

The Family Business

BOARDROOM

Insights for Board Leaders

Ensuring that Family Business Owners are Strong Contributors to the Board

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Owners on the board represent two distinct groups: owners who are employees of the family business, and those who are not.

First, the role and responsibilities of directors need to be clarified. Owners should sit in the boardroom to serve on behalf of the full ownership group and not to represent their personal interests. As a director they have a fiduciary responsibility to ensure the business is well-managed. To fulfill this responsibility, they must have a solid understanding of the dynamics of their industry, the strategy of their business and the drivers of financial performance. Beyond these business skills, they need to be well-respected within the family and have strong communication skills. Finally, they need to clearly understand and respect the differing roles of owners, management and board.

To develop a qualified pool of owner directors, families must invest in educating owners. Family meetings are an ideal venue for holding sessions on the role and responsibilities of board and owners, and business and industry dynamics. Involving all owners of a reasonable age in these sessions expands the pool of director candidates and ensures that family members who are interested, but may not have a business background,

could be made eligible to serve on the board.

In a situation where the ownership group is large enough that all owners do not sit on the board, the ownership group needs to set a process for determining which owners will sit on the board. We recommend establishing qualifications for serving on the board and creating a process for accepting nominations.

Our research shows that the director selection process varies widely. In some cases, senior generation family members select the directors, sometimes to replace themselves on the board as they retire. In others, family branches select representatives. In still others, nominations are accepted and an election is held with those receiving the highest number of votes earning a board seat.

There is no right answer for the selection process. The key to success is that the ownership group considers the options and gain consensus around model to be used. Clear communication of the process is important to set expectations for future family board members. Planning for the future is essential as well.

As the ownership group and business evolve, there may be a need to change the model. For instance, in many

early generation businesses, all owners (and sometimes even spouses) may sit on the board. This model can become impractical as the ownership group grows. Anticipating the future and setting a model that will work before you need it can reduce family tension and ensure a strong board.

Serving as a director on the board of a family business is a privilege and a responsibility. The family and the business are best served when all directors, family and independent, are adequately prepared and committed

to doing the valuable work of the board. Following some of the steps we have detailed here will help you ensure your family directors are able to be full contributors to the family business board.

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



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