Guardians of the Angel

The subject of the constitution of Boards and their effectiveness has been hashed for years in academic journals and business magazines. There are, in fact, enough insights on this to sink a ship. This piece will not preach the gospel nor repeat well-established truths. It simply offers some observations on the facets and responsibilities of Boards, specifically in Indian family-run businesses.

All organisations are ultimately defined by their culture. Unlike widely-held or multinational companies, the culture in a family-run business tends to endure over a generation and is almost a genetic attribute. It is culture that determines operating strategies, management structures and constitution and expectations of Boards of Directors. Historically, family businesses staffed their Boards with trusted advisors. These were often lawyers, investment bankers and tax accountants. These individuals served two purposes – offering advice and guidance firstly, to the organisation and secondly, to the family patriarch on issues concerning ownership, estate planning, family disputes and succession. The most important attribute of such directors was trust and loyalty. This arrangement worked well for many decades because the greater challenges for business enterprise stemmed not so much from competition and the marketplace but from the vagaries of dealing with an unfriendly establishment and an unfavourable policy regime. It was the role of such advisors to safeguard the interest of the company and guide the family through the labyrinth of a complex socialist environment. However, in a post-1991 era, government policies became more business friendly and management attention shifted to the marketplace – managing competition and customers.

This transformative change required owner-managers to rethink their operating paradigm, perhaps their culture and finally, the constitution of their Boards. They realised that, unlike in the past, they would now need specialist inputs in areas such as business strategy, human resource management, financial markets and economics. Accordingly, they sought out individuals with such skill sets. These often comprised of retired and serving CEOs, heads of think tanks, academics, HR professionals and so on. What furthered the process of Board reconstitution were regulatory changes in the Companies Act and clause 49 of the Listing Agreement that imposed a degree of 'independence' on the constitution and operation of the Board. Ultimately however, the value provided by a committee of individuals is directly proportional to that which is extracted from it. For the family patriarch, one important role the Board plays is to help identify risks emanating from lapses in process, governance and compliance that may exist within the organisation. Some of these could be historical legacies that family managers may have a blind spot for. Independent advisers, with no baggage or hidden motives, are well placed to help address these.

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As family businesses expand internationally, often through acquisitions, there comes a need to understand alien markets, country risk and cultural necessities. In such situations, companies have found it useful to induct as Directors, academics from leading business schools or top managers from global corporations. These individuals can guide the organisation on best practices and operating imperatives of foreign markets and perhaps indeed on a broad regional or global strategy. Sometimes, expertise of this nature also provides technical inputs to further manufacturing practices and improve productivity and therefore, cost competitiveness. Many companies that adopt global standards for quality, risk management and compliance have done so on the advice of their Directors.

Thirdly, on some delicate issues, the Board provides a useful shoulder to fire from. Decisions that may be awkward or emotional for the family patriarch to take are outsourced to the Board. This can keep egos and personal grouses at bay. Family disputes frequently originate from sibling rivalries, succession issues and business disagreements. Whilst it is highly unlikely that the Board can address these, it can offer mature, and in some instances even binding, guidance by individuals one step removed. Anecdotal evidence suggests that Boards have been less effective in providing mediation in disputes arising from family matters. This is perfectly understandable as the expertise of modern-day Directors is now functional rather than relationship-based. In such instances, patriarchs still need to rely on trusted advisors or peers to offer guidance or to mediate.

Still, there are other areas where Boards are more effective. Whilst it is their role to motivate and help outline the organisation's vision it is also their responsibility to moderate exuberance. Sometimes owner managers are tempted towards radical diversification into areas of little relevance or where they have limited expertise. Since professional managers often hesitate to voice objections to such binges, it is up to the Board to draw the line. In their longer-term interests, many families do in fact empower their Boards to perform this task.

One of the most important issues family businesses need to eventually grapple with is that of succession. There is substantial evidence to suggest that patriarchs take the final call on this matter, perhaps after some consultation with the family, select members of the Board and other advisors. It is rare that the Board collectively decides on this matter; however, it still has an important role to play following succession. The incoming Chairman/Chief Executive needs to be eased into his new role and, shortly before succession, the patriarch inducts, if required, one or two individuals on the Board that his successor would feel comfortable with. In the final count, it is enlightened self-interest that would determine the extent of the Board's involvement in the governance/management of a family-run organisation.

Over the past three decades, family-run businesses have transformed themselves in every imaginable way. They have become more agile and flexible with decentralised, dynamic decision making systems; staffing strategies have become sophisticated and in tune with evolving talent requirements; innovation now ranks amongst management's top priorities; and levels of governance and compliance have risen, in many instances, to levels that would match the best in the world. Many of these changes have originated from Boards which have evolved from being passive spectators to more engaging determinants of their company's future. There is no doubt that, like everything else about the family-run business, the role of its Board too will continue to evolve. ■

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