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 buy-out. 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.