

THE ROLE OF THE INDEPENDENT BOARD MEMBER IN THE FAMILY BUSINESS

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Governance in a Family Business, in theory, is done the same way as in a Non-Family Business. Four main organs are involved with very specific roles: Shareholders Assembly, Board of Directors, Executive Board and Statutory Auditors.. On top of these four organs of governance we found in the Family Business two or three additional organs that are specific to this type of companies

a) Family Assembly, whose main purpose is to have the family informed, on the development and results of the company as well as to provide a forum of discussion to define the objectives of the family in relation to the company and the means to contribute to its continuity. The Family Assembly is responsible for approving and accepting the **Family Charter** that assembles the objectives and values of the Family as well as the fundamental choices of the family towards the Company, and it is also responsible of defining and approving the **Asset Strategy**. This strategy should take into consideration the whole of the assets of the Family in the different investments fields such as enterprise, real-state, shares and others and give a clear direction of the investment strategy in each one of these areas, as well as clearly define the strategy in case of decease, marriage or divorce of the members of the Family. The Asset strategy should acquire a legal status through a **Shareholder Agreement**, a legal document of private character that defines the relationships among the shareholders. take into consideration an exit strategy and rules for any family member who desires not to continue in the business anymore.

b) The Family Council is responsible to give a precise answer to all variables that are involved in the succession planning, dispersion of ownership, evolution of family assets and other critical issues. The Family Council is composed by a reduced number of family components chosen by the Family Assembly following different criteria such as capability, representation of different family branches or others.

c) The Advisory Board is composed by a group of counsellors external to the family on precise matters for which the family needs a specific skill or external point of view.

As a general rule we can say that Family Business are more complex entities in which the business empirical world mingles with the world, of often, non-expressed emotions and subjective feelings that can influence business decisions and have an impact in the development and continuity of the company. All the positive points of the family company, such as strong values, long-term vision, pride, dedication, agility, solidity and knowledge can be easily downturned if the emotional side and internal conflicts are not managed properly, by making the difference between the right business decisions and the family particular interest and dynamics.

The **Board of Directors** in a Family Business has a very important role in the resolution of conflicts that may arise between family and company. The Board of Directors should be the final arbiter, and in this role, it plays a very strategic function. In a Family Business the Board of Director should help to educate the family members about the business and the collective interest beyond the family interest. It has to assure the best interest of the stakeholders at the same time that ensures the sustainability of the Family Business. In the majority of cases in first or second-generation companies the Board of Directors is formed exclusively by members of the Family. The reasons for the reluctance on many Family Companies to add independent members to the Board of Directors can vary but very often are linked to the fear of losing control and confidentiality.

From my point of view, the reasons why an independent member of the board is a positive and valuable asset in the composition of a Board of Directors are the following:

- They share the experience, know-how and vision of someone that has worked outside the Family Business.
- They give an objective, independent opinion, not influenced by the emotional issues.
- They can give an impartial opinion in delicate issues such as succession plan, replacing top management or ensuring fairness in benefits and compensation.
- They help to increase the credibility of the company towards all the institutions involved in the running of the company and they enlarge the network of the company.
- They can be of great value in complicated processes for small companies such as in fusions or acquisitions.

The role of an independent member of a Board of Directors in a family company is not always easy and requires some characteristics that are to be taken into consideration on top of the purely technical and professional capabilities that a Member of the Board should have.

- Independency should be paramount. No conflict of interest with the company nor with any member of the family.
- Discretion and confidentiality, not only on the business matters but also in any matter that belongs to the family dynamics and issues.
- Adequacy with the Family values.
- Courage to defend a position that is right for the business and the continuity of the company but that involves tension or conflict within the family.
- Diplomacy to act as a mediator between different parts of the family in order to arrive to a consensus.
- Long-term vision and strategic ability. Being able to be an advisor for the actual management and a mentor for the future generation.

Apart from the soft skills mentioned above, I would say there are two types of independent Board Members in terms of capabilities that the company should have:

- The Complementary Independent. This would be the person that brings to the company a knowledge that cannot be found in the family, being legal, financial, technological, etc.

- The Disruptive Independent. This will be the person who is able to challenge the procedures and structures that have been established in the company for a long time and “have always worked”. These persons very often have had executive experience in a completely different industry sector or different type of company, and they are able to oblige the Board to look at things in an innovative way.

It rests to know what is the right number of independents that should integrate a Board of Directors and what should be the capabilities of these individuals. In fact, the answer depends very much of the company size and the needs. It seems natural that they represent a minority of the Board, as the family would want to continue to keep the control of the decisions, but the more mature, complex the company is, the more the needs for independent members bringing external knowledge. Of course, the total number of members should not prevent the Board of allowing a good exchange of opinions and taking agile decisions. My recommendation is to have at least two Independent Board Directors that could team up and give the “voice of the external world” as a team instead of “the voice of the individual”.

Before accepting a position in a Board, the Director should ensure that the goals are well defined and that the expectations of the Board regarding his/her performance are clear. The Independent Board member on a Family Business should also have access to **information** necessary to perform his/her role, as the decisions to be taken in terms of Company governance should be in line not only with the values of the company but, as well, with the strategy defined for the company and the asset strategy defined by the family.

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