

Toward Greater Objectivity on Your Board

By: Chris Eckrich, Ph.D., and Stephen McClure, Ph.D.
The Family Business Consulting Group

The past decade has witnessed a marked increase in the number of privately held businesses operating with a strong functioning board containing independent directors. Reasons provided by family business leaders include:

- Responding to increased competition in the workplace,
- More CEO support amid isolation, and
- Assistance with succession and continuity during transition.

Family businesses increasingly recognize that a strong board can increase profitability, as well as the likeliness of surviving in family hands across generations. Unfortunately, not all boards function well. Regular board meetings and the presence of peers to the CEO (other successful business leaders) are signs of higher functioning. One CEO told us, getting a board dominated by independent directors was a way getting a true read on whether or not he was focused on the right things. He said, “Unless we have the standard of other businesses represented in our board meetings, I’m leading with only part of the information available.” Several others have indicated that, in addition to increased confidence from inactive family shareholders, an objective board assures that the CEO does what he know he must, but otherwise might not.

We often see family firms take only a half step toward fully effective governance when their board is first formed. The boards only contain family shareholders, friends of the family leader, and/or company advisors and managers. For some, this approach works for a period of years. Later, when the benefits become clearer, or when a crisis makes it necessary, the family firm can transition to a more independent board.

Before considering adding strength with independent, outside directors, we suggest taking steps to make sure shareholders are really ready for a dynamic board. Consider bringing family members together to review the purpose of an independent board. Why do we want a strong board? What level of risk are we all willing to accept for the company? How will a board help us? What are our fears about having an independent board? What vision do we share for the future business as it relates to the family? What values do we want independent board members to clearly understand and support?

Questions like these determine readiness and narrow expectations. A group’s ability to articulate a unified message is an indicator of readiness. Lacking this, the family needs to work to build consensus on these matters so that disparate views do not neutralize the contributions of outside directors.

Boards are not designed to solve family shareholder squabbles. In fact, the greatest gift a board can receive from owners is a clear, realistic set of marching orders about shareholder desires. A unified shareholder voice allows the board to focus on helping management achieve shareholder goals and execute the strategic planning process.

Finally, strengthening family governance is often a necessary ingredient toward strengthening a business board. Lacking opportunities to connect to the business, board seats can take on too much importance as the only way for family members who are not managers to be involved. A family council and assembly, or regular family meetings, are effective tools for engaging the family in dialogue about important matters, such as values and overall direction, and the relationship of shareholders to the board.

We often hear independent directors ask, “What does the family want?” A forum for family governance provides a place for the family to answer this question. Transitioning to a strong board with independent directors has obvious business advantages. Doing so requires clear, unified ownership vision and in providing it, a family can gain strength. The resulting strength in the governance of the business will greatly aid ownership and management in achieving their mutual goals.

For more information, see *Family Business Governance: Maximizing Family and Business Potential* by Craig E. Aronoff and John L. Ward (The Family Business Consulting Group, Inc., 1996) and *Family Business Ownership: How to Be An Effective Shareholder* by Craig E. Aronoff and John Ward (The Family Business Consulting Group, Inc., 2001).



Christopher Eckrich, Ph.D. is a Principal Consultant with The Family Business Consulting Group, Inc., and can be reached at eckrich@thefbcg.com or 260.436.0045.



Stephen L. McClure, Ph.D. is a Principal Consultant with The Family Business Consulting Group, Inc., and can be reached at mclure@thefbcg.com or 208.342.7775.

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