The Role of the Board

Independent directors can provide multiple advantages to a family-run business.

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The United States has approximately 2.5 million family-run businesses, according to the 2002 Families in Business report generated by the NFIB Research Foundation. Although these companies include a myriad of business endeavors, to a large extent they face a similar governance challenge—in many family businesses the CEO plays conflicting roles of entrepreneur, parent, shareholder and boss.

The type of corporate governance structure used by a family business reflects how the CEO deals with these conflicting roles and how the family deals with operational and business planning challenges. Including one or more independent directors in the governance structure is often an effective means of addressing such conflicts and challenges.

Typically, the primary role of the board is participation in the company's strategic and succession planning processes. An effective board will be objective and bring depth and a variety of business experiences to the company's governance. Elements of a family business strategic plan may include:

- a core vision of the family for the future of the business;
- detail on important operational issues;
- a statement of potential new business endeavors and growth opportunities;
- an analysis of the business under best, worst and most-likely economic scenarios;
- an analysis of timing for business expansion;
- a business operation funding plan.

A strategic plan is often required when seeking financing and may be beneficial to marketing and alliance-building. A board's diverse talents particularly provide: added value in risk analyses associated with new business endeavors and operational expansions; insight into appropriate capital sources; and bolstering of management confidence with regard to crucial business decisions.

One of the most critical roles a board can play pertains to succession planning. Forty percent of family business owners plan on retiring within 10 years (MassMutual, American Family Business Survey, 2007). In many cases, the business owner prefers to transfer the business ownership and operation to a family member—a simple concept that can be complicated in practice. Key aspects of a board's

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role in succession planning include: raising the issue of succession well in advance; specifying the qualifications of a successor; determining the timing of CEO role transfer; determining the field of potential successors; helping to select the family member that is most qualified to be a successor CEO; and developing an appropriate skills-enhancement program for a potential successor. Having a board with one or more independent directors involved can mitigate tension and help reach consensus on an objective decision keenly focused on the business' long-term interests.

In some cases, a board member or members can be called upon to provide direct instruction to a successor in one or more aspects of running a business, for example, supply chain management or information technology. Such learning opportunities are often more effective when guided by a third-party director.

A board can add value when succession raises deeper issues, including, for instance, determining whether a family business should stay a family business or be split into more than one business, or whether the business would benefit from hiring a non-family member CEO. Such issues transcend succession planning and fundamentally become an element of strategic planning.

A board can also act as an effective safe haven in the event that succession occurs sooner than planned, such as in the event of the death or debilitating health issues of a current CEO. In such an event, if the chosen successor is not yet prepared, the board may provide more hands-on support or help the family develop interim alternatives.

Succession often has a pervasive impact. Although the role of CEO may move to an offspring, the new CEO may have a much different leadership style. A board can assist in assessing the impacts to the organization as a result of these differences. Ultimately, there are likely to be impacts on the culture of the company (when done successfully, the impacts will be positive) and the strategic plan. The board is in the best position to anticipate and plan for such impacts.

Family businesses that are savvy enough to have well-developed strategic and succession plans also often have integrated estate plans, which may be thought of as an element of the succession

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plan. Estate planning is a highly complex area where, once again, a Board and the viewpoint of an independent director can elevate the quality of the discussion and decision making.

Throughout the family business planning and governance processes there often occasions conflict among family members. The Board plays a key role in creating an environment that mitigates the potential for conflict, prevents the erosion of trust and efficiently resolves conflict when it does occur. In the event of conflict among family members, the Board can be an effective mediator. The professionalism and formality of a Board proceeding in such an event can subdue (or, alternatively, provide an appropriate vehicle to vent) emotions, break deadlocks and, in the best cases, build consensus.

Many family business conflicts arise when a family member or members believe they have not been privy to all pertinent information regarding the business and its activities and finances, or have not had a proper opportunity to participate in the decision-making process. The Board provides an excellent vehicle to enhance transparency in the governance of a family business through its formalities of creating an agenda, holding meetings open to family business stakeholders and recording minutes of deliberations and decisions. Serious policy and planning issues are best dealt with openly, providing all stakeholders with an opportunity for input through the Board processes.

Public corporations are now required by law to have truly independent Boards that are encouraged to constructively challenge the CEO and CFO. The composition of family business Boards similarly should include one or more independent directors to enhance the quality of decision-making. It takes an open-minded and progressive CEO to embrace the notion that the benefits of enhanced governance credibility outweigh the decision-making friction which may come with a transparent system. {**FB**}