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Helping a Smart Board Also Be Wise

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While most argue that management drives strategy, recent research shows that really it's the directors that drive strategy. They do so, very unconsciously, by the biases they bring to CEO selection and strategy evaluation.

Social science suggests we all have two fundamental biases: (1) we are attracted to people like ourselves and (2) we rely on our past successful experience in making judgments — especially in situations that are hard to understand. When these biases are going badly, directors blame the CEO. They often seek a new CEO who thinks as they do on strategy. They endorse strategy proposals that are most similar to their own experience. In short, they pick people and support strategy comfortable to them personally, rather than objectively and freshly exploring all the possible alternatives that might be appropriate for the distinct nature of the specific business they serve as outside directors.

Obviously, when there are several outside directors on the board, those with the longest and greatest strategic success are most forceful and influential. The consequences are clear. Family business owners should understand the strategies of their directors' companies. That way, the directors' strategic preferences can be anticipated. It also is important to manage board meetings so that all the directors can open themselves up to new possibilities and uncomfortable alternatives — both in the selection of strategy and the evaluation of CEOs.

Increasing Board Objectivity

Here are some ideas that may increase your directors' objectivity and ability to explore different possibilities:

- Ask directors to be devil's advocates of your ideas or their own ideas.
- Expose your own biases when you present ideas.
- Question directors on how the situation considered is similar to and different than their own experience.
- Probe presenters for the circumstances under which their recommendations wouldn't work.
- Bring in experts or other directors who have had success with very different strategies.
- Select directors who've had a diversity of strategic success formulas.
- Celebrate those who have the courage to change their mind.
- Support directors who propose multiple ideas rather than one conclusion.

Managing a board discussion is a difficult balancing act. You want to draw out directors' convictions based on their successful experience. You also want them to imagine and embrace all new alternatives. To us, that's the difference between a smart board and a wise board.

Governance Questions for Your Board

So often, we meet family business boards who feel misused and underutilized. The circumstances are common. The board becomes accustomed to presentations by management and questions and answers between the directors and the management team. Over the years, the discussions increasingly evolve toward matters of less and less importance that fail to use the directors' competence. Almost inevitably, the company hits a rough spot, struggling with performance or leadership problems. The directors fret that they haven't been proactive enough, haven't debated more broad strategic topics, haven't challenged basic assumptions. Everyone feels bad, and the horse may well be halfway out of the barn. To avoid this classic pattern, consider a couple of very simple, yet rare steps.

1. Cause the independent directors regularly to meet alone. Ask them how they'd like to use board meeting time.
2. Create board time for pure discussion without management present. Just see where the conversation drifts.
3. Meet each independent director privately and individually to ask for their two or three major concerns for the company. Present the results.

Good people on the boards of good companies often sedate themselves into conflict avoidance and less risky discussions. Ask the board to provide leadership on the key governance questions:

- What do you see as the potentials and limits of our strategy?
- How do we best evaluate and provide feedback to the CEO?
- Why do the owners want to be owners? What are their goals?
- How prepared are the owners for continuity and responsible family ownership?
- What are the board's objectives?

Boards can be treasured resources to family firms. To extract their potential requires everyone to stretch into the uncomfortable issues of governance.

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