



Next Generation Family Business Boards for a Digital Future

Future-proofing the family enterprise in times of disruptive change

by Dr. Christian Bühring-Uhle

For family-owned businesses, digitalization no longer is a “nice to have” – it is a “must”. But many family-owned businesses remain in a somewhat static position instead of actively taking appropriate measures. Digital transformation can only succeed, especially in medium-sized companies, if the executive and supervisory boards also transform and become genuine digital experts themselves. So, how do Boards in Family Businesses ensure they have the expertise required to drive the digital transformation of their companies?

Covid-19 made it crystal clear: Leveraging digital technology is no longer just an option. Digital tools and business models have become core building blocks of any business in the New Reality: More technology orientation and digital dependency has led to a forced digitalization across industries and markets. The trend is not new. It was merely intensified by the global pandemic.

Facing this New Reality while managing inter-generational succession at ownership and Board levels will become a decisive factor in the long-term survival and success of family-controlled enterprises. If managed well, it is an unprecedented opportunity. If missed, it is a huge risk – possibly the biggest single external risk facing business-owning families and their operational assets today. The force and speed of change, and thus the opportunity or risk, will be magnified even more by the capital still flowing into the global economy through Covid-19-triggered government stimuli. Family businesses with governance systems that are well prepared for succession and digitalization at the management and Board level should use this inflow of stimulus capital wisely and allocate it to the right digital initiatives. Those that lack competence in the field may take poor decisions and misallocate Family and government capital or, even worse, miss out on the opportunities offered by the New Reality – and instead become victims of it.



The speed of change and the pressure to adapt is ever increasing in today's *Volatile, Uncertain, Complex and Ambiguous (VUCA)* context. Such times call for “the owners to do their job properly” and proactively nurture future-oriented change. This needs to start at the Board level. The owner must act wisely and constantly check whether the Board as a team really has the necessary skills and expertise to supervise and positively impact the company's management in a future-oriented manner. In the New Reality, the definition of necessary skills has changed: digital expertise is becoming a crucial skill for any Board. Further, anything other than a *Professional Board* is a liability and does not do justice to the obligations of a *legitimate owner*. But not all Boards are created equal.

According to our observations, in Germany and abroad, Boards tend to go through three stages of development. When a Board is first established, often by a founder or patriarch, he/she typically likes to be surrounded by a few trusted advisors without really handing over serious responsibility to them. The Board is thus filled with “Friends & Family” who may regard the seat as an honor, a reward, or a social obligation. Such Board members are often motivated by a desire for harmony and hesitate to develop – and voice – an independent opinion.

In the second *phase*, the Board will include independent outsiders who are chosen for their individual achievements and reputation, thus honoring, and “decorating” the company and its owners – without making sure that they are (1) effective in the specific role of being a Board member, and that they (2) actually have the commitment, expertise, and time to really contribute to creating an effective, best-in-class corporate governance. In extreme cases, the members of such a “Trophy Board” can be dominant, alpha individuals, sometimes driven by ego and vanity. They may be accustomed to being listened to rather than to listening. And they may expect to be catered to, rather than to help and actually *serve and support* the management.

In the third stage, the “**Professional Board**”, which few Boards actually reach, one finds capable, devoted, and *humble* Board members who are independent and competent, and fully dedicated to serving the cause of future-proofing the business. They are motivated to create real impact and want to complement each other in the spirit of a true team, to which every member contributes specific expertise.

A Professional Board operates as a team based on a well-thought-out short-, mid- and long-term agenda, with relevant topics, and a reasonable order and time allocation, along a consistent roadmap in each Board meeting. Its members are 100% “present” during the sessions, i.e., no one is distracted by smart phones etc., and the meetings are periods of attentive performance and good energy. Members receive all relevant materials with sufficient lead time, typically one week ahead of the meeting. And everyone arrives at the meeting having pre-read the materials, allowing the use of meeting time not for presentations but for questions, comments, and suggestions, i.e., discussing the issues rather than taking in the information. A Professional Board devotes ~70% of its time to reflecting and discussing the *future* of the business and the long-term allocation of the owners' capital. It cultivates an atmosphere of candid, reflected discussions, where ideas flow freely, and respectful disagreement is encouraged rather than suppressed. It undergoes periodic evaluations of its performance, either in an auto-evaluation or, preferably, with the help of competent external experts. It stands for maturity and gravitas, built through experience, rather than ego-centric character or vanity. It strives to guide, constructively challenge, and empower the management team on its way into the digital future and is clear in its role as a representative of the owners and protector of its interests.



Since a good Board is a team, the composition is key. Several studies have shown a correlation between diversity in Boards and company performance. Diversity has many dimensions: Gender, age, nationality / international experience, social and professional background. But it goes beyond these outer “labels”. In selecting Board members, it is essential to understand how they think and feel to achieve a true diversity of perspectives. Experiences, skills, and ways of thinking should be complementary in the Board. So, what does a well composed Professional Board look like? We believe that its members need to be chosen on multiple dimensions:

- **Relevant experience** – this can be functional, industry or topic-based, or it could simply be experience from leadership in businesses or public service. Digital savvy with its different characteristics is now a key prerequisite.
- **Analytical strength** – Board members need to be able to process large amounts of complex and sometimes ambiguous information and distill the essence from it.
- **Sound judgment** – Board members need to be able to take decisions based on limited facts, especially in crisis situations, and must not suffer from “analysis paralysis”.
- **Humble and constructive attitude** – Board members should show true time commitment and a certain degree of humility: Wanting to really contribute to future-proofing the business and limiting one’s interventions to what benefits the group, rather than just seeking confirmation for own views.
- **Honesty, integrity, and independence** – Board members must be the personification of good governance and open communication.
- **True teamwork** – Board members need to be able to work in groups: Being able to listen to and value differing points of view and striving to contribute to the group’s bigger cause.

To ensure digital competence in a Board, and to attract digital Board members is easier said than done. Only few companies have a well-defined digital recruitment strategy, and fully understand how this talent pool thinks and behaves. It is critical to understand that demand for digital talent, whether at the Board or management level, far outstrips supply. And whereas the common, safe assumption used to be that most senior executives or entrepreneurs would want to take on a Board role at some stage, this is not a given with digital talents. The things that they value most in business life – autonomy, entrepreneurial freedom, openness and high frequency of communication, lack of hierarchy, quick decision-making, fast results – are qualities that they perceive (with some justification) to be lacking in larger or more traditional organizations such as the Mittelstand. Some well-known digital entrepreneurs would describe the idea of being part of a traditional, non-digital focused business with a level 1 or 2 Board structure as torture (they may think “why should I join a group that might not even want to listen and learn, and put my reputation at risk, if I can create or support another digital business from scratch in the same amount of time?”). Also, just appointing one “digital” Board member will not be enough. If potential “digital” Board members perceive a risk of being seen only as a narrow topic expert, the “digital youngster” and not an equal, they will not consider contributing to a Mittelstand Board. At best, the full benefit of their perspective will not be accessed. At worst, they will never join, or get frustrated and quickly leave.

Once an adequate match is found, the process of onboarding a “digital” Board member needs to be carefully managed. The existing organization must accept and embrace the fact that a digital Board member is likely to be younger and may have a career track that is perceived as atypical. The working and communication styles of digital natives may be very (sometimes radically) different. Improving the digital



literacy of the Board will pay off for everyone in the long run – but one must not assume it will always be plain sailing or that everyone will speak the same language from day one. Here, external experts can help smoothen the ride and improve the performance of a Board that has recently added “digital” Next Generation members.

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