



## Will Your Family Benefit from an Advisory Board? Tips from Family Business Owners Who Have Used Advisory Boards Effectively

Jerry Bordner, board chair of Laser Reproductions  
Rob Caruthers, CFO of Ricart Automotive  
Rick Gummer, President and CEO of Gummer Wholesale  
Howard Task, owner of Marketing, Management and Advisory Services  
J.Richard Emens, Executive Director, Conway Center for Family Business

September 17, 2009

This case study examined the findings of family business owners who successfully created and currently use advisory boards and experienced advisory board members to discuss the pros and cons of establishing an advisory board for a family business. Conway Center for Family Business Executive Director Dick Emens moderated the panel discussion which included: Jerry Bordner, board chair of Laser Reproductions; Rob Caruthers, CFO of Ricart Automotive; Rick Gummer, president and CEO of Gummer Wholesale; and Howard Task, owner of Marketing, Management and Advisory Services and a board member of several companies.

Emens began the presentation by describing the differences between an advisory board and a statutory board of directors. A **statutory board** of directors is governed by Ohio statutes that set forth the number, qualifications and terms for directors. If a family business has more than three shareholders, then the business must have three or more directors. Directors can have personal liability although directors can be protected through insurance coverage. Emens recommended that family businesses purchase director & officer insurance and update the indemnification provisions of their Code of Regulations. Director & Officer Insurance is liability insurance that will cover damages or defense costs in the event of a lawsuit for alleged wrongful acts while acting in the capacity of a director or officer of a company.

An **advisory board** is different from a statutory board and can assist in overseeing the successful operation of a business, help with the smooth transition of company leadership, and provide input to help clarify the direction of a company. It also can act as a sounding board for family business leaders. Although an advisory board can function like a board of directors, the difference is that it doesn't make decisions; it merely advises the leadership of the business and its members do not have personal liability

Howard Task, who currently serves on several advisory boards, shared some of the benefits of having an advisory board. He indicated that he often gets phone calls on Sunday evenings because of what he called "Sunday Night Syndrome". Task said, "Business owners find themselves unable to sleep as they think about challenges and problems within their business." He added that they find it useful to talk to an advisory board member. "Your board members

should be people who can provide objective opinions and advice that will help your ROI and act as a sounding board for your concerns," said Task.

He went on to say that an advisory board is especially helpful at providing guidance as you grow your business. It gives family business owners an incentive to be disciplined as they track and prepare

information for each advisory board meeting. It also encourages key members of the business to be prepared and be accountable for their actions and choices. The Advisory Board acts as a sounding board and allows someone outside the company to give objective advice and feedback to the leadership of the family business. Task also shared that he has never met a company that regretted setting up their advisory board.

The panel went on to answer questions about their own experiences. The questions and their responses are below.

### **1. When and why did your business start an advisory board?**

Jerry Bordner started his board about six years ago. Richard Gummer's board was formed almost 30 years ago and was started to help the company as it began to have "growing pains". Gummer added that although it can be difficult to find the right board members, "It was probably one of the best things we've ever done." Rob Caruthers indicated that Ricart Automotive had an advisory board for about five years. Their advisory board has been useful in providing direction and helping company leadership decide where the company should be going.

### **2. When should you have an advisory board?**

Howard Task suggested that you have an advisory board, "from the beginning, when you do not have much capital and you need outside expertise. You should not pick your friends or people who will only agree with you. It is important to find people with a wider background who will be objective and who truly care about you and your company."

### **3. What people did you select for your advisory board? Do you have family members in addition to the CEO on the board?**

Laser Reproduction's advisory board has three family members (Jerry Bordner, President Paul Bordner, and Vice President Brett Bordner) plus four outside advisors. Richard Gummer suggested family business leaders find someone from a similar industry to serve on their advisory board and encouraged attendees to think about business acquaintances who are retiring as prospective board candidates. . Gummer's board currently has three family members and two outside board members. Ricart's board currently has five advisors, including an attorney, two outside accountants, and a former Ford executive.

### **4. How often does your advisory board meet? How long do your meetings usually last? What topics does your advisory board usually discuss? Do you have a written agenda? Do you get the agenda out prior to the advisory board meeting?**

Jerry Bordner shared that Laser Reproduction's board meets two to three times per year for four hours, from 10:00 a.m.–2:00 p.m. with lunch. Board members are provided with an agenda and financials and are prepared to talk about day-to-day issues, personnel issues and any other important topics as indicated on the agenda. Richard Gummer said that Gummer Wholesale's advisory board meets for three hours each time but that they get together for dinner the night before their meeting as well. A packet of information is sent to Board members ahead of time so that board members can be prepared for the meeting. Topics include personnel issues, strategy, looking at the big picture, as well as reviewing budget issues. Rob Caruthers said that Ricart's board meets two times per year but that they provide quarterly financial statements during off quarters. Ricart Automotive sends their board members an agenda and a financial statement prior to the meeting. During their three and a half to five hour meetings, they discuss financial strategies, analyze financial issues and cover any key topics as needed. Caruthers also noted that they have active board members and are

generally in contact with them at least once every 45–90 days. Howard Task believes that is it most effective if advisory board meetings are held at least three times per year for at least half a day.

#### **5. Should family business leaders share financials with their advisory board members?**

Task said that he had not seen an advisory board yet that does not share its financials and would not agree to serve on a board for a business that was unwilling to share financial information. Dick Emens stressed that family business leaders must have people on their advisory board with whom they are comfortable sharing financial information. Without that information, advisory board members cannot give family business leaders the type of advice they need.

#### **6. When you bring someone on your advisory board do you specify a "term", that is, a period of time that he/she is asked to serve?**

The panelists responded that they do not have prearranged term limits for their members but indicated that advisors serve at the will of the board chair and board member services can be terminated at any time. "Just don't invite the advisor to the next meeting if you want to get rid of him or her," the panelists joked. One panelist suggested having each board member draft a letter of resignation that the company maintains on file and can send to the board member when the family business no longer desires their service.

#### **7. How much do you pay your advisory board members?**

Bordner shared that his company pays \$750 per meeting. This cost also includes unlimited access to board member outside of the scheduled meeting times. Gummer noted that it depends on the size of the company and that contributing to the success of a company is also part of the compensation for board members. He added that a small company could find someone more inexpensive now, perhaps at \$350 per meeting, who would then be paid more as the company grows. Caruthers said that Ricart recently standardized their board fees so that it is the same for all board members rather than compensating board members based on the hourly fees charged by the board members firm. Task added that \$750–\$2000 per meeting is the typical fee range a board member may expect.

#### **8. Do you believe that a very small company (less than 10 employees) needs an advisory board?**

All three panelists agreed that it is important, maybe even more important, for small businesses to have an advisory board. They cited that small businesses have less financial leeway making it critical to make sound decisions and that a board can provide confirmation of choices as well as serving as a good sounding board for the leadership of the company. Extensive knowledge about all aspects of business may be limited by a smaller staff, so having an advisory board is helpful since the advisors bring expertise to the table as a smaller business grows.

#### **9. Have you found having an advisory board to be helpful to your business? Have any problems arisen because of your company having an advisory board?**

The panelists have not had any problems with their boards. Howard Task noted that he has often times been uncomfortable if there is a family fight during a board meeting but that more often than not those are worked out with the help of the advisory board. Richard Gummer noted that it is important to remember that an advisory board can tell you anything they want,

but the family business leader has the decision making power and it's up to you whether or not you take the advice of your board.

**10. Should you have board members sign a confidentiality agreement? What about having them sign a commitment form?**

This is an individual company decision. Some companies do ask their board members to sign a confidentiality agreement but others choose not to do it and the boards have operated without issue.

Dick Emens, Conway Center for Family Business Executive Director wrapped up the discussion concluding that advisory boards can be an asset for family businesses by assisting in overseeing the successful operation of the business, helping to provide a smooth transition of company leadership from one generation to the next, helping to clarify direction of the company, and acting as a sounding board for family business leaders.

**Presentation Materials Available**

Members may obtain a copy of the power point presentation used for this presentation by visiting the Members Only section our website at [www.familybusinesscenter.com](http://www.familybusinesscenter.com).