'Blood is thicker than EPS'

How to excel as a board member of a family-owned company. **By Richard M. Clarke**

Over the past five decades I've had the privilege of serving on the boards of four very different family-owned and -operated companies. In fact, I started my career in the mid-1950s working for a small family-owned company that fabricated high-performance components from innovative polymeric materials. I learned a lot about business rather quickly, and I saw at first hand the passion and dedication the founders and their family brought to surviving tough times and growing the company. I've also served on the boards of publicly traded companies, so I have both experiences to draw upon when I reflect on director duties in the domain of the family-owned company versus the publicly traded corporation. I'm not stating that one is better than the other; not for a minute is that the case. The two have distinctly different characteristics. Clearly, however, the family company character is much more "human," which at times can play a determining role in results — good or bad — and must be carefully monitored by the board of directors and top executives.

In every country of the world, the large population of family-owned companies constitutes a bedrock of commercial activity and creativity. Most operate within the same legal and financial framework placed on publicly traded corporations. But family companies place an added layer of obligations on their board members, especially the independent non-family director (often called an outside director). It should be no surprise that these demands are unique to each family-owned company. Simply stated, each family has distinctly different characteristics, needs, and driving forces that affect their company.

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The big tradeoff

While it's easy to state such an obvious fact, it is far more complex to explain how this translates into additional or different duties for those who want to excel as members of a family-owned company board. Look at the dynamics of any family (your own, for example), and you begin to understand the tradeoffs often made between material gain versus quality of life. This same balancing act takes place in family-owned/operated companies. You must not only try to understand this, but also recognize how this may influence your actions and advice as a director.

Quite often one hears that the responsibility of a director, or the board in total, is not only to protect shareholder value but also to grow it. I don't dispute this as an important part of a board's duties. There is a distinction, however, between being a shareholder in a family company versus a publicly traded company, and that difference markedly alters the way directors react to various issues.

Shareholders of publicly traded companies are basically interested in only one aspect of value growth: the share price and how much it increases over an acceptable period of time. Family shareholders want financial gain too, but in my experience not at the expense of other company goals they hold equally as high as financial growth — not the least of which can be passing the company ownership from generation to generation ("keeping the company in the family").

Ten tips for director excellence

Following are 10 tips I believe will substantially improve the ability of a director to contribute to the overall profitable growth of a family-owned/operated company:

1. Learn and remember the beliefs, principles, and driving forces of the founder(s). They may still have substantial significance to how the company is run today.

2. Growth in economic value is important; however, not as the sole measurement of success. This is especially true if a profit focus damages the ability for continuation of generational ownership.

3. Maintain as clear an understanding of the shareholders' overall desires as possible. In a family business they are owners as opposed to simply investors (as is the case in most publicly traded companies). Blood is thicker than EPS!

4. Establish what the key non-financial values are that the family owners cherish and hold dear. Understanding these will provide additional insight as to how you can be a successful member of the board-management leadership team.

5. All families have differences of opinions, and as the family groups grow in number, the differences grow in both quantity and complexity. You can't solve them all, but it behooves you to know what the current major ones are that could impinge on how the business is run.

The Family Council

By Ivan Lansberg

A whole set of issues having to do with the family's interface with the business must be addressed, but these are rarely discussed in an organized, thoughtful way unless there is a separate governance structure — a family council — to deal with them. Without a separate forum for promoting the welfare of family members and resolving family issues, these matters may intrude upon the work of the board and management — at a significant cost to both family and business functioning.

A family council generally includes not just current family shareholders and managers but other family members whose lives are affected by what happens in the business, such as spouses, parents, and grandparents who own no stock.

Many small and mid-sized family companies in the United States have found it useful to organize family councils. A number of sophisticated multinational companies also have such councils, among them Agrolimen and Antonio Puig in Spain, the Bonnier Group in Sweden, the New York Times Co. and S.C. Johnson in the United States, Telemedia in Canada, and Hermes, the French manufacturer of leather clothing, men's ties, scarves, and other apparel. Other major companies are also beginning to establish such formal structures as they move into later generations.

The family council plays a vital role in elaborating policies for the family and resolving conflicts over such matters as the hiring and firing of relatives, the distribution of business perks, and the use of the family vacation home.

One of its most important functions is to articulate the family's core values. Although many family businesses have strong values that they wish to see advanced, they seldom make the effort needed to define these values explicitly.

The council also has other major responsibilities. It educates family members on their rights, responsibilities, and privileges vis-a-vis the business. It provides a forum for discussing issues of continuity and succession. It is responsible for preserving and carrying on the family legacy and instilling a sense of stewardship in the young.

In summary, the council's activities may include:

- Articulating family values for the guidance of the board, top management, and the family's philanthropic activities.
- Developing a challenging vision of the future of the family and the company that all members can embrace — a shared dream.
- Planning educational programs and events for family members.
- Creating policies regulating relatives' entry into or exit from the business.
- Establishing standards of behavior for family members in the community.
- Developing a family mission statement or credo.
- Furthering the development of young family members — for example, by setting up scholarship and/or venture funds.
- Organizing celebrations of the family legacy.
- Establishing a family office to handle the family's portfolio of investments not related to the family's main business.
- Establishing and overseeing the family's philanthropic initiatives.
- Coordinating measures to protect the personal security of family members.
- Providing fun and leisure activities for the family.
- Establishing policies to regulate conflicts of interests among different business activities of family members.

From *Succeeding Generations: Realizing the Dream of Families in Business,* copyright ©1999 by Ivan Lansberg, reprinted by permission of Harvard Business School Press (www.hbsp.edu). Lansberg is an organizational psychologist based in New Haven, Conn. He is co-founder and a senior partner of Lansberg, Gersick & Associates LLC (www.lgassoc.com), a research and consulting firm specializing in family enterprise and family philanthropy, and serves on the boards of a number of family companies. This excerpt originally appeared in the Summer 2000 issue of Directors & Boards.

6. The "Patience Quotient" in a family-owned company is usually of a much longer time frame than what exists in a publicly traded company. Evaluate what the PQ factor is in your company and determine the best way to work within that.

7. Make sure that a top-ranked goal for the board is to have succession plans in place for the chairperson and the CEO (two people, not one). Equally important is to check from time to time the family agreement with these overall plans, including a thorough determination of the merits of a family member candidate.

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8. If a family advisory council doesn't exist, form one! If one does exist, don't ignore it. Learn how to include this council in company affairs/issues. This is not to be interpreted to mean the council has direct impact on running the company. [Ed. Note: See accompanying sidebar for guidance on the role of the family council.]

9. Spend sufficient time assessing the "risk tolerance" of the family owners. This is particularly true for those owners who have been instrumental in building and operating the company to its current level. Knowledge of this RT factor (the risk-reward ratio) is critical to establishing acceptable growth strategies.

10. Finally, get to know the wants and desires of the younger generation. These are the men and women who are in high school or college. They will soon be influencing the future of the company, and one of them just might be your next chairperson or CEO.

'I wish I'd known sooner'

This set of guidelines may not be completely comprehensive. That is not the most critical issue. What is important is that it represents a distillation of experiences, data, and insights collected over five decades of participating in family-owned businesses — from being a low-level manager up to serving as president, CEO, and chairperson (shareholder, too). I wish I'd known these pointers in my early career days. I'm positive my efforts would have been even more productive for the companies I then worked for.

These 10 tips in no way lessen the importance of all the normal characteristics that define what a good director is and acts like while carrying out his or her duties. The tips are meant to be generic in nature. In order to make them work for you, you must find the specific guidance within this framework that best fits the family company you are involved with. After that, begin to explore methods you feel comfortable with to incorporate the new sensitivity, behavioral skills, and knowledge generated so as to improve your performance as a member of a family-owned company board. In doing so, you will begin a new journey toward director excellence. In today's world, where director liabilities seem to outpace director benefits, it will be well worth the effort. ■

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