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Four Things that the Best Family Business Boards Do Well

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First of a two-part series

Can you quantify your board's contribution to the performance of your family business? Even if you can't put a number on it, you should have a keen sense of how much your board has supported leadership in reaching their objectives. This is beyond the direct and indirect roles the board plays in defraying family conflict and building family unity. In our experience, we've seen four things that successful family businesses and their boards do well, and we will explore the first two in this article (and the others in an upcoming article).

The Value of Strong Boards

From our studies evaluating the effectiveness of boards at family firms, we've seen first-hand how strong boards can help family businesses be more successful. As an example, we know of two exemplary family-owned companies that put fiduciary boards[1] in place just after their 50th anniversaries. Both were in their third generation of leadership or close to it. Each grew their profits by more than 10-fold over the subsequent eight to ten-year period. While they are very different companies, they both brought in strong, independent outsiders – and they listened to them. They practiced continuous board and company improvement; they upgraded their strategies, leaders and people. They strengthened their balance sheets and pruned operations to top performers. They made prudent acquisitions. They invested a lot of time on family issues, which allowed them to keep family issues unrelated to the business outside of the boardroom (note: not all family issues must be kept from the board).

Can achievements like this happen without a strong board? We believe so, but we also believe your chances of success are greatly enhanced by having independent directors from outside the company who provide a disinterested view of risks, challenges, and performance. Independent directors can often more easily hold others accountable and encourage change even when firmly entrenched relationships or operating philosophies make it seem impossible. (Sonnenfeld, 2002).

When we evaluate boards of directors, we assess important areas of board functionality. These include things such as diversity and depth of experience among board members, the board's ability to engage in challenging conversations, and the intergroup dynamics that facilitate or hinder discussion and decision-making in the boardroom. Since we mostly evaluate boards in privately owned companies – often family businesses – we generally include the family dimension in our analysis, since family board representation adds a layer of complexity to board functioning.

Common challenges

Despite differences in boards and their organizations, they face many of the same challenges. For example, most boards struggle with respecting the boundary between operational and strategic issues and tend to "get into the weeds." Most directors are more comfortable with operational details than strategic issues; current and former CEOs in particular have a hard time holding management accountable because they often identify with them and have trouble giving them enough room to make decisions and take actions. To no one's surprise this operational orientation often interferes with managerial autonomy, which management then views this as a lack of trust.

Another common challenge is that management may not fully understand the role of the board, and the scope of its responsibilities. As a result, sometimes their pre-meeting packages for the board are too long, too short or not informative enough, and don't fully reflect the main risks facing the company. Their presentations to the board may lack focus, which means they can't take full advantage of the board's combined experience and expertise.

Key best practices

To get the board to what may seem like an idealized level, it is imperative that the board holds *itself* accountable, not just company management. External evaluations that are deep in data and insight can greatly strengthen the board's contribution. From our own evaluations of boards and our own experiences serving on them, here are four key best practices:[2]

1. Clarify Competencies and Roles
2. Manage Group Dynamics and Nurture Strong Relationships
3. Promote Candor and Transparency and Leverage Setting the Agenda
4. Embrace Necessary Endings

In this first article, we explore the first two challenges, while a future article will focus on the latter two and provide an outlook and a list of recommended readings.

Clarify Competencies and Roles

Putting family members on the board can be problematic. While some family board members are highly trained, effective at performing their board role, and practice continuous personal improvement, others feel out of their depth in understanding and adding value to critical board issues. Family board members are often not "professional" board members who know the ropes of board work. When we do board evaluations in family firms, we often hear statements like, *"If I wasn't a family member, I wouldn't serve on the board."* These individuals are unsure about their contributions and they feel that they are not knowledgeable or experienced enough to serve on the board, especially in comparison to the "professional" non-family directors. Some even feel that is because of their shortcomings as family directors that the board has to bring in independent outsiders.

As a consequence, these family directors can go silent, which makes them a less productive. Since the quality of a board is a direct function of the input of the individual directors and the group dynamics that determine the value of board discussions, going silent limits the impact of the entire board. In other cases, as you likely have seen, people who feel inadequate in their roles and who feel that they cannot live up to expectations become overly critical of themselves and others, confrontational and defiant. Such board members disrupt board meetings, damaging boardroom culture and sending negative signals to members of management and others who interact with the board.

In order to avoid disenfranchising independent directors and fueling family conflict, we must clarify the **role** of family members serving on the board. First and foremost, a family director – like any other member of the board – must add value in board discussions by being prepared, knowledgeable, and sensible. But family directors are also in a unique position to:

1. **Facilitate communication** between the company and the family; family directors are a real asset in ensuring that the family feels informed and engaged about what is going on in the business.
2. **Communicate family values and objectives**. Just think about your business' growth ambitions – if that is not a primary goal of the family, why should management prioritize it above all else?
3. **Praise management for its performance**. Little drives motivation more than comments like, "on behalf of our family, we highly appreciate your hard work."

Once we agree on the role, we must define the **competencies** we expect family directors to have. The shareholder group must know enough about what's required to deal with the board and the personalities involved so they can wisely choose which family members will serve. While the chairman plays a leading role, shareholders need to be qualified to participate in decision-making processes. It is worth noting that sometimes the obvious choice – the most qualified – may not be the best choice. Family directors must be sensitive to family dynamics, able to deal with family conflicts, and they must be trusted by everyone to speak on behalf of the family. So, while cousin Sarah may have studied business administration, cousin Mike is a psychologist who spends a lot of time nurturing close relationships across branches and generations – so he might add more value even if he first has to learn the ropes of board work.

Takeaway

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Family directors can be remarkably valuable assets; family serving on the board shows internal stakeholders that the family is invested in the business, and instrumental in overseeing strategic decisions. To external stakeholders, it signals continuity and stability, particularly when members of the next generation step up to take on board roles. Family members' long-term perspective is needed to assure sustainability. Family board members typically are well-suited to ensuring the company adheres to core values even in turbulent times, and well-prepared family members can bring invaluable insights into the boardroom.

Once the family agrees on the expectations that they have for family directors – or any other role in the business or family, such as the family council – they need clarity around the competences required to serve. The ultimate goal is to ensure that family members are equipped to successfully perform their roles. The family benefits from identifying essential competences and those that are nice to have in terms of **business** competences (*e.g.,* financial knowledge), **family** competences (*e.g.*, understanding family dynamics), and **individual** competences (*e.g.,* adopting a growth mindset). The family can identify ways in which these competences can be acquired (*e.g.,* family workshops, participating in business associations, individual coaching and on-the-job, and defining the criteria to be met to qualify for a role in the family or the business (*e.g.,* university degree required for leadership positions)[3].

Reflection Questions

- *What does your board, your company, your family do to ensure that directors are equipped to successfully perform their role (e.g., on-boarding, initial and continuous training, mentoring)? What are you doing to ensure that they stay competent?*
- *Do you have clearly defined qualification criteria for family and non-family directors?*
- *Do family directors serve in the same or a different capacity than non-family directors? Do we adequately leverage the value and contribution of each?*

Manage Group Dynamics and Nurture Strong Relationships

A board of directors is a group like any other. This means that intra- group dynamics must be actively managed, along with the board's interactions and relationships with other individuals or groups, such as the top management team. Only when we invest in building and nurturing relationships and connections can we develop a rapport that supports difficult conversations rather than placates our natural desire to avoid them. And here again, we see that family businesses are in a unique situation to form close relationships with board members – especially when the family is closely involved with the board.

We know several boards of directors that organize annual offsite meetings for their board members – and a few even invite board members' spouses (and even children!) to these gatherings. They turn these meetings into three- to five-day events with plenty of time to work, relax, and build relationships. While that may seem like a waste of time and money to many, let us assure you of one thing: **People who have deep relationships, ones that go beyond mere professional connections, are more responsive and attentive -- and very importantly, they are far more willing to engage in discussions about controversial and uncomfortable topics.** They know that even when they have disagreements in the boardroom it won't damage their otherwise stable and strong relationships. The quality of boardroom discussions is a direct function of people's ability to openly voice their opinions because they are not afraid that their comments will offend. One caveat is that relationships must be managed so board members don't get so close that they fear disagreement would threaten highly valued friendships.

Another thing to watch for and manage is that boards of directors in family firms can become a vessel for family conflicts, which can erupt in the boardroom. Disruptive emotional conflicts are much less likely to occur when independent board members are present. These independent directors can step in to redirect or moderate conflict; thus, we can avoid damaging fights that not only sever board reputation with management, but also interpersonal ties among board members. And remember two things: Relationships need to build over time, and resolving any explosive family situation first requires trust and a strong relationship. And secondly, keep in mind that family members rarely fight about what they pretend to or think that they are fighting about: a fight over dividend payouts is rarely just that; instead, it is more likely related to the feeling of being overlooked

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and ignored that the family member or even a whole branch has carried around for years.

Side note: In a recent board evaluation with a large US family business, we included members of the top management team. Even though we had gone through the board effectiveness evaluation process with that company for two consecutive prior years, giving management a voice turned out to be incredibly powerful. Hearing management's views of the board's role revealed several important areas for improvement. Among them: the need to clarify the board's purpose and scope of responsibilities; to sharpen the boundaries between board and management (to prevent the board from "getting into the weeds" too much); and to define the information that the board needed from management when they presented so that they board could fulfill their responsibility of overseeing and ensuring accountability. What is more, giving leadership a voice in this process, and hearing their perspective, showed them that their opinions are valued.

Takeaway

There are no shortcuts to building relational strength – it takes interaction, communication and time. Make sure you create these opportunities for board members to connect inside and outside of the board room, and refrain from framing the board as a purely business-minded decision-making body that has no space for emotionality and personal connection.

Reflection Questions

- *What does your board, your company, your family do to nurture relationships among board members?*
- *What do you do to nurture a productive relationship between the board and key functions in the company?*
- *How actively are you managing your between-meeting communication to make sure that board members remain relationally connected?*
- *Are you adequately balancing the desire to develop strong interpersonal connections with the need to maintain candor and honesty in the boardroom?*

In the second article, we will focus on the challenge of *promoting candor and transparency and on leveraging agenda-setting*, and on the *challenge of embracing necessary endings*.

[1] A fiduciary board is a formal body with a legal responsibility to protect all shareholders, while an advisory board is informal in nature, and tasked with providing non-binding advice to management (Forbes, online, 2021).

[2] We will refrain from reiterating the well-known drivers of board effectiveness – there are fantastic contributions that cover these much better than we can. For further reading, consider the following articles published in the Harvard Business Review: "Building Better Boards" by David A. Nadler (2004) or "How Boards Should Evaluate their Own Performance" by Larcker et al. (2017).

[3] For a more detailed overview of ownership competences, see the FFI report on 'Professionalizing theBusiness(https://digital.ffi.org/pdf/wednesday-edition/2020/january-08/ffi_professionalizing_the_business_family_v2.pdf) Family' (2020)

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