Directing is a Verb
A Guide to Family Business Boards

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A Board of Directors is supposed to direct. That seems pretty obvious. But that is not usually what we find in family businesses in transition. We find three things: first, we see boards that are not active. They are viewed as legal requirements of a corporation, not a valuable asset. Second, we see boards not directing management, but controlling them. Third, we see boards working exclusively with management, but not directing owners.

In a well-designed transition plan, boards are governing bodies, actively directing managers *and* owners. Directing becomes a verb in good transition plans. This relatively simple concept is very hard to do. We see three typical scenarios concerning how owners think about boards that impact a board's ability to direct.

First, when thinking about setting up a board, owners (especially founders) often visualize or fear a board with a level of involvement, independence or control that they are not comfortable with or prepared for and that they would never accept as a manager. After all, it is their company. And because they don't know exactly what they would do if they had a board like that, they choose not to have a board at all.

The problem we see in this example is that the founder has chosen a very difficult transition path. The founder's plan, in reality, is to stay in management until retirement--then let go of it, all at once. This is asking a lot of a person whose company has been most of the founder's life and who has had power and control for a long time. Often these founders never let go, or do let go, but are then unable to cope with the drastic change.

The transition from management to governance is a good first step in the natural process of letting go. Transition from management to a board allows a founder to have a contribution to the company at a higher level--approving plans, facilitating discussions, etc.--without the accountability of implementation and results. It also gives the successors a feeling of support and an opportunity to learn.

Second, if a founder is willing to try a board, it often means that the founder is going through some form of a transition. Still, the founder is usually the one with the power and control in the company and often does not feel ready to give up this power and control. So they set up a board, they take their place on the board, and they do what they have done all their life--they control and exert power over management. In other words, the board manages the company. The board in this case doesn't direct management.

When this happens, it is important that someone work with the founder, and the other shareholders, family members and managers, to help all of them understand just what is going on in this transition. The focus would be on understanding why ownership, governance and management should be separated; the role and value of a director; the role and value of a shareholder; and how critical it is for the founder to have a role that supports a smooth transition. This person can also help the founder be more comfortable with the governance phase of the founder's transition.

Third, if a founder has agreed to not manage from the board seat, the founder is ready for a Board that will direct both owners and managers—not just managers. This is the step where the founder can exercise power and control as a shareholder, and continue his or her transition. However, in order to get a Board to direct both owners and managers, the purpose of the board has to change.

We suggest that the purpose of the board should be threefold:

1. The board directs the shareholders to prepare a unified statement of their needs, values and goals.
2. The board directs the management to develop and implement strategic and annual plans for the well-being of the company that are consistent with the needs, values and goals of the shareholders.
3. The board identifies any differences between shareholder plans and management plans, and facilitates the resolution of these differences.

With this purpose, the board realizes that, even though it gets its authority from the shareholders, it has a duty to both the shareholders and the company. The board does not act like shareholders making sure that shareholder wishes are directives. The board does not act like managers making sure that they have whatever they need to manage and grow the company. They are an "independent" body, accountable for requiring shareholders and managers to fulfill their functions, and then clarifying, synthesizing and balancing the plans of the two groups.

One of the realities for us is that whenever we mention boards to a founder who has had these thoughts, they immediately become defensive, closed to the idea or look at us like we don't understand. It takes time to help them understand that when directors really direct and when they direct both owners and managers, the board can be a great asset for them and for the company. The key is to redefine the purpose (and activities) of the board so that the board, will be a crucial part of the transition and succession plans.