

# How to choose a Family Business NED

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Non-Executive Directors (NEDs) can add value to a family business in many ways.

- They bring outside experience and independent judgement to bear in major matters requiring board decisions.
- They can act as a link between the board and shareholders.
- They provide the benefit of their personal contacts.
- They help to ensure that the overall governance of the family business operates effectively.

The role of NEDs in the governance of listed public companies has increased in prominence in response to investors' concerns about excessive executive remuneration, control over board appointments, evaluation of board performance and the relationship between the board and the company's auditors.

To address these concerns, in UK plc, the governance functions of audit, executive pay and the nomination of directors are referred to permanent board committees in which the majority, and sometimes all, of the members are NEDs.

To strengthen the autonomy of these NED's, the corporate governance codes and guidelines advocate that NED's should be independent and free of any commercial or personal ties that could impair their ability to probe and challenge the board.

In privately owned family businesses, the requirements on independence can be difficult to apply since the choice of NED is often influenced by a prior relationship that helps to increase the levels of trust and respect between the controlling family and the NED.

This does not mean that NED's in a family business should not be independent; it just emphasises the importance of NED's having an independent mindset and the courage to base decision-making on the merits of a decision rather than extraneous influences such as relationships with family members.

Family business owners might want to ask the following questions of their NED candidates:

- What is your experience of working with family businesses?
- What type of family business have you worked with; first generation or multi-generational; single business or diversified enterprise?
- By way of example, what type of non-financial performance measurements could be included for the NED of a family business (and do these fit with the controlling family's values)?
- What are some of the advantages and disadvantages of a family business compared to other businesses?
- Why would you recommend working for a family business?

- In what areas would you expect the governance of a family business to differ from other types of business?
- Will the NED be a safe custodian of our values and our wealth?
- Will we get on with the NED? How adaptable are they to our ways?
- Will they seek too much independence from the family?
- Will they be approachable?
- Are they comfortable communicating with different generations of our family?
- Will the NED be willing to stand up to the different interests in our family business and act with uncompromising independence when that's needed in a way that helps us to balance the best interests of everyone with a stake in our family business?

Maybe that sounds a difficult job, but if a family business finds a NED candidate who impresses with their answers to these questions, they're probably worth hiring.

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