

The independent family business board

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Successful decision making is the key to survive the challenging times. During times of economic downturn when businesses struggle for survival, they need reflective capability, expertise and access to information to make the best choices. Governing boards are an important resource that businesses can mobilize to make critical business decisions. The board helps a business to face both internal and external challenges in the both short- and long-term. In a family enterprise, the board plays the critical role of balancing the family expectations and the needs of the business to ensure the long term sustainability of the business. Although family businesses realize the importance of governing board, they often underestimate the significance of independent directors in the board. For instance, a 2007 study by Laird Norton Tyee found that while 75% of the nearly 800 family businesses in their sample had a board, less than half had non-family board members.

In this article, the authors draw our attention to the importance of having independent directors—those who are not family members, owners, managers, friends or paid advisors—in the governing board of a family business. They suggest that independent directors bring a higher level of expertise and objectivity in the decision making process. Independent directors enable family business owners to rise above the idiosyncratic personalities, family practices and concomitant family dynamics that may impede successful decision making.

Based on their experience, the authors give the following recommendations to enhance the effectiveness of independent boards: First, independent directors should be selected for the specific capabilities and expertise needed by the business. In addition, the family should look for an independent director who is willing to understand the family. Second, families should invite two or more independent directors to join the board. Adding two or more directors will offer family diverse opinions and can also help in breaking entrenched family patterns. Third, the independent directors must be adequately compensated in return for their services. Since family firms rarely grant equity to non-family members, the independent directors must be given direct compensation. Finally, families should resist the temptation of bringing their family friends and professional advisors to serve as independent directors. Because of loyalty and conflicts of interest, family friends and professional advisors are unlikely to satisfy the criteria of being truly independent.

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