



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.