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How to Build a Stronger Board for a Family Business

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Strong family business boards use competency-based selection, outside directors, diverse skills and limited family representation to improve governance.

It's important that current or future members of a family business understand best practices for assembling a Board of Directors (BOD). That's why we explore this in depth as part of a basic family business course at Western Kentucky University. While this article primarily describes that class, the best practices outlined here -- and the references and links below on selecting a board -- will be useful to anyone who wants to make a family business more efficient and financially successful.

The Family Business Tanking - Board Selection Activity in-class exercise gives new life to the classic "Bomb Shelter Activity" often used as an icebreaker or in values discussions in organizational behavior courses. It builds on the fictitious Barrel Family "choose your own adventure" activities (https://familybusiness.org/content/250-to-engage-business-students-roll-out-the-barrels-?search=barrels) published on EIX. In the board selection exercise, students learn that the Barrel family's bourbon business is foundering. To provide new direction to the failing business, students must choose a new 7-member Board of Directors (BOD) from a pool of 20 candidates. In selecting the BOD members, students are required to apply their knowledge of best practices related to board selection, as well as consider the values of the family.

The Board's Purpose

I recommend that students read two short articles on family business boards of directors prior to a class meeting discussing governance and board formation (Cagan, 2015; Davis, 2001). Highlights from those articles are subsequently discussed, with full references at the end of the section. I draw heavily from insights shared by Lane, Astrachan, Keyt and McMillan (2006) and EY (2016) to supplement this information during the class discussion.

Since the board gives voice to shareholders and sets the strategic direction of the firm through policies, choosing a family business board wisely is critical. While most family businesses begin with a board comprised of family members, friends of the primary shareholders or business acquaintances (Davis, 2001), experts say highly experienced outsiders can make the board more effective (Cagan, 2015; Davis, 2001). These could include executives or former executives from related industries (either upstream or downstream), people with complementary skills in areas such as mergers, acquisitions or global entry, and other specialists from the outside. These complementary skills may give the firm fresh, critical perspectives that the management team may lack. The purpose is to increase and diversify the perspective and lend objectivity rather than create a board with a "rubber stamp" or duplicate the skills of current management (Cagan, 2015; Davis, 2001).

Several sources suggest best practices for board selection that may lead to positive performance results in family firms. Resources by Lane, Astrachan, Keyt and McMillan (2006), Cagan (2015) and Davis (2001) have been used to craft the following summary of suggestions for family business board selection.

Board Selection Best Practices

(Summarized from Cagan, 2015; Davis, 2001; Lane et al., 2006)

- Select board members using a competency-based approach (Lane et al., 2006).
- Small to mid-sized, experienced boards should range from approximately 5 – 8 members (Davis, 2001) or 7 – 12 members (Lane et al.,

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2006).
- The board should have a majority of external board members and only a small number of family representatives (Davis, 2001).
- Avoid putting the firm's personal service providers -- such as its banker, attorney, accountant, etc. -- on the board (Cagan, 2015; Davis, 2001).
- Avoid incorporating friends of management or family members (Davis, 2001).
- Find experienced external members with diverse perspectives, such as (Cagan, 2015):
    - Executives or former executives from related industries (upstream or downstream)
    - Business people with complementary skills (mergers, acquisitions, global market entry).

Running the Classroom Exercise

After discussing governance and board formation, students can complete this 25-60 minute exercise. The length of the exercise will depend on how well students know the Barrel Family caselette, the amount of research the instructor asks students to do on the named characters, and the amount of debriefing the instructor undertakes after the exercise has been completed.

To begin the exercise, the instructor will need to briefly reacquaint students with the story of the Barrel Family. The brief introduction I used in a class that had worked with the Barrel Case throughout the semester can be found in Appendix 1. For full Barrel Family case information, see the original Barrel Family Exercise (https://familybusiness.org/content/250-to-engage-business-students-roll-out-the-barrels-?search=barrels) . It is often best if the students are familiar with the Barrel family and have developed some directions for the family and business through case-extension assignments. I recommend that instructors use this no earlier than the third session involving the original Barrel Family case to give the students time to "get to know" the family.

Share with the class that 20 people are being considered for seven board seats, and that as President/CEO, Bill Barrel has an ex-officio position on the board (8th member) with no vote. The existing board will be dismantled and replaced by the new board of directors. The list of candidates has been highlighted in Appendix 2, and ranges from high profile characters, such as Rick Pitino, former basketball coach from the University of Louisville, to an unnamed Bank President, to Bill Thomason, current President and CEO of Keeneland Thoroughbred Racing and Sales. This portion of the introduction can take as little or as long as you would like. You may either briefly introduce the real characters, such as Bill Thomason and Preston Madden, or ask students to take 10-15 minutes to research these characters and their merits themselves.

Once students are familiar with the board options, ask students to individually choose the seven people they would like to serve on the board. This should take approximately five minutes. Once students have completed this task, the instructor should divide the class into teams of 4 to 6 students, then instruct the teams to come to a consensus as to who will be selected for the board. It is important to emphasize that the team must collectively agree on each person. Depending on the class, this portion of the exercise may take anywhere from 15-20 minutes. Students should also know that they will be asked to decide who will get the first invitation, since it will set a precedent and may make it more or less difficult to recruit other members.

Debriefing Students

After the exercise, instructors should ask each team to share their slate of directors. Showcase each BOD slate on the board to highlight how teams' selections were similar or different. Process questions are included below in Appendix 3 to stimulate further in-class discussion.

Once the exercise is complete and reflection questions have been discussed, I recommend assigning three articles to students. I first assign the EY (2016) article to the class as an additional reading to reinforce the material and legacy that choosing a formal board wisely can leave on the firm. In the next class, we enhance the discussion of the board selection, and integrate the material, by assessing how their decisions reinforced or failed to reinforce best practices in choosing a board.

Most students engaging in this exercise tend to assume the founder of the designer glass bottle company is a woman and the Bank President is a man. I assign the Moran (2015) article as well for the subsequent class period that discusses family businesses as generally strong promoters of women leaders. Finally, I recommend assigning the recent *INSEAD* article related

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to leadership and gender stereotypes (Kessler, Cortland, and Kinias, 2018), which highlights how gender stereotypes within organizations can be a self-fulfilling prophecy. These two articles can lead to very interesting discussions about gender representation on the board, and about stereotypes students employed in answering the gender question.

Key Takeaways

Because students are able to apply the material they've studied on board selection, this exercise provides engagement and practical takeaways. Introducing best practices and governance material prior to using the exercise gives students a foundation for the material prior to applying it. Given the best practices for board selection, students generally leave family service providers off the board, choose only one to two family representatives, and send their first invitation to an important, well-respected citizen, such as the Retired Distillers Association President. Student strategies for board selection in this context will often develop in alignment with the direction the class has taken the Barrel family business. For example, if forming a niche in the market with high-end bourbon through designer bottling and labeling is something the class has discussed in strategy segments, students will often choose the founder of the designer glass bottle company.

This exercise gives sufficient parameters to reinforce course concepts and best practices, but also caters to class development and discussions for the Barrel Family Case. In using the Barrel Family Case and this activity, students learn to integrate best practices for board selection with family firm strategies, values and priorities that the class has developed for the family across the course of the semester.

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Appendix 1: Brief Introduction of the Situation

The Barrel Family owns Barrel Bourbon Brands, a central-Kentucky based business, which has had a family and close friend-based board throughout their existence. Currently their board is comprised of Bill Barrel (founder), the three Barrel children (Rose, Woodford, and Jim), Barton (attorney and son-in-law) and Jack Danielson, the family accountant. The business is performing poorly, far below industry standards. A family business consultant recently hired by the family has suggested the immediate formation of a more formal board of directors.

Appendix 2: Board Member Candidates

1. Marge Barrel	11. Former University of KY President and electrical engineering professor Lee Todd (72)
2. Rose Barrel (Brand)	12. Retired Distillers Association President (70)
3. Woodford Barrel	13. Alltech (billion dollar biotech company HQ in KY) President and Chairman, Mark Lyons (42)
4. Jim Barrel	14. Elizabeth Rippy Bowes, a top public finance attorney in the US originally from the bourbon trail (57)
5. Barton Brand	15. 57 year old Director of HR for Toyota in Georgetown, KY
6. Jack Danielson, family accountant	16. 37 year old management professor at UofL
7. 36 year old designer glass bottle company founder	17. 28 year old successful local chef
8. Rick Pitino, former University of Louisville basketball coach (66)	18. Bill Thomason, President/CEO of Keeneland (64)
9. Local 50 year old Chamber of Commerce President from Versailles, KY	19. Bank President from Lexington (58)
10. 25 year old recent Western Kentucky University grad, fluent in Mandarin with an alcohol distribution venture tied into China.	20. Preston Madden (54) of Lexington (very prominent and wealthy family in the city responsible for substantial land development)

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Appendix 3: Process Questions

1. What qualities were most important in deciding who to choose? Why?
2. Were there people everyone on your team had chosen? Who were they? Why?
3. Were there people your team had controversy over? Why? How did you resolve it?
4. How did family values come into play in making your decision?
5. How were your personal choices different from those of the team? Why?
6. What gender did you believe the designer glass bottle founder to be? Bank President?

Additional Search Terms: entrepreneurship courses, teaching ideas, teaching resources, classroom ideas, entrepreneurship classes, business schools, business school classes, entrepreneurship students, professors, mentors, board of directors

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