

# FAMILY BUSINESS BOARDS THAT ADD VALUE

An NACD Roundtable: Summary Report

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The Minneapolis Club

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*Many family-owned companies could gain significant business advantage through developing a corporate board that is focused on adding value.* The Minnesota chapter of the National Association of Corporate Directors (NACD) recently held a roundtable meeting to explore this assertion. Participants included twenty-three directors, executives and advisors representing eleven companies ranging in size from \$10M to multi-billion in annual revenues. Participants worked in small groups to discuss the following questions:

- In what ways can a well-developed board add value for a family-owned company?
- What are some ways to recruit and utilize great outside directors?
- How are the roles of family owner vs. director best distinguished and aligned ?
- How might directors provide valuable support and challenge for management?

This report compiles the key ideas offered by the participants in their roundtable discussions and follow-up comments.

Given that Minnesota is home to some of the nation's most successful family companies, there was no disagreement about the basic assertion: well-developed boards can add tremendous value for many family businesses. But there was considerable discussion about what constitutes value-adding activity, and how family businesses can build such a board.

## Roundtable Highlights

Participants developed several points of consensus:

**Boards that add value to family-owned companies engage in three provocative and supportive activities:**

1. Exploring the business' true potential.
2. Encouraging the disciplines needed to capture higher opportunities.
3. Promoting the confidence of management and ownership to act in the face of risk.

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Too often, family businesses maintain an informal, “family only” board long after business needs have outgrown this structure. Growth of the business and the shareholder group eventually require governance with a level of objectivity, discipline, and strategic focus that family members alone can rarely provide.

**Establishing the right path to board development is a creative challenge.**

There is no single, step-by-step pathway. Value-adding boards are shaped by leaders who press for their constant evolution in response to the needs of the business and family shareholders.

Roundtable participants identified the following “key ideas” within four dimensions of this creative challenge:

**1. Envisioning the active board**

Boards that add value are organized around a clear vision. Family business owners often start with the easiest question “Who can we get to serve?” leading to short-cuts that may limit the board’s value-enhancing capability. It is better to begin by clarifying the purposes of the future board, asking: “What will the board do for the business?” and, “How should the board operate so that it focuses on priorities and promotes action?”

Outside directors should bring specific experience, capabilities and contacts that are relevant to the developing business strategy. An ideal cast of board members includes a balance of family and non-family directors, with at least three independent outsiders who comprise at least fifty percent of voting directors.

**2. Recruiting and utilizing great talent**

The most effective outside directors are independent of the business and the family owners. Their primary motivation for serving is not compensation, but intellectual challenge: interest in analysis and strategy that will enable the business to achieve its potential, as well as in the learning they gain through engaging board discussions.

Keys to utilizing board talent:

- Regular meeting procedures and habits that promote thorough preparation and instill disciplined planning, reporting and boardroom dialogue.
- Periodic executive sessions, when outside directors meet without management or family present.
- Use of committees, especially an audit and governance committee that include the outside directors.

**3. Distinguishing and aligning roles of directors, management, and family**

- Boards should not be primarily concerned with promoting family unity. It is more important for the board to promote family and shareholder knowledge about the business – its challenges, risks and potential.

- The board should periodically promote open dialogue with the family owners -- encouraging them to ask questions and challenge board assumptions in the interests of developing shared understandings.
- One good way to prepare next generation family members for effective ownership is by establishing an “associate director” role. Associate directors are non-voting board members, with annual terms rotating among qualified family members.
- Family meetings held apart from board meetings can be a useful forum for owner education and consensus building, so that “family” concerns are handled apart from board business and apart from the management team.

#### **4. Strengthening strategy and management**

- Excellent board discussions are characterized by an atmosphere of openness, candor and comfort with disagreement which focuses on the issues, not personalities.
- The attitude and approach of the board chairman and president / CEO set the tone for valuable board discussion.
  - Outside board members should offer performance coaching for the CEO, as well as periodic candid evaluation.

### **Conclusions**

1. Many family-owned companies could gain significant business strength through developing a board that is sharply focused on value-adding activities.
2. Value-adding boards include experienced outside directors, whose contributions enable the board to operate with enough distance to challenge management and enough credibility to provide a teaching and mediating function for family shareholders.
3. Envisioning the board that the business will need, to reach its next level of maturity, is a critical step. To develop such vision, family business “insiders” can benefit from conversation with others who serve or lead effective boards. NACD provides a uniquely valuable combination of relationships, programs and publications that can enable family businesses to develop value-adding boards.

# **Family Business Boards that Add Value**

## **ROUNDTABLE DISCUSSION TOPICS**

### **1. Envisioning Board Value**

- In what ways might an effective board add value for a family-owned company?
- What are key purposes and objectives of a board that increases family business value?
- What critical issues must such a board address?

### **2. Enhancing and Utilizing Talent**

- What are some ways to recruit great outside directors?
- Why would the “right” people want to serve?
- Is there an ideal balance of family and non-family directors?
- What are some obstacles to integrating and utilizing director talent?
- How can these obstacles be addressed?

### **3. Distinguishing and Aligning Board / Family Roles**

- How are the roles of family owner vs. director best distinguished? (So that all family owners don't feel that they must be on the board to know what is going on with the business.)
- How might a unified, committed family owners group contribute to the board's work in adding value?
- How might the board promote the family's becoming more unified and committed shareholders?
- What methods of communication and education promote positive alliance between the board and the owning family?

### **4. Board and Management Collaboration**

- What are some characteristics of excellent boardroom discussion between directors and senior management of a family business?
- In what ways can the board assist management to objectively explore and assess the business' potential?

In what ways might directors provide constructive challenge, as well as encouragement and support for management? What conditions are needed for challenge to be constructive if the director or manager is a family member?