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Graceful Exits: The Art of Board Revitalization

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At some point in the life of many boards, founders and their families realize the business will benefit from adding new blood to the board. This reality leaves business owners pondering how they can show respect, appreciation, and gratitude to current directors for past loyalty, friendship, and contributions, even as they are being asked to leave.

Suggestions for Demonstrating Appreciation, Respect and Recognition

We recommend making the transition less about substituting a current director with a better replacement and more about genuine appreciation for service, loyalty, and contributions. Emphasizing these positive qualities may require new customs and traditions.

Many family firms establish an Emeritus Director position, allowing for a graduation from the board. Emeritus directors continue to receive full board information packets, invitations to all board meetings and functions, and have their names printed in all materials and publications in which other directors are recognized. Emeritus director positions are non-voting and are not be eligible for committee assignments, but they provide an opportunity for continuity and continued association with the business.

Other ways of showing appreciation and gratitude for service include giving gifts of meaning or personal tributes, such as:

- Donating to a charity of the director's choice in his/her name;
- Commissioning a piece of original art, or sculpture, that features or involves each departing director and highlights what the business has stood for in the past;
- Producing an original video documentary commemorating each outgoing director and the business; and
- Presenting each outgoing director with an individualized gift corresponding to each person's interests (e.g., opera seats, trip to a homeland country).
- Hosting a farewell dinner or party. Invite family shareholders, appropriate employees and other significant individuals to honor the departing directors. This is an ideal time to present special gifts.
- Establishing and inviting former directors to participate on an advisory honorary board, or arranging for individuals to take a seat on a board of an organization that is supported by the business, such as a community board.

- Recognizing former directors with brass nameplates on the backs of board chairs, or commissioning portraits of all retiring board members with dates of service inscribed.

Initiating the Transition

While demonstrating appreciation can be quite enjoyable, initiating a transition of directors can produce significant discomfort both for owners and for outgoing directors. In most cases, the directors were originally selected from the ranks of capable and successful business leaders. They held influence and possessed strong egos, the very traits the business needed on the board. These traits do not always diminish with time, and it is a special person who will step forward and say, "I'm not right for your board now, so I am resigning at the end of the year to allow for new blood." In some cases, the board meeting may also be one of the most interesting components of the director's life, contributing strongly to their self-esteem. Letting go of the director's role can be emotionally challenging.

One possible means of initiating a transition is to conduct an independent assessment of the board's role (past, present and future), involving directors in the review process, relative to the strategic needs of the business and ownership's priorities. Using this methodology, business challenges and market conditions are reviewed, and ideal director skills and experiences are identified in relationship to meeting those challenges. These skills and experiences are then compared and contrasted to existing board members backgrounds and qualifications to demonstrate the need for change. It is not uncommon to use consultants to lead this process, minimizing the need to directly ask for a resignation.

In circumstances where it is very difficult to transition directors off the board as quickly as desired, or when members of management sit on the board, an Executive Committee can provide an immediate improvement while gradual change is made at the board-wide level. An Executive Committee consists of selected members of the board representing an effective mix of talent, perspective and tenure who meet with the CEO to address sensitive or progressive issues. This is different than an Executive Session, which normally is a meeting of the board without the CEO. The Executive Committee might be temporary, covering a transition period that will be phased out as transitions are completed at the full board level.

Some family firms have found that there is no other way than to be direct. They respectfully ask individuals to transition off the board. Often business situations and the value new directors may bring demand turnover in a short period of time. These firms have had success in candidly stating that an individual will not be put up for nomination next year, leaving time for an honorable resignation. Sometimes directors feel relieved, not having been able to bring themselves to resign.

Another way to initiate transition is to bring new directors alongside senior directors. In this type of situation, the chairman may directly ask each director to conform to a set of written qualifications and job expectations for the director role, in hopes that some may decide to resign. Job expectations may include terms for directorships, with the more effective new directors given longer terms. Families find that involving the next generation in creating director criteria often provides the impetus for changing qualifications and terms, which can then be directly communicated to those whose services may no longer be needed.

Suggestions for Emphasizing Qualifications for Governance in the Future

A period of board renewal is an excellent time to introduce best board practices. Staggered terms of three to five years, capping the number of terms a board member may serve, and establishing age limits (e.g., age 70 or one year after individuals retire from active involvement in their respective occupations) all prevent stagnation.

Additionally, a successful chair will perform a regular annual review of the board (and board members) relative to the strategic needs of the business and the priorities of shareholders to determine or reconfirm each year whether the board is appropriately constituted. These approaches can transition the board culture (and expectations of directors) from a club culture to a culture of excellence, designed to meet business and shareholder needs as they change and evolve.

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