

You and your business need help

Competent outside advisers are essential to the health of the family-owned construction business

BY LEON A. DANCO, PH.D., PRESIDENT, UNIVERSITY SERVICES INSTITUTE, CLEVELAND, OHIO

As an owner-manager you rarely admit it, but mainly you're confused. You don't know what you're supposed to do, really, with your money, with your people, with your business, with your future. The reason you're confused isn't that you're stupid or lazy. It's just that you've run out of time and talent. You and your business need help.

You must let outside advisers help you do your job because I don't think you can do it alone anymore. If we were honest with ourselves we would have to admit our own talents are limited—fully committed, to be sure, but inadequate in too many cases.

Among the concepts which I hold to be necessary to the profitable growth and successful continuity of a privately held and family-owned corporation is the selection and utilization of a viable and aggressive board of directors committed to the goals of the ownership. The lack of such a board of directors is one of the real tragedies of family companies. The founder-owner-manager-president has all the conflicting goals of shareholder, director, officer and employee within himself. He suffers alone. He is a masochist.

Why is this outside, contributory board of directors needed? Because now that he has built his company from scratch the owner-president is usually not too sure how to become an effective professional manager in his family corporation. He is usually exceptionally capable only in a nar-

row band of activity. He has a specific talent—as engineer, technician, salesman—which enabled him to found and develop his business. He has been so busy building his company that he has not had the opportunity to look objectively into any other business. He lives alone. He has become a corporate celibate.

In this environment a conscientious president can use a real, working board of directors as a sort of sounding board. The board can be a yardstick for the chief executive—a professional association with peers where he can exchange views and compare himself with others. It can give him moral support and an opportunity for discussion.

The single most important job of the board of directors in the family corporation is to provide for the profitable continuity of the firm. It must provide for proper management development to allow for the “passing of the torch” from the founder generation to the successor generation. It must help Dad become more objective about the management abilities of his heir. It must help bridge the generation gap and the attendant problems in communicating goals to the young.

Who might these directors be? This question can perhaps be best answered by considering those who shouldn't be on your board.

Please—no relatives. Significant problems can occur when family squabbles circumvent the purpose of the board meeting. Very few relatives have much to contribute. Add wives and mothers and you too often invite intrigue and risk misunderstanding. If you want or need advice from these quarters, have a

family dinner party.

Appointing employees to the board is rarely helpful. They are always glad to give their advice if asked from nine to five. Their opinion is available any time. If the board needs their specific technical talents, let them be invited to report to the board.

Board membership for those professional advisers—lawyers, accountants, insurance men, etc.—who are retained by the company raises a definite question of ethics. Who is judging whom? While the varied experience of professionals can provide additional functional tools to management, these specialties are a fringe benefit and available for hire.

For the most part, retired businessmen are not too effective either as board members. Unfortunately, retirement puts too many men out of touch with the contemporary world. It denies them the opportunity for continued stimulation and creative problem-solving. It makes men look back to the days of old glories instead of forward to new challenges.

Where, then, are the prospective members to be found? Among outsiders to the owner and his business. Unfortunately, the average family corporation president probably has a difficult time trying to find three outsiders with whom he is willing to be completely honest. But if he is not going to be honest, why go through the travesty of a board?

The president must look around instead of copping out with those tired refrains: “My business is different. Outsiders don't understand my problems.” They don't understand

his problems, all right—but he calls their facts “opinions” and his opinions “facts.” That’s the problem.

The president has become his own worst enemy. He has permitted the income that has been generated by his company in his lifetime to fool him into thinking that he always knows what he is doing. He doesn’t. He never competed for the job and he equates survival with success. He is wrong. He is mostly just treading water.

In truth, potential board members are everywhere. Somehow people find each other once they recognize what they are looking for among the people with whom they come in contact. This is why it becomes necessary for the president of the closely held construction company to keep enlarging his circle of acquaintanceship rather than being subject to the same reservoir of people who have influenced him in the past.

Board members are not found by accident. They must be actively sought. And the outside director with the potential to put his finger on mistakes in judgment should not be sought for his technical help but for his perspective and judgment.

Tenure on your board should not be for a lifetime, however. Provision must be made for renewal of board membership after a finite number of years—three or four at the most. Owners need the constant stimulation of new sparring partners and not the comfort of telling the same old war stories to cronies of long standing, either on the board or among advisers.

Compensation is mandatory for a man of this caliber offering his services to you as a director. Obviously the quality of this man’s thought does not differ depending upon the fee. But payment implies responsibility. A man is not as responsible when giving free advice as he is when being paid for his opinion.

A token payment is not enough. Two to three thousand dollars per annum is not too much to offer your board. At that price the president

will listen to what is said and prepare himself well so that the meetings are not a waste of time. And at that payment directors will realize that the president-owner is serious and they’ll not willingly disappoint him.

The board must be an innovative group. It should challenge the imagination of management and stimulate fresh outlooks—spark new thinking, not just review the old. But above all, the most important and vital job of the board is to provide for the continuity of the corporation. It will help to develop a plan of action for management succession with proper time limits so that it really happens. The board will provide the key link between generations.

An effective board of directors is important to the family-owned construction business. Also important are the other advisers that the company president needs to call upon from time to time: lawyers, bankers, accountants, insurance men.

I take a dim view of the quality of most people’s advisers. They’re not advisers. They are economic piranhas preying upon the tired and unimaginative owner-manager. Their credentials are their tenure and the ease with which you can do business with them. Too often they take the job of adviser not for the challenge and commitment but for the money that it is able to create.

All companies need the services of strong and competent advisers. The lawyer who was fine in your pick-and-shovel days usually lacks the sophistication to deal with the corporate problems, the requirements of estate planning and the influences of taxation on your growing operations. If your accountant simply audits or posts the figures he gets from the little old maiden lady who keeps your accounts in a notebook, the advice you get here is minimal.

I wish you would look at your advisers the same way that I do. Are you doing business with the best? You try to be the best man in your field. You don’t sell a second-rate

product or service or ask second-rate prices. You sell first class. I think if you asked the same of your advisers you’d find either that most of them had never been asked by you to play in the big leagues or that they are incapable of doing so.

Consider your banker. How much time do you spend with him? How good is he? How do you treat him? What do you get back from him? You get back about what you ask for. Do you really talk to him? Do you give him maybe a couple of hours a month? Do you keep him informed—good months and bad? Do you sit down and talk to him about what you think is important and let him look at the numbers, or would you feel that if you did he’d call in your note?

If you don’t respect and work with a good banker, don’t go find some financial genius out of town. Just change banks.

Too many business owners think talking to their lawyer is something like talking to God. Like everything else, there are good lawyers and bad lawyers. Find one you’re willing to be honest with. Stop using them as coconspirators and undercover men. Stop trying to hide your doubts and your fears.

I’ll bet you don’t ever let your attorney get involved in your dreams, your plans, your hopes. You use him to limit your liability, collect from deadbeats, intimidate the union and referee in family fights. He’s not really being used. This is a trained professional who has known a hundred businesses like yours, but you don’t let him understand you. Talk to him about the creation of a working outside board. If he says you don’t need a board, I suggest you get a new attorney.

Business owners consider their accountant primarily as their personal gladiator with the IRS. That’s a shame. I don’t really consider a man’s purpose on earth is to spend his life as a tax avoider. Maybe I’m naive but I think we should spend the bulk of our business efforts trying to earn money, not hide it.

Who is your accountant? If he's any good he's a widely acquainted man. Hopefully you're doing business with the best firm in town. You should be long past the individual practitioner who in turn depends upon the little old maiden lady who hides the books.

What you really need is a 35-year-old, narrow-lapelled, white-shirted, buttoned-down CPA who works for a first-class firm. And don't think he's stupid just because you're making three times as much money as he is and he doesn't understand your business. He's not supposed to. You're supposed to. His strong suit is the accounting disciplines.

Accounting today is a managerial tool to distribute information to people who take action to earn money. It's an analysis. It's an educational system dependent upon its books, its library, its flow of information. And a competent accountant will tell you this—and explain it to you in ways that a second-rate, secretive bookkeeper never can.

In summary, if you can't honestly say that your advisers are the best in the business, go change them tomorrow morning. Get the best advice you can find. Go find the man whose business judgment you ad-

mire the most and ask him who are the best people in the business professions. Then use them. You can get no place using second-class help. Just because you're smart and you can fix things in your business, you can't assume that you can fix the mess which a secondclass adviser can create. And it costs no more to use the best adviser in the business. It could cost you the works if the advice you get is wrong because you can't fix it from your box in the ground.

Dr. Leon A. Danco is president of University Services Institute, a private Cleveland-based firm specializing in educational services for owners, successors and managers of family-owned or closely held businesses. His University Services Institute programs feature a faculty of outstanding professionals experienced in dealing with the concerns of business owners. In addition to being equally at home on the lecture platform or in the seminar classroom, Dr. Danco is the author of *Beyond Survival: A Business Owner's Guide for Success*, a book which offers the business owner and his family a comprehensive manual for ensuring the health of their busi-

ness.

Educational activities carried out by the Institute include invitational seminars for business owners and their wives. These consist of intense 7-day seminars covering the areas of managing money, people, taxation and estate planning.

Additionally, programs for the young executive in the family-owned business consist of 2 1/2 day seminars designed for successors currently active in the business.

Detailed information as well as copies of Dr. Danco's book (\$10.85 including postage and handling) are available from University Services Institute, Box 24197, Cleveland, Ohio 44124. Telephone (216) 442-0800.

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