No doubt you’ve heard countless times that independent directors are a valuable resource for family business boards. Our consulting work and research lead us to suggest independent directors are a key to board effectiveness. Yet, focusing solely on the independent directors overlooks the contributions owners make on a family business board.

In fact, focusing exclusively on how to develop an independent board ignores a majority of our audience. In a survey of family business boards ranging from less than $10 million in revenues to more than $500 million (with owners in the first generation to the fifth and beyond), slightly less than half of survey respondents have a functioning board, defined as one that meets three times a year or more. Of those with functioning boards, only 35 percent have independent directors; whereas the majority, have owners on the board. Rather than ignoring these boards, we need to focus on ways that owners can contribute as directors.

Another reason to focus on owner-directors is that they are not a homogeneous group, so we benefit from studying them to understand what they bring to the boardroom. Owners on the board represent two distinct groups: owners who are employees of the family business, and those who are not. We expected survey results to show that most owner-directors were also employees. In fact, 60 percent of survey respondents with functioning boards have non-employed owners serving as directors. Given the predominance of owners, and particularly non-employed owners in the board room, what can be done to ensure these owners are strong contributes to the board?

First, the role and responsibilities of directors need to be clarified. Owners should sit in the boardroom to serve on behalf of the full ownership group and not to represent their personal interests. As a director they have a fiduciary responsibility to ensure the business is well-managed. To fulfill this responsibility, they must have a solid understanding of the dynamics of their industry, the strategy of their business and the drivers of financial performance. Beyond these business skills, they need to be well-respected within the family and have strong communication skills. Finally, they need to clearly understand and respect the differing roles of owners, management and board.

To develop a qualified pool of owner directors, families must invest in educating owners. Our research shows that only 14 percent of boards with non-employee owners have a formal process for preparing directors to serve. Family meetings are an ideal venue for holding sessions on the role and responsibilities of board and owners, and business and industry dynamics. Involving all owners of a reasonable age in these sessions expands the pool of director candidates and ensures that family
members who are interested, but may not have a business background, could be made eligible to serve on the board.

In a situation where the ownership group is large enough that all owners do not sit on the board, the ownership group needs to set a process for determining which owners will sit on the board. We recommend establishing qualifications for serving on the board and creating a process for accepting nominations. Our research shows that the director selection process varies widely. In some cases, senior generation family members select the directors, sometimes to replace themselves on the board as they retire. In others, family branches select representatives. In still others, nominations are accepted and an election is held with those receiving the highest number of votes earning a board seat.

There is no right answer for the selection process. The key to success is that the ownership group considers the options and gain consensus around model to be used. Clear communication of the process is important to set expectations for future family board members. Planning for the future is essential as well. As the ownership group and business evolve, there may be a need to change the model. For instance, in many early generation businesses, all owners (and sometimes even spouses) may sit on the board. This model can become impractical as the ownership group grows. Anticipating the future and setting a model that will work before you need it can reduce family tension and ensure a strong board.

Serving as a director on the board of a family business is a privilege and a responsibility. The family and the business are best served when all directors, family and independent, are adequately prepared and committed to doing the valuable work of the board. Following some of the steps we have detailed here will help you ensure your family directors are able to be full contributors to the family business board.

Jennifer M. Pendergast, Ph.D. is a senior consultant with The Family Business Consulting Group, Inc., and can be reached at pendergast@thefbcg.com or 678.296.2190.

Stephanie Brun de Pontet, Ph.D. is a senior consultant with The Family Business Consulting Group, Inc., and can be reached at brundeponte@thefbcg.com or 678.773.1675.