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*Everything was simpler in the old days when most people thought of succession as a father handing the reins of a business to his son. Today we know succession is a complex process requiring time and effort and combining many varying individual aspirations.*

*Ivan Lansberg describes it as a "journey" in his new book, "Succeeding Generations: Realizing the Dream of Families in Business" (Harvard Business School Press, 1999). Lansberg, a Contributing Editor of this magazine, has written one of the most comprehensive works on the process to date. It includes the first typology of the different destinations in the journey. Most important, it explains how the Shared Dream—a collective vision of the future, forged from the aspirations of family members—drives the process forward.*

The book also explains the critical role independent directors in a family company can play in succession. It is a role that many who serve on family boards are neither comfortable with nor prepared to assume. In the excerpt here, Lansberg shows how directors who understand the role can have an enormous impact on the outcome. —**The Editors.**

**WHEN** family business owners seek advice on how to design a board of directors, too often the only model they have to guide their thinking is the board of IBM, or General Motors, or Citicorp, or some other large, prestigious public

corporation. Perhaps seeking to shake off the stereotype of family businesses as inbred and unprofessional, these owners want the most knowledgeable and admired business leaders they can find to serve on their board. Their image of a board fits admirably with what the corporate lawyers or search firms they hire are accustomed to doing—which is designing boards for large public corporations.

One consequence is that many boards of family companies, even when well stocked with independent outsiders, tend to focus too narrowly on business issues. Too often independent directors aren't chosen for any particular knowledge or sensitivity to the family side of the business. On the contrary, they are selected for precisely the opposite reason. They come from the larger corporate world and presumably have many lessons to teach the growing family company that wants to become more professional and play in the big leagues.

This approach to selecting directors can be a two-edged sword, however. Independent directors can bring a wealth of business experience and strategic skills to the boardroom table, but without an understanding of the interplay of family and business, the independent directors may be truly unprepared to help resolve some of the organizational dilemmas that arise in family enterprises. Forced to deal with those issues, they may become disillusioned and quit, or they may become a detrimental influence, seeking to impose solutions inappropriate to the circumstances of the system they are serving.

Whether they like it or not, independent directors on a family board are often thrust into the middle of family issues that will have a powerful influence on the future of the business. Many take up the challenge and play a positive role in shaping those forces.

The presence of independent directors is necessary but not sufficient for getting a board to responsibly address succession and continuity issues, however. As Harvard's Myles L. Mace observed in his book, *Directors: Myth and Reality* (Harvard Business School Press, 1986), it is easy for independent directors on a family company board to fall under the influence of family owner-managers and to collude with them in avoiding the planning and management of the succession process.

The board's obligation to look after the best interests of shareholders requires the members to raise questions about how family and ownership matters may affect not just the economic efficiency of the business but its long-term viability as a family enterprise. To fulfill this obligation, they must negotiate the kinds of relationships with key stakeholders that will allow them to enter into discussions about ownership and family concerns without feeling they are inappropriately meddling in the family's private affairs. The responsible management of succession and continuity issues requires boards to adopt a proactive stance toward them. It is impossible for directors to examine the long-term continuity of the enterprise without taking into account what the owners have (or have not) done with regard to estate planning. Likewise, responsible boards of family businesses cannot ignore the process by which family candidates for leadership are evaluated and selected.

### HELPING TO CLARIFY THE DREAM

The board can play a critical role in helping family members clarify a vision for the future of the system, without which it is impossible to plan for succession and continuity. Reconciling the Dreams of family members and creating a future scenario for the business is never easy. Directors can sometimes use their personal in-

fluence with members of both generations to help them define what they want for themselves and the firm. This process may lead to surprising discoveries that can totally change the direction of the succession transition (see "Waking up successors" on page 46).

Directors are in a position to question the owners' implicit assumptions about continuity and to convince them to examine more rigorously the advantages and disadvantages of a full range of strategic options. Those options can and should include not just the continuity of the company, but its potential sale. Directors act in the best interests of shareholders when they help the family reach a realistic answer to the fundamental question: "Do we want to be together in a family company in the future, and, if so, why?"

While the board should not be expected to work directly with the family on all succession planning tasks—that responsibility falls on senior management—it can be instrumental in getting the family to engage in regular discussions about them. One way the board can influence the system, for example, is to request information from the family about its succession planning just as it asks for regular reports from management on business activities. The board has direct access to the incumbent leaders and can raise fundamental questions with them, such as:

- How do you envision the future of this business?
- How do you plan to divide your shares among your children and why?
- What form of family business leadership — owner-manager, sibling partnership, cousin consortium—do you envision in the next generation?
- What skills will the leaders of tomorrow need to work effectively in that form?
- What's being done to help potential successor candidates develop those skills?
- Who among the senior executives do you think might be equipped to lead this company into the future?
- Have you discussed any of these issues with the rest of the family? What do they think?

## OVERSEEING STRATEGIC SELECTION

Boards of directors can also play a critical role helping business owners assess the feasibility of the system they have in mind for the future. By helping family members make explicit the underlying assumptions of their individual Dreams—and of the Shared Dream—directors can be a catalyst for a process of continuous re-examination of these aspirations. One of the virtues of the process of strategic selection of successors is that it allows board members to challenge any assumptions about the candidates that the incumbent leaders have which may be unfounded. In other words, the process serves as a reality check.

Research on corporate governance suggests that the role that boards play in the process of leadership selection has evolved in recent times. Early research by Mace found that the incumbent chief executive rather than the board had primary responsibility for selecting and developing a successor. In fact, boards of large public corporations were reluctant to become involved in the succession process at all. As a 1995 Conference Board report noted:

“Corporate boards have traditionally construed their obligation to select a new CEO as little more than a commitment to fill a vacated post, often with the CEO’s handpicked successor. Until recently few boards and CEOs confronted the host of issues raised by succession. The need to orchestrate a stable transition was not high on most directors’ agendas; and the board’s role in persuading a CEO to step down voluntarily in a time of good performance, or yield to the imperative of needed change was seldom discussed. Directors felt uncomfortable with this duty and even those who were obliged by circumstances to exercise it rarely shared their experiences in open forums.”

The Conference Board survey of over 500 large corporations in the United States and Europe revealed that boards of these companies are becoming increasingly independent and playing a much more assertive role in the management of the succession process. “Study participants in all countries report growing involvement of boards in the development and

implementation of orderly succession plans,” the report concluded.

For instance, boards have started to stress the importance of strategic criteria in the selection and development of potential successors. They have insisted on regular progress reports from the CEO on what he and his human resources department have done to develop a list of candidates and prepare the successor team. The well-publicized ousters of CEOs such as Lee Iacocca of Chrysler and James Robinson of American Express are evidence of the growing involvement of corporate boards with leadership succession.

According to the Conference Board report, this trend is attributable to three basic factors: the increased assertiveness of institutional investors, the media’s enhanced sensitivity to poor corporate performance, and a growing assertiveness on the part of independent directors.

If boards of public corporations have until recently been uncomfortable about intervening in the succession process, independent directors of family companies have probably been even more wary about getting involved in leadership transfers that may arouse strong family emotions. As in many public companies, successors in family firms tend to be handpicked by the founder or CEO. The directors often become part of what I call the succession conspiracy—the tacit agreement of everyone around the incumbent leader to ignore the pressing questions surrounding a generational change in leadership. Practitioners in the field, however, have made family business owners more aware of the important role that independent outsiders can play in breaking the conspiracy of silence.

As the time for a generational change looms, boards must become more active in managing and structuring the process by which the baton will be passed. They have an obligation to see that the process of selection is conducted in a fair and impartial manner that takes into consideration not just the Dreams and aspirations of the family but the needs of the enterprise as well. The board can enhance the credibility and legitimacy of the process by which future leaders are developed and selected, particularly if

the directors who are viewed as experienced and impartial participate in the process.

Boards can also play a fundamental role in insisting that reliable performance measures be developed for gauging the capabilities and relative effectiveness of successor candidates. Directors are in a position to insist on receiving information about executive performance on a regular basis. Just as important, they can help to achieve a consensus in the company on the best criteria for measuring the performance of family and nonfamily executives. Assessment can be a difficult task, and is often riddled with the risk of political conflict between different interest groups. The higher executives move up the organizational ladder, the more complex their jobs become and the longer the time lag between decisions and results becomes. In multidivisional companies, coming up with meaningful measures for comparing the performance of individual business units can be a complex undertaking. Yet reaching an agreement on performance criteria is critical for assessing the track records of successor candidates.

In one family company I studied, two cousins from different branches of the family were competing with a senior nonfamily executive for the job of CEO. The board believed the three were roughly equal in leadership and managerial abilities. They had a much more difficult time coming up with hard data to determine which had the best performance record. A good part of their problem was the lack of agreed-upon criteria for assessing the performances of the three. If profitability was used as the criterion, the nonfamily executive, who was in charge of a major division, was unquestionably the top performer. When market shares of the businesses run by three contenders were compared, one of the cousins came out ahead. But when cash flow was used as the yardstick, the other cousin emerged with a slight advantage over the other two. The discussion quickly became politicized as each candidate's supporters on the board endorsed the performance criterion most advantageous to their candidate.

The decision became so competitive that, as a last resort, the board decided to delegate the choice of performance criteria (and, by default,

of the successor) to the three independent directors on the board. In order to determine which of the three performance criteria would be most advantageous for the company in the future, these directors did a thorough industry survey. Their survey revealed that market share would be the key variable for the industry, and thus the cousin who had increased market share the most in his business was chosen as the next CEO.

After this contentious decision was made, the board realized that its ability to handle the succession would have been enhanced had the owners been able to agree, before embarking on the transition, on which performance criteria to use. More important, the board realized that the absence of agreed-upon performance standards had made it much harder to legitimize the final choice of a leader.

## COACHING JUNIORS AND SENIORS

During the final stages of the transition, both the incoming and outgoing leaders are in need of support. Even in the best of situations, the transition can and often does strain the relationship between parting leaders and their successors. Independent directors can play a particularly constructive function by serving as an emotional buffer between the generations.

Edwin G. Booz and James Allen, well known founders of the consulting firm Booz, Allen and Hamilton, once played just such a role as directors of S.C. Johnson & Son. In his book, "The Essence of a Family Enterprise" (Curtis Publishing Co., 1988), Samuel Johnson, the chairman of Johnson's Wax, recalled how the two directors helped to facilitate the leadership transition from his father, H. C. Johnson Jr., to himself: "I could tell Jim Allen what was bothering me; I could be straight wrong and use terms that would have gotten me tossed headfirst out of my father's office. Allen would just soak it in, and never get mad. He would say, 'Well, Sam, I agree with you on this, but I don't agree with you on that.' I never got mad at him for telling me I was wrong about something for there was none of the tension that routinely exists between a father and a son. Moreover, I could

trust Jim Allen because he was a consultant with a superb reputation, and I knew how he would deal discreetly with my father... You see, he could lay out my opinion to my father, who might well say, 'Sam is way off beam on this. Crazy, in fact. What's that boy thinking?' Should I hear that reaction, our working relationship would sink faster than the Titanic."

Johnson's comments suggest that independent directors can coach aspiring successors to pick their battles and focus on the truly important issues. Seniors in family businesses tend to be attached, for symbolic and personal reasons, to the functions and activities that they have been responsible for, and the juniors—partly out of their own insecurities about recognition—often focus their attention on acquiring those roles early in the transition rather than consolidating their control over the actual management of the business.

Directors can offer next-generation leaders valuable advice on what to insist on at the beginning of the take-charge process and what can be left for the end. For instance, the transfer of those roles that may have a great deal of public recognition, but do not directly pertain to the day-to-day affairs of the company, may often be left to the end of the succession process.

In view of the resistances to succession planning by many senior leaders, the boards of family companies can play a major role in monitoring the transition process and keeping it on track. Some incumbent leaders attempt to delay the progress of the succession plan and redefine its terms, in part perhaps because of their ambivalence about letting go, but also because they are never quite sure that the juniors are up to the task of taking charge. Sometimes they delay the process even after the would-be successors have demonstrated outstanding success. The board can help establish milestones that define progress on the transition journey.

In one family company, for example, the business owner constantly renegotiated how much time his daughter needed before she could take over particular organizational functions under his direct command. With the approval of the board, both the father and daughter

had agreed to a two-year schedule under which new responsibilities would be transferred to the daughter in each quarter, provided she had demonstrated her ability to carry out the most recent set of new tasks. The most important and difficult functions were to be passed down toward the end of the process.

But whenever the father had even the slightest doubts about the daughter's performance on any of her assigned functions, he would immediately and arbitrarily postpone the transfer of any additional responsibilities. This happened even when it was abundantly clear that external financial factors and not the daughters' managerial decisions were responsible for the problems. To the disappointment of the daughter and her managerial team, the transition that was supposed to take two years was stretched out to four years. When the directors finally caught on that the process was being unduly lengthened, they confronted the father and insisted that there be no further departures from the timetable.

Much of the resistance of senior leaders to succession planning stems from the fact that they feel very alone with these issues. Departing leaders need someone they respect to act as a sounding board and help them articulate their own perspective on the succession.

Even more important, they need help in answering questions they face about their personal future, such as: What will my work life be like once I retire from active involvement from the family business? How will my retirement affect my relationships with people I've been close to almost all my life, such as clients, suppliers, senior executives, the community at large and, indeed, the board itself? How will this transition affect my role in the family? It is often advisable for family companies approaching the succession transition to have at least one independent director who is about the same age as the incumbent leader and who has successfully managed his or her own transition to retirement. Such a person can serve as a role model on retirement issues for the senior leader and help to focus his or her attention on the positive elements of retirement. The director thus provides the encouragement that can mo-

tivate the leader to carry out the timely implementation of succession.

### WAKING UP SUCCESSORS FROM BAD DREAMS

The thoughts of one independent director, related in M.L. Mace's *Directors: Myth and Reality*, show how an outsider can play an indispensable role in clarifying the Dreams of potential successors to a family business:

"When I went on the board [of this company], the president told me that his twin 30-year-old sons were extremely able 'chips off the old block,' dedicated to continuing the heritage and tradition of the family's leadership of an enterprise.... During the next few years, I became a good friend of the two sons and an admirer of their imagination and intellect. But as I came to know them better and share their interests and aspirations, it became clearer and clearer that what they wanted to do more than anything else in the world was to get out of the business.

"One wanted to return to his prep school as a teacher of English and drama. The other wanted to travel, write poetry, and paint. Their father was completely unaware of these carefully disguised and concealed feelings. At a board meeting I asked the sons, 'Do you really want to run this company for the next five years and for the rest of your lives?'

"The sons hesitated then almost in unison said, 'No, I don't really want to devote my life to business.' The father was startled, shocked, amazed & incredulous. This was the first disclosure by the sons that the father's dream of continued leadership by family members would not be fulfilled. Over the next several months the chairman became reconciled to his sons' position, and, being the tough-minded old codger that he is, decided that the best solution would be to sell the enterprise to an attractive acquirer. He negotiated the sale of the company, and one son is now a schoolteacher at his prep school and the other is writing poetry in Spain. The father thought he knew his children, but it took over 30 years for him to discover what they were really like." ■

Excerpted from "Succeeding Generations: Realizing the Dream of Families in Business" by Ivan Lansberg.

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