THE
FAMILY BUSINESS
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Continuity Planning for Family Business Boards

Interview with Joe Schmieder
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One of the critical roles of the board is to keep focus on long-term continuity, including continuity at the board level. What are some ways that you see the board keeping its own succession plan on the radar?

Most family boards — both fiduciary and advisory — develop strong trustworthy relationships with their board members. In many cases today, there is often a discussion between the chairman and the individual board members to determine whether or not a board member wishes to continue or a polite request that it is time to step down. This informal verbal process is slowly giving way to a more objective, formal approach. Some family firms now conduct periodic governance assessments that bring the board succession topic into the executive session or passed to a governance committee. A governance assessment is more comprehensive than an annual board evaluation, covering topics such as board composition, long-term ownership and leadership, strategic direction, and how to improve overall governance of the family firm. This more formal approach ensures that board member succession is addressed.

What questions should a board be asking in preparing to define the talent needs for future directors?

Developing the qualifications for board members — both family board members and independent outside board members — is arguably the most important task to determine the ideal mix of board members. Therefore, answers to the following questions will help these qualifications emerge.

- What does the family (ownership) wish to achieve over the next 3-5 years and beyond?
- What resources — financial capital, labor, and intellectual property — will be needed to achieve the strategic direction and goals?
- What skill set "sitting around the board table" will increase the odds of achieving these goals?

Many boards institute limits on age or tenure that can make planning for director transitions more clear, while other boards prefer not to constrain themselves with policy. How does a board create a timeline that they can plan towards?

A timeline will depend if there are age or tenure policies in place. Based on past FBCG family board surveys, less than 10% of the family firms have limits on age and tenure. Since many firms have no clear age and tenure policies, then it often comes down to either the chairman or a governance committee to present a timeline showing the likely departure of each board member — or at least a range of time when the director will step down. If age and term policies are in place, then the task is much clearer, assuming the director is adding value.

Establishing a mandatory retirement age for board members has its pros and cons. On the plus side, a mandatory retirement age facilitates a graceful transition for more senior board members and opens the door for some fresh perspectives and more current experiences. On the other hand, because higher age is not synonymous with lower involvement or insight — and may actually relate to deeper knowledge of the company and its industry — forced retirement may result in the loss of highly valuable directors.

An innovative option is to find a supporting role for an aging yet strongly contributing board member. For example, instead of retiring a chairman, that member can be named Chairman Emeritus, acting as a senior ambassador for the company while visiting the business and attending high-profile industry events.

How do board evaluations inform the board succession plan?

A well-structured board evaluation will help determine the value of a company's board members, the key strategic matters to be faced over the coming years, and the wishes of the directors to continue to serve. The combination of this information will inform the board on the direction of succession for the board. In a real life example, as the result of a recent self-evaluation, a large family business decided that a board member with distribution experience would be more valuable than a current member who brought more general business skills to the board table. Consequently, an arrangement was made for the current board member to step down at the end of the fiscal year, and a search began for a new board member with distribution experience. This would likely not have happened without the data derived from the evaluation.

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Insights for Board Leaders

The Family Business Boardroom is a quarterly newsletter that provides insights and news on important governance topics.

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