

Natural selection – how to choose the best board

Once a family has decided to take the plunge and professionalise their board, they face the harder challenge of selecting the ideal number and people for the job. Randel Carlock and Ludo Van der Heyden outline the steps you should take...

Governance is more complex for family businesses than it is for non-family businesses as family members often have conflicting interests based on their family, career and ownership roles.

This complexity can be overcome by professionalising the boardroom to ensure effective steering of the business, which provides management with the responsibility for execution while protecting – through appropriate checks and counterbalances – the interests of the owners and other stakeholders. However, it is not as simple as it sounds. And it must start with a proper understanding of what good governance can contribute to the health and performance of a business.

Let's assume that the family ownership group meets and agrees to create a professional board with responsibility for governing the business, including overseeing management and representing shareholders and other stakeholder interests.

They also agree that the board should include independent members with new expertise and perspectives. These decisions set the stage for exploring the first board-planning question: What is the best size and composition of board in terms of insiders (executives and family members) versus independents (outsiders)?

HOW MANY DIRECTORS?

The transition phase of board development can be a balancing act as you need to consider family and ownership concerns while also professionalising the board. The decision on board size is shaped by many factors including the size and complexity of the company, ownership structure, the family's intentions for adding independent members, and the need for the new skills that the board requires to support the firm's strategy and ownership interests.

It is also important to protect the family's connection with the business and other stakeholders. Immediately dropping family board members might result in destabilising board relationships due to a loss of ownership support, which obviously does not help the family business.

An important consideration in board size is ensuring meaningful discussions and personal relationships to support effective decision-making.

A board of directors is like any other team and we need to consider chemistry as well as technical capabilities. The literature on groups and teams suggests that seven is the greatest size in terms of creating strong working relationships and effective deliberations at board level. Of course, the presence of a family council strongly reduces the need for a large number of family representatives on the board.

Most families would not immediately opt for a majority of outsiders because of concerns about control, the difficulty of replacing family directors and the time required to identify suitable candidates. If the current board contains 11 family members, a good starting point could be to replace at least two retiring family directors with independent directors (having just one independent director could put him/her into an uncomfortable position) and then develop a timetable to work toward a better balance of insiders versus independent directors.

"There are no prescriptions or best practices on board selection that can immediately be copied"

The balance of family versus non-family members should reflect the family's aspirations for the business and for its board. Family-owned commodities group Cargill has a majority of non-family board members because the firm sees itself as a professionally-managed global business that incidentally is owned and controlled by two families.

The understanding that the board needs professionalism – and not just management – is an excellent starting point. The next question is whether the required professionalism is present in the family. If it is not, then allowing families to choose their representatives to join a limited number of

family members, whose task is to represent the overall family viewpoint while providing oversight of the board for the family, is a good direction to pursue.

IDENTIFYING DIRECTOR CANDIDATES

The second question in professionalising a board relates to what talents are needed on the board to improve the firm's governance function. Like all teams, boards are about having a diversity of talents, so being effective as an independent director is similar to any leadership activity and reflects different experiences and styles of behaviour.

There is no single trait that makes a good director because each board situation is unique. Probably the most important qualification is personal experience and style. We suggest selecting director candidates based on three criteria: first, personal style or how the person interacts with others; second, demonstrated experience or what the person has accomplished; and third, personal fit with the current board and shareholder group.

The first two criteria use interviews, meetings or references to help select a candidate whereas the last standard is all about chemistry. A board candidate must relate well to other board members and the shareholders group if they are to be effective; as is the case for any team, a person must not be allowed to reduce the team's effectiveness through interpersonal conflicts.

SELECTING NEW DIRECTORS

Probably the most difficult issue business families face is developing a process for selecting board members. The selection process for new board members is the starting point for creating an objective governance process that links the needs of the owners with the management's actions. If the goal is to create a board team that will challenge management, support change and encourage trust across a wide range of often-conflicting stakeholders, then the board itself needs a strong sense of social cohesion that comes from an effective selection process of its members and of its leadership. The shareholders have the final say in approving directors, but a good selection process empowers the board both towards the family and the executives. It demonstrates the responsibility that the owners give the board members and its chair (the chief governance officer) for improving the governance function.

This idea may be hard for some family members to accept because they see these changes as a loss of control for the family. However, this loss of control should be temporary – a high performing board allows the family to actually gain more effective delegated control over its business while in the medium- and longer-term being in a better position to develop superior competitive advantage, which also is a gain of control (relative to the market).

There are no prescriptions or best practices on board selection that can immediately be copied: the process must reflect the family's values, the ownership structure, and the shared input of the owner's group. However, some guiding

SELECTING THE BEST CANDIDATES

PERSONAL STYLE CRITERIA TO CONSIDER

- High emotional intelligence.
- Good communication and listening skills.
- Consensus/team builder in decision-making.
- Sensitivity to stakeholder and ethical issues.
- Compatible values and business philosophy.

DEMONSTRATED EXPERIENCE CRITERIA

- Independent and objective in thinking and actions.
- Global work or life perspective.
- Diverse life or business experiences.
- Independent from firm and current management team.
- Not a professional supplier to the firm such as the firm's lawyer, accountant, banker, etc.

principles can be offered. First, the process must be shared between the family, owner's group, the board and even the management (who, without having to decide, can be asked for their views and suggestions). Second, all should be invited to identify and nominate family and independent candidates. Third, the board nominating committee should interview all nominated candidates so that all candidates feel equally a part of the selection process.

The nominating committee ought to ensure that family members do not end up feeling like second-class members or that board members feel that family members were forced on them. Fourth, the owners approve the selected board candidates at the annual general assembly or shareholders meeting. Strengthening a board is by definition a long-term process that requires careful planning but can have some very positive induced effects. The addition of independent directors also provides an opportunity to improve the quality of family board representation.

The criteria for independent and family directors may not be identical because an outside candidate may have extensive executive experience where a family candidate would have stronger family relationships, but the idea is that all board members bring social and technical capabilities to the board in order to improve it.

The addition of stronger independent board members raises the bar for family members on the board, while creating new roles on the nominating committee or on the family council. In the end, such a move ought to increase the quality of the family's contribution to the firm while also creating new opportunities for family members to actively support their family's legacy. ●

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