Are Boards Really Worth It?

Part 1: The Value and Potential of Boards, and the Mixed Reality

- → *A CEO, son of the founder, is charged with fraud and the reputation, customer base and financial security of the company are all affected. The family wants to know – why didn't the Board catch this?*
- → *A father and daughter are at loggerheads over an investment the father wants the business to make, and the independent directors feel (and are!) peripheral to a discussion they should theoretically be at the heart of.*
- → *The President of a small family company sits back in his chair and gives a sigh of relief and appreciation – thank goodness he had a board of skilled, committed advisors looking out for the interests of the firm and family as they navigated through the pandemic.*

Introduction

Why are views on the value of boards, whether advisory or fiduciary, so mixed in the family enterprise community? It's because the nature and circumstances of each enterprise, and the boards when they have them, vary so widely. One leader in the community will tell you their board is essential and central to their success; another will have a tale of frustration and expense with limited positive value.

What are the common threads? How do we decide when a board is important, and what kind of board is required? What are the things that make a difference to success or failure?

These are questions Family Enterprise Canada[1] and WATSON[2] have been exploring together, harnessing the insights of the family enterprise community through surveys, interviews and ongoing learning and discussion. The answers are layered and nuanced, and it is clear that navigating through this maze can yield massive value – or significant frustration and a jaundiced view. There's a reason why not all Canadian family enterprises have a board (whether advisory or fiduciary) even though advisors will routinely recommend them as essential at some stage in an organization's evolution, and a forthcoming Family Enterprise Foundation study[3] indicates that respondents feel that learning about effective boards would help with decisions and improvements. Further, in a different survey, 67% of respondents indicated there was expert advice they wished they had access to in the pandemic, and 40% wished they had the advice of a mentor or experienced executive[4].

In this discussion paper, informed by our shared research and experience, we provide an overview of the value boards are intended to deliver, and share common patterns about when they go right and when they go wrong. It is a starting point for more conversations; not the definitive decision tree – every family is different, every business is different, and context and timing matter.

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1. Family Enterprise Canada (formerly the Family Enterprise Xchange or FEX), the preeminent national organization and community for business families and their advisors (https://familyenterprise.ca/)

2. WATSON Advisors Inc., Canada's largest governance consultancy, helping organizations and industries shape how they practice governance, leadership and performance (https://www.watsoninc.ca/)

3. https://familyenterprisefoundation.org/resources/self-assessment/family-learning/

4. Family Enterprise Canada-WATSON Family Enterprise Pulse Survey 2020

About boards and how they add value

A classic definition of governance is "the structures and processes by which organizations are directed, controlled and held to account". It's about the systems and processes that are put in place so that groups of people work to achieve a common purpose together.

In the family enterprise context, there are stages where that governance can be embodied in one person or a small group that can hold all the threads together into a coherent skein. But as complexity grows - within the enterprise, the ownership model, the family relationships, the external context – it can be valuable to separate out some layers and lenses. This often leads to the "layer" of a board, with a lens that is different than the management of the organization, and is concerned with a longer-term, bigger picture view of what is best for the enterprise. Having a board in some form, whether advisory or fiduciary, typically contributes value by:

- Bringing oversight of the enterprise on behalf of all owners.
- Creating a cadre of advisors who bring experience and expertise to the table, and by virtue of being part of a board structure, have a deeper and richer understanding of the enterprise and the family, and commitment to them, than they would in a typical advisor-consultant role (e.g. legal, financial, strategic HR, etc.); ideally, they are also independent and can bring a degree of objectivity.
- Asking (respectfully) challenging questions and providing guidance from a place of shared commitment to the long-term success of the organization, to help make better decisions, anticipate future scenarios and strengthen the short and, importantly, long-term success and sustainability of the organization.
- Helping separate out the different "hats" that people wear by creating a space (the boardroom) where the conversation is about the shared goal of long-term success of the enterprise, rather than blurring together a manager's short term needs, an owner's investment priorities or a family member's relationship concerns (to over-simplify).
- Providing an objective and a steady hand to manage challenging junctures and transitions, such as business leadership transitions.

In some cases it also provides a vehicle to bring specific and timely expertise into the fold when it may not be held in the senior leadership team (e.g. global expansion, M&A, AI, digital and social marketing, etc.).

Because the value vs. cost/effort ratio varies as the organization evolves, governance models evolve as well:

- In the early entrepreneurial stages, there may be no need for an active board.
- Over time, as the enterprise grows, an advisory board might be put in place to give leaders access to expert advice from a group who are there in a more long-term, less transactional way than typical advisor-consultants.
- At some stage, a fiduciary board may be required, providing real oversight to the organization; independent insight, oversight and foresight with the long term success of the organization[5] in mind.
- And, at any stage in this evolution, as ownership and generations evolve, a separate family governance structure may be needed.

It's about knowing what kind of board you need, based on the value you need them to create for the organization. Once you know the value that is needed, you can intentionally design every aspect of the board – composition, skills matrix, roles and accountabilities, practices, board leadership, etc.

In the context of the global pandemic and the accompanying social and economic challenges and opportunities, we heard (through Family Enterprise Canada-WATSON pulse surveys) that boards have been adding particular value by providing access to seasoned businesspeople who bring expertise as well as an existing understanding and commitment to the family enterprise, as well as providing a sounding board to make complex decisions that balance the short and long term health of the organization.

There are two rules of thumb that we talk about at WATSON:

1 If you've seen one board, you've seen one board.

Every organization's context is unique, and so is its board, in terms of everything from stage of maturity, to quality of members, to dynamics, practices and overall effectiveness.

2 What got you here may not get you there.

Family enterprises need to look down the road and anticipate what is coming in the future (growth, business change and challenge, generational change, family dynamics, investment requirements, etc.), so that the appropriate governance structure, whatever it may be, is ready and in place when needed.

At the same time, survey and interview participants gave us insight into the variability; boards that were already strong and effective made a massive difference to many family enterprises; others didn't pass the test, and when the chips were down it was leaders and family members who came together to face challenges and opportunities.

This brings us back to our central question – why does it go wrong, and what helps it go right? In Part 2, we will share the pitfall and success factors that tell the story and conclude with a roadmap for intentional and effective governance design.

5. We talk about the interests of the organization, and some might wonder if that's not the same as the interests of the family in this context. While they may be intertwined in this context, the organization owes consideration to more than just the family (for example, to employees, stakeholders, regulators, customers, suppliers, the environment, communities, etc.), and the family's interests are broader than simply the organization (for example, the family's relationships, health, other investments, etc.)