



WIFU_compact_16:

The Advisory Council of the Family Business

“I know best what will benefit my business.” This sentence is typical for family entrepreneurs who know their firm inside out. Yet every business today has to operate in an environment of growing complexity, entailing, for example, the digitalisation of entire business models or the implementation of new financial models. Anyone who wants to master this complexity and benefit from it needs professional and independent sparring partners at their own level who will pose critical questions and have the courage to disagree..

Why might a business need an advisory council?

Empirical observations show that the following reasons most commonly lead an entrepreneur or business family to create an advisory and supervisory body:

The family sees an opportunity to create a body that will generally perform better in assessing the future of the firm and providing professional assistance than shareholders with no entrepreneurial experience.

The advisory council can guarantee the firm's capacity to act amidst persistent disagreements or stalemate among the various shareholders or family branches.

The advisory council can perform a bridging function between external management and the owners. Qualified managers are often critically opposed to family businesses as they fear becoming involved in disputes between shareholders or family branches.

The advisory council is competent to support successors in the transition from senior to junior generation independently and emotionless.

Family business entrepreneurs will have an institutionalised coach with whom they can discuss internal affairs on a professional level.

Temporary issues such as death among the shareholder circle, the exit of shareholders or the protection of the rights of underage and/or ill children can be handled by the advisory council with less emotional distress than for the family.

What are the duties and powers of an advisory council?

An advisory council established in the shareholder agreement as a permanent body should be granted certain core competencies including the right to unrestricted information concerning all business affairs, the right to create a catalogue of business activities which the executive management may conduct only with the approval of the advisory council, the right to approve the long-, medium- and short-term business plans and, lastly, the authority to appoint and dismiss executive directors. Of course, shareholders can decide freely on the duties and powers of the advisory council when they develop the agreement (except for the advisory council of a German AG or a European SE). However, well-qualified advisory council members will only be recruited if they are given the tools they need to fulfil the tasks assigned to them.

How big is an advisory council and whom does it comprise?

The size of an advisory council depends on the size of the business and the tasks assigned to the body. The number, or still better range, can be defined in the shareholder agreement. The most important characteristics of advisory council members are their high degree of loyalty to the family business and their understanding of emotional incentives within a business family.

From experience, a combination of men and women, young and old is beneficial for the work of the advisory council. An average age of between 50 and 65 years old has proven to be efficient. The person chairing the advisory council is especially important and needs leadership experience and authority.



How do we find the right members for an advisory council?

Only those with an entrepreneurial background belong on the advisory council. And: The risk of conflict of interest must be ruled out in advance, so the family lawyer, tax advisors or representatives of crediting banks are usually ineligible, as are other business partners. The search for and selection of advisory council members is a complex process comparable to recruiting external executive managers. It is therefore advisable to engage an HR consultant as family networks are rarely sufficient to fill an advisory council with the best-qualified members.

What does the advisory council need in order to function successfully?

An advisory council unfamiliar with the current state of the business or left in the dark cannot work efficiently. Mostly, the advisory council obtains its information from the figures. However, the advisory council is not the executive body, and the mere sharing of all number-based reports is not useful. Instead, the advisory council should receive aggregated numbers and a financial statement, complemented by a firm-specific index system.

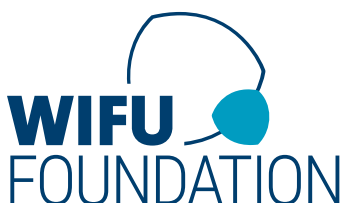
What does an advisory council meeting look like?

Unfortunately, advisory council meetings often end up as lectures on the quarterly figures and further presentations by management. These elements are necessary but cannot be the only subject of an advisory council meeting. The experiences of well-functioning advisory councils show that it is sensible for each advisory council meeting to focus on one core subject, such as the state of digitalisation or the structure of management bonuses.

Are members of an advisory council paid?

It is usual to reward advisory council members. In this context, the experience, networks and personal standing of the members must be taken into account. For a medium-sized production firm, with annual revenue of 100 to 300 million Euros, remuneration of 20,000 to 30,000 Euros would be appropriate (in addition to the obligatory reimbursement of expenses). The chair of the advisory council receives one and a half times or twice this amount because of their more extensive duties. Merit-based reimbursements are currently rare but becoming more common.

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Reference:

This episode of WIFU_compact is based on the Practical Guide "Der Beirat in Familienunternehmen" by Rainer Kirchdörfer, published in 2018.