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Filling a Board Vacancy:
Using Gap Analysis to Capture Opportunities

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Whether you have an advisory board with a few independents, a predominantly family board or a professional board with a majority of independent directors, a vacancy on an active board creates an opportunity to bring in needed knowledge or new ideas, with a few key constraints. In contrast to family firms that are establishing their first board or reconfiguring their entire board, when replacing one director that individual must be the right fit with all other family and independent directors on the current board. This includes;

1. the skills or knowledge that individual brings to the mix,
2. their anticipated tenure with respect to director terms and, of course
3. personality and culture alignment.

Thus, how does a Governance or a Nominating Committee considering one new director take advantage of the opportunity to add significantly to the board's value and functioning — without disrupting the balance and contributions that current directors bring to the table?

The Advantages of a Thoughtful Process

As with many changes in family firms, it is usually a good idea to focus not just on the task, but on how it is accomplished. Although the selection of director candidates is a board decision, you might consider a process that listens, responds and facilitates buy-in from all key stakeholders. Even if there are known differences in opinion about the qualities of the next director, and solicited shareholder opinions are not expected to converge, genuinely asking for input demonstrates a sincere interest on the part of the nominating committee. If family shareholders believe they have been heard they are more likely to accept the conclusions of the nominating committee, even if they don't agree with them.

Gap Analysis Areas of Consideration

Whether it is the board's nominating committee, the full board, the family council or an ad hoc committee of shareholders, the group conducting the analysis of the gap to be filled by the next independent director should consider four areas:

1. **Business strategic needs.** Take a broad view of strategy; what is the planned business direction for the next several years? A new director profile may specify experience with a particular new target market, acquisitions or expanding business through new product development. Nominating committees can in part assess board gaps by consulting the strategic plan and by seeking management input about director characteristics they believe would most assist them. What do existing directors bring to the strategic discussions now and what kind of experience would management like to add?

   When considering candidate backgrounds, many boards have benefited by looking outside their industries to find directors who have experience with similar strategic challenges. A family-owned distributor may benefit from a director knowledgeable about manufacturing, as both industries may be experiencing pressure from domestic and international competitors and consolidating customer markets. While some boards benefit from independent directors with deep industry knowledge, for most businesses their primary industry experts are typically and appropriately, insiders.

   Still, a director should not be recruited to fill a gap more appropriate to a manager or an outsourced role such as a consultant. For example, if a business priority is to develop a senior management incentive program to attract and retain better management talent, a new director who has this capability may make only a limited contribution. Consider whether a compensation consultant might be a better way to address that need.

2. **The expertise, functioning and culture of the current and future board.** Assessing the culture of your board will allow you to articulate requirements for a cultural fit. Is there a balance between fiduciary oversight and support to management that works well? If so, a new director must be able to reinforce the stability. Many family firm boards describe their culture as low-ego, thus humility would be a must-have trait. Emotional intelligence goes a long way in creating and sustaining a board culture of collaboration and collegiality. Does a board culture of innovative thinking, promoting strategic experiments in the business and constantly testing assumptions best serve the company?

Answering these questions informs the nominating committee about required traits from director candidates, traits which might conflict with the culture, as well as preferred traits intended to modify the culture in a desired direction. For example, a new director may in part be sought to shift the board culture toward a greater emphasis on management accountability to support a transition from family led and managed to family owned and governed.

Consider the board over the next few years; will there be other retirements that will require replacement and affect the culture? What are the strengths represented by the current board and what contributions are not now adequately represented? Are current independent directors considered too quick to defer to what the owners want, complacency that limits their preparation for board meetings and contributions during the meetings? Would a candid shareholder and CEO of another family firm help transition the current board toward greater investment in time and energy and commitment?

Regarding the functioning of the current board, what is needed now for the board to become a better team? For example, would it be best if an independent director were recruited who could become the next board chair? This is particularly relevant for family firms where the CEO is a family member, or when the effectiveness and value of board meetings can improve. Perhaps a lead independent director is needed who can facilitate the input of the group of independents so that they achieve a stronger voice. Recognize that directors' expertise, experience and even personal attributes evolve with the strategic needs of the business. Good boards regularly assess the quality of the governance function and thus provide nominating committees with a ready source of gap analysis information.

3. **Evolution and dynamics of the family and shareholders.** Consider both the family as a whole and the owner group of family members. How might a new independent director assist the family? Can individual family members benefit from independent director mentoring? We know of several instances where independent directors have made relationship building among the family of shareholders, spouses and future shareholders a priority. In doing so, they helped to reverse the trend of eroding trust over conflicts stemming from multiple family members working together in the business. Anything a new independent director can do to enhance or protect trust in the family is a highly valuable contribution, and requires a particular set of skills and cultural fit.

   Are significant ownership decisions on the horizon? An experienced director with a long-term view of alternative ownership structures can help the board envision the functioning of the next generation of owners and influence current shareholder estate planning. Do we need to develop more alignment between the board and shareholders or within the shareholder group, such as between branches of the family? Is the next generation of shareholders predominantly female, and would a new female independent director assist a transition from a maledominated shareholder group in a male-dominated industry? Ask for input from family member shareholders through a survey, or by directly consulting influential family leaders. If a family council exists, engage them in the process of reaching out to the family on these questions.

4. **Needs of management.** Consider what would be helpful for strengthening management. Can management benefit from more involvement from the board or a few directors assisting with next generation involvement in the business? This might especially be the case if there is a non-family CEO who must deal with family shareholder parents of children working in the business, some of whom may have been previously involved in management and are now on the board. Certainly, when consulted, management will provide valuable input about how their strategic needs will be assisted by a new director. They can also provide good information about the characteristics of independent directors who have been most valuable to them. We often see "actively engaged in a business" as opposed to retired as traits desired by management.

   Management may not be in a position to constructively assess its own weaknesses. Thus, it will be necessary for the board, independent of management, to assess for itself what particular independent director experience style or trait will best serve the needs of management. For example, could a director be sought with the skills and chemistry needed for mentoring a less experienced CEO?

Finally, when considering profiles to avoid, we encourage you to consult the book, *Building a Successful Family Business Board* by Pendergast, Ward and Brun de Pontet. The authors discuss the disadvantages of board members who are paid advisors, friends, those serving on multiple boards, retirees and division heads.

As with so many aspects of family business planning and governance, there are a lot of moving parts to consider in the decision of what profile to seek out in a new board member. By getting the input from several sources and conducting a gap analysis from several perspectives, the next independent director profile can be developed and communicated as a ranking of needs into required "must have" and "nice-to-have" categories, enabling you to provide clarity on the profile that will have the strongest possible impact.

As you think about accountability in your family business and how you can influence it, remember that accountability is about more than intentions; it is about exhibiting behaviors and achieving results to which you have committed. As humans, we tend to judge ourselves by our intentions and others by results. So it can be hard to be objective about ourselves when we ask, "Am I being accountable?" Your credibility as a leader influencing others about being accountable will largely turn on whether or not you are perceived as being accountable yourself.

Successful family businesses are built on family members having sustainable relationships that allow them to work together effectively. Accountability goes hand in hand with sustainable relationships. You can't have one without the other. Accountability will sustain relationships and it is these relationships that sustain enterprising families across generations.

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