



Institute for
Family Business
with UCG

Family Business Challenges

Professionalising the Board



The *Family Business Challenges* series

This guide is part of the *Family Business Challenges* series commissioned by the IFB Research Foundation. The series offers practical guidance for family business owners seeking to manage the unique challenges and opportunities they encounter.

The series provides concise information on a broad range of topics – covering family business dynamics, governance, performance, succession and family business wealth.

Each guide, which is illustrated by a real-world case study, is divided into three sections:

1. **Defining the challenge** – clarifying the issues and summarising expert thinking.
2. **Actions to consider** – ideas and strategies to help family business people meet the challenge.
3. **Resources** – annotated further reading.

The publisher

About the IFB Research Foundation with UCG

The IFB Research Foundation with UCG is a charity (no. 1134086) established to foster greater knowledge and understanding of family firms and their contribution to the economy and society, as well as the key challenges and opportunities that they face.

The Foundation's vision is to be the UK's centre of excellence for family business research, and to this end its publications are designed to create a better understanding of family business for the benefit of all stakeholders. Alongside *Family Business Challenges*, its work covers a broad range of publications, including:

- *Family Business Sector Report* – benchmarking the size and importance of the sector.

- *Family Business Research and White Papers* – thought leadership on key family business characteristics and issues.
- *Family Business Case Studies* – showcasing family business exemplars.

The Foundation disseminates knowledge and best practice guidance through printed publications, online media accessible via the IFB website and other activities, including the IFB Research Foundation Annual Lecture.

About the IFB

The Foundation works closely with its sister organisation, the Institute for Family Business, which is a membership association representing the UK's family business sector. The IFB is a member of FBN International, the global network for family businesses.

www.ifb.org.uk

Professionalising the Board

1 Defining the challenge

The family business challenge often centres on resistance to recruiting non-family directors. Many families fail to recognise that their business has grown beyond the point where it can be effectively managed by their family partnership. Even when they recognise the turning point, they may have fears about confidentiality and other worries (see Exhibit 1).

Exhibit 1: Boards with non-family directors – some common misconceptions

Misconceptions	Why they are misconceptions
We'll lose control	You won't, because family owners hold the votes and structure the board to meet their needs.
We'll lose our privacy	Disclosing financial performance data is a crucial management tool, and well-chosen independent directors will treat the information as highly confidential.
Outsiders won't respect our values	Directors will recognise how your values help provide the business with a competitive edge.
They'll squeeze out family members	Competent and committed family representation on the board is invaluable, and nobody can be squeezed out against the family's wishes.
I don't know who to choose	Join networking organisations, ask around other companies and your advisers. Family business owners often have more resources than they realise.
Someone advised me to hire this person	Whatever the source of the introduction do your own due diligence and screen the candidate carefully.

Building a professional, effective board.

Professionalising the board provides the basis for a logical organisational structure and clear decision-making. It helps avoid confusion and procrastination, and promotes family firm stability and continuity. Key characteristics are regular meetings, a well-organised and managed agenda, and membership that includes independent, non-family directors, both executive and non-executive.

Overcoming resistance. Structural changes are usually straightforward, but the required change of mindset is less so. A company based solely on informal family relationships is not sustainable in the long term.

Family company boards with independent directors play vital roles in driving competitiveness.

They help to provide:

- **A fresh, creative perspective** and improved performance.
- **Strategic planning** and greater focus on the “big picture”.
- **Governance rigour** – a source of challenging questions and extra accountability.
- **Guidance and support** on tough issues including succession planning, family management appointments and the retirement of senior family executives.
- **A signal to employees and other stakeholders** that “Our family firm means business!”

Non-executive directors can be especially valuable. They bring a new dimension of experience and objectivity, and can play an important role in the board's relationship with family shareholders, acting as consensus builders. With nothing to prove (no ego issues) they are usually good listeners and self-confident team players.

Finding the right people. Run a gap analysis ("Where are we and what are our needs?"). As well as a knowledge of the firm and its industry, directors should bring experience, independent thinking, inquisitiveness and sound judgement. In particular, candidates should understand the family business culture. (See Exhibit 2 for advice on board composition and numbers.)

Exhibit 2: The numbers game

"Always have an odd number of directors to avoid deadlock, and ideally a board should include at least three independents. One or two independents can be isolated, whereas three bring much more creativity, challenge and courage, and much less politeness – in short, three contribute the most in terms of family company boardroom dynamics."

Source: Professor John L. Ward, speaking at IFB Master Class 5, London Business School, 7 September 2004.

Don't discount family members. Insistence on director quality shouldn't be a bar to talented family members. Offer them education programmes to fill gaps in their knowledge and improve their eligibility.

Organising the board. Have *written* rules and guidelines defining the role, functions and operations of the board. Such a charter should also regulate how and when the board communicates with the family and vice versa.

Family businesses + independent boards = a powerful alliance. A value-added resource and a catalyst for strategic thinking that will promote long-term success.

2 Actions to consider

- What are the sources of resistance to professionalising the board at our company?
- How best can we address resistance?
- How do we redefine the role and purpose of our board?
- What skills are missing in the boardroom? What is the profile of independent directors that would be most helpful?
- How do we find and select independent directors?
- How will a more independent board relate to the family owners?
- What guidelines will help us manage the board and its relationship with the owners?

Case study: Samworth Brothers

“Succession was the catalyst for professionalising the board at our company” explains fourth generation Mark Samworth, director of Leicestershire-based food producer, Samworth Brothers. “From the mid-1990s the family began preparing for the retirement of my father, Sir David Samworth, and I was the first to admit that the business was becoming too big to expect family members to be able to run it. It deserved the best qualified people.”

The lead-up to Sir David’s retirement in 2005 was also a period of rapid expansion for the group. The family decided to pursue a decentralised business model, and established a two-tier board structure to be staffed largely by professional managers – a Holdings Board (responsible for strategy and culture) and a Group Executive Board (coordinating operations).

Sir David, as chairman and chief executive, had always run a well-functioning board

system that included other Samworth family members plus one or two MDs from the operating businesses. But it was time for change and the business now has fully formed, professional boards, including on the Holdings Board an independent chief executive, three independent non-executive directors, plus Mark Samworth providing essential links with the owning family.

“This change was a brave decision for my father,” explains Mark. “We had to set aside a lot of emotional issues and do what was right for the business, giving it the maximum support, stopping us becoming too defensive. And that meant attracting and retaining the best people from outside.”

Mark sums it up well: “As a family we owe it to the business to ensure good management as well as good ownership.”

Samworth Brothers

QUALITY FOODS

3 Resources

Articles and reports

Getting the Most Out of Your Board

The Family Business Advisor Newsletter
(January 2004).

A sample board evaluation questionnaire is included among Jennifer Prendergast's practical suggestions.

Keeping it in the Family. How Independent Directors Add Value to Family Businesses

Executive search firm Odgers Berndtson
(www.odgersberndtson.co.uk).

The paper makes some interesting points about appointing independent non-executives, and about deploying, motivating and involving them appropriately.

Books

Building a Successful Family Business Board: A Guide for Leaders, Directors and Families

Jennifer M. Prendergast, John L. Ward and Stephanie Brun de Pontet, published by Palgrave Macmillan (2011).

A comprehensive study of family business boards. See in particular, Chapter 2 ("Truths and Myths About Boards"), which presents a useful discussion on family company resistance to professionalising the board, aiming to counter common fears and misconceptions about independent directors.

Family Business

Ernest Poza, third edition, published by South-Western (2010).

This book includes thoughtful content on selecting and recruiting board members, and on the relationships of a professionalised board with other family governance entities.

Family Business Challenges

The *Family Business Challenges* series of guides offer practical guidance for family business owners. Each guide identifies issues commonly faced in a particular topic area, suggesting strategies for managing the tensions and competing demands that arise. Titles include:

Family business dynamics

- Understanding Family Business
- Maintaining Family Values
- Developing Stewardship
- Promoting Sustainability

Family governance

- Managing Differences
- Building Family Governance
- Strengthening Family Communication
- Fostering Responsible Ownership
- Managing Communication:
Owners and the Board

Family business performance

- Fostering Entrepreneurship
- Professionalising the Board
- Maximising People Capital
- Employing Advisers

Family business succession

- Engaging the Next Generation
- Planning Succession

Family business wealth

- Selling the Family Business

Growing successful enterprises
for generations to come

Institute for Family Business

32 Buckingham Palace Road

London SW1W 0RE

Tel **020 7630 6250**

Fax **020 7630 6251**

www.ifb.org.uk