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Build An Advisory Board?

Trusted voices outside your family circle can pay big dividends for your business.

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As your business grows—creating new challenges and opportunities—and as you transition management from one generation to the next, to whom do you turn for credible advice? More and more, family businesses are forming advisory boards that consist of trusted voices from outside their family circles. This column explores some reasons and implementation ideas for advisory boards.

WHY? As your family business becomes more professional, you face challenges that other businesses have already solved. Some may include: increasing your financial analysis and negotiating capabilities; developing risk-management programs; formalizing human resource practices like employee reviews and compensation; and improving the company's marketing and public-relations efforts. Getting input from others who have solved those problems can make your efforts more efficient and effective by teaching you what has and hasn't worked in other companies.

Another reason for an advisory board is that the presence of respected nonfamily members can help diffuse family tensions. Family member compensation, benefits, positions in the company and estate planning are emotional topics. The presence of outsiders can often help everyone communicate and behave more rationally.

WHO? Think about one, two or, at most, three people who have the family's confidence, trust and respect, and who aren't on your current payroll as financial or legal advisers. Look for people who bring expertise you can tap as you navigate difficult issues they may have already faced. Or, search for those who bring a perspective or skill set you lack in your business. Contemplate people who can see problems from a different angle, or those who have seen many businesses go through similar situations. Consider leaders of larger businesses in or outside of agriculture, or from other successful businesses in your community. Also consider someone from another part of the agricultural value chain, someone from academia who has studied similar businesses or someone with a strong background in developing teams and individuals. Perhaps most importantly, you want people who will share their honest opinions with you.

You should also include your accountant, your lender and possibly your attorney in the meetings, but don't officially put them on the board. They are already paid to offer their advice and so can augment the perspectives of the official advisory board members.

WHEN? Two or three meetings a year provide a good rhythm for assessing strategies in a farming or ranching business, especially where there is a seasonal dynamic. Spending anywhere from a half-day to a full day provides ample time for discussion.

WHAT? Going over finances, discussing key people, solving current problems and debating plans and programs for the future are key agenda categories. The key is to create enough space for good conversation. You don't want to spend too much time reporting. Instead, you want to have plenty of time for them to ask questions of you and to share their thoughts.

PAY? Compensate advisory board members at rates similar to what you pay other professionals for advice—at least several hundred dollars per meeting. If a board member won't take compensation, make a donation to a charity of their choice.

While it may seem expensive, the knowledge you glean from a good meeting will likely save you multiples of that expense in your own business. It will also have the effect of holding you accountable to making progress—you won't want to let your board members down and waste your money. An advisory board is an investment of time, energy and dollars in your future. If done right, it can create a tremendous return.

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