



Institute for
Family Business
with UCG

Family Business Challenges

**Managing Communication:
Owners and 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

Managing Communication: Owners and the Board

1 Defining the challenge

When thinking about ownership and management, many family business owners suffer from role confusion.

Shareholders don't manage the company, and nor do they – when a board of directors has been appointed – supervise the company's governance. (See Exhibit 1.) Understanding these distinctions is critical, as is ensuring efficient communication and building a constructive relationship between family owners and the board.

Exhibit 1: The difference between owners and managers

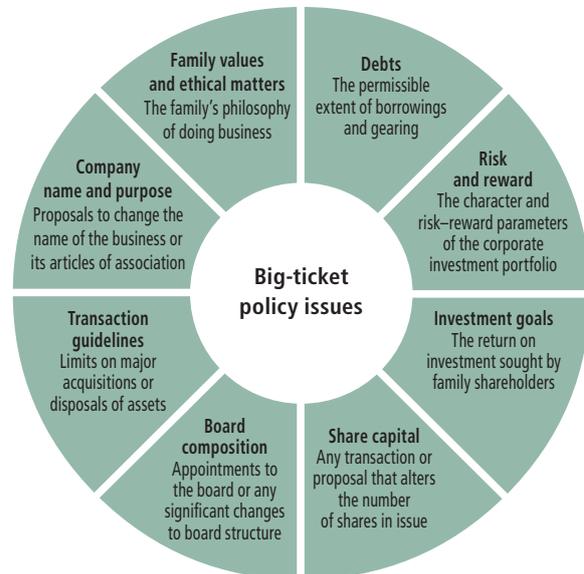
“Imagine the family business is a Boeing 737. Owners have a right to choose what the plane is used for – for example, passengers or cargo – and they might decide on different risk profiles (like whether to heap up debt in order to expand the fleet). But owners stay out of the cockpit, they do not serve drinks or collect garbage. They let the pilot and the crew do their jobs. The trouble is, inherited shares don't come with a user manual, and one of the toughest challenges families in business face is in educating their members about ownership, and defining their rights, roles and responsibilities.”

Source: Dr Ivan Lansberg (2005) “Governance Structure for a Complex Family Enterprise”, paper delivered at IFB Master Class 6: Professionalising Governance in the Family Firm, London, 29 September.

Ownership of the company brings specific controlling rights. The board represents the owners in providing direction and oversight to the business, but it is the owners who take major, strategic policy decisions. They define and explain to the board the values and vision that are to underpin the way the board runs the business, and they also work with the board to set business goals on the key areas of

growth, risk profile, profitability and liquidity (see Exhibit 2).

Exhibit 2: Policy issues where the family owners have the final say



Source: Adapted from Peter Leach (2012) *Family Councils: A Practical Guide*. London: Institute for Family Business.

Family issues must be communicated in ways that don't interfere with board functioning. Family concerns are vitally important to the board, but the owners must speak with one voice. If they lobby individual board members or make ill-considered comments then they put this principle at risk. Family meetings or a formal family council are the best and most efficient way for family concerns to be expressed, addressed and communicated to the board in a unified way.

Appropriate rules for the interface between the family council and the board of directors will vary from business to business. In some companies it's the board's job to "sell" the appropriate strategy to the family council, while others believe that the family council should be free to lay down rules it feels comfortable with. The middle ground sees the relationship as a "two-way street" – sometimes the family council needs to

dig its heels in and say that's the wrong strategy for us, while on other occasions the board should take a robust stand.

Families should be clear and consistent when communicating with the board.

Although the nature of the relationship between the family and the board may vary in different businesses, it should always be underpinned by a solid set of principles and processes so that everyone understands what each body can and cannot do. There must be clarity on both sides as to the rules that apply and where boundaries are set (see Exhibit 3).

Exhibit 3: The role of the board of directors

“As the final decision-maker, the board of a family company has a special role to play in governance. It must rise to the challenge of maintaining coherency and alignment between the ownership and its business. Good boards give attention to informing the family and supporting active ownership consultation processes. Ownership feedback is essential to making effective, stable decisions. Good governance is required to renew and maintain the family business advantage over time. The board of directors is uniquely positioned to enable the communication and alignment that promotes the most effective governance.”

Source: John L. Ward (editor), *Unconventional Wisdom: Counterintuitive Insights for Family Business Success*, published (2005) by Wiley, p.218.

Keeping communication channels open: Some guidelines

- Make sure rules about the relationship between the family and the board are set down on paper. This could be in the family constitution or in written terms of reference for the family council and the board.
- Include in the written rules formal lists of items specifically reserved for the

shareholders' decision and those that are delegated to the board.

- Arrange regular exchanges of views and updates of objectives pursued by both the family council and the board of directors. This can be via a regular two-way flow of agendas, reports and position papers, and through occasional joint meetings.
- Ensure all important communications are in writing.
- Consider appointing a family member (or trusted non-family observer) to sit in on board meetings, acting as liaison. It's important for such observers to play a low-key, non-participatory role – they should not divert the special focus of the board.

Family shareholders must have trust and confidence in the board process.

Ultimately, their main role must be to support the board of directors, and if they find they cannot work with a board then they have the right to remove them.

2 Actions to consider

- Are we doing enough to ensure our family members all understand their rights and responsibilities as shareholders?
- How, and to what extent, should family shareholders and our independent directors interact?
- What are the issues where, as shareholders, we should have the final say – topics on which our wishes matter most?
- What are our rules on confidentiality – i.e. what boardroom information should and should not be shared with shareholders?
- Could the rules and policies we have set as shareholders be too restrictive, putting off talented non-family candidates who might otherwise join our board?
- How do we measure the family's satisfaction with the performance of our board of directors?

Case study: **Strutt & Parker (Farms) Limited**

Founded 130 years ago, Strutt & Parker (Farms) Limited today manages some 20,000 acres of farmland in Suffolk and Essex. Ownership of the company is dispersed across more than 80 shareholders, almost all of whom are descendants of the two founding families.

“The board of directors is mainly comprised of outside professionals, including non-executives with farming expertise and a non-family MD,” explains fifth generation Strutt family member Fiona Gatty, who recently retired after 10 years as a non-executive director. “The chairman of the board is, and always has been, a family member.”

Nevertheless, further improving communications between board and shareholders was a key objective behind a recent restructuring of family governance – a process in which Fiona played a leading role. A shareholder council was set up in 2006, which holds bi-annual meetings attended by the managing director. At these meetings the MD reports directly to representatives from the various family groups, who themselves then communicate back to family members.

The Strutt and Parker families have devised an interesting approach when it comes to strategic, long-term issues on which the family (rather than the board) has the final say. Rather than defining a list of such matters in their family constitution, each potentially borderline case is examined on its merits.

Recently, for example, there were protests about company proposals to erect wind farms near a village. The shareholder group – very aware of the potential for these facilities to raise strong emotions and divide communities – weighed up all the pros and cons, and in the end concluded this was an issue for the board, as opposed to being a “big-ticket” policy decision reserved for the owners. An important consideration was the fit between renewable energy and Strutt & Parker Farms’ established low-carbon land management policies.

“So when questions like this arise,” explains Fiona, “rather than coming at them with a template or a list, we look at the facts and decide on which side of the line the issue falls. There’s a dialogue within the family based around our awareness of the rights and responsibilities of ownership.”



The Strutt & Parker (Farms) Family Council (from left to right): Peter Tritton (Chairman of the Family Council), Xandie Nutting, Rhoda Bucknill, Fiona Gatty, David Harden (Non-Executive Chairman of Strutt & Parker (Farms) and previously the first Chairman of the Family Council), Jonathan Parker, Antony Stark (Secretary of the Family Council) and Carolyn Galloway.



3 Resources

Articles and reports

Organizing the Family-Run Business

John Davis, Harvard Business School (available at: <http://hbswk.hbs.edu>).

A broad-based article including interesting ideas on policy-setting and oversight in family companies.

Guidelines for Family Business

Boards of Directors

Suzanne Lane, Joseph Astrachan, Andrew Keyt and Kristi McMillan, *Family Business Review*, June 2006, vol. XIX, no. 2, pp.147–167.

This article is written from a US perspective, but it provides a thought-provoking summary of viewpoints (often conflicting) in the debate about the role that should be played by a strong board of directors in family companies. See in particular the section beginning on p.158 entitled “Family-Owned Boards Must Be Accountable to Shareholders”.

Books

Responsible Ownership: Perspectives on Best Practice

Published by the IFB Research Foundation (2007).

A review of current thinking on responsible ownership. While owners have the ultimate power in a family business, they also have large-scale responsibilities, in particular to ensure the long-term sustainability and prosperity of their enterprise.

Family Councils: A Practical Guide

Peter Leach, published by the IFB Research Foundation (2012).

The first comprehensive guide to family councils and their role in governance, including practical advice on managing the relationship between the family and the board of directors.

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).

One of the most comprehensive studies available of family business boards. See, in particular, Chapter 10 on “Linking Family and Business Governance in Later Generations”.

Family Business Governance: Maximizing Family and Business Potential

Craig E. Aronoff and John L. Ward, published by Palgrave Macmillan.

Chapter 7 (p.69) includes a listing of ideas for improving communication links between the family and the board.

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

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