

FAMILY BUSINESS FORUM

Passing Up a Priceless Opportunity

By Donald Levitt

The Issue

How would you like to have a group of hand-picked consultants who truly have the best interests of your business at heart – and who work for virtually nothing? Every family business can have this, but most “just say no.”

A recent study by the Raymond Institute and the MassMutual Financial Group indicates that family business boards represent a “lost opportunity.” Boards of directors can provide assistance regarding critical issues such as business strategy, successor selection and top-officer compensation. Yet most family business boards meet only two times a year – or less. Even when they do meet, most of these boards have a very limited representation of “outside” board members – who are not part of the family or management and who can bring independent perspectives.

Why don't more family businesses make better use their legal board of directors, or informal board of advisors, to help guide their business? How can you set up your board to best capitalize on this opportunity?

The Experts

Joel Levine, Norman Rubinoff and Richard Wolff are attorneys with Spengler Nathanson in Toledo. Each has special expertise regarding family business boards.

“The advantages of having outside board members, whether on the legal board or on an advisory board, are readily apparent,” said Levine. Outside board members “bring different experiences and capabilities that the family business may not already have.”

The first step in bringing outside members to the legal board or advisory board is to assure that the role of the board and the outside members is clear. Levine noted that “the role of the advisory board is to be advisory – making suggestions, bringing up pitfalls and opportunities – but not to run the company.” Even though their role is solely advisory, “the family unit must make a commitment to listen to and take advantage of the advice – rather than perceiving the advice as taking away flexibility from the owners.” It can even be helpful to write-out a description of the roles and expectations to assure that everyone has a common understanding.

Given that outside board members can sometimes deal with the most sensitive of family issues, such as recognizing that a family member does not have the necessary

capabilities, it is critical that outside board members be carefully selected. “You are looking for not just a knowledgeable advisor, but someone who is discrete and who has good judgment in delivering a message,” advised Rubinoff. “It takes a ‘people person’ who recognizes the difficulties family businesses encounter.”

If outside members on a board are so valuable, why do most family businesses ignore this opportunity? Wolff has seen owners who believe that “they’re the one who knows how to run the business – and they don’t want anyone else knowing what is going on in the business.” These owners can see outside board members almost as “an admission of failure” when actually it is the very successful companies who want to “surround themselves with expertise and take advantage of it,” noted Wolff.

The Family Business

Hirzel Canning Company, a food processing business headquartered in Toledo, was founded 80 years ago and is now operated by the third and fourth generations of the family. Karl A. Hirzel is President and CEO.

Hirzel Canning created an outside Board of Advisors three years ago. “When the idea was first proposed five years ago, the most common reaction was ‘what do we need that for?’” said Hirzel. After learning how other companies use outside board members, “we agreed to try it. Now everybody likes the idea.”

The Board of Advisors consists of three outside members. “At first our legal board met with the Board of Advisors for a full day before each legal board meeting,” Hirzel noted. “During the second year we made each Board of Advisors meeting project oriented, focusing on specific ‘hot buttons’ such as sales and succession.”

In some cases the Board of Advisors “reaffirmed that we were on the right track, while at other times it led us to question what we were doing,” said Hirzel. In the future Hirzel Canning plans to expand the size of their Board of Advisors and rotate membership to cover more areas of expertise.

The Tip

Outside board members, whether on the legal board or on an advisory board, can bring valuable external perspectives. Establishing clear roles and expectations up-front can assure that the outside board is a priceless opportunity rather than a “lost opportunity.”