

Family Enterprise Governance

Professionalizing your family business board

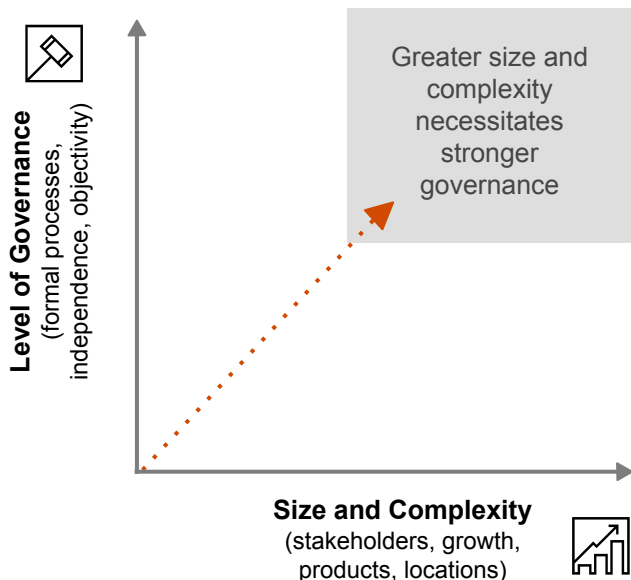
We see more family businesses interested in corporate governance today than we did a decade ago. This interest is reflected in changes they've made to their boards and in the results from our Family Business Survey¹. While some family businesses have a board simply to satisfy legal compliance requirements, more are thinking strategically and moving towards more mature policies, procedures and structures to foster better governance.

Creating a board of directors

Family businesses often start out small, with the founder doing the heavy lifting of both running the company day-to-day and making long-term strategic decisions about the future of the business and needs of the family.

Establishing a board of directors provides a more formal method for governing and controlling the business.

Additionally, having independent directors (non-family, non-management) can help a family business gain additional skills and insights necessary for implementing future strategies, as well as an independent and objective point of view.



The role of a family business board

As a family business grows in size and complexity or undergoes a major milestone like a generational transition, governance grows in importance as a mechanism to effectively oversee and manage the business. A board of directors can provide unique support on some of the particularly challenging issues family businesses face, as outlined below:



Separating the company's needs from the family's needs: Sometimes family issues become intertwined with company issues which can distract management and impede decision-making. The board can make sure the right separation is in place to support effective business decisioning.



Help the CEO look beyond tactical issues: CEOs often find themselves caught up in day-to-day operations with little time to think strategically about the business. Discussing strategy with a board can help the CEO focus on the big picture and spot trends, changes in the marketplace and new opportunities.



Provide accountability and objectivity: Periodic board meetings can help instill discipline in the executive team. Leaders will report on strategy, projects, financial results and other matters. The board can act as a sounding board as well as a check of management's actions.



Planning/advising on CEO succession: An established board can provide continuity and guidance to the next generation and help preserve the founder's vision for the company.

1. PwC's 10th Family Business Survey, October - December 2020.
<https://www.pwc.com/us/en/services/trust-solutions/private-company-services/library/family-business-survey.html>

How do you know if your family business is ready for a board of directors?

Family businesses that are operating in a changing landscape or planning a transition—either generational or strategic—may see value in professionalizing their boards. We find that these events or circumstances tend to challenge a family to think about whether they need to evolve or change their governance model.

Change often increases complexity, responsibility and accountability. Companies may benefit by adding more experience and acumen on the board to meet the needs of the family and the business. Independent directors can bring skills or experience to the board that may otherwise be missing, and may be in a position to challenge the founder/owner(s) in a positive way. They also introduce objectivity and accountability to the board. You may find that board processes and policies become more formalized with independent directors on the board.



Board governance at a minimum

Creating a professional family business board is an important way to provide oversight for a growing company, but it can also be a scary transition where management's judgement will likely be challenged. Enhanced governance is also an investment, not only from a cost perspective but also the time and resources required by management. The trade-offs become the risks versus the rewards. However, our experience is that the value an effective board brings often outweighs the time and investment. No matter where a family business is in its maturity, we recommend the following at a minimum:

- Establish a fiduciary or advisory board
- Develop a board charter or bylaws that establishes the board's roles and responsibilities
- Appoint board officers to direct the functioning of the board
- Define the board's decision-making authority and delegations
- Determine criteria or qualifications for serving on the board
- Establish an appropriate board committee structure
- Hold periodic board meetings so the board can carry out its responsibilities
- Establish adequate reporting to the board to support decision-making
- Create an environment that encourages candid board discussions and healthy debate
- Assess board performance on a periodic basis to promote effectiveness
- Maintain a clear separation of family versus business issues by establishing a separate family governance structure

Learn more at: pwc.com/us/familyenterprises/governance

For detailed resources on assessing your board composition and the role of independent directors, board matching, perpetuating the family business through good governance, transitioning your board for the next generation and more.

Contact

Jonathan Flack

Private, Family Enterprises Leader, PwC US
(615) 503-2866
jonathan.flack@pwc.com

Belinda Sneddon

Private, Family Enterprises, Managing Director, PwC US
(646) 939-8616
belinda.sneddon@pwc.com

