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Board impact

Understanding and measuring the impact of a family business board

Foreword

Family businesses account for 70% of global GDP[1], playing a key role in driving job creation, fostering innovation, and supporting sustainable economic growth. Locally in Ireland that success is notable, with Irish family run businesses continuing to grow and demonstrate resilience and agility.

Good governance and an effective board are critical in all organisations, and this is no different in family businesses. The boards of family enterprises have the same governance responsibilities as boards in other companies. However, they must also respond to a range of additional challenges that make their job more difficult. Further, the practical application of these responsibilities (and the proportionality of the governance arrangements) will depend on the scale and complexity of the family business, with a first-generation start-up having different requirements than a multi-generational established business. This article looks at the role of family boards and presents a framework for understanding whether they are delivering value for their owners and wider stakeholders.

It is natural and not unreasonable to assume that when a business is successful, its board must be doing a good job. The reality, in our experience, is not quite so straightforward, especially in the case of family business boards.

Of course, the success of a family business can be down to a range of factors including, for example, a highly talented and charismatic founder who is the CEO or board chair, favourable market or funding conditions, an established brand or reputation that attracts a highly motivated and talented workforce, as well as an effective board.

In fact, it is perfectly possible for an organisation's success to be masking the shortcomings of its board. Based on our work, this is particularly relevant to the boardrooms of family businesses, where the unique combination of heritage, personality and, very often, lack of external expertise and opinion can give rise to dysfunctional and ineffective boards, dominated by a single individual or axis of individuals.

1 Tharawat - What is the Economic Impact of Family Businesses? - Tharawat Magazine (tharawat-magazine.com)

Why the boards of family businesses matter

In simple terms, the purpose of a family business board is to secure the future of the business and to preserve the family's legacy. All boards give consideration to future sustainability but, with potentially generations of livelihoods depending on the success of a family business, the responsibility to govern with impact and to safeguard the future is especially acute for family boards. Boards do this by defining, nurturing, and protecting three key business-wide outcomes.

- **A values-based business culture** – expressing, operating, and living by a shared set of values and behaviours that align to the family's values, vision, and purpose.
- **Strong organisational performance** – successfully achieving the family's vision and priorities for the business, including financial targets and plans for growth.
- **Effective control** – establishing and applying robust systems and processes that protect the family's assets and reputation.

When boards successfully deliver against these three outcomes, they are more likely to be trusted by the family owners, as well as other shareholders and stakeholders.

Legacy and sustainability should ultimately be the two key areas of focus of every family business board and the effectiveness and impact of the board should be of concern to all those touched by the business. Serving on a family business board brings with it a significant responsibility and requires much time and attention.

The nuances of family boards

In fulfilling their purposes and striving to add value to the wider family, other beneficiaries and stakeholders, family business boards face certain challenges that are more pronounced for them than perhaps they are for the boards of other types of business. These include:

- **Evolving structures** – at start-up stage, a family business may have a small board comprising the founder and other executives. The transition to a formal board structure with independent non-executive directors often takes longer than non-family businesses and depends on the desires of the founder(s) and organisation culture.
- **Dominant personality** – this is especially relevant in family businesses where the chair of the board can be very 'hands-on' and sometimes even operate as the de facto CEO. In many cases they may also be the founder of the business and its institutional lodestone.
- **Succession planning** – ensuring that board members are motivated, relevant to the business and capable when typically selecting from within a narrowly defined group who may have limited experience outside the family business.
- **Board dynamics vs. family dynamics** – separating board roles from family roles (historic and emotional baggage) can be difficult when individual board members may have grown up together, holidayed and played together, argued, and fought together, and been dominated or mentored by the founder.
- **Stakeholder engagement** – board members, especially those from the family, have an advocacy role to play as the liaison between the business and the wider family. How they understand and execute this role is critical.
- **Family governance arrangements** – as the ownership transitions from the founder, family governance becomes increasingly important. Various forums such as a family office or family council may be established to support and manage the family's relationship with the business. Family business boards need to understand the overall family governance structure, role of these forums and the matters reserved for their decision-making.
- **Generational shift** – inevitably, successive generations of family members will bring different perspectives, levels of commitment, and priorities to their engagement with the family business. In simple terms, third or fourth-generation family members, who have been born into and grown up with comfort and wealth, think differently to the founding generation. They may engage differently with the business's core business, have different views about how capital and risk should be managed, and may be more inclined to focus on current 'hot topics', such as ESG and digital, to guide investment opportunities than the founders.

- **Shaping innovation** – maintaining a legacy is often grounded in the successes of the past. In today's current environment where the pace of technological change and geopolitical landscape is constantly evolving, family business boards need to balance focus on legacy and respecting traditions, with evolving and innovating in a manner which continues to uphold the family's values.

Understanding board impact

So how can we understand and measure a board's impact with some degree of consistency and objectivity given its purpose and against this backdrop of challenges? How can we separate the performance of the board from the performance of the business and see clearly the value it adds?

One way of addressing this question is to examine the relationship between the board and other stakeholders, for instance, the executive and wider management, who typically largely consist of non-family members and who do not sit on the board but have a lot of exposure to it and are materially impacted by it. We observe that executives in organisations with high-impact boards will be able to describe initiatives and proposals that have changed for the better as a direct result of board-level scrutiny and dialogue. They can tell stories about how the advice and support that they have received from members of the board has demonstrably added value to their work. Similarly, family owners will be able to describe examples of how the board has furthered the interests of the family, effectively guided the business, or positively engaged with them through the family governance structure.

Boards can also have a negative or limited impact on their organisations. In these instances, executives complain of boards and board members that consume a lot of time and resources but fail to clearly advance management's thinking, decisions, or actions, acting as a brake on the business and preventing it from moving forward.

Based on our experience of advising, reviewing, and developing hundreds of boards over many years, we have developed a framework that uses people's experience of the board to understand and measure its impact. The framework is founded on the three key roles of any board, namely: stewardship; oversight; and accountability, each of which is explored further in table 1 below.

Table 1

1. Stewardship	**2. Oversight**	**3. Accountability**
• Provides strategic leadership to help ensure that the family business's purpose, vision, and mission – including around legacy, sustainability and philanthropy – are clearly defined and articulated, 'owned' by management, and manifested in the activities of the business and its people. • Clearly articulates and visibly role models the values of the organisation as defined by the founder(s), proactively nurtures, and protects its culture. • Selects and helps to develop the CEO and the wider management team. • Looks ahead and plans agendas to ensure that board members are focusing on the right areas at the right time, including actively scanning the commercial environment and the family circumstances for opportunities and risks. • Helps to develop effective governance arrangements, including ensuring the board has the right blend of skills, knowledge, and experience to govern well and seeking expertise and counsel from outside the family when required. • Engages in self-reflection, evaluation, learning and development, including recognising and respecting the boundaries between governance and management in a family business.	• Oversees performance, conduct and strategic execution of the business through seeking assurance and holding management to account. • Works to ensure management provides appropriate information on a timely basis, including information that is accessible to non-experts. • Monitors compliance with obligations at various organisational levels. • Evaluates the performance of the CEO. • Oversees the risk framework and major risks to the business. • Monitors adherence to, and the overall effectiveness of, the business's governance arrangements.	• Engages proactively and meaningfully with family owners, other beneficiaries, and key stakeholders and solicits feedback on the business's activities and performance. • Openly and clearly explains the direction, performance and conduct of the organisation. • Openly and clearly explains the impact that the board has had and the effectiveness of its governance arrangements.

The board impact framework: How does your board measure up?

On our framework, the impact of a board is measured along a continuum, from a -1 board that is destroying value to a +2 board that is adding value across all three roles (see table 2 for a description of each level).

In using the framework, we recommend a positive and consultative approach that encourages candid conversations with board members and those who are exposed to the workings and decisions of the board.

In applying this framework to many boards – including boards of family businesses – we have found that very few reach and then consistently perform at level 2. But, importantly, those that do are better equipped to adapt to market changes, to evolve their business and to manage successions successfully, ultimately enabling the board to fulfil its purpose – securing the future of the business for the generations to come and safeguarding the family's legacy.

Table 2

Level -1	Level 0	Level 1
The board consumes a lot of time and resources, distracting management from doing valuable work	**The board is passive, simply ratifying what the chair of the board and/or management put before it and adds little or no value**	**The board is effective in its oversight and accountability role, stopping bad things from happening**
• There are lots of requests by the board for further information and analysis that do not add value, require a lot of time and resources to service and restrict management from moving forward. • Without just cause, the board is heavily focused on operational detail. • Board members pursue personal 'hobby horses', revisiting 'settled' matters, diverting board time and limited management resources. • The style of some board members is unhelpfully challenging, even aggressive, resulting in management not being transparent with the board and/or appearing defensive in meetings. • The board is overly directional with management, blurring accountability for results and essentially running the business rather than governing it.	• Meetings are treated as obligations to be endured rather than opportunities to explore, understand and add value. • Board members are poorly prepared and have not read the board pack, asking questions that are answered in the papers. • There is little or no scrutiny by the board and its committees of the board chair's and/or management's activities or proposals. • If the board does scrutinise, the quality of that scrutiny is often poor with questions that are predictable, easy to answer and lacking in insight or foresight. • Board members accept management reports without challenge and/or defer too easily to the view of the chair or the board member appointed to oversee a specific area. • Most, if not all, agenda items requiring a decision by the board are approved first time and/or there is a reluctance to require management to do further work or provide further information before decisions are made. • There is an overreliance on approving board business via email. • There is poor attendance at board meetings by some board members, in particular, family members. • Board meetings are cancelled at short notice. • The voice of the wider family persistently echoes around the boardroom. The board gives time to, and exposes management to, long-standing family tensions, rivalries, and schisms.	• Management know that they will be effectively and constructively held accountable by well-prepared and fully engaged board members, so they prepare well for board and committee meetings. • Risks to the business are spotted and mitigated through robust board dialogue. • Poor performance is actively monitored at board level and rectified in a timely manner. • While the board is respected, it is rare for management proposals to be significantly improved by the board. • The board predominantly focuses on performance against KPIs and operational risks, as well as matters of compliance, regulation, and control. • Board and committee agendas are shaped by management and/or the board chair with minimal or no input from board members. • Management describes a hierarchical relationship with the board; a strong sense of 'reporting to' the board. • Stakeholder engagement, including engagement with the wider family, tends to focus mainly on reporting against KPIs, risk management and mandatory updates.

Level 2

In addition to being effective at oversight and accountability, the board is effective in its stewardship role; enabling great things to happen

- There are clear examples of management proposals changing for the better as a result of board-level dialogue and enhanced understanding of the business's purpose.
- Management describes board members sharing useful insights and opportunities with them based on their experience and network, including intelligence about market conditions and trends.
- The board and management work respectfully together, with management proactively seeking advice and helpful connections from board members outside of formal meetings.
- No one voice is dominant in the boardroom. The board chair ensures that all members of the board have an equal opportunity to meaningfully contribute to board matters.
- Management has a clear understanding of the board's priorities and expectations – including around vision and values, legacy and philanthropy – and responds accordingly.
- There is consensus at board-level and with management on the reasons why the organisation is successful, and these reasons are monitored and protected.
- The board spends most of its time focused on matters of stewardship. These include discussions and decisions relating to organisational purpose, direction and strategic execution, appetite for risk, sustainability, culture, and talent.
- The board sets its own agenda with support from management.
- The board actively seeks to introduce external expertise and insight to further the aims of the business and board members themselves are engaged in broadening their own understanding and capabilities.
- The board is visible and proactively engages with owners and stakeholders, internal and external, to determine strategic priorities and to seek their feedback on how governance can be improved.
- The board spends sufficient informal time together to get to know one another better and to build trust.
- The board has 'retreats' and 'away days' with good attendance and engagement from board members and, where appropriate, management.
- Succession planning and preparing family members for future board membership is an active priority.

We hope you find this Board Impact Framework a useful way of understanding the impact of your board. Please let us know your experiences of using it and how it might be improved. In subsequent pieces, we will explore the makeup of impactful board members and the role of the chair within family business boards.

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