepare estate plans, wills and trust documents and review them regularly as well as preparing marriage, employment and other appropriate agreements and provide counsel as needed when new family members enter the business. The lawyer is typically one of the closest advisors to the owner and his or her family (along with the accountant).

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- ***Marketing Consultant***

  Marketing is an essential part of a business and a marketing consultant can help advertise the business, generate increased client awareness and as a result increase the volume of work received. They can help develop positive publicity for the business through highlighting work achieved and charitable endeavours undertaken. They can also help generate loyalty in employees by developing a brand that is easily identifiable and of which the employees can be proud.

- ***Mentor***

  A mentor is someone who is experienced in the relevant business field and who can help assist and advise on problems encountered. More friendly and informal than executive coaching (see above), mentors can help increase confidence by passing on the knowledge that other people have been through the same experience.

- ***Trustee***

  These individuals (or trust corporations) will administer trusts and manage trust assets for the benefit of beneficiaries. Depending on the circumstances, trustees can act as wealth-preservation advisors and assist the family to review their estate, gift and investment planning decisions as well as evaluate the performance of a business that might also be held in trust.

- ***Valuer***

  It is occasionally important to know the true value of a business, for example during a transition period or when setting up certain types of stock programmes. A valuer places a true market value on the business in order to establish a buying or selling price. A professional valuation is also important when estate planning, so that steps can be taken with confidence.

Conclusion

The composition of a family business advisory team will vary from business to business; one cannot be prescriptive as to how the team should be built. However, all family businesses should be alive to possible opportunities and pitfalls when building a team. This may take a little more time, but it should prove to be time well spent. The successful advisory team is one in which the members not only add value individually but collaborate effectively and together represent a value greater than the sum of their parts. The rewards of building a successful team are likely to be reaped over a long period.

The effective management of a family business often requires a light touch[14] and a keen awareness of when adjustments to an organisation are required. This will include the continued assessment and management of external advisors, so they work as efficiently as is possible and so that their value is maximised.

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Jonathan joined Michelmores in 2006 as a Partner in the Private Client Group. He was previously with City firm Macfarlanes; widely regarded as the leading private client firm in the country.

Jonathan specialises in trusts, estate planning and the mitigation of Inheritance Tax and Capital Gains Tax for high net worth individuals. He provides tax advice to both UK and non-UK domiciled clients.

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[14] An old Chinese proverb implores: *"Govern a family as you would cook a small fish – very gently…"* Many would agree that a similar principle would occasionally apply to managing the family business.

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Aron Pervin is an organizational consultant, psycho-therapist, coach/mentor and social entrepreneur. A respected thought leader, Aron has spent more than 40 years working with business family owners on issues of concern to family enterprises, including relationships, continuity, management, ownership and governance, and the impact of each on enterprise performance.

Through his ongoing involvement in industry associations around the world, Aron's views on accountability and results have literally changed the conversation for business owners, providing thought provoking perspectives on decision-making, management and transition.

Most recently, Aron's relentless passion for improving the way consulting services are delivered has led to the development of Optimizer720. This unique business intelligence tool leverages the experience of both seasoned and next generation consultants, allowing them to more effectively advise their mid-market and family enterprise clients.

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