

The Non-Strategic Value of Directors

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In many articles written on corporate governance, much attention is rightfully given to the strategic advantages of strong directors on your board. This is true of family business governance as well. As a family business evolves over time, the board of directors' responsibilities and requirements change. Often, independent directors are sought with a view to capitalize on their unique business experiences and skill sets, and to broaden the experience on the board. These quality directors demonstrate analytical abilities that foster insightful and provocative strategic discussions in the boardroom.

We find a good mix of insiders and independent directors with varied experience and expertise contributes to enhanced decision-making and shareholder wealth. Yet, in addition to these traditional benefits, there are often many unexpected contributions that are just as important as the strategic input they provide in the boardroom. In fact, what we have observed is that in addition to strategic thinking, board members can contribute meaningfully to the dynamics of the board and become trusted resources for the group, for individual board members and for the family.

There are a number of unintentional contributions that directors make that are often at least as important as the strategic input they provide in the boardroom. A summary of these contributions follows:

Meeting Preparedness

We have observed that individuals tend to increase their preparation process once new directors are on the board. The CEO is likely to give careful thought to the content of board packets with a view to orienting new directors to the board, and also to provide evidence of forethought and planning to the directors. After all, the board evaluates CEO performance. CEOs have often stated that they appreciate the level of accountability that emerges from board change, as this pushes them and their team to be on their "A game."

Often, new directors prompt existing (family and non-family) directors to demonstrate their value as board members; this sort of "healthy competition" results in more rigorous preparation for board meetings and more thoughtful analysis of the information that is shared in the board packet. Management is also evaluated by the board and therefore works hard to prove to directors that they are competent, proactive and willing to respond to director input during management presentations.

New directors do not necessarily transform CEOs and management, but may sometimes produce a heightened awareness of the need to prepare for meetings in a way that reflects the standard of excellence that attracted directors to a commitment in the first place. The outcome is well-planned, productive meetings.

Board Education

As more independent (and experienced) directors come onto the board, there is sometimes an interest among incumbent directors to become more educated about the roles and responsibilities of good directors. They seek best practices for agenda development, meeting process and board evaluations. These actions seem to emerge as the group feels a need to develop more formality and sophistication around the ongoing effectiveness of the board. Individuals will seek various education opportunities, some of which include articles, books, board development conferences, association workshops and family governance conferences. The result of this investment in education will be a more skilled and competent board of directors.

Mentorship and Leadership Development

Directors often become mentors or confidantes to family members, the CEO and other stakeholders. The CEO at times, can feel isolated, and may not always want to confer with other management or family members on specific issues, especially emotionally loaded issues. The opportunity to speak with a seasoned and trusted advisor appeals to management when they seek objective input. In addition, outside directors often counsel CEOs, other management and family members with personal leadership development over a number of years. This can be done by providing independent general business wisdom, career guidance when needed, specific advice as warranted, and by serving as an empathetic sounding board. This is very helpful for both existing and next generation

members of the business or ownership group. So, while we do not always seek new directors with this outcome in mind, it is certainly an appreciated benefit to director recruitment.

Strong Board Culture

Good directors are sought for their skills and experience, but they also often possess attributes that help facilitate group cohesion. When new independents are brought onto the board, inside directors are instinctively on their best behavior. And while in some cases, that “best behavior” is not sustained, inside directors do try to avoid creating conflict and tension that might generate discomfort for outsiders. In addition, skilled directors will work hard to help manage dissension in a way that fosters collaboration rather than individualistic behavior. And in many cases, good family directors are also able to do this, because they have intimate knowledge of triggers or topics that create conflict and defensive behavior. The board’s overall effectiveness is heavily influenced by its culture, which is very much shaped by inside and outside directors who have the talent to bring people together. While we expect this from the Chair, it is beneficial to find that attribute in others as well.

While it is more difficult to quantify the non-strategic inputs of good directors, the impact of the contributions presented here cannot be easily carved away from strategy. When the board culture fosters individual strength and strong collaboration, collective strategic wealth is developed, as is the competitive advantage of the company.



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