THE FAMILY BUSINESS CONSULTING GROUP

Session 3

The Board's Role in Management Succession & Accountability

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Board's Role

The primary purpose of the Board is to ensure the Company is building long-term, sustainable shareholder value. Shareholders expect the Board to serve all shareholders and management as it make decisions, manages risk, secures continuity and provides insight and oversight to management.

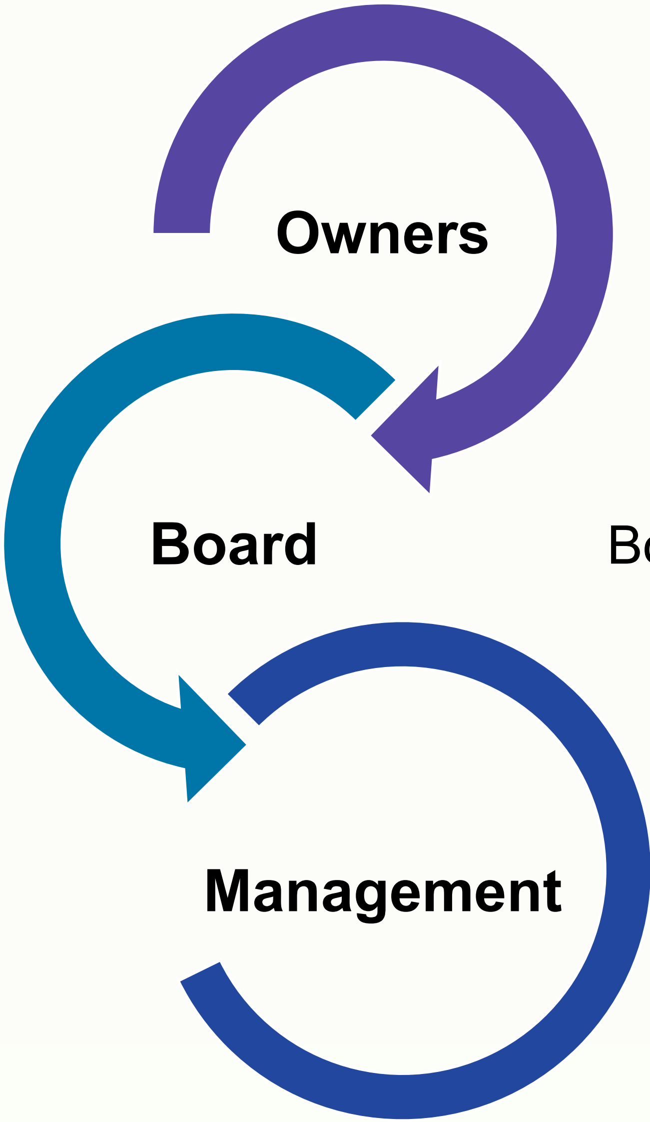
All corporate authority resides with the Board as fiduciaries of the Company's shareholders, except for those matters reserved for the shareholders. The Board has oversight authority to ensure the Company is managed in such a way to achieve its objectives as it serves the long-term interests of the Company and supports the Company in meeting or exceeding shareholder expectations.

Source: Excerpt from family business board charter

Board's Role

- Make decisions
- Protect interests of all shareholders
- Manage risk and secure continuity
- Provide insight and oversight to management

It All Starts with Owners' Expectations



Owners' Expectations

- Growth, Risk, Profitability & Liquidity
- Non-financial

Board Oversight & Insight

Management Execution & Accountability

Fair Process

Requires:

- Decide how you will make decisions
- Make the decision in appropriate venue
- Establish decision criteria in advance
- Appropriate representation
- Communicate and reinforce the process

Reset Expectations

Perspective

"Only 36% of managers complete appraisals thoroughly and on time. In one recent survey, 55% of employees said their most recent performance review had been unfair or inaccurate, and one in four said they dread such evaluations more than anything in their working lives. When senior HR executives were asked about their biggest performance management challenge, 63% cited managers' inability or unwillingness to have difficult feedback discussions."

HBR Article from Jan-Feb 2014 "Finding the Coaching in Criticism – The right way to receive feedback" by Sheila Heen and Douglas Stone."

Difficult conversations are hard enough.
Layer on the family dynamic of family in family business and such conversations can be ignored or become explosive!

Discussion Question

What have been some of the challenges your family enterprise has encountered with management succession and accountability?

Common Situations

- Family CEO and poorly performing legacy business
- Family CEO and company is not meeting shareholder expectations
- Family CEO and company is achieving financial expectations but not behaving in accordance with the family's values
- 1st time non-family CEO
- Eldest son as CEO

THE FAMILY BUSINESS CONSULTING GROUP

Accountability in the Family Business: Creating a Culture for Success

By: Michael L. Fassler
The Family Business Consulting Group

Accountability is a regular discussion topic with our family business clients. When accountability is alive and well, individuals, the family and the business may share in success. When accountability is mostly non-existent, however, a pervasive attitude of entitlement may exist that can lead to the demise of the business and perhaps the unraveling of family bonds. More often, we find accountability is present with only a minority of family and/or non-family leaders, which generates great frustration for stakeholders and at best inconsistent results for the enterprise.

Freedom of Choice as a Prerequisite to Accountability

Accountability in a family business is about being responsible to family and business constituents for expected behaviors and results. It is built through an individual's freedom of choice to contribute. Absent a voluntary choice to contribute, there are too many ways to blame others for behavior and results that don't measure up. Thus, creating an environment that prompts individual family members to want to contribute is the first step towards creating accountability in your family business.

Freedom of choice includes many aspects of an individual's relationship with the family business, including:

- Freedom from dependence on the family business for a sense of self and a career,
- Freedom-versus an obligation-to join the business.
- Freedom to have input into the direction of the business
- Freedom to opt out of employment and/or ownership but still be connected to the family; and,
- Freedom to be at risk for results and to learn from mistakes.

In an environment where such freedom exists, the motivation to be accountable is derived from the satisfaction of choosing to contribute.

Developing a culture of ownership and accountability for business results and business behaviors in a family environment sets up a challenge because of fundamental differences in the two environments and their overlap.

Family Environment	Business Environment
Inclusive	Selective
Unconditional	Conditional
Equal	Unequal
Flexible	Structured
Informal	Formal

As you can see from the previous exhibit, family and business environments have different traits, and thus accountability looks different in each arena. For example, where and how a sibling CEO provides feedback to another sibling on their business behaviors should look different than their communication on a family matter. Acknowledging the difference of each environment is key to successful accountability in a family business.

Another challenge to accountability in a family business is that norms have to evolve over the generations. Accountability at the founder stage centers often exclusively on the leader. The founder often takes control of, and responsibility for, all results. It is an environment of self-reliance. As other family members enter the business, an ever-increasing number of interdependencies are created. The command and control model that siblings grew up with and saw succeeding will usually not work for them, but evolving to an environment where one depends on others for results is a difficult transition. The leading generation's foresight and acknowledgment that the management structure must change can be instrumental in the family business starting to evolve a culture of accountability at the early sibling stage of the family business.

Accountability Benchmarks

From my continuing observations and study of accountability in family businesses it is clear that an Environment of accountability requires a measuring stick to compare actual results to expected results. After all, how do you know if behavior and results measure up if you have nothing against which to measure? At the most basic level the measurement starts with shared values and a shared vision as benchmarks. It continues with an on-going process of goal setting for the family business and the individuals and then measuring organizational and individual results against those goals.

Shared values are a foundation to accountability as they inform what attitudes and behaviors are expected and provide common guidelines for family member interaction with one another and with the business. Absent the definition of the behaviors one is accountable for, individuals will make assumptions about acceptable behaviors.

A shared vision provides a clear understanding of where both the family and the business are going and how one supports the other. It articulates the family's commitment to the business and the business's commitment to the family. A shared vision provides the context within which results can be gauged and is the connection to a purpose larger than any one individual. It is this connection that helps create the incentive to voluntarily contribute to the overall good.

When you join an organization—such as an industry association, a civic organization or a charitable organization—you make a personal promise to behave in certain ways and do your part to help the organization achieve certain objectives or results that leadership has articulated. It should be no different for a family business. Policy and procedure may drive accountability in the short run, but shared values and a shared vision are foundational to sustaining accountability.

A Checklist for Building Accountability

In addition to discovering the shared values and a vision, a family business leader who wants to build accountability must:

- Create space for others to be at risk and grow by sharing power and control. This helps individuals develop a sense of personal responsibility and provides room for personal judgment to be exercised;
- Create transparency as to how decisions are made, how communication happens and how rewards are allocated. Transparency leads to a sense of fairness in the way things are done. Absent transparency a real or perceived lack of process fairness can be a pervasive excuse for not being accountable;
- Create visibility as to who is accountable for what and visibility that actual results are being compared to the goals. In this way individuals are not only accountable, others are able to see that they are accountable;
- Provide a venue for family members to have a voice and to build consensus on family matters. With this venue family members are more likely to respect family and business boundaries;
- Invest in building the family's knowledge about

the business and the future to equip the family to make a contribution. Knowing what it takes for the business to be successful and what the future may hold helps individuals more freely choose whether or not to work in and/or own part of the business;

- Ensure that fair processes are in place and operative so that rules can evolve as the family and the business evolves. This sends the message that things will change but as we work through those changes there will be adequate opportunity for input and influence;
- Engage with the family and with management to develop clarity on roles and goals, as well as policies and procedures for addressing the situation if someone falls short;
- Create an environment where it is acceptable for family leaders, family business peers and non-family executives to have difficult conversations with one another when their performances on expected behaviors and/or results do not measure up. And an environment that recognizes accomplishments when they do!

The leading generation of family business leaders must trust their followers and hold themselves and their followers accountable for behavior and results. To never be held accountable sends the message that one has never been trusted to deliver. Likewise, next-generation family business leaders must earn the trust of the leading generation and their peers by demonstrating the behaviors and achieving the results that have been established for their current role and become engaged with establishing the goals for future results and their future role. In summary, family business leaders must make themselves vulnerable by making significant commitments themselves and putting self-interest at risk. Others will follow suit leading to a culture of responsibility and accountability.

Raising the Bar on Accountability in Your Family Business

Making accountability a main part of your culture is not a once-and-done event, it requires nurturing and support as the family business evolves. To begin raising the bar on accountability in your company, gather input from across your family business stakeholder group. Cast your net wide and involve others in the discussion and reach consensus on your current state and whether movement to another level is warranted. Consensus that there is a gap and some notion of how wide it is will provide you with the starting point from which to start to making changes.

Leaders, be ready to make yourself vulnerable. There is a good chance that raising the bar on accountability for the organization will involve individual leaders and the leadership group evolving some of their behaviors and making commitments themselves. Involve non-family executives and independent board members in the discussions to provide additional context and objectivity for the discussion. Remember that people change as a result of having new information or seeing existing information in a different light.

Prepare yourself to be patient. Evolving your culture of being accountable is not something to mandate or change through a command-and-control approach. Focus on changing specific behaviors and stakeholder mindsets will follow. Eventually, a new norm will be established and you will be able to see and sense that the bar has been raised.

Watch for resistance to change. Those who have demonstrated the least amount of accountability may be very comfortable operating in more a chaotic environment, as it provides cover for not being personally responsible. Recognize that if you are starting at a low level, you likely have not yet accomplished the organizational attributes that lead to comfort with accountability. Everyone will be watching if the process and individuals are handled 'fairly'. Likewise, if an individual is an outlier in terms of accountability, others may believe consequential action is long overdue and more immediate action may be the appropriate course. Inaction with individuals can lead to retrenchment as an organization.

Raising the bar on accountability is best accomplished in real time. This involves engaging in difficult discussions when an individual is not measuring up. Postponing these discussions will only negatively impact your accountability culture. When considering an individual's performance, start the discussion from a point of neutrality and work with the individual to determine if missing the mark is a function of lack of knowledge or lack of motivation. The solution for a lack of knowledge is training and development. Possible solutions for a lack of motivation can be much more complex and are as varied as the causes.

Closing Thoughts

As you think about accountability in your family business and how you can influence it, remember that accountability is about more than intentions; it is about exhibiting behaviors and achieving results to which you have committed. As humans, we tend to judge ourselves by our intentions and others by results. So it can be hard to be objective about ourselves when we ask, "Am I being accountable?" Your credibility as a leader influencing others about being accountable will largely turn on whether or not you are perceived as being accountable yourself.

Successful family businesses are built on family members having sustainable relationships that allow them to work together effectively. Accountability goes hand in hand with sustainable relationships. You can't have one without the other. Accountability will sustain relationships and it is these relationships that sustain enterprising families across generations.

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The Family Business Advisor

Good Governance for Family and Business Success

By: Michael Fassler and Otis Baskin, The Family Business Consulting Group

At the heart of family business success is a governance process that evolves and adapts to the changing dynamics of the family, the ownership group and the management team as these groups themselves evolve. As a family business moves from the founder stage where the business is often very "owner centric" to stages where the family and ownership group are more diverse, establishing a well- functioning board of directors is one critical step[1]. Whether it is creating a board for the first time, or evolving how an existing board operates, implementing good governance can be integral to protecting relationships and the viability of the family's enterprise. In our experience, board evolution generally proceeds from "paper boards" that never actually meet to family boards composed of family owners to boards with both family owners and non-family independent directors.

We have often observed that although it makes sense to clients that evolving their governance process can be beneficial, rational arguments for change often do not provide sufficient motivation to make needed changes. On the other hand, when emotional pressures associated with uncertainty about upcoming major transition points such as business leadership succession, significant changes to strategy, or evolving from primarily operating owners to primarily non-operating owners, family business leaders are often ready to make governance changes. The motivation to change often comes from recognizing how a well-functioning board of directors can more appropriately shoulder the responsibility for making such major decisions.

Evolving Leadership and Ownership

For example, one family business we know with a group of sixteen family owners spanning three generations has only six owners engaged in significant management roles. While the six operating-owners hold a majority of the ownership, the topic of moving from a "paper board" to a board comprised of family and independent board members surfaced as succession planning got underway. Although the owner-operator group acknowledged how there might be some benefits to the change, their initial reception to the idea was at best lukewarm.

As succession planning progressed, the family CEO expressed his desire to step out of the CEO role in three years. The ownership group began to visualize the true magnitude of and uncertainty associated with their upcoming decisions when a concrete time frame was established by the CEO. Adding more emotions to the situation was the fact that the ownership group composition was going to change from majority operating-owners to majority non-operating-owners. It was at this point that the ownership group started to envision how pressure on family relationships and those working in the business could be relieved by having a decision-making process which included more independence and objectivity.

Critical Questions for Continuity

This family of business owners had started with succession planning: "Who will be the next CEO?" But they soon realized that real success would be found by answering questions such as "What will be the process for making a decision about who will be the next CEO?" "We have never had a non-family CEO, what if there are no family members qualified to be the next CEO?" "How will decisions be made in the future when a majority of the ownership is not working in the business?" "Our non-family executives have had a great deal of confidence in our current family CEO, how do we best perpetuate that confidence?" As the ownership group visualized the upside of a board of directors with independent directors, emotional pressure began to subside, the motivation for change kicked in and they began the process of evolving their governance process.

The most important questions family business owners face, as they seek continuity through generations, are: How will we go on together? How will we make decisions together? Who will guide us? The answer is to develop good governance processes. As each generation succeeds and the ownership group grows the need to assure all owners that their mutual capital is being deployed in the best interest of all also grows. Family harmony and business continuity depend upon trust in the way decisions are made, even if the outcome can't please everyone. Trust cannot be assumed, it must be built into the very structure of the organization through formal governance. A functioning board of directors and other elements of good governance practices are necessary:

- When the person responsible for business operations is not the sole owner.
- When other members of a family have ownership but no control over the business operations.
- When ownership is spread across a large group of shareholders in increasingly smaller amounts/percentages.
- To assure non-employed owners that employed owners are being compensated fairly.

What Boards Can Provide for Private Companies

Depending upon the legal structure of an organization it may or may not be required to have a board of directors. While "paper boards" may fulfill legal requirements, they fall far short of providing the true advantages a board with independent members should yield: Honest, objective opinions from business experts with no agenda beyond providing the best advice possible.

- Self-discipline and accountability to all owners
- Strategic thinking and counsel to management and owners
- Insights into key issues from inside and outside your industry
- Challenging provocative questions to help management
- Creative thinking from outside the immediate experience of management
- Valuable stakeholder relations (owners, employees, bankers, etc.)

Are Fiduciary Boards Best?

In a word, yes! But it is important to understand that all officers of a company and board members, family, management, or independent, have a fiduciary duty to all owners of the business. Fiduciary duty is the highest standard of care and is designed to protect the rights of all owners both majority and minority. The primary responsibilities of someone in a fiduciary position are generally characterized as the duties of care, loyalty, good faith, confidentiality, prudence, and disclosure. If this makes you wonder if your position of leadership in your family business carries fiduciary duty it probably does if any of these describe your role:

- If you are not the sole proprietor of your business.
- If you are only one of the heirs to shares of your business.
- If you have transferred (sold or gifted) shares to your heirs.
- If you have a minority partner/investor.
- If you have an employee stock ownership plan.
- If you are the trustee for shares held in trust for someone.

When everyone in a position of ownership, management or governance in a family business understands the fiduciary role of those making decisions about the business the result should be greater trust throughout the system. Minority owners become better owners because they have more knowledge and information. Beneficiaries of trusts understand where their benefits come from and what it takes to sustain them long-term. Partners, minority investors, bankers and creditors all have proper understanding of how their interests are served.

Will a Board of Directors Take Over Our Company?

The most direct answer is no, you are still the owners of your business and you, collectively, have all the rights of owners. While most states give certain powers to the directors of a corporation, the statute generally contains language to the effect of "except those powers retained by the owners". Therefore, it is important to give careful thought to what decision making powers you want to assign to the board and to management. Although it is tempting for a sole proprietor to think they make all decisions, the reality is that as a business grows beyond the initial start-up stage it is impossible for any one person to make all decisions. Capable and talented managers at many levels need to be empowered to make appropriate decisions to do their job well. That is also true for a board. If these people who have accepted the duties of a fiduciary are to provide the advantages we have already discussed, they need to be able to make decisions accordingly. We urge our clients to spend time coming to an agreement regarding who (management, board, or owners) has decision making power in which areas and who should provide input to decisions. The following worksheet (Table 1) is often helpful in understanding the types of decisions to be made and where the authority to make decisions is most appropriate.

Conclusion

Success in both business and family always brings the need for change. When ownership groups begin to contemplate the need to plan for important transitions in the ownership and leadership of their enterprise, they should also give consideration to good governance practices. Although the concept of a functioning board of directors may seem like needless bureaucracy to operating-owners, it is critical to maintaining trust and harmony in future ownership groups, particularly when a many of the owners are not actively leading their business. But as important as trust and harmony are in any business, the benefits of a well-structured board with independent directors goes much farther to provide innovative thinking and broad-based experience benefitting both the family and their enterprise.

[1]*Another critical step is implementing family governance practices.*

Table 1: Decision Input Table Worksheet

	OWNERS	BOARD	MANAGEMENT
Board Composition/Director Selection	Decide	Influence	
Ownership Succession Planning	Decide		
Leadership Compensation		Decide	
Business Strategy Development		Influence	Decide
Business Strategy Approval/Oversight	Influence	Decide	
Hiring/Firing Key Business Leaders		Influence	Decide
Business Culture			
Business Philanthropy/Community Relations			
Business Values, Vision, Mission			
Determining Criteria for Ownership Invitation			
Policy for Shareholder Distributions			

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The Family Business Advisor

The role of the board in family business strategy

The best strategies in family companies are sound for both their business and their ownership. When boards successfully link these two realms, family businesses can often leverage significant strategic advantages over other companies

By John L Ward

The realm of business is dynamic and unpredictable. Companies are constantly reacting to evolving markets and competition. Family businesses face the added challenge of balancing business and family issues in strategy. Business change inevitably creates stresses that impact both management and ownership interests. In this setting, the board of directors has the special role of assuring the strategic alignment of business and ownership interests.

Succession and ownership

Succession is the greatest single challenge to family business continuity due to the fact that close family ties and overlapping management and ownership interests often make objective decisions difficult. Ownership succession can disrupt family business continuity and fundamentally impact business planning in many ways. The death of a principle owner, for example, can trigger estate taxes that cause significant ownership demands on capital. Estate planning can have implications for both management and ownership succession, as controlling interests pass from one generation to the next. Typically, the number of shareholders increases with each generation and the relative size of individual ownership interests diminishes. By the third generation, management often no longer holds majority ownership and the larger share of ownership is held instead by an increasing number of minority family shareholders.

These fundamental shifts in ownership configuration can cause dramatic shifts in the financial demands of ownership. As the number and diversity of minority shareholders increases, the ownership group as a whole tends to become more conservative and income oriented. Often, there is an increasing demand for liquidity. The changing investment expectations of ownership can directly impact strategy by dictating both the amount of capital available to the business and by increasing the cost of capital. The boards of family companies need to be aware of the ways that ownership succession can impact their businesses strategically and they must assure business plans are aligned with evolving ownership goals. In growing businesses and families, it is the board that assures the ongoing strategic continuity between management and ownership.

Leveraging the board

In the early stages of family business development, boards usually have little power. The entrepreneurial founders of most businesses are usually all-powerful owner-managers and their boards fulfill an advisory function. Often, early value creation in a business is dependent upon the knowledge, concentrated authority and drive of its founder. As a family business becomes established and its founder ages, transferring this base of knowledge and authority to the company and successor leaders is often the greatest strategic challenge.

As ownership views grow more disparate, an effective board can help the family focus on the collective long-term interests of the business

An effective advisory board at this stage can facilitate this transfer of control. The board can help the owner-manager identify and articulate key components of their business knowledge. It can help design appropriate management structures for succession and assure business continuity during the transfer of important leadership functions. Independent directors, in particular, can play a special role in these processes, as objective, experienced advisors to both the founder and their successors in ownership and management. An advisory board at this stage can help foster levels of planning that many families reflexively avoid.

Board types in the evolution of family businesses
Advisory boards – applicable in the owner-manager stage of development
Strategic management boards – applicable in the family partnership stage of development
Fiduciary boards – applicable when majority ownership is held outside of management
Portfolio managing boards – applicable when family businesses become holding companies

Planning in the growth stages

As the family business grows, formal strategic planning becomes increasingly critical to maintaining long-term business performance. In the lifecycles of many family businesses, they naturally reach a critical size, where further market penetration is difficult or less profitable. At this stage, an effective board of directors can help a maturing business accomplish rigorous strategic reappraisal.

Typically, management does almost all of the actual planning. Managers assess the potential of different business strategies for their company. They analyse their company's internal strengths and weaknesses, and try to identify external opportunities and threats. Once a shared understanding of business potential is in place, managers identify strategic priorities and directions, and then select the particular strategies that fit their business and their market.

The board must review the strategic planning and approve management's vision and plans. The board is also responsible for assuring that management is using a well-designed process that effectively incorporates all appropriate planning elements. The board's most important work, however, is the critical assessment of management's strategic analysis and assumptions. Managers often have an intimate stake in strategic decisions and the board can ask the important questions that test the biases of management. Traditionally, the board's role is to assure that planning is fresh and rigorous, and that management's plans are appropriate and achievable. A board with independent directors can also lend objectivity to internal strategic debates and cost/benefit analyses.

The mature family business

As family businesses enter the third and fourth generation of ownership, there is an increasing need to develop and coordinate the many levels of family business planning. As families grow larger, they often organise family governance, holding family meetings and creating family councils. Family governance serves to educate the family about the business and ownership related issues, like estate planning and family employment. Some families generate a comprehensive family continuity plan at this stage that articulates their collective vision of ownership.

The board of directors can be a catalyst to this level of family planning, both by providing financial support for shareholder relations and by encouraging ongoing communication and consultation between the board and family governance. Independent directors can have a particularly important role in this process, by lending objectivity to the resolution of the many, complex issues that arise at this stage. Increasingly, the board must resolve issues like family management evaluation and compensation, shareholder liquidity and dividends, internal capital allocation, business continuity and contingency planning, management development and succession.

Effective boards take into account shareholder views relative to dividends, profit objectives and liquidity, and they recognise when the financial demands of the shareholder base are changing. Good boards also anticipate the effects of large estate settlements or fragmenting ownership groups. Sometimes, targeted buy-outs of dissident or disinterested shareholders are necessary; at other times, wider ownership demands for liquidity can necessitate the development of a strategy for selling the company or going public. In each of these cases, the board must assure that the strategies of the business and the ownership are aligned.

In less dramatic circumstances, the board can serve to shelter strategic business decisions from a lack of family/ownership consensus. As ownership views grow more disparate, an effective board can help the family focus on their collective, long-term interests and the strategic needs of the business. A good board will foster rigorous, business-generated strategies that create sustainable growth in shareholder value. It will also help communicate how these business strategies support the best interests of all shareholders.

New ventures, acquisitions and divestitures

Larger, older family businesses often become conglomerates, grouping a number of business units together under a single holding company. The board of a holding company has the key strategic role of managing a portfolio of businesses. Each business unit within the portfolio has its own lifecycle and strategic potential. Market segments become saturated or change; competitors can become dominant; growing cost structures can squeeze margins. Many things can happen that will make an individual business less profitable or preclude further growth. There are times when businesses need to be harvested or exited, when capital needs to be re-deployed into new market segments.

These are often difficult decisions for management. Managers, and especially family business managers, develop an attachment to their businesses, to the people who work for them, to the suppliers and the marketplaces they serve. Often, boards have to play a lead role in making difficult divestiture decisions. A good board will be sensitive to personal stakes but will also create a decision-making process driven by rigorous financial measures, with set goals and a limited turn-around timeframe.

Boards also have a key role in the

Strategic functions of fiduciary boards
Review strategic business planning
Assure alignment of business planning with the financial goals of ownership
Foster the development of effective shareholder relations
Support family governance and family continuity planning
Resolve family generated business issues
Provide for liquidity, when necessary

final selection of acquisitions or new ventures. Managers are often enthusiastic about the prospects of an acquisition or new venture and eager to invest. The role of the board is to assure the rigorous assessment of market potential, start up or acquisition costs, and payback potential. A good board will set expected parameters for new investments in advance, including goals and objectives that are both strategic and financial. When new ventures or acquisitions are proposed, the board should question management's assumptions and assure that possible investments not only have great market potential but also fit the organisation's competencies and have a good prospect of achieving payback within a specified timeframe.

The boards of family companies must be careful to assess not only the financial potential of a particular business but also the potential impact of a decision on family ownership and management coherency. Sometimes, the board must develop a strategy for mitigating family conflict. Trusted independent directors can sometimes play a special educational role, acting like advisors to the family, helping to explain board actions with clarity and impartiality. Often, the board must take the role of providing continuity and stability in times of change and conflict.

The board as final arbiter

In many ways, a board's ultimate role is conflict resolution. Conflict in family business often takes the form of indecision. Family forces struggle for control of decisions and resolution is often difficult to achieve. The complicated dynamic of family members in both management and ownership can make consensus agreements impossible to negotiate. In business, however, decisions need to be made and often there is no room to compromise. In these instances, it often falls to the board to make the difficult decision.

When the board acts as final arbiter, it performs an important strategic function. Assuring the timely resolution of issues is often key to the ongoing success of a family business. Equally important is rationalising decisions and removing them from a realm of personal conflict and emotion. The boards of family companies need to be decisive, but they also need to be diplomatic. Sometimes, independent directors can help the board take on its diplomatic role by hearing out family dissidents or by being a buffer between factions. Independent directors need to be careful not to take sides in family disputes and to cultivate trust. The family is much more likely to accept decisions if they believe all sides in a dispute have been fairly heard. In particular, the board must balance management and ownership interests, and work to assure that family issues are resolved as decisions are made.

In growing businesses and families, it is the board that assures the ongoing strategic continuity between management and ownership

The board can also recognise the importance of many different stakeholders to the success of the business and balance their interests in decision-making. A good board will safeguard its strategic partnerships with employees, customers, suppliers and creditors. Maintaining these relationships is vital to the business. Thus, a board must act to assure that narrow shareholder interests do not negatively impact broader stakeholder interests. A good board will recognise the strategic importance of balancing all stakeholder interests in order to leverage the greatest value from the company.

A board can also act as final arbiter in resolving disputes within management. In many family companies, the board can help assure the appropriate career development of individuals. It can assure fair practice in reviews, compensation and advancement. It can balance the roles of family and non-family managers, and assure proper lines of authority and accountability. And in extreme cases, when necessary, the board must take responsibility for the replacement of leadership. Firing an important manager can be both the most difficult and most important strategic decision made by a board. Nothing impacts the performance of a company more than the quality of its top management. Successful family companies are run with professionalism and when leadership is not performing – whether its family leadership or not – it must be changed.

Functions of the board as final arbiter
Mediate and resolve conflict in both the family and business arenas
Assure the timely resolution of important issues
Assure rational deliberations and decision-making
Provide for diplomatic and inclusive communication
Safeguard broad stakeholder interests
Assure fair practice and performance accountability

Functions of a strategic management board
Review strategic planning processes
Critically assess management's analyses and assumptions
Assist management in thinking creatively
Approve management's vision and plans
Assure rational, strategic capital allocation

The strategic roles of the board

The boards of family companies have many roles in the development of family business strategy – they can help to facilitate transitions, clarify issues, assure proper management planning, foster sharing of information, and provide stability and continuity in times of conflict. A good board can also help to educate the family ownership about their business and their collective interests. It can foster concepts of fair practice and stewardship, and work to achieve the alignment of ownership values and business strategy, which give many family companies a strategic advantage over their competitors. Most fundamentally, a good board can assure that the best interests of all stakeholders are well balanced and that the sustainability of the family company is assured. ■

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