FAMILY ENTERPRISE CANADA | WATSON™

Are Boards Really Worth It?

Part 2: Pitfalls and Success Factors – Getting it Right By Design

→ *In **Part 1** we explored the value that boards can bring and the mixed experiences of family enterprises in unlocking that value. In Part 2 we will explore what makes a difference.*

Patterns and pitfalls

In our one-on-one interviews with directors, we heard examples of boards that were challenged in a variety of different ways. Some of the patterns that emerged were:

Lack of clarity on roles - No alignment or clarity on what the board is truly accountable for vs. management or significant owners of the business. No shared sense of the value the board is going to bring, what it decides or doesn't decide, etc.

"Hat Confusion" - Difficulty having productive discussions and making decisions because directors may be wearing multiple hats (founder, owner, future owner, executive, employee, paid external advisor, etc.). At the same time, are they talking about what is best for the enterprise as an organization, or speaking from another interest?

Director commitment - Variability in the seriousness with which directors treat their board roles, as well as their personal deep commitment to the success of the enterprise. More often, we heard about the former with respect to some family members, and the latter with respect to some external advisors.

Relationship and power dynamics - Complexity that comes from overlaying the family relationships as well as power and control dynamics, which may relate to ownership or other sources of power in the room.

Director capability - Variability in directors' skill, experience and expertise, both in the boardroom and in terms of other expertise, that they bring to the table. In some cases, a lack of diversity (for example, many directors being of a particular generation and mindset).

Trust and dynamics - Difficulty having candid, trusting conversations with a sense of shared intent.

Subjective selection - Directors selected based on existing relationships and comfort, rather than purposeful selection based on skills and diversity needed.

Values alignment - Directors who may have track records of talent and success, but are not aligned to the values, growth appetite or risk appetite of the organization or the family.

A recent survey conducted by Family Enterprise Foundation found that 52% of respondents believe learning about boards and their effectiveness would be met with some cynicism by families. This may come from any or all of the above factors, as well as others not mentioned. A related survey suggested that almost a third of respondents said that they personally view independent board members as a threat to family authority – even though those board members are there to support the enterprise and should be well-aligned with the family's interests.

Success factors — how to get it right

While a rule of thumb from **Part 1** was, "If you've seen one board, you've seen one board," our view is that there *are* some commonalities for highly effective boards, which include:

- **Alignment** on purpose, vision, mission and strategy.
- **Clear roles and responsibilities** for all involved.
- **Strong, committed leaders** who are skilled and competent in their roles.
- **Effective** review and decision-making processes.
- **Open communication**, transparency and accountability.
- **Constructive relationships** that are aligned with the organization's values.
- **Commitment** to continuous improvement.
- **A positive culture** and dynamics.

Our survey data suggests it is critically important that independent directors share the family's values and intent (73% agreement), and this is an additional layer compared to the success of directors and boards in non-family enterprise contexts.

Our belief is that the right board, at the right time, with the right people, with the right structures, practices and dynamics will always add value. While that may sound trite to some, underneath is the idea that you need to intentionally design the board based on the value you need it to provide today and in the future. You will need feedback loops to keep increasing its performance, and you will also need to look ahead for when you might need your board to evolve.

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A roadmap to get there

Consider the following when deciding on or planning to implement a board:

- **Understand** what you need in terms of value (advice, oversight, etc.) today and also thinking forward three to five years into the future, anticipating the challenges and opportunities (whether in the enterprise itself or in family, ownership, etc.) that may come your way.
- **Consider** if what you need is best met by a board or some other way. Is a board going to add value? Are there other ways to get that value (while also considering risks and futureproofing)? If so, what kind of board will you need three to five years from now?
- **Look** at the current state and the gap analysis to the future state. To get where you want to be in three to five years, what can you begin to put in place? This might include changes in:
  - *Governance structure/nature of governance*
  - *Directors' skills and capabilities*
  - *Clarity of roles of owners, family, board and management*
  - *Board room engagement and dynamics*
  - *Board processes, practices and materials*
- **Develop** an intentional plan to get to that future state. Think beyond the mechanics to consider the elements of human change and how to make this change in a way that leaves relationships strong, just as it makes for a stronger enterprise, and allow time for the human transitions.
- As you **plan**, ensure that next generation enterprise and family leaders are engaged and have the opportunity to be part of plans and decisions around governance, so they have a hand in shaping their future reality and the supports are put in place for their success.

There are four questions to ask yourself right now:

1. **Does my family enterprise have the governance structures and people it needs to ensure it is strong and sustainable for the long term?**
2. **Is our current model (whether board or not) supporting a strong family ownership model?**
3. **Can I picture an ideal model where I have access to some kind of advice, insight, foresight or oversight that I'm lacking today? Would that be a board, or something else? What's my dream scenario?**
4. **What are the risks in our current model, and what are the potential negative consequences to the enterprise? What about to the family?**