FAMILY BUSINESS CHALLENGES

No. 11

ENHANCING COMMUNICATION WITH THE BOARD

Practical guidance for family business owners and managers

SECOND EDITION

No.11 Enhancing Communication with the Board

Section 1. INTRODUCTION

There should be structured dialogue between the board of directors and the family shareholders based on a mutual understanding of objectives. Family owners (and arguably the wider family, including the next generation of shareholders) must articulate why they wish to be in business together, and communicate these agreed objectives to the board so that the directors understand the family's goals and how they will be held accountable.

When thinking about ownership and management, many family business owners suffer from role confusion. Shareholders don't manage the company, and nor do they – when a board of directors has been appointed – have direct responsibility for the company's governance (see Exhibit 1). Understanding these distinctions is critical, as is ensuring efficient communication and building a constructive relationship between family owners and the board.

Exhibit 1: The difference between owners and managers

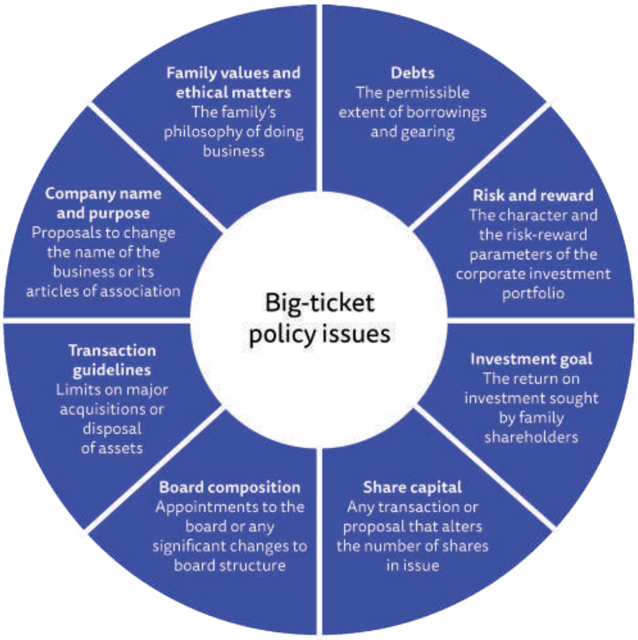
"Imagine the family business is a Boeing 737. Owners have a right to choose what the plane is used for – for example, passengers or cargo – and they might decide on different risk profiles (like whether to heap up debt in order to expand the fleet). But owners stay out of the cockpit, they do not serve drinks or collect garbage. They let the pilot and the crew do their jobs. The trouble is, inherited shares don't come with a user manual, and one of the toughest challenges families in business face is in educating their members about ownership, and defining their rights, roles and responsibilities."
Source: Dr Ivan Lansberg (2005) "Governance Structure for a Complex Family Enterprise", paper delivered at IFB Master Class 6: Professionalising Governance in the Family Firm, London, 29 September.

Ownership of the company brings specific controlling rights. The board represents the owners in providing direction and oversight to the business, but it is the owners who take major, strategic policy decisions. They define and explain to the board the day-to-day values and long-term vision that are to underpin the way the board runs the business, and they also work with the board to set business goals on the key areas of growth, risk profile, profitability and liquidity (see Exhibits 2 and 3).

Exhibit 2: Ownership vision, values and goals

"It's the role and opportunity of owners to promote their collective values, their vision for the enterprise and their goals as owners. A long-term shared view among the ownership group contributes to strategic stability and risk-taking ability of the business.... The board can help educate the family on the inherent goal trade-offs of ownership. The board also must provide candid feedback on whether the family's goals are feasible or appropriate for the business and its future. In addition to values, vision and goals, however, the owning family needs to address the [policy] issues that define its relationship with the business."
Source: John L. Ward (2016) "The Roles and Responsibilities of Family Ownership", The Family Business Advisor, Family Business Consulting Group.

Exhibit 3: Policy issues where the family owners have the final say



Source: Adapted from Peter Leach (2012) Family Councils: A Practical Guide, Institute for Family Business.

Family issues must be communicated in ways that don't interfere with board functioning. Family concerns are vitally important to the board, but the owners must speak with one voice. If they lobby individual board members or make ill-considered comments then they put this principle at risk. Family meetings or a formal family council are the best and most efficient way for family concerns to be expressed, addressed and communicated to the board in a unified way (see Exhibit 4).

Exhibit 4: Communication between the family council and the board

"The family should have a clear policy about how these communications will be managed, but most families will only allow communication between the family council chair and the board chair or between those assigned by the chairs to manage communication. These clear lines assure that both family and board will be speaking with one voice to each other, avoiding the distrust that would result if many individual family members or directors were holding side discussions."
Source: Chris Eckrich and Stephen McClure (2012) The Family Council Handbook: How to Create, Run and Maintain a Successful Family Business Council, Palgrave Macmillan, p.311.

Appropriate rules for the interface between the family council and the board of directors will vary from business to business. In some companies it's the board's job to "sell" the appropriate strategy to the family council, while others believe that the family council should be free to lay down rules it feels comfortable with. The middle ground sees the relationship as a "two-way street" – sometimes the family council needs to dig its heels in and say that's the wrong strategy for us, while on other occasions the board should take a robust stand.

Families should be clear and consistent when communicating with the board. Although the nature of the relationship between the family and the board may vary in different businesses, it should always be underpinned by a solid set of principles and processes so that everyone understands what each body can and cannot do. There must be clarity on both sides as to the rules that apply and where boundaries are set.

Keeping communication channels open – some guidelines

• Make sure rules about the relationship between the family and the board are set down on paper – in the family constitution or in terms of reference for the family council and the board.

• Include in the written rules formal lists of items specifically reserved for the shareholders' decision and those that are delegated to the board.

• The family shareholders' relationship with the board should be a continuous process. Arrange regular exchanges of views and updates of objectives pursued by both the family council and the board of directors. This can be via a regular two-way flow of agendas, reports and position papers, and through occasional joint meetings.

• Ensure all important communications are in writing.

• Consider appointing a family member (or trusted non-family observer) to sit in on board meetings, acting as liaison. It's important for such observers to play a low-key, non-participatory role – they should not divert the special focus of the board.

Family shareholders must have trust and confidence in the board process. Ultimately, the main role of family owners must be to support the board of directors, and if they find they cannot work with a board then they have the right to remove them.

Section 2. ACTIONS TO CONSIDER

- Are we doing enough to ensure our family members understand their rights, roles and responsibilities as shareholders?

- What responsibilities should our board take on that it's not currently doing?

- How, and to what extent, should family shareholders and our independent directors interact?

- What are the issues where, as shareholders, we should have the final say – topics on which our wishes matter most?

- What are our rules on confidentiality – i.e. what boardroom information should and should not be shared with shareholders?

- Are the rules and policies we have set as shareholders balanced in terms of not being too restrictive, putting off talented non-family candidates from joining our board?

- How do we measure the family's satisfaction with the performance of our board of directors?

Add Your Questions

CASE STUDY: Strutt & Parker (Farms) Limited

The Strutt and Parker families have been farming land in Essex and Suffolk for over 200 years, and Strutt & Parker (Farms) Limited itself was incorporated in 1918. Today, the business farms 20,000 acres across four main farms, plus many contracting and joint ventures. Ownership of the company is dispersed across more than 80 shareholders, almost all of whom are descendants of the two founding families.

"The board of directors is mainly comprised of outside professionals, including non-executives with farming expertise and a non-family MD," explains fifth generation Strutt family member Fiona Gatty, who was a non-executive director of the company for over 10 years. "The chair of the board is, and always has been, a family member."

Nevertheless, it was felt that there was need for further improvement of communications between board and shareholders, and this was the key objective behind the restructuring of family governance – a process in which Fiona played a leading role. A shareholder council was set up in 2006, which holds bi-annual meetings attended by the managing director. At these meetings the MD reports directly to representatives from the various family groups, who themselves then communicate back to family members.

The Strutt and Parker families have evolved an iterative approach to deciding which topics should be handled by the board and which are strategic, long-term issues best guided by family members through the shareholder council. Rather than defining a list of such matters in their family constitution, each potential borderline case is examined on its merits.

This process is not deliberate, but it has grown out of issues that have surfaced during shareholder council meetings over the past ten years. Dividend policy is one example; a debate over whether there should be a de minimis rule for the size of shareholding was another; and, more recently, how an equitable distribution of shares could be made after the death of a family member intestate.

Challenges from individual members of the shareholder council have clarified the terms of the relationship between the board and the council, and changes in the membership of the council have also affected the nature of the debate, the form of interaction and the topics discussed during the meeting.

"So it's a constant work-in-progress," explains Fiona, "and, because of that, it retains a healthy dynamism. When questions or problems arise, rather than coming at them with a template or a list, we are flexible enough to examine the facts and decide between us whether this is a board or a family matter. As a result there is an ongoing and evolving dialogue within the family, based around our awareness of the rights and responsibilities of ownership, the relationship with the board and the future that we wish to see for our business."

Section 3. RESOURCES

Articles and reports

The Roles and Responsibilities of Family Ownership
John L. Ward (2016), The Family Business Advisor, published by Family Business Consulting Group (available at: www.thefbcg.com/The-Roles-and-Responsibilities-of-Family-Ownership).

Although the board of directors of a company is the apex body responsible for its governance, in the case of family-owned firms the board can serve well only if there's a proper understanding of the roles and responsibilities of family owners. This article clarifies those roles and responsibilities, and provides a guide for formulating governance norms, structures, policies and processes designed to help develop smooth relationships between the ownership group and the board of directors.

Who Decides What in Your Family Business?
Ken McCracken (2016), Advice and Insight, Institute for Family Business (available at: www.ifb.org.uk/learn/advice-insight/who-decides-what-in-your-family-business)

The author's starting point is that power in a family business is shared among the board, the current owners and the wider family in a way that is often subtle and opaque. He goes on to argue that clarifying this process starts with the owners deciding what power they want to reserve, following which the decision-making can be allowed to "cascade down". He proposes a five-step analysis: 1. What decisions do the owners want to make as owners? 2. What type of power do the owners want to reserve in respect of these matters? 3. Are there any decisions that the owners want the family to be involved in? 4. What type of power do the owners want the family to have in respect of these matters? 5. Every decision that is not reserved for the owners or the family is, by exception, delegated to the board.

Family Guidelines For a Business's Board
Craig Aronoff (2017), The Family Business Advisor, published by Family Business Consulting Group (available at: www.thefbcg.com/family-guidelines-for-a-business-board).

A useful example of board guidelines drawn up by the fourth-generation owners of a substantial family business. The guidelines are designed to underpin an understanding of the relations between the owning family and the board, and to help each group see its role more clearly.

Guidelines for Family Business Boards of Directors
Suzanne Lane, Joseph Astrachan, Andrew Keyt and Kristi McMillan (2006), Family Business Review, XIX(2), pp.147–167.

This article is written from a US perspective, but it provides a thought-provoking summary of viewpoints (often conflicting) in the debate about the role that should be played by a strong board of directors in family companies. See in particular the section beginning on p.158 entitled "Family-Owned Boards Must Be Accountable to Shareholders".

Books

Responsible Ownership: Perspectives on Best Practice
A briefing guide (2007) published by the IFB Research Foundation in association with the Family Business Network.

This guide aims to help family shareholders (and family members expecting one day to become shareholders) to achieve a more effective and successful approach to the ownership of their business. Including advice on managing the relationship between family owners and the board of directors, the guide's recurrent theme is that while owners have the ultimate power in a family business they also have large-scale responsibilities, in particular to ensure the long-term sustainability and prosperity of their enterprise.

What is a Board's Role in a Family Business?
Catherine Bromilow and John Morrow (2014), published by PricewaterhouseCoopers.

The authors discuss the "big-ticket" issues on which family shareholders are entitled to the final say, and acknowledge that shareholders may prefer the board not to be involved in such areas. For example, the owners' strategic vision may be so strong that they don't want any input.

But they recommend tempering this approach, pointing out that companies have failed when they missed the implications of a changing business or strategic environment, or were unsuccessful in their expansion efforts. Family owners are urged to favour consultation, and to seek board input before reaching major decisions.

The Family Council Handbook: How to Create, Run and Maintain a Successful Family Business Council
Chris Eckrich and Stephen McClure (2012), published by Palgrave Macmillan.

This is the first comprehensive guide to family councils and their role in governance. Described by the authors as "an owners' manual for family councils", the handbook provides a reference for business families wanting to find answers to a specific question about how to start and maintain a family council, or how to enhance the performance of an existing one, and it includes practical advice on managing the relationship between family owners and the board of directors.

Building a Successful Family Business Board: A Guide for Leaders, Directors and Families
Jennifer M. Prendergast, John L. Ward and Stephanie Brun de Pontet (2011), published by Palgrave Macmillan.

One of the most comprehensive studies available of family business boards. See, in particular, Chapter 10 on "Linking Family and Business Governance in Later Generations", which includes discussion of two distinct challenges – how to address confidential board information, and how to deal with direct contact between family shareholders and independent board members outside the boardroom.

Family Business Governance: Maximizing Family and Business Potential
Craig E. Aronoff and John L. Ward (2011), published by Palgrave Macmillan.

Chapter 7 (p.69) on "Managing Communication Between Family and Board" emphasises a range of benefits stemming from planned linkages, including shaping younger family members' expectations about the board and deepening their understanding of the role of the family in relation to the board. The authors go on to list a range of ideas for improving communication links.

Family Business Challenges

The Family Business Challenges second edition series includes 18 guides overing three areas:

Family business dynamics
No.1 Understanding Family Business
No.2 Maintaining Family Values
No.3 Developing Stewardship
No.4 Engaging the Next Generation
No.5 Planning Succession

Family business governance
No.6 Building Family Governance
No.7 Managing Differences
No.8 Fostering Responsible Ownership
No.9 Strengthening Family Communication
No.10 Professionalising the Board
No.11 Enhancing Communication with the Board
No.12 Employing Advisers

Family business management
No.13 Fostering Entrepreneurship
No.14 Embedding Long-term Orientation
No.15 Promoting Sustainability
No.16 Maximising People Capital
No.17 Branding the Family Business
No.18 Selling the Family Business

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Simon Perry, Author. Simon is a law graduate and trained as a barrister. He moved into publishing in the early 1990s. His work focuses on family businesses, writing academic and practitioner analyses and family enterprise histories.

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