

(Not) keeping it in the family

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Family business is the backbone of the UK economy. Two thirds of UK businesses are family owned - three million in total, of which over 15,000 are medium and large businesses. They generate over a quarter of UK GDP and employ around nine and a half million people.

Christopher Oughtred is a highly experienced Non-Executive Director (NED) and Chairman in this sector. He is the former Chairman of a fifth/sixth generation family owned business based in Hull as well as currently chairing two other family businesses and he has been kind enough to share some of his thoughts on the differences between family-owned business and public companies, the benefits of having independent NEDs on family boards and the appointment process.

One key difference between a family owned business and a public company is the time line they operate to. Family businesses tend to think on a much longer-term basis. Christopher has seen capital proposals put forward with as long as a ten-year horizon. Families also have a different attitude towards taking on debt, typically they are not highly geared. One by-product of this is that recessions can provide them with opportunities to acquire businesses at a discount, paying a realistic rather than inflated price.

Family businesses also tend to be very attached to the community they are based in and passionately proud of the products they make. They usually have very strong and deeply held values which they stick to even when the going gets tough. 'In a public company, people can get sacrificed to help the bottom line when things start to get tricky, family businesses have great loyalty to their staff, their customers and their products. There is a lot of emotion on a family business board,' he says.

In Christopher's experience, having an independent non-family member NED on the board is essential. 'Family businesses need an outsider's point of view to balance the family view and to help to separate commercial and emotional reasons behind making a decision. Non-family NEDs can also be a great help to the Chairman by providing an impartial sounding board. And they provide family members who are shareholders but who don't have a seat on the board with someone to talk to and raise any concerns with. As far as I am concerned, the only downside with appointing a non-family NED is if you get the wrong person.'

So the selection process is vitally important. In Christopher's family business, the board will do an initial search for a candidate with the particular skills they are looking for and when they have selected two, or possibly three, suitable candidates, they invite all family members who don't work in the business to have lunch with the prospective candidate. The chairman is not present at this lunch which gives the other family members the opportunity to find out if the candidate's values are aligned with the values of the family and if they are a proper fit for the position. 'It's really important to give those family members outside the business an opportunity to meet potential candidates during the selection process. They need to have confidence in the selection process and trust in the independent voice that the candidate chosen will bring to the board.'

Succession planning for the Chairman is another key issue for a family board. In Christopher's view it is important to start the process early, as much as five but sometimes ten years before the Chairman is thinking of stepping down to give the new Chairman plenty of time for training and for building themselves into the role. The appointment process also needs to be fair and open, especially if there is more than one likely family member for the role. It must be clear that the person has been appointed on merit so they get the support of the rest of the board. 'You always hope that there will be a family member with the right credentials who is willing to take on the role of Chairman, but if not then you need to be prepared to bring someone else in.'

Finally, Christopher feels that the greatest attributes a non-family NED needs are empathy and approachability. 'You need to have your antennae finely tuned to see what's going on in the background and if there are any issues bubbling away under the surface. You've got your Family Council and the Constitution but a good independent NED offers a third route to help resolve any differences.'