UNIVERSITY OF LOUISVILLE
FAMILY BUSINESS CENTER

It can be lonely at the top: Why family businesses are turning to advisory boards for support

Being president or CEO of a family-owned business has many rewards, but it also has its challenges. Where to go for strategic guidance can be complicated. Some concerns need the advice of experienced advisors. For example: “Who can I talk to when I need advice about how to handle the annoying behaviors of family members who work in the business?" Or, "Is now the right time to diversify with an acquisition when so many are dependent on the business?" Also, "Does it make sense to leverage the family asset for the future or should we think about selling and cashing out?”

Family businesses are discovering the secret that established privately held businesses already know. The advantages of having an advisory board are real. According to the 2017 Lodestone Global Survey of private company boards of directors, companies with boards had average annual revenue growth of 56 percent since implementing their board of directors. The 386 companies responding to the survey had an average of 250 employees and annual revenues of over $100 million.

Regionally-based and privately-held family businesses, many that are smaller than those in the survey, are learning to engage the experience and thought leadership of those outside of the family business. This kind of guidance for growth strategies, risk, and to resolve challenges has enormous paybacks. Boards provide experienced advice that might not otherwise be affordable.

For family businesses with owners not working in the company, boards provide the reassurance of oversight and accountability of family leaders working in the business. Boards can help to balance partner or family personalities, offering insight that break stalemates. Moreover, they are invaluable in guiding and supporting generational or leadership transitions, both assessing future leaders and providing support and mentorship during and after succession.

The most successful advisory boards will have bylaws that include the role of the board, terms, commitments, payment agreements, committees, and election of new members. They are typically between six to 10 members, including several family leaders and owners. Outside board members are screened to criteria established in the company's strategy, as well as existing skill gaps. These are truly outside advisors, not your attorney or CPA.

Advisory boards are just that, advisory. They exist to advise based upon best practices from their experience and do not have a fiduciary responsibility. It is up to the business leader and owners to take advisory board member's well-intended advice and implement it.

Family leaders tend to stay in their positions longer than non-family organizations and will find it invaluable to have expert help to maximize long term economic value creation, push for a long-term vision, keep the business focused on business issues versus family issues, encourage the owner(s) and leaders to think differently and help build a vibrant and high-performing management team.

Moreover, just because you are at the top doesn't mean advice and accountability aren't needed.

Learn more about the Family Business Center at the University of Louisville.

Rachel Butler serves as president of right angle, a results-focused company founded in 2005 specializing in providing business owners, organizational leaders, families, and their teams with strategies, processes, and training that improve profitability, efficiency and culture. She currently serves on the University of Louisville Family Business Center advisory board.