

High-Performing Boards – *from Family Governance to CEO Succession*

The Importance of ‘Culture’



High-Performing Boards in Family Businesses

The Importance of Culture

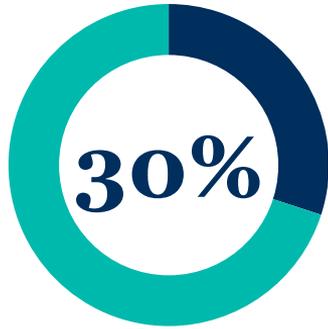
26th August 2015

Peter L. O'Brien
Aimee Williamson

Agenda

- 1. Good governance – a survival tool for family companies**
- 2. From good governance to high performance – the value non-executive directors can bring**
- 3. Navigating CEO succession in a family business – the role of the board & the influence of culture**

Surviving across Generations



According to McKinsey & Company, less than 30 percent of family businesses survive into the third generation of family ownership.

Even strong and successful firms can implode soon after a generational succession, which is why so many countries have some variation of the saying “*from shirtsleeves to shirtsleeves in three generations.*” – The Economist

Sources: McKinsey & Company, The Five Attributes of Enduring Family Businesses
The Economist, Family Firms: Business in the Blood.

Strong Governance as a Survival Tool

McKinsey & Company's research revealed that durable family businesses tend to:

1. Seek to complement the family's knowledge with the fresh strategic perspectives of **qualified outsiders**.
2. Have **Non-Executive Directors/External Advisors** that are deeply involved with the board on all strategic matters and management issues.
3. Develop agreements that address issues such as the **composition and election of the company's board**, the key board decisions that require a consensus or a qualified majority, the **appointment of the CEO**, and some of the boundaries for corporate and financial strategy.

The Spectrum of Family Boards

The stage and state of the family business is critical

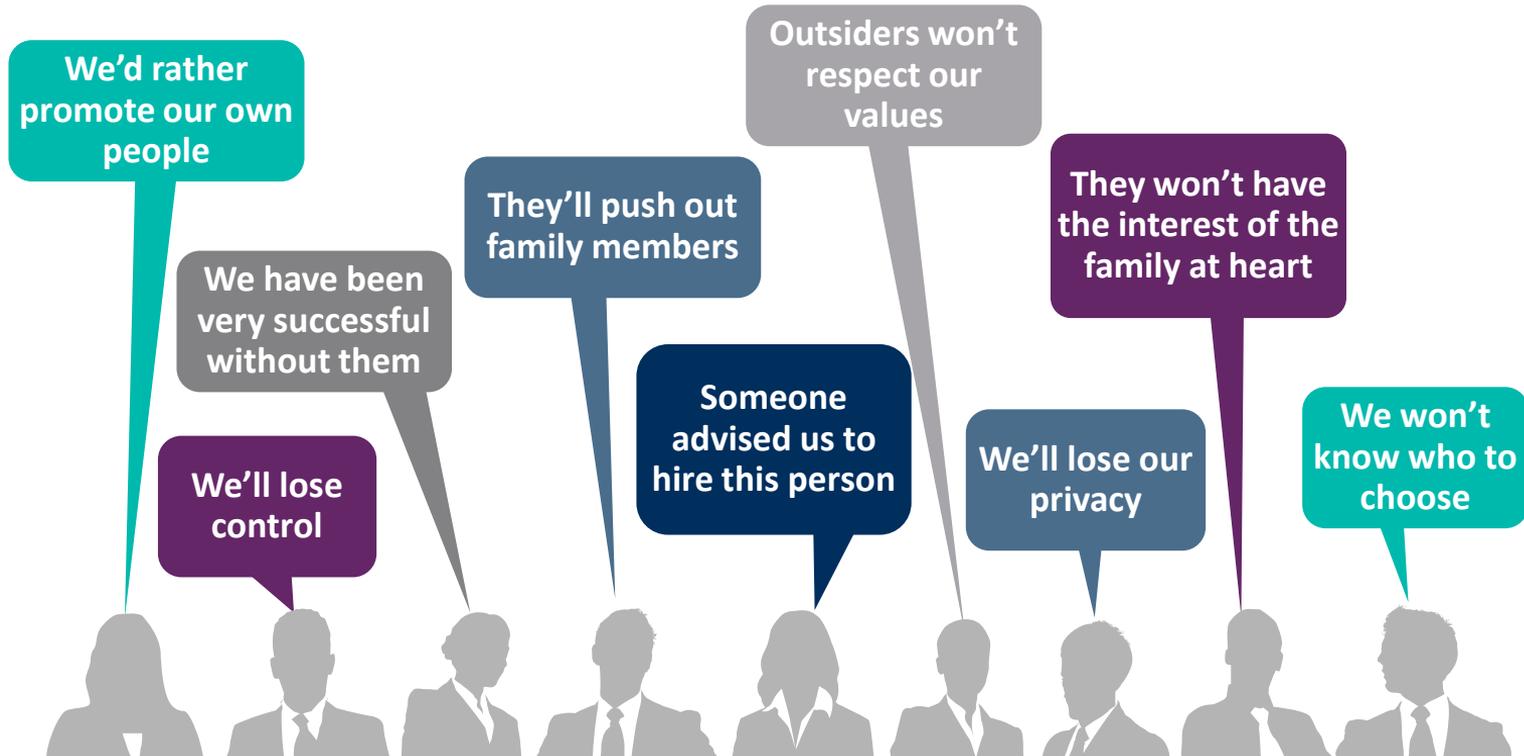
**First Generation/
Founder**

During the **early years**, the purpose of Non-Executive Directors/External Advisors might be limited.

**Third
Generation**

In **later years**, Non-Executive Directors/External Advisors typically have a greater role to play.

Legitimate Questions around Non-Executive Directors / External Advisors



Why hire a Non-Executive Director/External Advisor?

- ✓ Outside perspective
- ✓ New skills and knowledge
- ✓ Freshens up board meetings
- ✓ CEO succession planning
- ✓ Acts as a link
- ✓ New contacts and connections
- ✓ Risk mitigation



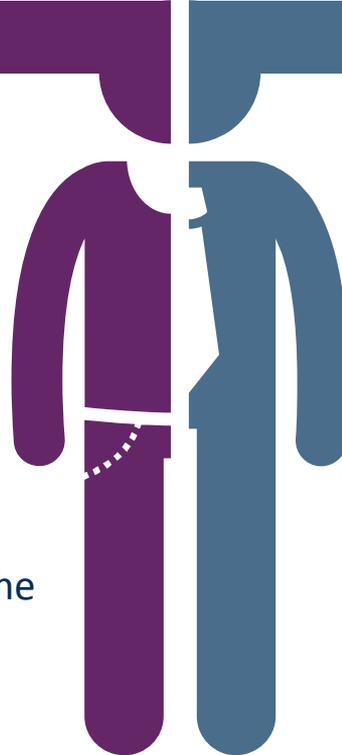
What to look for in a Non-Executive Director/External Advisor

Personal Traits

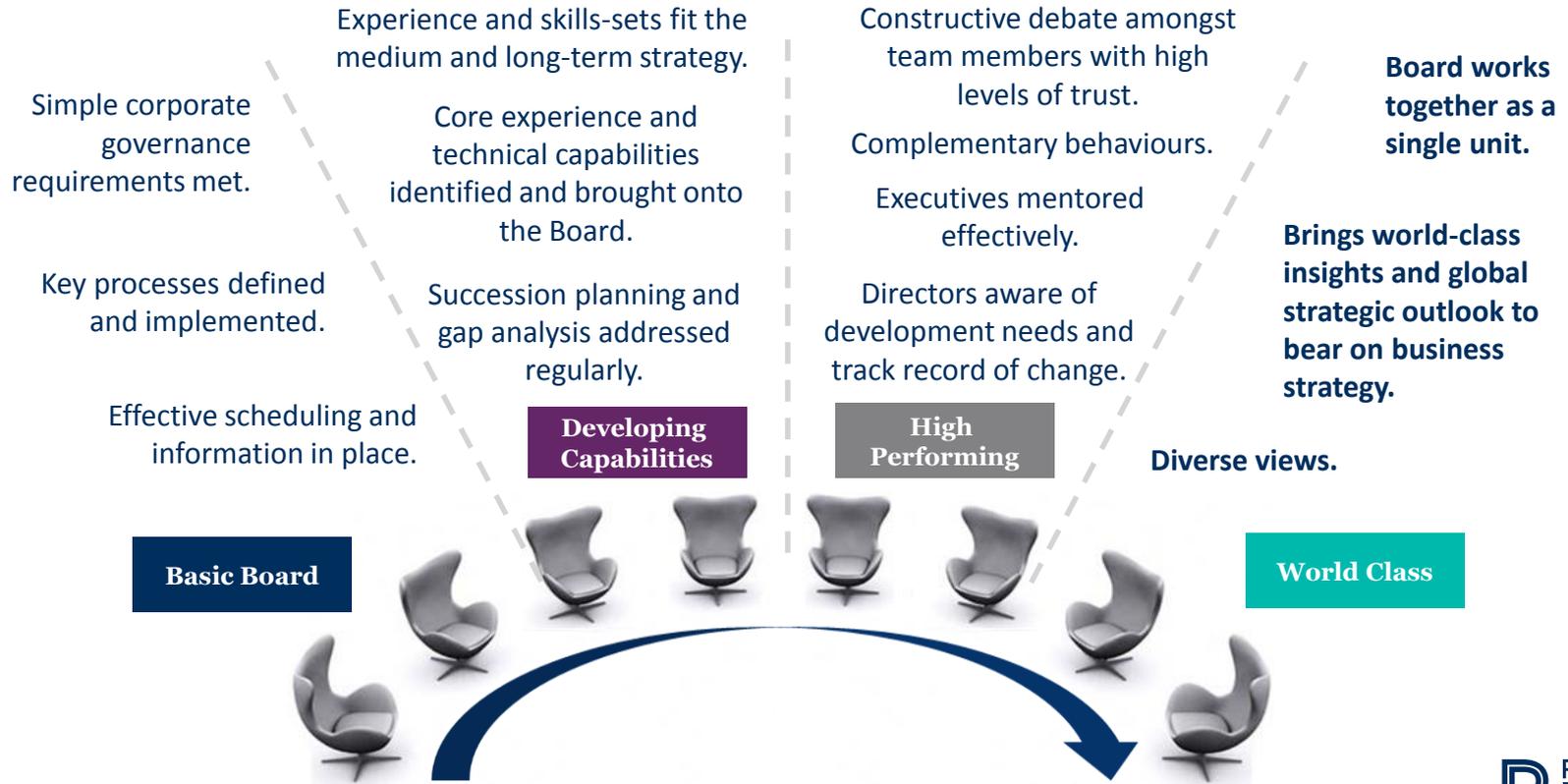
- Personal integrity and accountability
- Ability to work in teams
- Skilled and diplomatic communicator
- Leadership
- Strong analytical skills
- Empathy and passion for the business
- Courage and ability to challenge

Professional Qualifications

- Relevant industry experience
- Strong business judgment
- Experience with family firms
- Specific expertise and skills in relevant areas
- Connections
- International experience



Our view of the Evolution of Superior Family Board Performance



CEO Succession in Family Businesses

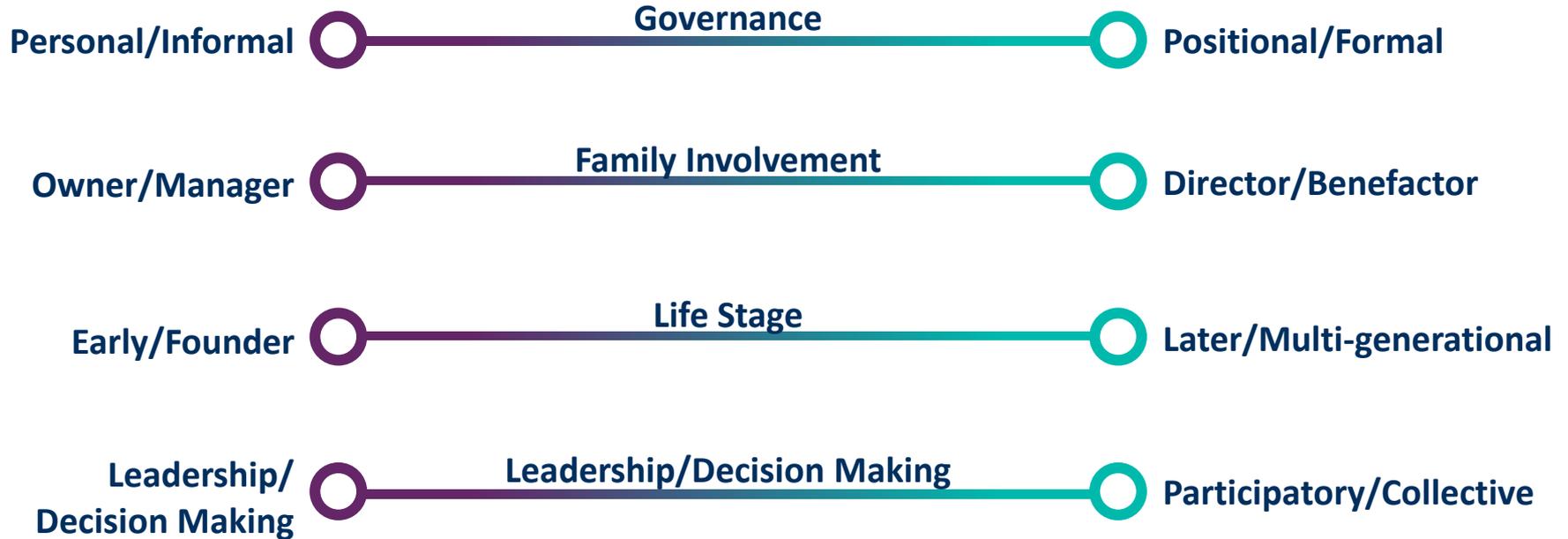
The Importance of Culture

Finding your ‘Distinctive Familiness’

- 
- Traditionally, family firms have been advised to ‘professionalise’ their board by bringing in an outside CEO or other non-family leader.
 - More recently, research has shown that the business’s family history can be a positive force.
 - Each family has its own market advantage; this is referred to as **distinctive familiness**.

Where are you?

Organisational structure and family involvement in the firm over time

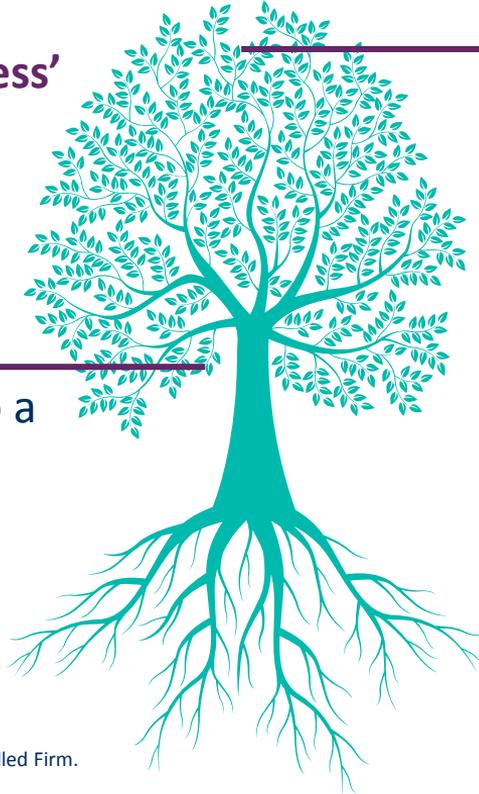


Source: Russell Reynolds Associates, CEO Succession in the Family-Controlled Firm.

Finding your ‘Distinctive Familiness’

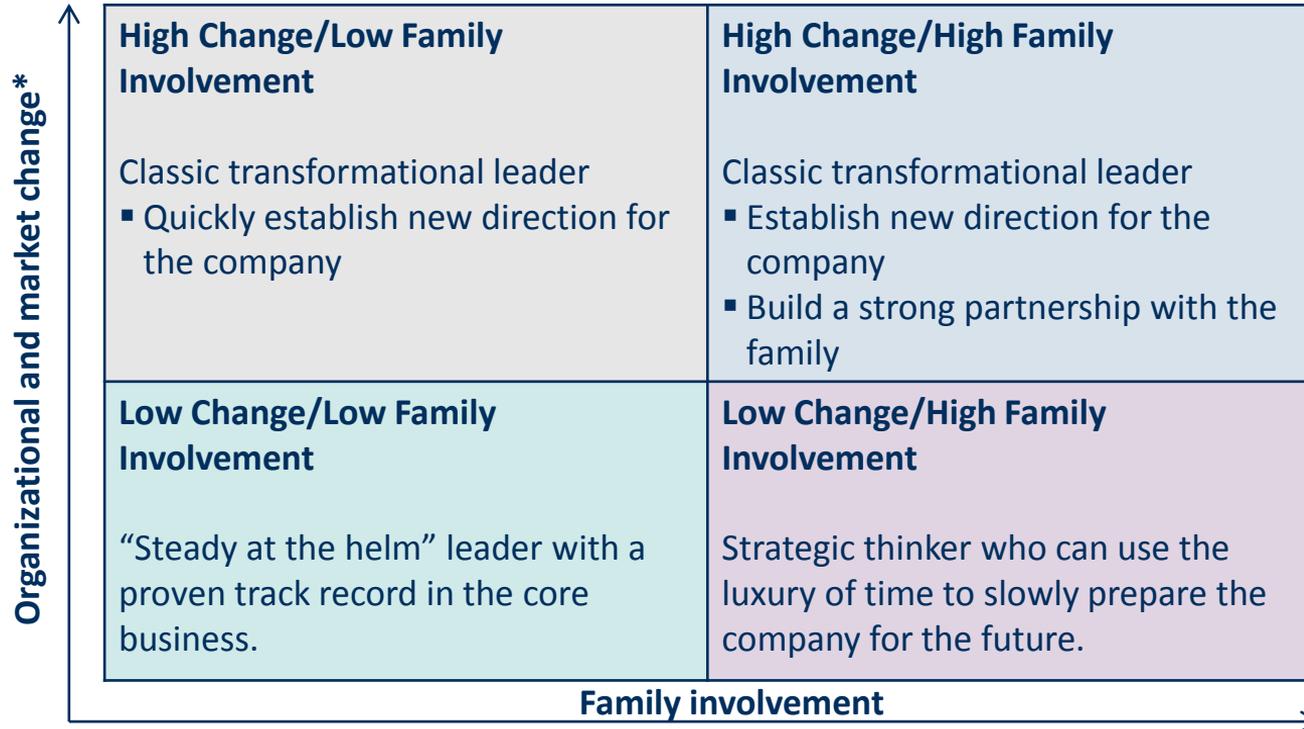
**‘Distinctive familiness’
evolves over time:**

At first, it can relate to a
founder’s hands-on
leadership



By the third- or fourth-
generation, it tends to
be more abstract

Leadership Profiles Aligned to Succession Environments



Case study – CEO Succession at The Kennards Group

Company description

Brief overview of
The Kennards Group

The situation

With the non-family CEO deciding to retire from the role, the Board and the Family had to align on what are the right skills and experience required for the new CEO. However what was absolutely critical was the ‘cultural fit’ – able to gain the confidence and trust of Family, Board, Business and Customers.

The solution

- Developed a detailed profile of the culture, and distinctive ‘familiness’ of Kennards Group in-depth, prior to meeting any candidates.
- Position description emphasized cultural and behavioral characteristics in line with the Kennards culture, to the same extent as experience and background.
- Every candidate interviewed by Kennards was assessed through interview and psychometrics to understand their fit to culture.

The result

- The appointment of an outstanding leader who has quickly gained trust and confidence of all stakeholder.