

To Select or To Elect?

Decision-Making Methods for Family Member Roles in Family and Business Governance

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



The Moser family is creating two new governing bodies: a family council and a new board of directors with independent directors.

The family council will have five to seven members representing two generations. Spouses will be eligible to serve. The board of directors for the business will include five family members and three independents.

How are the family representatives for each body selected? Will the process be the same, or different? How do the qualifications for each differ?

To be organized and productive, an enterprising family must have effective methods for decision making. Many families accomplish this through governing bodies, including a board of directors, a family council, committees, or task forces charged with addressing specific questions the family faces. Often, the method for choosing family members to serve in these governance roles is a decision with its own layer of complexity. Are representatives democratically elected, or by some other manner selected? Are they chosen for their leadership talent, their role in the family, their representation of a given family branch or generation — or by some combination of factors? What are the considerations affecting these and other methods?

Whether forming a new governing body or filling an existing position, emotions can run high when families must choose individual representatives among people who they love and care for. Even when a familial relationship is more distant, anticipating winners and losers creates anxiety stemming from a desire to protect oneself and others from feelings of exclusion, rejection, judgement and power loss. These emotions can lead individuals — and even the entire family — to conclude that the future of the family or organization rests on selecting or electing well.

This article explores the methods and techniques used by families to select and/or elect family members to family councils, boards, committees and associated leadership roles when the procedures are not already in place, or when there is purposeful ambiguity about such procedures to allow for freedom and choice, such as when a family branch is left to decide on their representative in whatever manner they desire.

The First Step: Determining Qualifications

Regardless what process is used to identify family members for service in governance roles, there will always be the same first step: development and a review of the qualifications or desired characteristics for success in the role.

Discussing qualifications first is a tough discipline, yet it has served many business families well in assuring the right talent for the task. This is more critical in large families who have many potential candidates to narrow the choices and focus discussions on how candidates compare with the stated criteria. It is also a valuable step for small families who may only have one choice. Reviewing qualifications is a reminder to all about the expectations and accountabilities of the individual selected.

Example: Family Council Member Qualifications

1. Available time, desire to be a member, commitment to serve the entire term, willingness to prepare for meetings and contribute in-between meetings.
2. Team skills including diplomatic dissention abilities, a willingness to find collaborative solutions and belief in a united front after a decision.
3. Willingness to suspend one's own agenda, or that of their family branch, in order to represent and retain the trust of the entire family.
4. An affinity for the business and an understanding of business in general, including respect for the boundaries of governance and management.

It is important that discussions about qualifications and characteristics take place before any specific individuals are considered for these roles. This encourages objective consideration of skills and criteria, rather than what can be a more emotional and sometimes contentious discussion about the relative merits of loved and respected family members.

Once qualifications are established, the process for identifying family members to serve in these roles can begin. There are several options families use to make these decisions. We've divided them into methods used for selection and for election.

Documenting Election/Selection Procedures

There are a number of governing documents that may indicate how family representatives are selected or elected for governance roles, including:

- Bylaws
- Nominating committee charter
- Written election procedures
- Shareholder agreement
- Family constitution
- Family protocol
- Family council charter
- Board charter
- Committee descriptions
- Role descriptions (i.e., board chair, family council chair, etc.)

Existing governing documents should be reviewed for any statements that impact how representatives are identified. In the absence of such guidance, documenting decisions around election or selection can be useful in clarifying mutual expectations and providing guidance for future governance decisions.

Methods of Selection

Some families are small enough and have sufficient communication skills to allow them to simply sit around a table together and decide who will serve in what capacity. Rather than voting, they informally choose individuals for positions with complete transparency. For more complex situations, different approaches to selecting family members for leadership structures and roles are common:

1. **Volunteerism, self-nomination or nominating another.** A role that needs to be filled by a family member is identified and family members are free to offer themselves or recommend another to serve. A volunteer is assumed to be willing, but for those nominated by another, the next step is to confirm an individual's willingness to serve. If there are more volunteers or nominees than positions, then a decision-making process is needed which is discussed below under **Methods of Elections**. Families that rely on volunteers will stop when they get to the number they need, or may expand the size of the group to match the number of volunteers. A downside is that the nominee or volunteer might not be motivated to serve, but agrees to the role because of peer pressure, resulting in less effective participation over time. Because this process can be less objective, it may also not match the best candidates with available roles. An upside is that the process can be affirming to those who are interested in formal roles, and roles can be filled quickly without undue competitiveness or conflict (barring multiple people wanting to fill the same role).
2. **Recruitment.** A family council leader, committee chair, board chair, elder of the family or branch leader recruits from among eligible, qualified individuals who he or she believes could best serve the family in an open role. Recruitment can also come from a group such as a task force or a group of sibling owners who select

from their generation and their children's generation to form the first family council or serve on a reconfigured board of directors. Benefits to this approach are that the recruiter is able to educate family member prospects about the role, its obligations and how it could help the family. Perhaps one of the best attributes of this method is the creation of a team who, collectively, will be able to bring all the necessary ingredients. This method allows consideration of each individual in terms of skills and family representation, as well as a reflection on the performance of all members working together. An obvious downside is that there may be family members who are interested in serving that are not approached, sometimes resulting in resentment or a belief that decisions are driven by individual agendas or family "cliques."

3. **Appointment.** This method is similar to **recruitment** in the way the decision is made, i.e., by an individual or group, yet it differs in the first step. Prior to selection by appointment, family members indicate their interest in an open role, then the decision maker or group of decision makers appoints individuals from the candidate pool. The self-nominated candidates can be known or unknown to all. The advantage of a known pool is transparency and trust of the process and the advantage of a secret pool is that those who do not get appointed are not identified as having "lost." This method can be efficient because interest is established through self-declaration and decision making is quick and behind the scenes. The decision maker or makers simply report out the appointment(s) made and there is little discussion. Similar to the recruitment process, a downside to this method is that individuals not selected may feel they were rejected by a small group of leaders rather than having a chance to be considered by a broader constituency such as the entire family.

An application of the selection method is sometimes employed by board nominating committees charged with recommending candidates to fill open board seats reserved for family members. They may solicit candidates and consider the qualified selections from the family council before they make their decision about whom to recommend to the full board of directors. Conversely, the board may first recommend to the family council which qualified family members should serve, and the family council will select the finalists for the committee to nominate.

In the first case, the board retains the right to determine the final slate of directors to be elected by shareholders but chooses from the family council's selected recommendations. In the second case, the board expects the family council to select their recommended slate of family candidates, but the board of directors' nominating committee first determines who is most qualified from the family. In both alternatives, the shareholder vote makes the final decision consistent with the corporate bylaws. In many families who use this process or a variation of it, the shareholder votes merely confirm the results of the previously established selection process.

Methods of Election

Selection processes may be less effective in families that are larger, highly competitive, formalized and/or have multiple candidates for a limited number of roles to be filled by family members. These families, especially those in the third generation and beyond, benefit by adopting democratic election processes and relying more on merit principles which emphasize qualifications. Families also turn to election methods when they become more confident with multiple voices impacting decisions. Elections also convey the advantage of efficiency; voting and tabulating take less time than the selection method's associated debate, discussion and patient steps needed

to build consensus. (Of course, many families see building consensus as a key advantage which might steer them towards selection over election.)

Procedures for election can be developed for both family governance roles and directorships held by family members on the board. The general process for elections is as follows:

1. Advance notice. The fewer the times the family has held open elections, the more this is needed. The roles to be filled by an election, the term and expected time commitment, and the qualifications are made explicit. Just as important, families who conduct effective elections will provide a full description of the election process and include the rationale. For example, one business family regularly reminds the family that, "A lot of time has been spent on our governance structure. Our election process is designed to democratically elect those most prepared to operate within the structure and produce expected results." Some family's procedures require that the candidate list is also included in such notice.

2. Review of the process. In the meeting, just before the vote is taken, there is a thorough review of all the steps with time for questions to be answered. (How will candidates be identified? Will it be a secret ballot or a show of hands? Who is eligible to vote? How will the votes be counted?) Some families have a family association or other entity or policy that will define who may vote in an election — especially for family council roles and leadership positions — including criteria around an age requirement, shareholder status or not, spouses or not, and other factors. Some families have procedures where family branches vote as equally weighted blocks, rather than one-person, one-vote. Elections for the board of directors are typically conducted among the shareholders, although the board may have a nominating committee that makes a recommendation

or may ask for input from others, including the family council. All procedural matters must be reviewed and well-understood before proceeding.

- 3. Candidate nominations.** Those to be considered may be nominated, screened and confirmed in advance or at the meeting. Roberts Rules of Order may be used to take nominations from the floor, followed by a confirmation of willingness to serve by those nominated or self-nominating. Consistent with Roberts Rules of Order, many will invite discussion at this stage.
- 4. Election.** Whether open, transparent voting or secret ballots are used, this final step is quick and decisive.

Advantages of an election is that it is a rational system, easily quantifiable, and there is little reason to have further discussion once the election has been executed. By having the entire family vote, a candidate may experience a greater sense of support than if chosen by a smaller subgroup or individual to serve. Increased competition and potential hurt feelings may be downsides to holding elections in this way. For some families, the concern about hurt feelings is reason enough to not hold elections. Other families reason that the family can withstand this potential downside because the risk is worth the value from the efficient, democratic process.

Identification of leaders may be accomplished in the same way and many family councils and boards will elect their chairs by following the same four steps. Some families prefer to elect their chairs or achieve a consensus selection with all eligible family members involved. Others opt for a one-person, one-vote method within the board or family council as it speeds up the decision making and the board or family council generally knows most closely who can fill those needs while working together productively. Ties can be easily broken by giving the chair an extra vote or another agreed upon method.

Other Considerations for Elections

Declaration of Intent. One way to begin an election process is for candidates to formally declare their intent to seek election. Doing so signals a willingness to take on the responsibilities of the position. Approaches used by families include:

1. Each candidate completes a questionnaire on why he or she wishes to seek a position, background experiences that would lend to success in the position, philosophies on leadership or participation, etc. Responses are either sent to a committee (for boards, this is often the nominating or governance committee, while for a family council a selection committee may be named) which recommends the candidate for election, or shared with the entire body for an election from all candidates.
2. Each candidate may issue a public statement, delivered in person or by video recording, about why they wish to be considered for election into a position.
3. Either of the above methods may be accompanied by public affirmations by others as to why a candidate should be elected for a role.

Instead of using a declaration of intent, some families offer opt-out privileges. These families believe the unit is best served by assuming all have interest unless someone specifically requests to be removed from consideration. By foregoing a declaration of intent, the candidates have not emotionally staked out a desire to serve. Since nobody has publicly declared their interest, feelings of rejection are minimized. Presumably, the elected person is highly regarded by the largest number of members. However, family members most passionately interested in serving may be overlooked and the person elected may lack the commitment to lead effectively.

Open Versus Secret Ballot Voting. Families use open voting (a show of hands or publicly available list of how shares were voted) when they value transparency and trust that the votes will not damage relationships. Since everything is out in the open, this approach requires a high degree of emotional maturity by individual family members. A father may see by show of hands which of his children did not vote for him, or a daughter can see whether she was supported by her mother and father.

As this is difficult for even emotionally mature adults, some families will use secret (or anonymous) ballots to minimize relationship tension or damage. Typically a neutral party will be asked to tally the results and announce those with the most supporting votes who will fill the positions available. Generally no reference is made to the number of votes the other candidates received. Families can choose to adopt open voting as the norm, but allow any family member to request a secret ballot on a particular vote.

Vote Thresholds. Some families will identify certain roles (such as board member, board chair, family council chair) that must be approved by a minimal percentage of voters. Typically, a threshold of greater than 50% must be met to be elected to these positions. If there are multiple candidates and nobody receives more than 50%, the top two vote recipients are placed in a runoff to determine who wins. A tie may be broken by a re-vote or simply flipping a coin. Some families have experimented with higher thresholds which can generate greater support for a candidate, but may lead to difficulty in staffing the position.

Optimal Conditions for Selection/Election

Regardless of which selection or election method is used, decisions on filling important leadership positions will be easier to make and accept by all when the following conditions exist:

- The family and its members take the long view that “We are in this together.” Being actively involved is not a sprint, but a very long endurance run in which each person takes a part in providing different types of leadership and membership over time.
- The family sees itself as one family rather than a group of individuals or family branches.
- Individuals have taken responsibility to develop skills, emotional self-awareness and confidence. They view leadership positions as a valuable service rather than a boost to their ego or stature.
- Individuals genuinely are grateful to other family members for serving in leadership positions and want them to succeed.
- Roles, expectations, qualifications and terms have been established and clarified for positions to be filled.
- All agree on how the selection or election decision will be made.

The Best Method for Your Family

Many of the above concepts can be combined to develop a method that works for a specific family. What works for one family may be disastrous for another. Size, complexity, strength of relationships and communication, knowledge of candidates and time available to make decisions all play into a family’s decision on what methods work best.

When filling positions for the first time, some families will find a way to include all in an effort to avoid hurt feelings. For example, we see situations in which two qualified and interested candidates for family council chair are selected as family council co-chairs. While this reduces hurt feelings and engages everyone at the beginning, it may also lead to both strong candidates exiting the role simultaneously in a few years with nobody wanting (or capable) to step into the role. The quest to be inclusive is noble, but the long-term needs of the family should be considered. This is not a big challenge for large families with a sizable pool of candidates, but presents real challenges for continuity in small families.

In closing, we encourage families to spend the time necessary to align around how selections or elections will occur. As human beings, we gain safety and confidence that things are fair when we trust the systems and methods used to organize us — even if we lose an election from time to time.

Authors

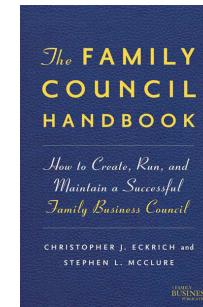


Christopher Eckrich, Ph.D. is a principal consultant with The Family Business Consulting Group, Inc., and can be reached at eckrich@thefbcg.com or 260.436.0045.



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

Additional Reading



For more information, see "Decision Making on Family Business Matters" in *The Family Council Handbook* by Eckrich & McClure, 2012. Available from www.thefbcg.com/publications/books

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