

A Planning Guide for Transforming Your Company's Board of Directors

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An effective board of directors that is strategic and productive can help to significantly strengthen not just the business, but in many respects, the family as well. In our work, we find an increasing number of families are recognizing the potential benefits of board development – the process of formalizing their board, and including independent directors, with the goal of deriving greater benefit from their governance efforts.

The Evolution of a Family Business Board

Some business-owning families run their business with oversight from a board made up exclusively of family members or family members and non-family management (known as “insiders”). This board structure can serve the business well for a number of years. But over time, particularly past the second generation, there is great value in changing the board composition to include owners as well as outside, independent directors. Independent directors bring fresh thinking and challenge assumptions upon which you have managed your business for years. As a result, meaningful new strategies are often generated.

Many families find it initially uncomfortable to think about outsiders on the board. You might be very private and have concerns about sharing confidential information with people not in the business. Or perhaps you feel that there is little that outsiders can add because they don't understand the “unique” aspects of your business. You might wonder who would even be interested to sit on your board. All are common concerns among family business owners who have not developed a formal board.

Yet after making the decision and incorporating outside directors on the board, it quickly becomes apparent that those concerns were unfounded. In fact, CEOs are often surprised at how quickly directors integrate with others and how much value is added early in the relationship.

Many are further surprised by how independent directors impact the dynamics found within a business owning family. The presence of independent directors often supports more civilized and self-managed behavior; we behave differently when there are non-family members in the room and it is typically for the better.

Adding Independent Directors

We find that board development success is a function of thorough planning. It requires careful consideration of the motivation for the transition, as well as the development of clearly articulated expectations for the board and individual directors. There are a number of steps associated with developing an outside board that enhance your chances of success:

- 1) Together with input from other shareholders and management, establish clarity on what you hope to achieve by bringing in independent directors. It is likely that director candidates will ask you this when they meet you so having a ready response is helpful. It also helps to get shareholders on the same page;
- 2) It is of value to the process if you can identify some of your key strategic challenges in the upcoming five to ten year period; this will help you develop profiles of the kind of directors you are seeking. For example, you might see a lot of consolidation in your industry, which you feel might threaten your market share, or

margins, or ability to meet growth targets; others who have experienced similar challenges would be of value on the board. You might be considering a number of mergers or acquisitions over the next several years and require some related expertise to execute on such a strategy. Perhaps the business would be well served with some stronger financial expertise on the board. There may be some upcoming leadership transitions about which you would appreciate input from directors who have experience in the oversight and management generational transitions;

3) Typically a small committee is formed (often called a Nominating Committee) that is responsible for managing the recruitment process. (perhaps three or four people). It is a process for which momentum and efficiency are dependent, and narrowing the planning process to a small group works well.

4) A board prospectus serves as an educational/marketing tool to recruit new directors. It is a brief document (typically 2-4 pages) that outlines a number of important board related matters:

- A brief summary of the business -key products, markets served, number of employees, overall strategic focus;
- Rationale for your decision to seek new directors;
- Responsibilities of the board;
- Board structure (how many insiders/outside, meeting frequency, board compensation for example); and,
- Director profile (includes specific education/experience/attributes you are looking for in new directors).

Once the prospectus is developed, it can be used to solicit interest from a variety of sources. You may need to reach beyond your existing network in order to find candidates that meet your established criteria. Consider reaching out to peer networks and advisor groups for referrals.

Once a group of qualified potential directors has been developed, the process of interviewing and selecting the “right fit” directors is similar to any other hiring process. We find most processes consist of common stages:

- Through distribution of the prospectus. Candidates are typically first screened in telephone interviews.

An objective at this stage is to reduce the list to “A” level candidates that can be reviewed by the nominating committee and further narrowed down (if necessary) in order to arrive at a list of people who will be interviewed in person.

- In person interviews are conducted in order to determine whether a candidate is suitable. Often their resumes and/or bios can confirm that they have the expertise and experience, but the ‘chemistry fit’ is at least as important, and is best done in person.
- Once the Nominating Committee completes the interviews committee members can discuss and gain consensus on which candidates best meet the established criteria, as well as which candidates present the best cultural fit with the group. In addition, the candidate personalities should be considered with a view to determine which mix of candidates will likely work best together.
- An invitation will be extended to those candidates who best meet the needs of the business.

Effective Onboarding of New Directors

Once it is determined who will participate on the board, preparation for the orientation of new directors is an important step in ensuring that they add value as early in their tenure as possible. An ‘orientation book’ should be developed to educate new board members about a number of things, some of which include:

Board Information

- A description of the business
- Board Charter or By-Laws
- Director bios, key executive bios
- D&O insurance policy
- Company by-laws
- Minutes from previous meetings for one year

Business Documents

- Strategic Plan (if it exists)
 - Retirement plans if any for management (key managers who plan to retire in the next 3-5 years)
 - Organization charts
 - Company financials - 5 year consolidated, last year’s detail statements
 - Valuation if available
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- Any market research that will help educate directors about the markets in which you compete

Things to Do (over time)

- Meet with family members
- Meet with key executives
- Tour locations/offices
- Visit with customers/suppliers

You might have other relevant items included in your orientation book that are specific to your business (a book on the history of the business, supplier relationships, licensing agreements, litigation issues, for example).

Planning for Board Success

Once the new board is constituted, it is important to ensure that the board has the opportunity to demonstrate its value. An important piece of that is a thoughtful approach to organizing the board's efforts. Successful board meetings are, in large part, a function of very careful agenda planning.

Typically board meetings cover some standing issues, such as approval of minutes, financial performance for the last quarter, key personnel changes. In addition, quarterly board meetings (the most common frequency) include key themes that rotate from time to time. For example, one meeting might focus on the annual strategic direction of the business; or talent development and succession; or customer relationships; or a deep dive on financial analysis, including a review of the borrowing power and banking relationships of the business. There are many options in terms of themes, but the point is, themes help create a thorough look at a specific facet of the business on a rotating basis.

Often board meeting agendas are too ambitious in an effort to cover many topics. And the result is that directors feel that nothing was discussed in adequate

depth, and management feels that they didn't get the counsel they were seeking from the discussion. Optimally, the board chair, together with the CEO, develops an annual agenda that covers the most important strategic themes related to the business.

Are We Ready for Board Development?

A transition to independent board members is significant. It has obvious strategic implications, but is also an emotional decision for family shareholders. The following questions may be helpful in identifying both the benefits of board development to your business, as well as your family's readiness to undertake this important initiative:

- Is the business facing some key strategic challenges that may require some material changes in the business model, or the space in which the business competes?
- Are you anticipating a change in business leadership, where a new CEO might benefit from additional strategic guidance and accountability?
- Are destructive behaviors or communication styles impacting the effectiveness of board deliberations?
- Do you feel that the value your extract from your currently board is limited?

We know from extensive research on board development that independent directors bring unique value that cannot be extracted from insiders exclusively. It is the responsibility of the Nominating Committee and management to ensure that a rigorous process is employed to search for and recruit directors, as well as prepare them for their important role in the development and support of strategy moving forward. If carefully selected and educated, independent directors can bring enormous value and support to your business, including shareholders, management, and the family.



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