FAMILY LEGACIES

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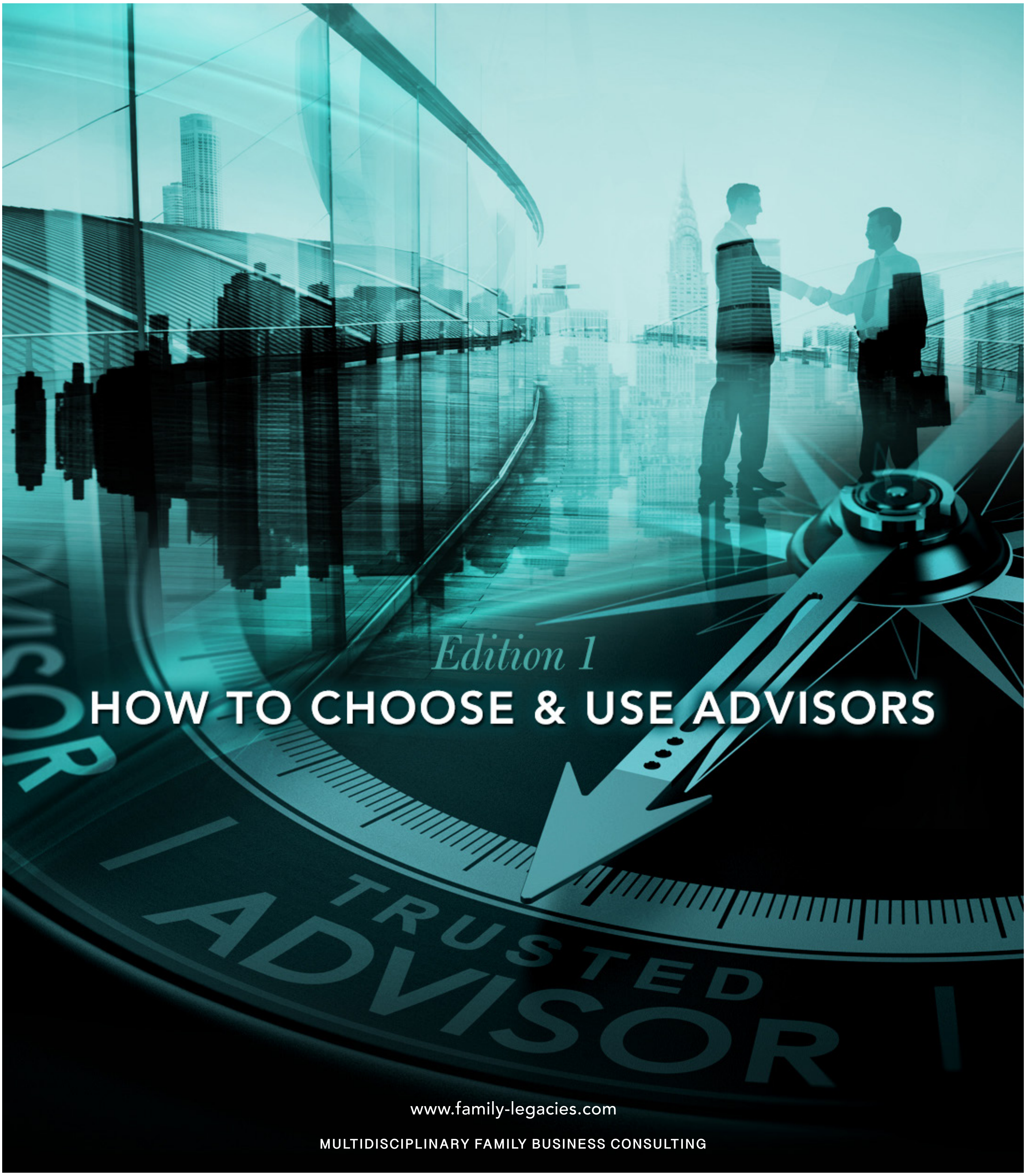
FAMILY BUSINESS LEADERSHIP SERIES



Edition 1

HOW TO CHOOSE & USE ADVISORS

www.family-legacies.com

MULTIDISCIPLINARY FAMILY BUSINESS CONSULTING

How to Choose & Use Advisors

The Value of Good Advice:
When Do Most Business Owners Need Help?

The success and survival of your family business may depend on the professionals you choose to advise you on matters of finance, law, tax, family relations, business strategy, succession and other issues.

Leading a family business can be one of the most complex job imaginable. For its owner, the family business is a crucible for some of life's greatest challenges: growing a company, leading a family, nurtured loved ones – the same crucible in which the business owner's own life story and personal financial security are formed. Every business owner needs help from time to time. Good advisors can assist by drawing on their experience with many family businesses. They can help solve problems and resolve conflicts. They can ease the isolation of running a business by showing that other business owners share similar problems. In that process, the advisor also protects business owners from the need to re-invent the wheel.

Yet many business owners don't get the advice they need and deserve. Many hesitate to seek the best advisors. Instead, they "under hire" out of modesty, loyalty to long time advisors they have outgrown, or a sense of comfort with advisors who don't challenge them. Other business owners aren't sure when to call an advisor or what kind is best suited to help.

TABLE I: Summarizes the services provided by various kinds of family business professionals.
TABLE 2: Shows what advisors can be most helpful as the family business passes through three common stages:

- **A first-generation or entrepreneurial phase,** when the business is usually owned and led by one person, typically the founder;
- **A second-generation or "family partnership" stage,** when the business is managed by a few controlling owners who are usually siblings;
- **A third-generation or "family dynasty" stage** when the shareholder base broadens to include cousins with family members both active and inactive in the business.

TABLE 1: WHAT TO EXPECT FROM ADVISORS

ACCOUNTANT	Tax planning and preparation of returns. Organizing and interpreting financial statements. Improving financial management and reporting, sometimes by helping design new systems. Helping with business transfer, succession, estate and family compensation planning. Providing informal financial management advice and mentoring successors. General business advice.

ATTORNEY	Helping negotiate contracts and other documents such as share restriction and buy-sell agreements. Helping determine the form of business ownership and capital structure. Attending board meetings at the chairman's discretion and reviewing board-level transactions. Acting as a diplomatic "go-between" for a business owner and a mentor for successors. Resolving disputes through compromise or litigation. Preparing estate plans, will and trust documents and reviewing them every one to five years. Helping plan for payment of estate tax obligations or financing shareholder buyouts. Preparing antenuptial agreements and providing counsel regarding plans to bring new family members into the business. Helping establish business governance policies to enhance the likelihood of successful transfer of the business to younger generations, especially by helping set up an effective board of directors and polices for employment and promotion of family members.
BANKER	Making loans and setting up lines of credit. Helping with pension plans. Helping decide how to finance growth, succession or shareholder demands for liquidity. Helping evaluate debt-equity ratios. Raising timely questions about succession and estate planning. Informally, instructing successors in financial skills.
EXECUTIVE SEARCH CONSULTANT	Identifying and recruiting key non-family managers and directors, including "bridge" managers between generations of family management. Helping reenergize the stagnant organisation or professionalize management thorough key hires. Helping identify and fill gaps in management.
FAMILY BUSINESS CONSULTANT	Encouraging development and implementation of succession, estate, strategic and personal financial plans. Helping develop successors. Helping plan family compensation and entry of new family members into the business. helping plan shareholder liquidity or buyout programs. Helping revitalize the business. setting up active outside boards. Fostering family unity and communication, organizing family meetings and developing amily statements of mission and purpose. Generally, helping family businesses through transitions and helping perpetuate family ownership.
FINANCIAL ADVISOR	Helping business owners identify and choose among various ways of addressing the liquidity needs of shareholders or the capital needs of the business. anticipating capital and liquidity needs. Assisting in implementing capital or liquidity programs. Restructuring ownership to perpetuate family control or concentrate ownership in certain segments of the shareholder base. Informally, helping educate successors about financial management. Many financial advisors also provide the investment banking services described below.

INSURANCE AGENT	Alerting the business owner to the need for insurance to protect against large, unpredictable demands for cash in the future. Specifically helping select policies to pay estate taxes, finance shareholder buyouts, ensure survivors' financial security, incentivize key non-family executives, repay debt or guard against the disability or loss of key manager. Acting as a catalyst for estate planning. Educating the business owner about complex insurance alternatives, policy illustrations and the differences among various policies and insurers. Providing annuities of life insurance to reward key employees.
INVESTMENT BANKER	Valuing assets and businesses. Identifying prospective buyers or sellers of assets or businesses and helping manage sales and acquisitions. Identifying potential investors and making public or private placements of shares or debt. Helping assess debt-equity ratios and dividend policy. Designing shareholder redemption programs.
ORGANISATIONAL DEVELOPMENT SPECIALIST	Helping build teamwork, cohesiveness, communication and a sense of purpose within a business. helping with successor development and selection, team-building or team transition among siblings or cousins. Designing career paths, compensation plans and performance appraisal systems for family and non-family managers. Helping revitalize stagnant organisations and professionalize management.
PSYCHOLOGIST	Diagnosing and helping treat psychological tensions, morale issues and relationship problems in a business. Helping family members in transition. Helping resolve conflicts and build cohesiveness among family members. Helping business leaders make the transition to retirement. Helping successors develop their own identity. Improving family communication. Evaluating key managers. Resolving issues raised by bringing in key non-family managers.
TRUST OFFICER	Administering trusts and managing trust assets in beneficiaries' best interest. Increasingly, counselling business owners informally and providing referrals to experts on valuation, estate planning, estate and donations tax planning, investment management and other service. If a business is controlled by a trust, reviewing business performance, helping identify candidates to fill management gaps and serving as a director if needed.
VALUATION EXPERT	Valuing a business based on its management, assets, performance, outlook and research into comparable companies with established market values. Using this information to help values estates, donations of shares, divorce and litigation settlements, shareholder liquidity programs, fairness options, ESOPs or executive share plans. Helping plan transfer of ownership and management of estate taxes.

TABLE 2: USING ADVISORS AS THE FAMILY BUSINESS MATURES

	STAGE 1 Owner-Operated "ENTREPRENEURIAL SUCCESSION" Stage	STAGE 2 Second Generation "FAMILY PARTNERSHIP" Stage	STAGE 3 Third Generation & Beyond The "FAMILY DYNASTY" Stage
ACCOUNTANT	• Developing financial controls and systems * • Helping develop banking relationship • Estate and ownership succession planning * • Succession planning * • Mentoring successors * • Transfer to next generation *	• Reviewing financial reporting & management * • Tax consequences of various ownership structures * • Bonus and incentive plans for managers * • Coordinating family members' estate plans * • Advice on business expansion and growth * • Reviewing banking relationships *	• Estate master plans to perpetuate the business
LAWYER	• Incorporating • Helping develop banking relationship • Estate planning * • Succession planning * • Mentoring successors * • Setting up active outside board *	• Developing buy-sell agreements among siblings • Coordinating family members' estate plans * • Prenuptial agreements for siblings • Structuring ownership * • Compensating key non-family managers * • Helping plan for family members' entry into business *	• Estate master plan to perpetuate the business
BANKER	• Making operating loans * • Financing growth • Improving financial reporting • Mentoring successors *	• Planning to provide liquidity to family members * • Advice on business expansion and growth * • Financing business expansion and growth *	• Planning allocation of capital

Certain basic advisory roles are omitted, such as an accountant's preparation of tax returns. * *Indicates a continuing function through the life of the family business.*

	STAGE 1 Owner-Operated "ENTREPRENEURIAL SUCCESSION" Stage	STAGE 2 Second Generation "FAMILY PARTNERSHIP" Stage	STAGE 3 Third Generation & Beyond The "FAMILY DYNASTY" Stage
INSURANCE ADVISOR	• Life insurance for financial security * • Life insurance for estate taxes * • Insuring and rewarding key employees * • Acting as catalyst for estate planning *	• Financing share buybacks * • Financing family security *	
VALUATION CONSULTANT	• Estate Planning * • Valuating donations of shares *	• Planning to provide share-holder liquidity * • Securing shareholder buy-outs or loans *	• Valuing shares for executive share plans, ESOPs
COACH / PSYCHOLOGIST	• Helping the founder "let go" • Helping the successor establish identity • Career paths for second generation • Building family communication skills *	• Evaluating key people * • Building sibling teamwork and communication * • Professionalising manage ment * • Resolving family conflict *	• Educating family on consequences of wealth • Articulating family values, history and culture • Building shareholder harmony and commitment • Assessing family member strength and weaknesses
ORGANISATION DEVELOPMENT SPECIALIST	• Intergenerational business planning * • Succession planning * • Career paths for second generation • Building skills and teamwork among siblings *	• Revitalizing strategy • Planning family and non-family compensation * • Formalizing management • Career paths for non-family managers	• Counseling family members for career development • Building shareholder harmony and commitment • Family conflict resolution • Professionalizing management
SEARCH CONSULTANT	• Recruiting non-family interim managers * • Recruiting outside directors *	• Revitalizing the organisation through new hires * • Filling gaps in newly professionalized management	• Building depth and breadth of management • Helping identify management personnel needs

Certain basic advisory roles are omitted, such as an accountant's preparation of tax returns. * *Indicates a continuing function through the life of the family business.*

	STAGE 1 Owner-Operated **"ENTREPRENEURIAL SUCCESSION"** Stage	STAGE 2 Second Generation **"FAMILY PARTNERSHIP"** Stage	STAGE 3 Third Generation & Beyond The **"FAMILY DYNASTY"** Stage
FAMILY BUSINESS CONSULTANT	• Management succession planning * • Ownership succession planning * • Entry of family members into the business • Beginning family meetings • Setting up active outside board • Mentoring successors *	• Planning compensation for family members * • Pay and incentives for key non-family employees * • Family code of conduct • Developing shareholder liquidity programs • Planning in-law's role • Revitalizing strategy • Involving talented third generation family members • Career paths for family and non-family managers * • Planning to perpetuate family leadership *	• Shareholder harmony, commitment and education • Family conflict resolution • Planning allocation of capital • Structuring a portfolio of businesses • Developing a family council • Developing a family mission statement • Planning a role of inactive shareholders • Planning ownership structure • Planning family linkage with the business • Articulating family tradition, history and culture
FINANCIAL ADVISOR	• Planning ways to finance growth * • Developing financial reporting and management • Mentoring successors * • Helping structure ownership transition *	• Planning to provide shareholder liquidity * • Advice on business expansion and growth * • Anticipating capital needs * • Financing shareholder buyouts or liquidity programs *	• Reviewing ownership structure • Financing business expansion and growth • Planning allocation of capital
TRUST OFFICER	• Estate planning * • Gifting of shares * • Planning trusts *	• Planning ownership structure *	

*Certain basic advisory roles are omitted, such as an accountant's preparation of tax returns. * Indicates a continuing function through the life of the family business.*

Why So Few Business Owners Get and Accept Good Advice

"Advice is seldom welcome;
and those who want it the most always like it the least."

LORD CHESTERFIELD

Few business owners use professional advisors wisely. Nearly one third of family businesses have no trusted advisor outside the family, according to recent survey by prominent US insurance company. Ten common attitudes that keep business owners from getting the advice they need:

1

"I can solve the problem myself."

Many business owners are used to being in charge and having people look to them for answers. This pattern can be habit-forming, leading the business owner to feel he or she should have all the answers. While self-reliance is a virtue that has built some great businesses, it also can be an obstacle to solving complex family business problems efficiently. An advisor with experience in many businesses can protect a business owner from reinventing the wheel. He or she also can keep problems from mushrooming into crises.

2

"I don't want anyone throwing up roadblocks to my plans."

Business owners are action-oriented doers and may not even think of calling an advisor until they have committed to a course of action. This tendency builds on itself. The more decisions a business owner has made before seeking advice, the more likely he or she is to be embarrassed by an advisor's reaction. But however uncomfortable it may be to admit to people who admire you that you need to change your plans, it is sometimes necessary to avert bigger problems.

3

"Professional advisors should be used only as a last resort."

This attitude, a corollary to No. 2, casts professional advisors as firefighters - a necessary evil or defensive weapon to avoid lawsuits, tax audits or other calamities. It usually means business owners call advisors too late - "when things go pear shaped and all hell breaks loose". If a crisis erupts over succession, shareholder discord or other unaddressed fundamentals, the business owner and advisor then face the impossible task of attempting to resolve the matter. Based on the insights of long-lasting successful businesses, nearly all family business share most of the same problems and issues.

4

"An outsider could never understand my business."

Some business owners believe "an advisor is someone who borrows your watch to tell you what time it is. " They contend, "By the time I invest enough so that an advisor can understand my situation, I could have solved it myself". This rationale is a handy excuse to keep the family business a closed system. All businesses are unique, but all share some characteristics as well. If an advisor is well chosen and called in early, he or she will bring relevant experience that can assist the family business owner mitigate the pending problems and issues.

5

"High-powered experts wouldn't be interested in my business."

Even successful entrepreneurs often are too humble, unassuming or unsure of themselves to seek out the best advisors. Despite their success' these business owners often hesitate to apply to professional advisors the same high-performance standards they impose on themselves and their employees. This tendency begins early, often with a reluctance as a start-up to seek out a commercial lender. Many business owners don't realize that advisors usually like to see prospective clients at any stage.

As the business grows, many owners tend to stick with long time advisors whom they may have outgrown. But just as a business owner would not settle for a supplier who failed to meet his or her needs, he or she should not settle for an advisor who is less than challenging. No matter how formidable their expertise may seem at first, top-flight family business advisors should be approachable and communicative, and should provide helpful referrals if they are unable to help a client themselves. If business owners demanded as much from their professional advisors as they do from their employees and themselves, running their businesses would likely be easier, more profitable and less lonely.

6

"An advisor will raise a lot of issues I don't have time to bother with right now."

Many business owners fear that confiding in an advisor will open a Pandora's box. Some believe advisors will raise questions they can't answer or that threaten their personal confidence or control. Others sense that an advisor's probing may thrust them into "the planning triangle" - the web of financial, estate, succession and family issues that must be addressed for a family business to thrive through generations. Indeed, a good advisor often must understand a business owner's goals in all these areas to help solve problems in any one of them. The business owner may not want to take that leap, preferring to keep everything quiet.

Left unchecked, problems can worsen until a client reaches "a point of enormous pain." According to Harry Levinson, a psychologist, consultant and noted author on succession and other management issues, the desire to preserve peace often leads to "perennial conflict and lack of resolution." Only by addressing issues head-on can these unhealthy symptoms be healed.

7

"I don't want to share any information with an outsider."

Many business owners place such a high value on secrecy that they refuse to share any information with non-family people. In fact, confidentiality is a baseline requirement of professional advisors. The smallest doubt about an advisor's ability to respect business and family secrets is enough to disqualify that person. This argument, a corollary to No. 4, also misses the potential value to any business of using a "sounding board," an informed person with a fresh perspective and an ability to respond objectively. This can be crucial in helping the family business avoid growing stale or out of touch.

8

"Professional advisors cost too much."

Nowhere is it more likely true that "you get what you pay for" than with professional advisors. Yet many business owners assume all advisors are overpriced. Many also fear they lack control over fees. In fact, advisory relationships can be managed for cost-effectiveness, as discussed later and many business owners undervalue the financial importance of sound decision making. To focus solely on the cost of an advisor is doing yourself a disservice. The real cost of advice is not what you pay for it. It is either the cost that you incur when you take the advice and find out that it's wrong - which obviously can devastate the business, or it's the opportunity cost of receiving the advice but not taking it because you don't trust your advisor. Any advisor who really provides good service will overtime pay for himself or herself.

9

"Our long-time attorney (or accountant or banker) is a family friend and knows us best. We don't need anyone else."

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10

"I'm unsure of how relationships with professional advisors work."

The idea of calling a professional advisor sometimes raises so many questions for business owners that they avoid it. How could an advisor help? What will he or she expect of me? How will I explain it to the family? What information will I have to disclose? Will he or she press for solutions that don 't fit our business? How can an outsider understand our situation?

What is the Best Advisory Service You Can Expect?

Good advisors to the family business are more than just experts in their field. Outstanding family business professionals demonstrate a second level of skills, many of them unique to serving family business. Good advisors understand the business and the family. They have in-depth knowledge of the transitions all family businesses go through. They have strong interpersonal skills and are capable of working with all family members. In many situations, they are able to strengthen not only the business, but the family.

BENCHMARKS OF EXCELLENCE IN ADVISORS

1. **Maintains up-to-date technical knowledge and shows strong interest in and commitment to his or her field.**
2. **Communicates openly in clear, simple language, helping educate family members when appropriate.**
3. **Seeks to know the family and business in depth.**
4. **Understands how families work and how the family and business relate to each other.**
5. **Give advice and council that suit both the family and the business.**
6. **Initiates periodic meetings with the client for up-date and review.**
7. **Is resourceful on client's behalf, spotting opportunities, sharing information and contacts.**
8. **Shows empathy, patience and trustworthiness.**
9. **Raises questions about the future.**
10. **Promotes collaboration among advisors.**
11. **Gives honest advice, even when it may jeopardize the client relationship.**

Let's take a closer look at these benchmarks.

1

Maintains up-to-date technical knowledge and shows strong interest in and commitment to his or her field.

Technical expertise and the discipline and drive to stay abreast of new developments are essential to the excellent family business advisor. The advisor should be so well plugged in that he or she can routinely advise the business owner of new developments that affect the business. An increasing number of family business advisors are cross-trained in more than one discipline. Others have a network of other professionals they rely on for breadth of knowledge. Your advisor's technical knowledge should suit firms of your size and ownership structure. A valuation professional, for instance, should have experience valuing family businesses in your industry. The good advisor also displays the enthusiasm that comes from really liking one's speciality and enjoying the work.

2

Communicates frequently and openly in clear, simple language.

A good advisor should be willing and able to explain issues in clear, simple language. Advisors get paid for their ability to take knowledge and simplify it to the point where it is understandable to clients. For example, a life insurance consultant should be able to explain to a business owner why competing companies premiums on a life insurance policy differ so widely, how rates are set and why some policies are riskier than others.

3

Seeks to know the family and the business in depth.

A good advisor goes well beyond responding to client questions or requests for meetings. He or she works to understand the family and the business in depth. The advisor reads up on the company and the family, looking at meeting minutes, catalogues, brochures and histories when appropriate. He or she volunteers for plant or office visits to see how the business is doing and meet managers or employees. The good advisor learns about family members' interests and circumstances, volunteering to call or meet with them when appropriate. And he or she occasionally will attend business or family events such as a business anniversary or a family ceremony. All of these activities help an advisor gain a deeper understanding of the family's history and values and the culture of the business - factors that can help in offering advice and counsel that is on target for the particular needs of each client.

4

Understands how families work and how the family and business relate to each other.

The complex and unique dynamics of a family can foil the best technical solution an advisor might offer. Advisors who think they are acting in the best interests of the business, while remaining oblivious to the best interests of the family is going to encounter problems. If your advisor doesn't explore, understand and deal effectively with human elements (of issues), even the most brilliant, money-saving technical plan will fail. Or the plan will never be signed, completed or fully implemented.

As discussed in How Families Work Together, in the Family Business Leadership Series, families share a multi-generational history of ancestors, events and relationships. That history is filled with behavioural patterns that influence the present and the future. Any time a business family reaches a point of stress or transition, these patterns can surface in forceful and sometimes puzzling ways.

Any professional who advises a business family in depth needs a healthy respect for the power of family history. The advisor should take time to develop a "cultural appreciation" for the family business, including its history and values and the language of the entrepreneur and family, Dr. Levinson says.

A business owner can identify an advisor well-grounded in the workings of families in several ways.

RECOGNIZING FAMILY-BUSINESS PROFESSIONALS

- **Do they have experience working with family businesses?**
- **Are they abreast of literature on serving the family business? Do they subscribe to respected publications in the field?**
- **Are they respected by other family business professionals? Have they written or spoken publicly on serving family businesses?**
- **Can they provide reference from successful family businesses?**
- **Do they network among other family business advisors? Do they attend family business conferences?**
- **Are they familiar with the dynamics of families - known among professionals as "family systems theory?"**
- **Do they show interest and concern for family factors as they affect your business?**

One indicator is the questions the advisor asks. A competent advisor spends a considerable amount of time obtaining an understanding of the family. That goes from understanding the history of the family and how the business was started, to who got involved, what branches are more active now and the objectives of current shareholders, etc. On the basis of those two big blocks of information, on the business side and the family side, solutions are developed. Every client is different and every set of solutions proposed is different.

For example, in preparation for initial client meetings, good advisors ask clients not only for financial statements, tax returns, wills and trusts, but for a copy of the family tree. They ask "open-ended questions in a friendly, nonthreatening manner." They also spend as much time as necessary with a client, listening carefully and "mirroring back' their objectives, concerns and fears to make sure they are understood.

An example of several criteria an attorney to a family business should be able to satisfy, includes:

- Have family needs been identified and distinguished from business needs?
- Does the lawyer understand the family system?
- In particular, how do family relationships affect the business?
- Do family conflicts impede business planning?
- Can the lawyer suggest improvements in the governance of the business to help resolve such conflicts?
- Does the lawyer recognize which family business problems are not legal problems?
- Does the lawyer appreciate how much his or her own personal experience affects his or her perceptions of family issues?

5

Gives advice and counsel that work for both the family and the business.

The best advisors put their understanding of family business to work by meeting the family business owner where he or she lives: amid a jungle of powerful and often conflicting demands. Here are some examples:

NON-TECHNICAL SOLUTIONS

Good advisors see family business issues neither in technical terms nor in terms of family dynamics, but in both contexts at once. A great advisor must be able to help the business owner address family issues - not avoid them. If a business owner says, "I want to gift shares to my children, but I'm worried about the spouses," some advisors will steer the conversation away. Others might offer a technical solution. While the advisor may expertly produce the necessary paperwork, it does nothing to solve the more complex underlying problem or equip the family to work together in the future. The best solutions combine in-depth technical knowledge with sensitivity to the ongoing needs of the family. Such solutions often result in policies that not only resolve immediate issues, but transfer to other kinds of problems. If the business owner is worried about in-laws' owning shares, for instance, an advisor might not only help with a solution, but help work on an overarching policy on family participation in the business that would prevent future conflict.

NO FORMULAS

From an outsider's perspective, solutions to some family business problems may seem obvious. Solutions must be designed with the unique characteristics and potential of each family in mind. Rather than suggesting a standard buy-sell agreement for every family partnership, for instance, an advisor should take time to understand the goals and capabilities of all the family members involved and their potential over the years. Two brothers who were partners in a family business approached a family-business consultant for advice on whether their buy-sell agreement should be updated. 'Let me guess the provisions, " the consultant said. "As soon as one of you dies, the other is required to buy out his entire ownership position. But what happens if your children have grown up and hold substantial management positions in the business? And the son of the one who dies is the successor? And the surviving brother buys out the entire ownership position, and the successor is left with no ownership? Is that what you want to happen?" the consultant asked. How did you know what was in our buy-sell agreement?" the brothers asked, astonished. "Find yourselves a lawyer who will ask some of the questions I just asked," the consultant said.

A good advisor is able to set aside all assumptions and meet the business family where it is. One third-generation business owner was excited about bringing his two sons into the business. But while his third and oldest child, a daughter, had gotten an MBA and was enthused about working in the business, he had difficulty working with her. Though talented and smart, she couldn't keep deadlines or other business disciplines. Though the business owner felt his differences with his daughter were irreconcilable, he did not want to be seen as chauvinistic. Rather than pressing for a politically correct solution, his advisor, helped him see that his problems with his daughter were rooted in a family process in which he played a part. In the past, women in the family had never been given the opportunity to participate in the business, though their husbands had always been given positions and treated equally. With all the best intentions, this business owner was trying to shatter those entrenched patterns of behaviour. Yet in the case of his daughter, just wanting to act in a no chauvinistic way was not enough.

The advisor helped the business owner examine reasons for failure of the arrangement, then helped him as he thought through the process of choosing among alternative solutions, communicating and executing his decision - and managing the repercussions. Ultimately, the father reached his goal of equitable and respectful treatment for his daughter, but by following a different path: The sons bought her out at a premium and the father helped her set up her own business.

A good advisor, "allows the family to be the best they can be, and the business to be the best it can be, regardless of what the consultant thinks is best."

OPENING DOORS TO PLANNING

An effective advisor often uses immediate problems as a catalyst for needed future planning. One business owner hired an advisor to help decide whether his two sons were ready to take over the business. The sons had worked mostly for their father on special projects. After interviewing key employees, outside consultants and directors, the advisor concluded that the sons had the ability to lead the business but needed broader experience. The successors needed to work with key managers in the business and earn their respect. Also, when asked in interviews who came up with important new strategic ideas and decisions, managers pointed to the business owner.

"Could you do it if the owner were not around?" the advisor asked. The managers thought they probably could, but said they had not needed to generate new ideas and lacked any experience doing it. The advisor realized that the founder had successfully mapped the business' strategy through intuition and instinct. But so far, he had done it alone, leaving the business lacking bench strength and his sons without needed management experience.

The advisor returned to the business owner with two recommendations: First, the business' key managers need experience working with your sons, he said. Give the successors a meaningful project you believe they can do well, and let them work together on it with key managers. Second, the managers need experience in envisioning the future of the business, he told the owner. The advisor recommended a strategic planning project that would involve key managers, helping them understand the company's markets and envision the future. "If your business is going to succeed into the next generation, the business has to be successful in its own right," the advisor said - not as an extension of the founder. The advisor remained involved to help implement the recommendations. As a result of the strategic planning effort, the company took some steps that increased sales. And the sons' continuing work with key managers has earned their respect.

This solution accomplished more than the business owner had asked. First, it gave successors and key managers experience working together on a trial basis with support from the advisor, helping them develop needed skills and trust. Second, by stressing the sons' and key managers' need to learn to envision the future, the advisor was able to help the business owner begin much-needed strategic planning - an idea he probably would have resisted if presented to him in a vacuum.

ADAPTING STREET TO MAIN STREET

The best advisors are able to adapt cutting-edge management techniques to the unique needs of family business. Many families, for instance, are fractured by competing capital demands from shareholders and the business. Growing the business, providing shareholder liquidity and financing ownership succession all can demand significant amounts of cash sometimes at the same time. A financial advisor should be able to apply the most up-to-date financing tools to the family business, generating such options as joint ventures, spinning off assets, placing shares privately or creating new classes of shares. For instance, advisors can help create company-sponsored loan programs, enabling family business shareholders to borrow against their shares at favourable rates of interest. This not only allows shareholders access to cash without selling their shares, but it helps younger shareholders learn financial responsibility with manageable risk.

6

Initiates periodic meetings with the client for update and review.

Good advisors are proactive. They know that a steady flow of information is crucial to offering excellent service, and they often contact the client just to ask what's going on. They also care about implementation of ideas and plans. They follow up to find out whether advice they have given is feasible and to offer mid-course corrections if necessary. The advisor may suggest meetings several times a year for a status report, an update on key issues and a review of progress, needs and future plans. And he or she will meet with the business owner annually to assess the past year's relationship and to offer ideas about how the advisor can best help in the coming year. Good advisors also may suggest that they meet once a year with the management team and the board and make presentations, layout economic trends as they see them, how the business will be affected, what their role as advisors might be and what new contributions they might make in the coming year. Smaller family businesses may take a more informal approach, bringing advisors and their spouses together annually for a social dinner with the management team of directors to strengthen and build trust.

7

Is resourceful on clients' behalf, spotting opportunities, sharing information and introducing contacts.

A good advisor takes the initiative to spot opportunities for the family business. That means offering information, contacts and ideas that can help make the business and the family a success. Without being asked, the advisor sends articles, books, reports, seminar information and other items of interest. The advisor creates opportunities for family members and key managers to meet people they should know. The advisor also shares ideas and lessons learned from working with many other businesses like yours. Good advisors also take the initiative to look beyond immediate questions to long-term issues.

8

Shows empathy, patience and trustworthiness.

Certain personal qualities are crucial in an advisor wrestling with sensitive family business issues. The advisor needs finely tuned interpersonal skills. Deciding whether in-laws should own shares or what should happen in the event of divorce, for instance, can be uncomfortable. The skills of the professional advisor can make all the difference in how family members and in-laws perceive topics such as antenuptial and shareholder agreements. A good advisor evokes trust. Patience with complex family situations is another important trait. Decision making in family businesses is often more deliberate and complex than in widely held or non-family-owned companies, and dependent on family circumstances. It may take one or two years for a family business to reach a decision, and an advisor must be willing to proceed at a pace appropriate to the family's circumstances.

9

Is willing to work with successor generations.

The best advisors see the business longitudinally, anticipating generational transitions and helping clients prepare. Some advisors have relationships that span four generations of family business owners. And they are willing and able to tailor their roles to reflect the changing needs of the business. An attorney, for instance, may help prepare the next generation of leadership by teaching them what should be expected of lawyers and how to get that from them. A family business consultant may act as a mentor to a successor, providing confidential counsel and arranging learning experiences. Serving more than one generation can be demanding, requiring the advisor to smoothly make the transition from, say, being a good servant to the founder to being a proactive mentor to the successor. In some cases, successors or shareholder factions may want their own advisors. And as discussed below, an advisor in situations of family tension may be forced by a potential conflict of interest to recommend that family members retain their own advisors. Barring such issues, an advisor who manages to cross generational boundaries can fortify family ties for the future and provide a valuable model of flexibility and openness.

10

Raises questions about the future.

Advisors often are the first to raise important questions about the future of the business. A consultant may alert the business owner to the need for key legal documents, such as buy-sell agreements. A strategic planner or organizational development expert may spot a need for improved family communication or planning for successor development. An attorney or accountant may suggest that trusts be set up early to gift stock to successor generations. A financial advisor may help anticipate future cash needs. An insurance advisor may help guard against unpredictable developments.

For example, a business owner may have in place a buy-sell agreement that, in the event of his death, arranges for his son to buy the business from his wife in a series of payments over 10 or 20 years. An insurance advisor, may raise such questions as; Will the business last as long as the payment schedule? Will it have sufficient earnings to make the payments? Will the son continue working in the business long enough to complete the payments? A banker is often the first person to ask a business owner about his or her succession plan. Though the banker may not be in a position to give tax or estate-planning advice, he or she, acting more as a friend or counsellor, can begin to steer the business owner toward thinking about those things and putting them into perspective from a risk standpoint. Such foresight can be crucial.

Anticipating issues before they command the business owner's attention and before family members have a chance to form opinions and stake out turf difference between consensus and turmoil. The process is inquiry and exploration of the future. An excellent advisor has more questions than answers. As the questions are answered, the future becomes more manageable. A good advisor eases transitions to the emerging future state of ownership, leadership and strategy.

11

Promotes collaboration among advisors.

An effective advisor should not only be willing to collaborate with other advisors, but should promote is. A multidisciplinary team of advisors has the capacity to understand and focus on the business and the family at the same time. Such a group can provide a model for teamwork in the family and generate creative solutions no individual advisor could have come up with alone. The synergy among good advisors can help a family business reach new milestones.

The leaders of one business managed by second- and third-generation family members wanted to buy out inactive family members. The family was cohesive, united by shared values and an appreciation for the founder and his two sons, who still ran the major divisions of the company. But family members active in the business wanted to eliminate the potential for shareholder conflict. They wanted to accomplish this without siphoning off too much cash from the business or "spoiling" third- and fourth-generation holders with a windfall.

The advisory team - an accountant, a family-business consultant and an attorney - had been brought together by the accountant. The attorney and accountant started on the assumption that the buyout would be handled in the usual way: by securing a professional valuation and paying each inactive holder a price based on that valuation, minus discounts for minority interests and a lack of marketability. But the family-business consultant suggested a different approach. Such a plan could drain large amounts of cash from the business. And calling in a valuation expert could spark family conflict over price, he pointed out. Instead, he suggested using the family's shared values as a foundation for setting a lower price, without calling in a valuation expert.

"Are you sure you 're not crazy?" the attorney asked. Acknowledging that his idea was unusual, the family business consultant insisted, "This family is different. " In this group, he said, younger family members might agree to a lower price on the basis of shared goals and values. They might be likely as a group to see the value of preserving family unity and harmony, fostering self-reliance among Younger family members or financing continuing growth of the business. After considerable discussion and research, the advisors found a way to structure a buyout that was legally and financially sound while meeting family goals.

To finance the transaction, the business' second-generation owners, who were in their 70s and 80s and financially secure, agreed to give up most of their annual salaries. Based on that added cashflow they took out a bank loan to finance the buyout. The share price was based primarily on the amount of cash available from the loan. Then, the attorney and accountant provided full and fair disclosure, making sure that all parties understood all aspects of the agreement.

Finally, at a family meeting, the advisory team presented a sizeable disclosure document. The attorney explained the offer, including how the price had been set. The accountant explained the financial dimensions of the buyout. And the family business consultant explained how the proposal reflected family goals and discussed how the conduct of a family business can reinforce important family values. He also addressed such issues as a promise by surviving stockholders that all lineal descendants of the founder would continue to have opportunities to join the business. Moreover, if those family members moved into management, they would again have the opportunity to own stock. The advisors' presentations set the stage for family members to talk about family values and goals. They reflected on the gift the founder had given successor generations in the form of a thriving business. "In our family, when someone gives us gift, we don't ask what the gift is worth," a senior family member observed. Fourth-generation family members were impressed that "Grandaddy gave up his salary" to offer them cash for their shares. The buyout was completed — legally, fairly and in harmony with permanently strengthened family values.

12

Gives honest advice even when it may jeopardize the client relationship

In tight situations, there is no substitute for personal commitment by an advisor. Some advisors may say, "Well, let's try this, and if it doesn't work, we'll try something else." That attitude can reflect a lack of conviction. Advisors should have convictions that they stand by, even at risk of losing you as a client. A good advisor will not avoid delivering bad news and will strive to do so in a gentle, compassionate way.

After working with a long-time client on a succession plan, an advisor sat down with the founder of the business and his wife and told them what they did not want to hear: Their son didn't have what it took to run the company. Although the advisor knew he risked losing his client, he was able to help the couple accept the truth. All three people present shed tears over the outcome of the work, it eventually proved positive for the family and the business. The son was able to admit to himself and his parents that he would rather do something else. And the couple was able to begin the crucial work of grooming a non-family successor.

Warning Signals in Advisory Relationships

Just as the attributes described earlier signal benchmark service by an advisor, some behaviours should sound an alarm. Many advisors agree that certain red flags almost always reflect a lack of professionalism, skill or concern about the client.

Red Flags in Client-Advisor Relationships

A family business owner should examine relationships with an owner who:

- **Fails to avoid conflict of interest**
- **Fails to respect client confidentiality**
- **Promoted dependency in a client**
- **Works primarily in isolation**
- **Is reluctant to deal with successors**
- **Sells solutions rather than listening to problems**
- **Ventures beyond his or her knowledge**
- **Makes too many decisions for the client**
- **Fails to foster good communication**
- **Lacks empathy**

Conflict of interest

Some conflicts are obvious. Advisors should not work for, or invest in, clients' competitors. (That does not mean that general knowledge of a client's industry can't be extremely helpful.) Most professionals also see as a conflict of interest any effort by an advisor to sell a client an investment on which he or she stands to profit. While sharing information about investment opportunities may be completely acceptable, making money off a client's investment or loan thrusts the advisor into a new role that can easily conflict with providing objective counsel. At the least, the advisor should divulge, without being asked, any personal interest in ventures he or she recommends. The advisor also should be sensitive to clients' comfort level over apparent conflicts of interest and discuss them with the client. Many professionals believe advisors should avoid owning interests in their clients' businesses.

While it may seem convenient and cheap to give an advisor shares, particularly early in the life of a business, it can pose conflicts as the business matures. For instance, an advisor should not be worried about his or her personal financial interests when weighing shareholder liquidity plans or strategic moves that depress the company's value for a while.

Advisors also should not try to put themselves in a position to win a role as a board member or trustee someday. As a general rule, we discourage having advisors serve as members of the board of directors. Finally, an advisor should be vigilant on the client's behalf to potential internal conflicts. In disputes or occasions when an individual family member's interests diverge with those of the business, an advisor, particularly a lawyer, may need to recommend that the family member retain his or her own counsel. This can be done in a friendly way, stressing the need for different perspectives to be fairly represented. Attorneys are ethically obliged to advise a client at the moment they see a conflict arising that they feel cannot honestly be mediated without serious consequences for either side.

Violating confidentiality

The confidentiality of client information must be respected. A professional should not give out names of clients as a way of winning new clients. References should be disclosed only after they have given permission. Violations of confidentiality can be disastrous for family businesses. Family members should not abuse an advisor's obligation to respect confidentiality, either. If one family member asks an advisor not to tell another family member about a substantive issue, there may be an issue of professional ethics, but there also may be a more subtle and complicated issue of confidentiality. If a husband says, "Here's what I want to do, but don't tell my wife," the advisor must decide where his or her professional obligation lies - with the company and its senior officer, or with all shareholders. On one hand, the attorney may respond, 'You'd better tell your wife to get another lawyer." On the other hand, the attorney may comply and risk destroying relationships with other family members who, if they discover the secret, "will never quite trust that person again."

Promoting dependency

Any advisor who promotes dependency should be avoided. An advisor should not be possessive of a client nor monopolize the relationship. Such behaviour can cause damaging delays in consulting other advisors or solving problems. Also, such self-appointed gatekeepers discourage the collaboration and planning that may be necessary to solve complex problems. For example, a trust officer or other advisor might suggest to a business owner, "Don't worry. If anything happens to you, we'll take care of the business." While a trust officer can provide valuable services and support in the event of a business owner's premature death, he or she should never promote a failure to plan. This only provides a convenient excuse to avoid grooming the next generation for management, finding a non-family successor or, when advisable, laying the groundwork to sell the business. Conversely, any advisor who seems too dependent on one or a few clients may mean he or she has nowhere else to turn. The advisor may be so vulnerable to the loss of one client that he or she grows stale and obsequious. Few advisors in this position are willing to take the risk of challenging a client with new ideas or difficult recommendations - however important they may be.

Working in isolation

Advisors who work in isolation can raise major risks for their clients. No individual, no matter how skilful and technically proficient, can master all the professional knowledge needed to solve some of the most complex family business problems. An advisor must be comfortable at least touching base with other professionals. If you have an advisor who is not collaborative, you are doing yourself a disservice. This is easy to spot. If other advisors suggest a meeting and one says, don't bother to do that. We will decide when we need to bring in the others, then that is a clear indication that person is pursuing his own interest, not yours.

Reluctance to deal with successors

An advisor who resists working with successor generations may be unable to help perpetuate the family. Some advisors may feel personally threatened by succession. When there's a shifting of power from one generation to the next some advisors may perceive the change as a threat to his or her livelihood. This fear can impede good judgment. In the best interests of the business, the advisor should above personal concerns to help transfer authority and ownership smoothly. To good advisors, the shifting of power is irrelevant to his or her primary goal of adding value to the business.

Selling solutions

Advisors who start promoting solutions before understand the business owner's goals should be avoided. The worst case is when an advisor bends a client's plan to what they are good at, or twists every client's problem to fit their formula. An advisor who sells ESOP plans, for instance, might be helpful under some circumstances. But one who promotes ESOPs as a remedy for whatever ails the family business is probably more interested in making a sale than in helping with your unique problems. An advisor may hand out estate-planning advice assuming that the business owner's only goal is to reduce taxes. While reducing taxes may be important, the business owner may also have in mind other goals, such as passing on ownership in a way that promotes harmony among his children or nurtures their leadership abilities.

In an important litmus test, a good advisor should be listening more than he is talking. If the advisor is not listening to the business owner about his life, his business, his concerns, and his children, and what are his real fears about them in the middle of the night, if he is just waiting until it's his turn to talk instead of listening you have the wrong advisor.

Venturing beyond the advisor's knowledge

A growing number of advisors present themselves as expert in many family-business issues when, in fact, their expertise is narrower. Family business has become such a tidal wave" that many professionals are acting as specialists even though it is not appropriate for a lot of them to be in the field. Erring in this regard can be costly. Relying for a valuation on someone who lacks background in appraising closely held businesses, for instance, can do significant financial damage to the legacy you have built over a lifetime. While many advisors can do a rudimentary job, that does not mean the numbers they end up with are correct. The business owner needs to be aware of each advisor's range of actual expertise and listen carefully when he or she ventures beyond it. While a good advisor will offer all the constructive suggestions possible, the business owner should discriminate between an advisor's casual opinions and expertise arising from his or her experience.

Making decisions for the client

Any effort by an advisor to take control of decision making is another warning sign. While good advisors try to aid decision making and permanently strengthen decision making processes in the family business, they never take charge. If an advisor starts making decisions, it may quite down for a while, however things may start going poorly again. As hard as the decisions may be, they must be made by the people who are living them. Even in the most chaotic situations, a good consultant should be able to identify the inherent strengths of a family and business and help build upon them.

Failing to foster good communication

Good advisors do not simply talk - they communicate. If your advisor will not explain things to you in clear, simple language, you should find one who will. Any impression that an advisor is not being open or straightforward is cause to examine the relationship. An advisor should be readily available. If your advisor becomes difficult to reach, stops returning calls or shunts your questions to a junior associate without volunteering a clear and legitimate explanation, you probably should change advisors. Another red flag is any refusal by an advisor to discuss the cost of his or her services. Any professional who refuses to talk about it is not the kind of person you would want to hire.

Lacking empathy

Some advisors are so wrapped up in their knowledge that they fail to empathize with a client's particular situation. Obviously, there's nothing wrong with being brilliant in one's field, and many successful professional advisors are brilliant. But those who can combine brilliance with empathy for clients are in far shorter supply. An advisor who lacks empathy may make you feel hesitant to call when you need advice. Why are you reluctant? Is the advisor unpleasant, condescending or uninterested? An advisor's bearing may suggest, "I'm smart and you are paying me a lot of money for my opinion, so if you know what's good for you, you will take my advice." The advisor may grow impatient when you ask follow-up questions or try to assess aloud the alternatives available to you. While the advisor's counsel may be technically brilliant, it could also be inappropriate for your personal situation and goals. And simply hearing it may do nothing to help you strengthen your long-term leadership of the business. A great advisor tries to relate to a client's experience and offer help that matches his or her unique needs. Discuss your concerns with your advisor.

Finding and Choosing an Advisor

Once you know what you want in an advisor - and what you want to avoid - how do you find the right one? A first step is to define the role you want the advisor to play:

1. Are you looking for a specialist to offer technical expertise on specific questions, such as family compensation, transferring shares to the next generation or adding outsiders to the board?

2. Do you need help defining priorities? This requires a different set of skills, such as interviewing family members and recommending an agenda.

3. Do you need a consultant to lead the problem-solving process? Families sometimes need help improving communication, resolving conflict or picking a successor.

4. Are you seeking a political solution to a problem or a resolution of emotional concerns? A political solution would involve reaching some satisfactory means of divvying up resources, such as buying out someone's stock or creating a new family compensation plan. An emotional resolution might involve counselling, family therapy or training in interpersonal communications. The kind of solution you want should help determine what kind of advisor you call. The next step is to begin a search for qualified candidates.

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Finding Candidates

Searching for an advisor is similar in some ways to looking for a key employee. Asking another business owner or a trusted accountant, lawyer, banker or other current advisor for referrals is a good start. The best advisors often are involved in family business education, making speeches or publishing articles. That means good candidates also can be found through family business newsletters, family business educational programs at colleges and universities, or professional or trade association publications or events.

Some business owners "scout" potential consultants before they feel they are needed. They attend seminars and clip articles. They also get involved in university family-business centres to meet people and establish a network of contacts.

Selecting an Advisor

A rigorous screening is just as important with advisors as with employees. Don't hesitate to call an advisor you don't know for an informational appointment, typically at no charge (unless you hire the advisor and get some work done during the session). You will learn a lot, not only about the advisor but about your business, and the advisor will respect you for it. Many family businesses involve key family members in the selection process, inviting two or three advisor candidates to meetings to discuss their background and objectives. In some cases, you might ask for written proposals from candidates outlining their understanding of your business, your needs, how they can help and how you would be charged. Other advisors follow up initial discussions with a less formal letter confirming their understanding of the client's needs and their plans to meet them. A business owner has a right to expect broad experience.

Some advisors also believe that professionals who personally have strong family business backgrounds are better equipped to understand family business. If the candidate meets all these criteria, ask him or her for references and check them out. Ad discussed earlier, the candidate should either ask the references first for permission or make clear that the references have already given their ok. If this does not occur, ask the references whether they gave permission for the business owner to give out their names. If not, the advisor may not be worthy of trust with confidential information.

The references should be in businesses at least as large and successful as yours, and they should be enthusiastic about the advisor's contribution. Ask the references for examples of special contributions by the advisor, how to make best use of him or her, and how the advisor charges for services. Note whether the advisor has many long-time or repeat clients, or if most are new customers.

A 12-Point Checklist for Selecting Professional Advisors

1. Do you trust the person and feel confident in him or her?
2. Is the advisor at least as successful in his or her field as you are in yours?
3. Are the advisor and his or her firm growing as ambitiously as you are?
4. Is the advisor still learning and willing to change?
5. Would you be proud to be associated with this person before customers, suppliers and other important contacts?
6. Does the advisor want your business?
7. Is the advisor planning to focus on your kind of business and to grow with those clients?
   Or would you be a "side-line" or "add-on" to the advisor's primary market?
8. Does the advisor have a good mix of long-term and newer clients?
9. Does the advisor have experience with clients whose family businesses are at least as complex as yours?
10. Does the advisor have a broad enough client base that the loss of any one client would not be damaging?
    Or would the advisor be substantially dependent on the relationship with you?
11. Does the advisor have enthusiastic references from businesses similar to yours?
    Have the references given permission to be used?
12. Is the advisor suited to the role you need him or her to play?

Professional Accreditations

Business owners often ask about accreditation of family business consultants. While no formal accreditation program exists for specialists in family business, professional and ethical standards for practitioners are a focus of growing attention among people in the field. The Family Firm Institute, a non-profit association of professionals serving family business, has established a Model Code of Ethical and Professional Guidelines for practitioners that sets standards involving disclosure, confidentiality, conflict of interest, fee structure, integrity and objectivity.

Advice from the Pros

No one has more experience with advisory relationships than advisors themselves. Here are some tips from the pros on selecting an advisor:

"Chemistry and philosophy are even more important than specialization or expertise. You need an individual who has judgment, who can relate well, who is on the same wave length as the family members, who has the same view of the world. The person also needs to be seasoned, and be able to provide what I would call 'old-fashioned counselling' to family members." Michael Horvitz, Jones, Day, Reavis & Pogue

"A true advisor must be totally independent and able to render advice that is completely unbiased. He should be able to present a set of solutions, and no matter what solution the client picks, there is no different financial reward for Solution A versus Solution B." Francois M. de Visscher, de Visscher & Co.

Ask the following questions:

- Who is going to be in charge of my affairs? Do I have to call different people with different kinds of problems?
- What experience do you have in dealing with family businesses? Don't tell me about closely held businesses. Tell me about family businesses.
- What do you know about family systems?
- What do you know about the specific problems of business governance in the family business context?
- What professional affiliations do you have that are family business related, and from whom can I get references?
- If the candidate says, 'Here's a list of three family businesses to call,' you might ask, 'How do I know it's okay to call them and that you have permission to disclose their identity? Michael Fay, Hale and Dorr

Managing and Evaluating Advisors

The arrival of a consultant is too often seen as a panacea. More often, it means that in-depth work on the business' problems is just beginning. Making the most of your advisors is a skill that must be honed with effort and experience. Here are some suggestions to help manage your advisors efficiently and well.

Tackle the Issues

A first step toward good management is to overcome any unwillingness to address the problems you face. Some business owners retain a consultant only to keep him or her "on call." This risks letting wounds fester or even losing the opportunity to have senior family members help solve the problem.

Have Realistic Expectations

A business owner should develop realistic expectations of an advisor. If you are asking a consultant for technical expertise on an issue, don't blame him or her for failing to implement a solution. One of the most common pitfalls is to expect a consultant "to solve the problem" or answer the question, "What do we do next?" Instead, the business owner or family should ask, "Can you help us decide how to proceed?"

Be Demanding

Being realistic is not the same as having low expectations. Too many business owners are reticent with professional advisors. They may hesitate to ask an advisor to work hard, spend time or even to explain things in clear language. If you don't understand your advisor, ask for an explanation again and, if necessary, again. If at first you don't understand what an advisor suggests, it is their fault. But if you don't persist until you do, it is your fault.

Communicate Regularly

It is the business owner's responsibility to keep advisors informed. Some circulate financial reports to their attorneys, insurance advisors and accountants. These reports should not be used by the advisors as an excuse to sell additional services or products, but to stay abreast of the business' needs. Even if there are no known issues, the business owner also should meet periodically with an advisor or group of advisors and update them with a general discussion of the business and the family.

Probe for Suggestions

Don't hesitate to probe a trusted advisor for suggestions. An advisor may withhold valuable ideas if he or she fears the client is unwilling to hear them. If you believe your advisor is holding back some thoughts, open the door for comments.

Don't pass the Buck

Some business owners defer to advisors on difficult decisions or details. All too often, for instance, busy business owners strike a deal, shake hands, smile and say, "Our lawyers can work out all the details." This often leaves too much negotiating responsibility to someone without real power to make decisions and without a real stake in the outcome. And it can prolong negotiations unnecessarily. Though working out all the details may be less fun than striking the deal, those details often involve significant business issues that demand the business owner's presence. When documents are complete, the business owner again must take responsibility for reviewing them carefully. It is not your lawyer's responsibility to give final approval to a contract any more than it is your bookkeeper's responsibility to decide how much you will pay your staff. You are the only person who understands the business transaction you want and the level of risk you are willing to accept.

Be Open

The more a trusted advisor knows about your business, the more likely he or she is to provide good advice. Ask your advisors whether the information you are giving them is useful and what other information they need. It also may pay to allow an advisor to have contact with a range of people in the business.

Managing Advisors in the Organization

If a new advisor is to visit the business frequently or for very long, it is wise to prepare employees and others close to the business. Employees should be given enough information to understand why a stranger is suddenly spending so much time at the business. If possible, they should understand the goals of the consulting arrangement; otherwise, they may fear the family is preparing to sell the business. And they should be told what information is appropriate to share. Otherwise, they may refuse, out of loyalty to the family, to cooperate with any effort by an advisor to gather information.

Evaluate your advisors

Once you have hired an advisor, do a performance review annually. When appropriate. As part of the evaluation process, interview other advisory firms about every three years. If you are using the right advisors, you won't need to make changes often. But a periodic review can ensure that you don't let inertia take over. If your advisor is not serving you well, apply the same management techniques you use in the other aspects of your business when you have an employee or supplier who is not performing satisfactorily.

Managing Teams of Advisors

Business owners often tend to keep advisors apart, meeting with each separately in order to feel more in control. This divide-and-conquer technique wastes an opportunity to tap the synergy that often develops when skilled and caring professionals come together. The complexity of issues facing family businesses often leads advisors to collaborate. If you get people from more than one discipline all together in a room to work collaboratively, you will get a far better answer than if you use them separately.

Managing teams of advisors presents unique challenges. To foster informal teamwork, give your advisors permission to talk to each other about work they are doing for you and ideas for your business. More formal collaborations can take several forms. A trusted lawyer, accountant or other lead advisor may subcontract with other experts to help the family business as needed. Assuming the lead consultant is qualified, he or she can oversee the others' activities. In other cases, the business owner may assemble an advisory team. From that group, the business owner or team members need to designate a lead consultant, or the business owner might lead the group collaboration should be clear and ways of resolving differences need to be understood.

It sometimes pays to give a team of trusted advisors joint responsibility for helping make key management decisions. Some business owners worry that advisors will disagree. Remember, if they don't disagree - if all your advisors are telling you the same thing - then some of them are redundant. And conflict may be enlightening for the business owner. An honest dispute among well-intentioned professionals over how to meet your goals will probably result in the best possible solution for you.

One caveat: Do not view your advisors as a substitute for an active board of outside directors.

A board of respected peers is different from a group of even the most trusted advisors. Advisors work for you and can always be invited to board meetings. It is not necessary to make them directors to benefit from their knowledge. In contrast, the ideal director not only has experience running businesses but often has already achieved the goals the CEO is hoping to reach. He or she is a respected peer of the CEO whose position as a director is uniquely designed to foster impartiality, objectivity and clarity. The director typically does not serve to collect fees, but to learn new things, share problems and look for solutions with a community of peers. Giving advisors a seat on the board also poses a conflict of interest. One of a board's functions is to help ensure that a business owner is getting the best possible service from professional advisors; that would require an advisor to impartially evaluate him or herself. Another conflict can arise if the board is asked to help evaluate potential successors. A director who is also an advisor may be influenced by worry that a successor will terminate his or her advisory relationship. Many family business consultants avoid becoming directors until after a consultation is complete and the advisory relationship has ended.

Managing the Cost of Advisors

Ask your advisors to estimate their expected fees up front and explain all the charges to you. Many advisors provide a written letter of agreement showing projected fees and describing the circumstances under which additional charges would be made. Others reach a verbal agreement with clients in advance. Whatever the arrangement, no bill should be a surprise. Many advisors offer, without being asked, a detailed projection of their future charges. If a bill is going to be larger than usual, the advisor should warn the business owner and explain why. If you don't understand a bill, ask for an explanation. Advisors charge for their services in various ways. Some work for hourly, daily or transaction fees. Others work for commissions, and others for a combination of both. You should find out up front what you are paying for.

A financial advisor, for instance, might charge a quarterly retainer or bill on an hourly or daily basis, while the same person might separately charge a flat transaction fee for completing a deal. Some executive search consultants work on a retainer, charging a percentage of the recruit's first-year compensation. Others, particularly those filling lower-level positions, collect a fee only after someone is hired.

The trend in some professions is to charge a flat fee per service rather than an hourly fee. While this method has some advantages, it is controversial in some cases. Many clients perceive it as cheaper to pay, say, a flat fee for a buy-sell agreement or for an executive search, and this approach can be an incentive for advisors to increase their efficiency. On the other hand, flat fees also can be aimed at increasing profit margins. They can provide an incentive for unprofessional advisors to take short cuts or avoid tackling the special complexities of your situation. It also can mean your advisor must press for a deal or a conclusion at all costs to get paid even if it is a bad conclusion. Whatever the fee structure, a business owner should be aware that both ways of paying have advantages and disadvantages. In fields such as law, where differences in billing practices exist among professionals, you may want to discuss the issue with your advisor.

The price of good advice

Fees charged by advisors vary widely based on the country and the kind of services rendered. Based on an international survey of leading family business consultants found that most charge a daily fee, usually for a visit to the client, a day. For shorter periods, such as telephone calls or planning sessions, consultants typically prorate the same fee to half days or sometimes to the hour.

Retainer Arrangements

Some business owners prefer putting trusted advisors on retainer. Guaranteeing a minimum monthly fee makes some feel more secure in their relationship and more comfortable about calling the advisor frequently. Other business owners may feel they are getting a bargain or "reduced rate" by fixing a monthly fee. They feel liberated from an image of "the meter running" every time their advisor picks up the phone. Retainer arrangements should be entered with caution, however. If the retainer is a fixed fee, the unprofessional advisor may lack incentive to provide in-depth assistance when a crisis erupts.

Monitoring Fees

The business owner should be mindful of an advisor's fees on a continuing basis. If every time you call an advisor, he or she uses it as an excuse to try to sell you something or start a costly new project, you probably have the wrong advisor. Similarly, if an advisor brings partners or co-workers along to a visit or meeting, you have a right to ask the purpose and cost. Some firms do this free of charge to ensure continuing backup service. But if you are to be billed for the extra people's time, ask what benefits that offers you. While it can be extremely valuable to have more than one person in a professional firm know your situation, you shouldn't be expected to finance on-the-job training for your advisor's junior associates that is of no benefit to you.

Managing Advisors with the Family

Family members can play many roles in relation to professional advisors. They are often involved in deciding to call or in choosing an advisor. At the least, they should be informed before an advisor begins working with the business. Some business owners call a family meeting to discuss why a consultant is needed and to allow family members to raise any concerns they have about bringing in an outsider. Some families offer members ''veto" power over an advisor choice to assure full family support. Family members can hinder an advisor if they refuse to share information or insist that he or she withhold information from other family members. Family members also should be prepared for the likelihood that the advisor will bring about some kind of change.

Many business owners bring family members and advisors together socially, creating opportunities for the advisors to meet spouses or mature children. Others ask advisors to make presentations to family members or to attend annual meetings with directors and the family, as discussed earlier. If disputes arise, a skilled advisor can operate as a mediator. The mere presence of a respected advisor can encourage family members to behave in constructive, mature ways. The advisor should avoid taking sides; a lack of impartiality is certain to destroy long-term effectiveness. Consultants' role in relation to family members can be fraught with other pitfalls. A consultant often needs to help resolve tacit disagreements among family members. But the family may feel so threatened by any effort to bring those disagreements out in the open that any consultant who tries may be fired. Creating a safe environment for the discussion of disagreement is a challenging task. Having consultants work together as a team can ease some of the tension, by allowing individual consultants to mirror particular positions within the family while working through complex issues together.

Managing Advisors with the Board

Well-managed interaction between professional advisors and directors can yield big benefits for the family business. Having advisors make presentations to an active board of outside directors can spur the advisors to perform at the top of their form. Some business owners invite each advisor, one at a time, to present to the board his or her role and insights about the business. Aware that outsiders on the board are excellent contacts, advisors are likely to present themselves well. They also are less likely to raise fees excessively when they know outside directors are helping oversee their relationship with the business. Others, as mentioned above, invite advisors to an annual meeting of directors and family members. Most family businesses also have attorneys attend board meetings, to provide advice and to keep him or her informed about the business. A lawyer should not assume he or she is entitled to attend every board session, however; the attorney is present at the discretion of the business owner.

Summary: How to Choose and Use Advisors

Getting the Best Professional Family Business Advice?

Leading a family business can be extremely complex, and every business owner needs professional help from time to time. If advisors are well-chosen, they can help capture opportunities, anticipate transitions, solve problems and resolve conflicts. By drawing on broad experience with other family businesses, they also can protect the business owner from re-inventing the wheel.

While business owners often resist hiring advisors, many of their objections for instance, that advisors only throw up roadblocks, can't be trusted or wouldn't be interested in their particular problems - often arise from misconceptions or experiences with poorly qualified advisors.

Good advisors not only have strong technical knowledge, but understand the business and the family and the complex ways they relate to each other. Their advice suits both the business and the family. They are empathetic, patient and trustworthy. They raise important questions about the future of the business. They help spot opportunities. And they adapt cutting-edge management and financing techniques to the unique needs of each family business, helping to permanently improve strategy and decision-making processes. Working collaboratively with the family and other advisors and providing honest, empathetic, straightforward counsel, good advisors also can provide a valuable model of clear communication, teamwork and commitment.

Conversely, some behaviours by advisors should raise red flags for the business owner. Failing to avoid conflict of interest or to respect client confidentiality, promoting dependency in a client, failing to listen and respect a client's goals and values, or failing to foster good communication are all warning signals that something is wrong in an advisory relationship.

Once the business owner knows what to look for, selecting the right advisor becomes a deliberate and careful process. First, the immediate role you want the advisor to play should be defined. Is technical expertise needed? Do you need help defining priorities? Do you need help with the process of solving a problem? Once these questions are answered, the business owner should conduct a search no less rigorous than looking for a key manager. Candidates should be carefully screened, interviewed and checked out. And fees, confidentiality concerns and other potentially sensitive issues should be discussed up front.

After advisors have been selected, the relationship requires ongoing management. A willingness to tackle the issues and probe for solutions; strong communication, and high but realistic expectations are important to sustaining a productive relationship. Encouraging advisors to team up on tough problems can yield even greater returns, as the synergy among committed professionals often generates creative ideas no one of them could have produced alone.

These techniques can foster benchmark advisory relationships that will leave both your business and your family permanently stronger.