Find the Best Independent Directors for Your Family Business

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We're probably going to dissolve our board," a family business leader told us last year. He said that the governance body, which had been in place only for three years, was able to advise on business strategy and operating issues, but struggled to deal with challenges that arose at the intersection of business and family, such as family employment and intra-family conflicts. "The belief of the independent board members is that the family should deal with those types of things ourselves," he said. Luckily, we convinced his business to replace the directors in question with those who could help the family take on issues beyond maximizing shareholder value. Soon they found the right people to fill the roles, and quickly benefited from the new directors' guidance, maintaining the critical element of independent governance.

While that story had a happy ending, it reflects a highstakes challenge for family businesses: finding independent directors equipped to advise on issues beyond economic value creation. In short, the best independent directors in a family business, unlike their counterparts at non-family private firms, will understand the nature and goals of the business and the family. That enables them to help the family create not only shareholder value but also other things family shareholders value, including long-term family engagement, unity and alignment. Put another way, directors who can't or won't move beyond the familiar territory of shareholder value and business oversight will not be the best fit for most family firms.

Getting the most out of your independent directors involves knowing what to look for in prospective board members and understanding the unique family business areas where their guidance can be most useful.

What to seek in independent directors

Another family we know was interviewing several well-qualified director candidates recently as it put together its first independent board. For one of the positions, the family made what may have seemed a counterintuitive choice: they selected a candidate with less experience in a business qualification than some of the other prospects. In reality, this was a better choice for them because the individual brought sufficient capabilities to help guide strategic growth, along with deep knowledge and appreciation for the family and its goals and values. "She 'got' us so well that we knew she was right for the board," one of the family leaders told us.

The example highlights the need to find independent directors with the right qualities to guide your business across all areas, including family-related issues. Here are several of the most important characteristics—beyond business-related capabilities—to seek:

Empathy: Empathic directors can help business leaders face unique dilemmas for family firms, from sensitive issues such as a son-in-law's managerial performance, to successor selection (between a family and non-family candidate, for instance), to helping a CEO to step aside when they can no longer lead capably.

As a source of empathy previous experience in family business, whether as a manager, director, or shareholder, can help your independent directors appreciate and problem-solve around the unique issues at the family-business intersection, including those discussed in the next section. Such previous experience — including an appreciation of the role of values and culture in family business — may also give independent directors greater credibility among family shareholders because the board members have "been there" and speak from experience. Yet, previous family business experience is not the only source of empathetic directors, as an affinity for and sensitivity to family issues is possible from capable individuals from the non-family private sector and even public companies — many may inherently get it or appreciate and value the family through their customer, acquisition or vendor experiences.

Humility/low ego: Directors who can put aside their own egos and agendas are valuable in any kind of business, but especially in a family firm, where there can often be a more personal element of interaction. More humble directors will be more open to understanding the nuances of family business and looking beyond the profit motive to counsel regarding what's best for the business and the family.

Communication: As with humility, communication skills are a sought-after quality in any director at any kind of company. But the ability to convey important ideas and suggestions within and across groups is particularly important in family firms, as issues require shared understanding and collaboration on the part of the board, family, non-operating and operating owners, managers, employees, and potentially other stakeholders.

Where independent directors can exert influence

Of course you want all of your directors to provide collaborative problem-solving with management and oversight on strategy and growth. But the best independent directors will understand the nuances of the family and use that to help you navigate the many gray areas of business-family overlap. The areas we've found to be most important for independent director involvement include:

Family employment: Valuable independent directors can speak to important issues related to family employment including recruiting and exit-related transitions, among others. For example, an insightful director would recognize that the best person for an open executive position may not be the most impressive non-family candidate yielded by a national search but a rising family member who brings deep understanding of the family's values, culture, and work ethic; further, they would recognize that such hires can also promote intergenerational continuity. Independent directors can also help with issues of family-employee exits. For example, a family firm's board was recently debating whether to grant a sizable severance package — well beyond what any non-family firm would offer — to a departing family manager. The independent directors recognized that while the package wasn't ideal for the business, it made sense for the family, as it prevented long-term damage to several close family relationships.

Non-operating shareholder influence: The best independent directors understand whether and when a family shareholder who is not part of the business should have some contact and/or influence related to the business. Again, this is a departure from the non-family business domain, where minority shareholders rarely enjoy such privilege. For example, directors should recognize that it's appropriate for the late founder's widow(er) to have coffee regularly with the non-family CEO, or for the management team to sacrifice business operations time to sit down with young future owners to help the shareholders understand the business and its future.

Family conflicts: A strong independent board can act as an impartial intermediary in family conflicts, not necessarily communicating on behalf of family members but helping the family to keep the conflict in perspective and to understand its potential implications for the business. One notable director had developed a strong, trust-based relationship across multiple family members, which helped him manage several conflict areas effectively. For example, he was instrumental in guiding several family members out of the company strategically before a major conflict erupted, and helped two warring family factions understand that it was not about one side "winning" over the other, but doing what was best for the collective good. This role included serving as the "voice of reason" whenever there was a question of using profits for shareholder dividends versus reinvestment in the business.

Branch buy-outs: A family business recently set aside its board because the directors had adopted an adversarial, win-lose negotiation position in dealing with the desire of one family branch to sell its ownership stake. The independent directors failed to understand that the branch's exit was for the best, not only for the family but for the business; much of their M/A experience did not directly apply. More savvy independent directors would have seen the bigger picture, recognizing that avoiding taking advantage of branch members in a buy-out situation (whether in reality or by appearance) is more important than securing the "best deal" possible.

Talent management: Well-rounded independent directors can bring insights to the need for family firms to balance loyalty with other goals regarding employees, especially those of the legacy variety. For example, directors can help families make difficult decisions when there are long-term loyal managers who are not up to the business's current needs/standards. Directors would understand that simply letting people go may not fit with the family's values and the business's culture, and guide the family through steps (such as retaining a business coach, creative placement and/or titles, or privately counseling an individual to voluntarily step down) for preserving a sense of loyalty while meeting business goals.

While good independent directors bring strong insights related to strategy, growth, and operations—as part of their charter to maximize shareholder value—the best directors for your family business will have a strong understanding and appreciation of the family, to help you manage issues at the family-business intersection. Finding and nurturing the right independent directors will pay long-term dividends on multiple dimensions.

This article originally appeared in *Private Company Director* magazine.

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The Family Business Advisor