

Special Edition Newsletter

Board Director Focus: Family Business Transitions



Stephanie Olexa is the founder and CEO of Lead to the Future, which helps businesses develop their leadership, create structures that promote business growth, and ultimately build corporate governance to help businesses achieve sustainable success. Early in her career, Stephanie founded Benchmark Analytics, an environmental and Good Laboratory Practices testing laboratory. When Benchmark Analytics was acquired by a successor company, Stephanie became the president and CEO of the new company, and they acquired two additional companies which they merged into a unified network.

Today, Stephanie helps privately-held and family-owned businesses develop, evolve, and grow. She works with them to create business professionalization, shareholder commitment, succession planning, and fully engaged governance. She has coached leaders and teams through transitions and dramatic business growth. She has written three books on leadership, governance, and executive coaching. For further information or to discuss your individual situation, contact Stephanie at stephanieolexa@leadtothefuture.com.

Transition from Three Perspectives

Stephanie Olexa, PhD, MBA

“Our family business doesn’t need an independent board of directors because: A – we’ve been in business for over X years and have been successful without it; B- we don’t want to give up control; C- no outsider would understand the business the way we do; D – we are not a public company so we don’t need to have independent directors; E- it’s expensive; F- our company is too small so we couldn’t get good people; G- we already have great advisors; H- it’s too much work; I- we want to stay family owned and they will encourage the sale of the business; J- we don’t know how to set up a board; K- all of the above.” Guess what the most common answer to this question is...K- all of the above.

Let’s address each of these myths.

- A. Yes, your company has survived and thrived, but the world is changing at an ever-increasing pace. If your business isn’t changing faster than the world, you will fall behind. An independent board brings the breadth of experience and networks that enable the leadership team to anticipate and respond to change.
- B. Shareholders don’t lose control to a board; they hire and fire the directors.
- C. True, the Directors won’t understand the business they way you do. They will bring fresh eyes and see possibilities or challenges that your team may not see.
- D. As a privately held company, you don’t have to have independent directors but companies that do, have a competitive advantage and create more shareholder value.
- E. Yes, there is an expense but independent directors are professionals and the stipend recognizes their value. However, most directors don’t accept board positions because of the money. They enjoy the challenge and want to give back to other business owners. The director’s stipend is usually related to the size of the business. There are several surveys available that show the typical range of stipends.
- F. No company is too small, too medium or too large to benefit from outside expertise. Each size company faces different types of challenges and you will find many talented individuals interested in joining your board, regardless of the size of your business. In fact, you will probably have a hard time choosing who to select!
- G. Advisors are great and if you have a good team of advisors, keep them. But they don’t take the place of independent directors. Advisors provide advice usually to the CEO or President. And, he or she can take the advice or not. Directors are fiduciaries who must act in the best interest of all of the shareholders equally, representing the majority shareholder and the 1% owner as well.
- H. It is work. Preparing for meetings, responding to requests, reviewing minutes all take time. But time well spent if you want to grow a sustainable business for the next generation.
- I. Independent directors don’t have their own agenda; they act in the best interest of all of the shareholders equally. They may openly discuss options for mergers, acquisitions or divestures but the shareholders make the final decisions.

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This newsletter serves private companies, along with the people and organizations who help them evolve their governance in today’s fast-paced world. It is provided by the Private Directors Association’s Board Director Committee. PDA provides complimentary, non-exclusive postings for fiduciary and advisory board roles to private companies across all ownership models including private, family business, PE/VC, ESOP. For more information, please contact the BDC at admin@privatedirectorsassociation.org.

J. There are five steps to creating a successful independent fiduciary board: 1. Educate the Shareholders, Executive Team and Family in the roles and responsibilities of the Board; 2. Prepare the documents including the Board Charter and the Owners Plan; 3. Identify and recruit the right directors; 4. Onboard the Directors; 5. Evaluate and refresh the Board. There are Board Professionals who can help you through these steps so you don't have to do it on your own.

K. The decision to set up an independent fiduciary board is pivotal in the evolution of your family business. The design, set up and maintenance of the board should be tailored to your business and your family.

Family businesses are unique with a generation to generation lifecycle. In each stage of the lifecycle business and family needs are different.

The first stage is the Founder Stage or Generation 1 where the business is owned by the founder and perhaps a spouse. The second stage is the Sibling Stage or Generation 2 where the business is owned by the children of the founder. And finally, the third stage, the Cousin Consortium with Generation 3 and beyond. At each stage of evolution an Independent Board of Directors brings value. However, the design of the Board and the selection of the Directors is different at each stage.

If you answer "yes" to any of the questions below, an Independent Board of Directors may be critical to reaching your business and family goals. Get started today by designing your board and the future of your family business!

STAGE	ROLE OF THE BOARD	QUESTIONS TO ASK
<p>FOUNDER STAGE – GEN 1 Business is run by the founding generation</p>	<p>The board enables the transition of the business from "the founder's business" to a "family business" that will be sustainable and increase shareholder value.</p>	<ol style="list-style-type: none"> Does the business need to install processes and procedures that would allow the business to survive and thrive without the founder? Do the founder and Gen 2 want to keep the business privately held within the family? In order to support multiple owners in future generations will the business have to grow or change? Would the founder and the business benefit from expert input on a more formal basis? Does the business face challenges to its sustainability from market changes, industry disrupters, global economics, labor issues, supply chain challenges or other factors?
<p>SIBLING STAGE – GEN 2 Business is run by the second generation of siblings</p>	<p>The board provides fairness, education and balance for the siblings, representing the interest of all of the shareholders equally, whether or not they participate in the business while protecting and growing shareholder value.</p>	<ol style="list-style-type: none"> Are the members of Gen 2 misaligned on the vision for the business, the way to reach the vision, the benefits they take from the business, the roles they play in the business and why they continue to own the business? Does the business face challenges to its sustainability from market changes, industry disrupters, global economics, labor issues, supply chain challenges or other factors? Does the Gen 2 want to increase shareholder value for themselves or in order to eventually sell the business? Is Gen 2 fully prepared to take on the responsibilities of the business leadership?
<p>COUSIN CONSORTIUM – GEN 3 AND BEYOND Business is run by the third generation or beyond with the involvement of cousins and multiple branches of the family</p>	<p>The board provides the guidance to the executive team on strategic directions that meet the needs of a diverse shareholder group, providing clear communication and giving a voice to all of the shareholders while protecting and growing shareholder value.</p>	<ol style="list-style-type: none"> Do you need a mechanism for all of the shareholders to receive the appropriate information about the business and to make their interests known on a consistent and impartial basis? Do you need a mechanism for balancing the diverse needs and wants of the shareholder group? Do the shareholders want to increase shareholder value for themselves or to eventually sell the business? Is the business increasing in complexity? Does the business face challenges to its sustainability from market changes, industry disrupters, global economics, labor issues, supply chain challenges or other factors? Do you need an objective mechanism of resolving ownership disputes particularly around liquidity, dividends, internal capital allocation, contingency planning, management development, succession planning, family employment and compensation?

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