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.