IFB Research Foundation

FAMILY BUSINESS CHALLENGES

No. 10

PROFESSIONALISING THE BOARD

Practical guidance for family business owners and managers

SECOND EDITION

No.10 Professionalising the Board

Section 1. INTRODUCTION

The family business challenge often centres on resistance to "professionalising" the board of directors. Many families fail to recognise that their business has grown beyond the point where it can be effectively managed by their family partnership. Even when they recognise the turning point, they may have fears about confidentiality and other worries (see Exhibit 1).

Exhibit 1: Boards with non-family directors – some common misconceptions

Misconceptions	*Why they are misconceptions*
We'll lose control	Family owners hold the votes and structure the board to meet their needs.
We'll lose our privacy	Disclosing financial performance data is a crucial management tool, and well-chosen non-family directors will treat the information as confidential.
Outsiders won't respect our values	Directors will recognise how your values help provide the business with a competitive edge.
They'll squeeze out family members	Competent and committed family representation on the board is invaluable, and nobody can be squeezed out against the owners' wishes.
I don't know who to choose	Ask business peers and other companies. Join networking organisations. Family business owners often have more resources than they realise.
Someone advised me to hire this person	Whatever the source of the introduction, do your own due diligence and screen the candidate carefully.

Family businesses face unique challenges in ensuring they have effective board dynamics. This is because family issues sometimes become intertwined with business issues. When the two overlap they can distract management and the board.

Building an effective family business board. The board should provide the basis for clear decision-making, supported by effective leadership, where management is held to account. Professionalising the board provides the basis for a logical organisational structure and clear decision-making. It helps avoid confusion and procrastination, and promotes family firm stability and continuity. Key characteristics are an appropriate board structure (often supported by committees); membership that includes competent and experienced non-family directors, both executive and independent non-executives (see Exhibit 2); regular meetings; a well-organised and managed agenda; and an environment that encourages candid discussion and healthy debate.

Exhibit 2: Definition of an "outside/independent" director

"A director who has no employment or other significant tie to the company or the family, apart from his or her role as a director. This means the director isn't a significant customer or vendor, isn't involved in other business ventures with a family member, and doesn't have other relationships that would interfere with his or her ability to exercise independent judgment."
Source: Catherine Bromilow and John Morrow (2014) Building or Renewing Your Board, PricewaterhouseCoopers, p.5.

Overcoming resistance. Structural changes are usually straightforward, but the required change of mindset is less so. A company based solely on informal family relationships is not sustainable in the long term. Some companies have a transitional phase with an advisory board to help overcome family fears about losing control: this structure can be seen as a "safe" way to introduce outsiders, because it has no legal status (power remains with the owners) and it is easily dissolved.

For family company boards, independent directors play vital roles in driving competitiveness and improving family business sustainability. They can provide:

• A fresh, creative perspective and more transparency, supporting improved decision-making.

• Strategic oversight and greater focus on the "big picture".

• Governance rigour – a source of questions and extra accountability, enhancing decisions, particularly concerning the company and its relationship with the family owners.

• Guidance and support on tough issues including succession planning, family management appointments and the retirement of senior family executives, helping to bring clarity to emotionally charged situations.

• A signal to employees and other stakeholders that "Our family firm means business!"

Non-executive independent directors can be especially valuable. They bring a dimension of experience and objectivity, sharing their knowledge, and they can play an important role in the board's relationship with family shareholders, acting as consensus builders. With nothing to prove (no ego issues) they are usually good listeners and self-confident team players.

Finding the right board members. Run a skills gap analysis ("Where are we and what are our needs?"). As well as general business knowledge plus specific skills that are being sought, directors should bring experience, independent thinking, inquisitiveness and sound judgement. Candidates should preferably understand family business culture. (See Exhibit 3 on board composition and numbers.)

Exhibit 3: The numbers game

"Always have an odd number of directors to avoid deadlock, and ideally a board should include at least three independents. One or two independents can be isolated, whereas three bring much more creativity, challenge and courage, and much less politeness – in short, three contribute the most in terms of family company boardroom dynamics."
Source: Professor John L. Ward, speaking at IFB Master Class 5, London Business School, 7 September 2004.

Don't discount family board members, who are usually key in sustaining the firm's vision and values. There shouldn't be a bar to talented family members becoming board members. Offer them education programmes to fill gaps in their knowledge and improve their eligibility.

Organising the board. Have written rules and guidelines defining the role, functions and operations of the board. Such a charter should also regulate how and when the board communicates with the family and vice versa. (See the "Enhancing Communication with the Board" Challenge in this series.)

Well-balanced family businesses boards combine owner representatives, non-family talent and independent directors. A professional, effective board is a value-adding resource – a catalyst for strategic thinking that will promote long-term success and sustainability.

Section 2. ACTIONS TO CONSIDER

- What are the sources of resistance to professionalising the board at our company?
- How best can we address resistance, leading to strengthened board oversight of the company?
- How do we redefine the role and purpose of our board?
- What skills are missing in the boardroom? What is the profile of independent directors that would be most helpful?
- How do we find and select independent directors?
- What is our policy on the eligibility requirements for family members to serve on our board?
- How will a board that is balanced with non-family directors relate to the family owners?
- What guidelines will help us manage the board and its relationship with the owners?

Add Your Questions

CASE STUDY: Samworth Brothers

Samworth Brothers

QUALITY FOODS

"Succession was the catalyst for professionalising the board at our company," explains fourth generation Mark Samworth, director of Leicestershire-based food producer, Samworth Brothers. "From the mid-1990s the family began preparing for the retirement of my father, Sir David Samworth, and I was the first to admit that the business was becoming too big to expect family members to be able to run it. It deserved the best qualified people."

The lead-up to Sir David's retirement in 2005 was also a period of rapid expansion for the group. The family decided to pursue a decentralised business model, and established a two-tier board structure to be staffed largely by professional managers – a Holdings Board (responsible for strategy and culture) and a Group Executive Board (coordinating operations).

Sir David, as chairman and chief executive, had always run a well-functioning board system that included other Samworth family members plus one or two MDs from the operating businesses.

But it was time for change and the business now has fully formed, professional boards, including on the Holdings Board an independent chief executive, three independent non-executive directors, plus Mark Samworth providing essential links with the owning family.

"This change was a brave decision for my father," explains Mark. "We had to set aside a lot of emotional issues and do what was right for the business, giving it the maximum support, stopping us becoming too defensive. And that meant attracting and retaining the best people from outside."

Mark sums it up well: "As a family we owe it to the business to ensure good management as well as good ownership."

Section 3. RESOURCES

Articles and reports

Keeping it in the Family. How Independent Directors Add Value to Family Businesses
Executive search firm Odgers Berndtson (2014; available at: www.odgersberndtson.com/media/2258/keeping_it_in_the_family_-_how_independent_directors_add_value_to_family_businesses_01.pdf).

A discussion paper on appointing independent directors, and about deploying, motivating and involving them appropriately. There are sections on attracting independent directors to a family business, and retaining them. The authors conclude that, "Independent directors who make the successful transition from non-family to family-owned businesses appreciate and understand the family ownership structure and the idiosyncrasies that can accompany it."

Selecting Board Members: Guidelines for an Effective Nominating Process
Michael Fassler and Jennifer Pendergast (2017), published by Family Business Consulting Group (available at: www.thefbcg.com/selecting-board-members-nominating-process).

Ideas and guidelines on how family firms can ensure they have the right directors, and that they will be trusted and respected by owners and management. The authors argue that a well-designed nominating process is key to getting the right people in place, and they describe a five-step search and screening process covering both family and independent directors: 1. Select a nominating committee; 2. Specify candidate qualifications; 3. Identify potential candidates; 4. Screen, select, and recommend candidates; and 5. Nominate candidates for election by the shareholders.

Preparing Owners for a Non-Family CEO
Otis Baskin and Christopher Eckrich (2017), published by Family Business Consulting Group (available at: www.thefbcg.com/Preparing-Owners-for-a-Non-Family-CEO).

Family businesses most often start out with a family member as CEO, but as needs evolve the family owners often decide to hire a non-family CEO. This article discusses the implications of such an appointment, offering guidance aimed at ensuring a successful leadership transition. Ideas are presented about family oversight, branch representation on the board, and building relationships with the CEO based on mutual trust and respect for the boundaries between ownership, management and the board.

Books

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

A comprehensive study of family business boards. See in particular Chapter 2 ("Truths and Myths About Boards"), which presents a discussion on family company resistance to professionalising the board, aiming to counter common fears and misconceptions about independent directors. Chapter 11 is targeted to the directors of family enterprises, discussing how they can add maximum value by asking the right questions, supporting the CEO and helping draw a line between family and business issues.

Building or Renewing Your Board
Catherine Bromilow and John Morrow, published by PricewaterhouseCoopers (2014).

A practical guide to issues and factors for consideration once a family business is rethinking the composition of its board of directors. The authors recommend analysing the role the board is expected to play, which leads on to identifying the knowledge, skills and attributes needed from directors. This list can then be compared with the skills available on the current board in order to identify the gaps, and a useful "Board composition grid" is provided to help structure this comparison. The guide also includes a section on involving family on the board.

IFC Family Business Governance Handbook
Published by the International Finance Corporation, a member of the World Bank Group (2008;

available at: www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+cg/resources/guidelines_reviews+and+case+studies/ifc+family+business+governance+handbook).

A guide for family businesses seeking to strengthen their family governance practices. Section III discusses the role, structure and composition of the board of directors in a family business as it grows in size and complexity. It examines typical board developments over time, divided into three detailed sections: 1. Advisory boards; 2. Board of directors; and 3. Independent directors.

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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