

# Family Guidelines for a Business's Board

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In its fourth generation, a substantial family business decided to add outsiders to its board. Concerned family leaders wished to assure that outsiders understood and would abide by the family's goals and values. To accomplish that, the family prepared guidelines for the board of directors. We think their effort (outlined below) is instructive for all family businesses. -*Craig Aronoff*

The four living generations of our family, who hold over 95% of the equity in our family business, have prepared these guidelines for the corporation's board of directors. The family does not intend to micro manage board decisions. These guidelines are intended to provide a clearer understanding of the relations between the owning family and the board and to help each group see its role more clearly. Whenever there is uncertainty about an issue, we urge board members and family leaders to promptly communicate with each other in order to bring quick resolution to the issue. Our company is long-established and successful. We entrust the company to the board and management and expect that they will continue the tradition of growth and success.

**INTRODUCTION:** The company has been in business for over 100 years. We take the long view. Past generations built the business for us. We must continue building the business for future generations. Short-term gains should never take precedence over long-term success. In weighing decisions and actions, the board should always emphasize the long-term benefits. Reputation, carefully nurtured over many years, is a primary asset. The company's reputation must never be jeopardized by hasty or ill-considered actions.

Certain general precepts have guided the business. The primary ones are embodied in our corporation's values statement. The board must take an active role in making these values the solid basis for current decisions and actions. In addition to the cornerstones, the company has always operated frugally, keeping staff lean and facilities efficient but unpretentious. This style should continue.

The company has always grown. Our expectations are for continued growth, in accordance with annual and long range plans.

**SHAREHOLDER VALUE:** The primary responsibility of the board is to build long-term, sustainable shareholder value.

**DIVIDENDS:** One aspect of shareholder value is dividends. Dividends are expected to be paid regularly. Dividends should be paid in accordance with business needs and an acceptable return on shareholder value. If the board believes a change in dividend policy is needed, it will consult in advance with the family council.

**RISK TOLERANCE:** Risk is inevitable in business, but no actions should be taken whose failure might threaten the survival of the company. Consider the worst case and the upside potential when weighing decisions.

**CAPITAL STRUCTURE:** A debt-equity ratio of greater than one-to-one should only be undertaken after consultation with the family council. No sale of equity or issuance of equity should occur without shareholder approval, except for issuance and repurchase under the existing Stock Option Plan. No repurchase of stock should take place without approval of the board and the family council.

**OWNERSHIP:** We expect that the majority of outstanding shares will always be held by the members of our family, and the ultimate control of the company will lie with the family, which will usually exercise its control through family organizations.

**LEADERSHIP:** At least one, and preferably more, of the senior corporate officers should always be a family member. The management development of family business leaders should be a major objective.

**MANAGEMENT DEVELOPMENT:** A major board responsibility is to insure that a satisfactory management development process is in place for both family and non-family employees. The needs of the business should always be the criteria for choosing company leaders. However, when a family employee and a non-family employee are equally qualified in all respects, the family employee should be given preference. Family employee job responsibilities and career development should be reviewed annually by a committee of corporate officers.

**ACCOUNTABILITY:** The board is expected to hold all managers accountable for satisfactory performance and for accomplishing what they commit to do. The board should not consider family membership as an acceptable excuse for unsatisfactory performance.

**SUCCESSION PLANNING:** The board is responsible for timely development, implementation, and communication of satisfactory plans for the orderly succession of top leadership and for the emergency replacement of senior managers.

**MANAGEMENT COMPENSATION:** There should be a written compensation policy for senior managers, available to the family council. This policy should cover salaries, bonuses, stock option grants, and any fringe benefits different than those provided all employees.

**DIVESTITURES:** Neither the company nor any major divisions or subsidiaries may be sold without shareholder approval.

**ACQUISITIONS:** An acquisition or transaction which would affect the desired debt-equity ratio or other elements of the company's capital structure should receive the prior approval of the family council.

**SHAREHOLDER RELATIONS AND COMMUNICATIONS:** The company will budget for an effective shareholder relations program in cooperation with the family council. The company will provide substantially the same information normally provided to shareholders of public companies, including annual and quarterly reports and announcements of significant events, positive and negative, on a timely basis. The family council will be given a timely opportunity to review and comment on the company's annual profit plan and the yearly update of the strategic plan.

**LIQUIDITY:** It is a long-term objective of the family to provide liquidity to those shareholders who desire it. The board should work with the family council to develop plans to attain this objective. However, long-range company financial health will not be sacrificed to attain liquidity for shareholders.

**BOARD SEATS:** The family council will make recommendations to the nominating committee for persons to fill seats held by inside directors on the management slate for board elections. A vacancy in a board seat held by an inside director should be filled by a person recommended by the family council and appointed by the board. The board will be responsible for seeking outside directors to fill seats held by outside directors. The board will advise the family council of its activities in this area in a timely manner.