Boardroom INSIDER Reprint

The online newsletter for better boards and better directors
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IMPROVING FAMILY BOARDS - 5 QUICK WINS (5/17)

Those of us who work in corporate board training often find the boards of family businesses particularly frustrating. The advice given to family businesses has been pretty universal for years – work on succession plans, add some outside, non-family board members, improve board procedures. The family members we encounter listen to us, nod their heads earnestly -- and then go on doing things the way they always have.

Yet family firms face real challenges in shaping a governance structure that can carry them through generational, strategic and market changes. Family leaders may know that improvements are needed, but hesitate to rock the familial boat. What if you instead tried a few easy, incremental changes to begin a governance shapeup process? What low-hanging fruit will offer the quickest, most painless family business governance improvement?:

■ Start with a trigger event. One reason family businesses are so hard to motivate when it comes to governance is because the family may see no immediate need to change. The founder is healthy, everyone is getting along, and there are no looming company problems. But a driver for change may be just around the corner – or already here, if the family is willing to look.

"We saw a big interest in improving [family business] board professionalism when the 2008-09 downturn hit," recalls Joseph Schmieder, who heads the Family Business Consulting Group in Michigan. Dissention in the family, a founder health scare, new markets or acquisitions, or pursuit of outside funding can all give the urgency needed for a governance shakeup. "The first generation may not need a board," says Charlie Carr, managing director of the Family Enterprise Advisory Service at PWC. "But when the patriarch leaves, the problem is the next generation." Catherine Bromilow, of the PWC Governance Insights Center, finds the need for objective insight is often the strongest driver. "The family needs to ask what its governance looks like from the outside" if you approach investors or private equity. Whichever of these triggers apply, use it as a rallying cry for governance renewal – maybe the family just needed a kick in the pants all along.

■ Ease in outsiders. Yes, every discussion of improving the family business board includes (often ignored) advice to add nonfamily outside directors. The founder and family overall shy away from this for any number of reasons, both business and personal. Yet the value of unconflicted, informed eyes in steering the company's course is vital, so let's focus on some gentle ways to make it happen. First, everyone in the family can usually agree that there are some skills and experiences not present in the family, and which would be of real value for strategic advice.

So start with advisors. "One way of easing in is to form an advisory board," suggests Bromilow. Tap the founder's or other family's networks to find folks with serious skills in the areas needed, and assemble an informal "kitchen cabinet" for advisory sessions. This benefits all around -- you gain good insights from pros, get some "outside looking in" views of the company, and learn that outsiders don't bite. Over a year or two some of these advisors "get to understand the family culture," says Bromilow and can then transition into a formal board role.

■ See what public peers are doing. If yours is a substantial private, family-held company, it's a good bet that there are public companies close to yours in revenues, markets and strategy. Why not try benchmarking off them for governance ideas? Public companies must disclose lots of information on their governance and board structure, director qualifications, pay, etc. Put a few minutes online into researching these filings. If a rising public competitor has board with targeted skills, a strong committee structure, and bimonthly meetings, what does that tell you about which governance tools work?

■ "Evaluation is an inflection point," notes Bromilow. Yes, board evaluation is stressful for all companies, public or family. But a gentle, whole-board assessment of what skills your board has, which it needs, and where gaps are found can be a valuable tool in moving your family business board upgrade forward. General ideas that we need stronger skills in, say, digital marketing gets urgent when your evaluation uncovers that no one on your current family board knows what "SEO" stands for.

■ Finally, messy board procedures lead to messy governance. The family business board can get away with convening once a year, and working off notes the founder jotted down on the back of an envelope -- but that doesn't mean it should. "Have a strong board book that you send out ahead of time," counsels Schmieder, which should include a formal agenda, full data and exhibits, and meeting talking points. Again, there are plenty of good board package ***templates*** out ***there***, so you should have no lack of ideas. Take proper minutes, and consider formal committees for compensation, audit and other needs. Not only will this nudge everyone to up their governance game, it looks good down the road if you seek outside funding.

RALPH WARD'S BOARDROOM INSIDER is published monthly for directors, CEOs, those who work with corporate and nonprofit boards (corporate secretaries, corporate counsel, support staff, and consultants), and those who are board prospects.
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