Successful Family Directors Are Not Born, They Are Planned and Developed

By: Stephanie Brun de Pontet, Ph.D., The Family Business Consulting Group

Caleb has been working in his family's business for the past five years. The first two years doing a rotation program which gave him exposure to a wide range of company departments, and for the last three years, he has been cutting his teeth in sales and recently territory management for product distribution. Caleb works hard but is eager to be involved in higher-level decisions and has been advocating for a "seat at the table" – asking to at least sit in board meetings. His mother Susan serves as the Chair of the board and she is uncertain if this is a good idea, though her cousin, the CEO is advocating on Caleb's behalf...

Even families with well-established professional boards that include capable independent directors, good board processes and value-added meetings will run into challenges around the role of the family with the board of directors. Let's consider some of these issues to highlight the underlying dilemmas and trade-offs that may need to be considered when determining the right path for your own family's board.

Ill-prepared family directors and overlapping roles

Most family businesses start with an informal board that may be comprised of all family owners and perhaps a few key non-family executives. While this forum provides a way to update owners on key matters impacting the company, it is rarely the right group of stakeholders to bring the depth of insight, oversight and objectivity that is most valuable from a more formalized board of directors. Often, when leaders recognize that their board would benefit from the perspective of independent outside directors, these individuals are added with little planning done around the role for and preparation of family directors as the board's role and mandate evolves.

As a result, you may end up with family directors who are not clear on their role and how they are expected to contribute. In the case of family directors who also work in the business – it can be challenging to shift perspective from their operating role to that of oversight of management. In fact, this can create awkward situations when you have a younger family member, who sits on the board by virtue of their ownership, engaged in oversight discussions about a senior leader in the business who is "several levels above their pay grade."

A family member who works in the business may bring the qualifications of understanding the business to their role as a director, but that is not sufficient. Navigating this 'dual role' for family directors who also work in the business requires that the family develop guidelines around this complexity and underscores the importance of specific board training and mentoring for operating owners who also serve as directors.

Two-tiered board

Family owners who are not working in the business also need training so that they can contribute as full members of the board. Too often I see cases where family directors (especially those who do not work in the business) do not feel like they have much to contribute to the conversation at the board level, therefore they rarely engage and eventually are seen more like observers than 'real' board members. This is a complex and touchy subject because it can be the case that the business has recruited accomplished independent directors whose business experience way exceeds that of any family member, making it intimidating (and at times inappropriate) to weigh in on matters far outside the scope of competence of a given family director.

The most important way to address this challenge is to make sure everyone: family, management and independent directors, are clear and aligned on the role and importance of family directors at the board. The owners need to articulate why they want family directors and how those individuals are expected to add value to the board. Independent directors and management need to understand and value this important role so that they make a point of seeking out family directors on key topics or matters that the family has deemed of special importance to the owners. In addition, the Chair and/or lead independent director needs to intentionally bring these family directors into the conversation as appropriate, and provide coaching or mentoring to these directors if they feel they are not participating as much as they might. Finally, as a family director, in addition to regular board meeting preparation, you have a special responsibility to ensure you get the training and coaching you need to help you contribute the wisdom and perspective you were elected to bring into the board room.

Inadequately developed qualification and selection process for family directors

It is common that family directors are initially either all the owners, all the owners who work in the business, or a branch representative from all the ownership branches. While there is a logic to these models, they also create a difficult status quo from which to evolve. There are few things more uncomfortable than asking someone (family or non-family executive) to step off the board as this governing body changes to play a different kind of role. That said, defaulting to the model that 'everyone gets a turn' or all branches need a seat at the table is not the answer. Not everybody's best contribution as an owner is to serve on the board, owners need to be honest with themselves about where they can best add value. In addition, the default to branch representation runs a profound risk of fostering 'branch thinking' at the board that could polarize the ownership group – rather than reinforce the important principle that all owners need to get aligned on direction and speak with one voice to the board, and that every director represents the interests of all shareholders.

One important responsibility of the ownership group is to define the governance model that will best help them meet their goals for their business. This includes determining the issues that will come before the board and topics where the board will have the final say. This also includes defining the size and composition of the board that can best oversee these matters. How many independent directors with what kinds of backgrounds, how many family directors who will bring what specific insights, as well as the role for board leadership (family Chair, lead director, other). Families who take the time to define clear director qualifications find that selecting these individuals becomes far more objective. As it relates to determining if a prospective family director candidate 'meets' the criteria, many will leverage their independent directors to provide this evaluation – to bring a little more objectivity into a process that can certainly be challenging for families to navigate.

Some families use narrow criteria and qualifications for family directors, choosing to err on the side of competence and selectivity so that family directors are as business savvy and experienced as possible. This tends to yield the strongest family directors as those with the most relevant experience are more likely to be considered as board candidates, and perhaps best suited to deeply engage as directors. Yet, some ownership groups do not have family members who would qualify in this context and choose instead to invest in the training and development of a pipeline of prospective family directors who have demonstrated a true commitment to their ownership role and are well trusted by all owners to represent their voice and concerns at the board.

Still, other families sometimes limit the family directors to only the most senior family member working in the business (who brings that operational knowledge) along with one other family director who may be the Chair of the Family Council or in some other family leadership role to bring that depth of family insight to their role. It is important to consider the reality that working in the business provides valuable knowledge but can also result in a conflict of interest as a director.

Poor planning on board observation

One tool that owners use in developing board talent among their family members is to give them the opportunity to attend board meetings as observers. While it is true that getting a sense of what goes on at the board can be helpful, I have also seen this approach over-used at times or done with little consideration or input from the independent directors. First, there is no doubt that an audience will influence the nature and tenor of a board discussion, especially on sensitive topics. For this reason, it is important to get buy-in from all directors as to the role, frequency and number of board observers that they feel can work in your board room.

Bear in mind as you consider setting the right boundaries that the primary goal of board observation should be learning. To that end, thought needs to be given as to a model that will advance the learning benefits to observers, while minimizing the disruption to the board. I would encourage you to limit the number of observers at any given board meeting (no more than two) and ensure all observers are aware that there is typically an executive session during the board meeting where they will be asked to step out of the room.

Develop guidelines on a minimum age or experience for participation, expected norms on confidentiality, and appropriate conduct in the board room (e.g., you shouldn't be playing with your cell phone while sitting in the board room). You will also likely want to develop a centralized process that manages the requests to observe and tracks the opportunities granted here, to ensure there is fair and organized access.

Looking back to the case of Caleb where our discussion began:

Susan has served on a couple of other family business boards and has seen many of these challenges first hand. She doesn't want to create the wrong precedent with Caleb so she convinces her cousin that the Family Council should first convene a meeting to ensure the family is aligned on the role of family directors and ready to update the qualifications and training program for future family directors. This would then serve as a guide on the purpose of board observation as part of family director training, allowing Caleb and others to pursue this in a more strategic fashion.

Conclusion

There is no single correct solution for any of these challenges. The right model should be driven by the needs and goals of your ownership group and the objective needs and opportunities in front of your business. But, here are some key guidelines that come out of the topics discussed for the overall ownership group as well as for family directors:

Ownership group

- Develop clear policies on qualifications, selection, term limits, etc.
- Clarify who is involved in all parts of the process (Family Council, Board, owners, nominating committee, etc.)
- Invest in developing a pipeline of capable family directors
- Ensure there is a solid process for onboarding all directors

Family directors

- Take this responsibility seriously
- Commit to continuous learning and preparation
- Use mentors and get regular guidance/coaching from Chair
- Participate appropriately (not too much, not too little)

It is also worth remembering that evolving your board, as opposed to blowing it up and starting over again, can be a viable option (we like to encourage evolution rather than revolution). I have often seen clients keep senior family members who might not 'qualify' given the new standards on a board until they term out, and use the qualification process initially only for any new directors coming on board. You have to use judgment in bringing even deeply needed change. Hopefully, the ideas and suggestions here provide a good starting point.

Stephanie Brun de Pontet, Ph.D. is a principal consultant of The Family Business Consulting Group. She can be reached at brundepontet@thefbcg.com. To learn more about our firm and how we serve families like yours, call us at (773) 604-5005 or email us at info@thefbcg.com. There is absolutely no obligation.

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