

Attracting Top Board Talent: The Power of the Board Prospectus!

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Whoever sits around the boardroom table of a family business wields tremendous influence on the performance and continuity of that family business. Therefore, selecting board members – both family members and independents – is a crucial step in getting the right mix of talent around that table to help achieve this feat.

Of the 10 Board Development Steps that we follow at The Family Business Consulting Group, step #4 – the development of a board prospectus – is the one action step that brings family owners and executives into alignment; and pulls together an articulated message about the strategy of the company and the type of board members that match the firm's strategic direction.

Board Development Process Steps

1. Evaluate the current board structure on its effectiveness, whether that be a family-only board, advisory board, fiduciary board with independents or some combination.
2. Develop board parameters and a structure that blends family members and outside board members.
3. Develop the desired profile for board members. The profile for outside board members is usually more stringent than the profile for family members.
4. Develop a board prospectus to articulate the historical perspective, strategic vision and direction, agreed-upon board structure, and board member profile.
5. Identify a pool of board candidates and contact candidates, sharing the board prospectus to determine a level of interest.

6. Screen initial candidates with phone interviews to recommend best potential matching candidates.
7. Conduct face-to-face interviews using a list of guideline questions with candidate and team charged with making board member recommendation.
8. Recommend outside board members.
9. Determine slate of board members and officer positions.
10. Prepare for and integrate new board members.

Developing the Prospectus

We strongly encourage the family owners, or the committee that is guiding the search process, to spend the time in deep discussion about what should be included in the board prospectus. The collaborative process of creating the prospectus gets your team on the same page. We find a well-written and laid-out board prospectus greatly increases the probability of attracting the best board talent. It sends a clear message of the character and professionalism of your business.

Elements that help create a strong, content-rich prospectus include:

- A brief history of the company
 - A family generational diagram
 - An explanation of the ownership and management structure
 - Business overview including high-level guidance statement of the values, vision, purpose and strategic direction of the company
 - Board members' roles and responsibilities
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- Board member desired qualifications and character traits
- Board meeting information: frequency and location of meetings, committees, biographies on board members, compensation, term and protection (directors and officers insurance)
- The contact information of person conducting the board search

Implementing the Prospectus

The most critical piece for locating the best-fit candidates is rigorously applying the desired qualifications and traits during the search process. While qualifications and traits vary by company, we have observed that certain ones tend to screen out the stronger-matching candidates. The search committee should use a list of desired qualities to compare all candidates under consideration. These include the following:

Family Business Experience

While public company leadership experience can be beneficial, it is paramount to bring on board members with family business experience. Board members with mainly public company experience are accustomed to spending more time on compliance and regulations rather than on strategy and ownership matters. Contributing board members possess familiarity with the unique complexities of a closely-held family business and experience working within the dynamics of a multi-generational family business.

Take, for example, a board member who was added to a family business board because of his marketing experience and significant leadership roles over a lengthy career in publicly-owned companies. Within two board meetings, it became clear that he could not effectively maneuver around the need to have family members working in the business alongside non-family professionals for the long-term continuity of the family business. Comments like “family members don’t have to be involved in the development of the marketing strategy” did not fit with the plan to educate the next generation on the critical elements of the family business.

Industry Experience

Having at least one independent board member with deep knowledge about the company’s industry is

beneficial, while equally valuable is to have board members from different industries and thus different perspectives.

Demonstrated Results

There are plenty of candidates with many experiences, yet fewer have a track record of quantified leadership results. Seek out specific responses on how a candidate has produced meaningful results in his or her career.

Financial Acumen

It is basically a given that any board member must have financial knowledge, particularly in helping to discuss the various options to improve the income statement, balance sheet and cash flow. Being a member of an audit or compensation committee is also a big plus.

Stewardship Mindset

Understand the role of steward thinking: maintain and hold management accountable for performance and results, AND help management develop a successful family enterprise.

Collaboration

Demonstrated ability to work, listen and contribute in a team environment. Able to work cohesively with family members, executives and board members.

Tool for Leveling the Playing Field

Having a solid prospectus in place is only effective if it is used to fairly evaluate all prospective board members during the selection process. A case in point was a family business recruiting two independent directors to their board for the first time in company history. They were flattered when a famous person in their industry expressed interest in serving on their board. The search committee immediately decided to extend an offer without following up on the candidate’s fit with their full set of criteria in the same way they had done with the other candidates. The result was that one candidate was selected by the full process described here and the other by a short-circuited process based upon his reputation.

Both new independent directors were announced to the owners and the industry as additions to the company’s board. Five board meetings and 18 months later, the famous new director had never attended a meeting. The other independent director found herself shouldering the entire responsibility designed



for two directors and the managers and owners were embarrassed. Finally, the board arranged a conference call with the famous director in which he admitted he did not have time for their board. An awkward and potentially reputation-damaging experience might have been avoided by applying the prospectus criteria and recruitment process equally.

The Prospectus as an Interview Guide

Interview questions about the candidate's experience and results will help determine the strength of the match. After narrowing the pool of candidates based upon the fit between their credentials and experience with the criteria in the prospectus, the search committee should confirm each candidate's fit in the interview process. Other questions that have no-right-answers are also quite revealing.

- Why are you interested in this role? We like to hear responses about how they can contribute versus the desire to learn.
- Who is the board accountable to? We get all types of responses on this one, including shareholders, other board members, myself, all stakeholders.

- What questions do you have about what you read in the board prospectus? The answer to this question reveals how prepared a candidate is and how thoughtful he or she is about digging deeper into the workings of the business. If the candidate references the Prospectus and asks meaningful questions, it is highly likely he or she will be similarly-prepared for board meetings.

In summary, there are many important documents that govern a family business: shareholders agreement, bylaws, family constitution, strategic business plan and estate plan. Yet to help select strong governing board members who will carry out the provisions of all these documents, there is nothing more important than a board prospectus.

We value confidentiality. Examples mentioned in this article are hypotheticals, composites or amalgams based on our client experiences.



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