

When NACD announced my selection as the 2008 Private Company Director of the Year, many friends and associates asked me why I serve on private, family-owned company boards when the owner (family) can, at any time, call a shareholder meeting and discharge its directors. The answer is that I prefer this form of accountability. It is the best validation I can think of to ensure that the board is performing well. And, by the way, it goes both ways: The board must be empowered to replace the CEO, who is often an owner.

Checklist for Board Service

As I consider an invitation for board service, I first assess whether the business leader seeks directors whose experience is much broader and more varied than that of the company's executives and owners. I also make sure that current directors do not have any vested interest in the company, and thus can bring a fully independent perspective to the board.

I prefer serving companies that have a high need for change or are seeking to grow rapidly and willing to take appropriate risks to do so. These challenging situations increase the potential of the board to bring strategic advice and counsel to the owners, which yields rewarding experiences in both directions.

Finally, it is important that, from the outset, my role on the board is clearly delineated from the owner and fits my accounting expertise or other specific aspects of my experience. My role, however, is clearly to provide business oversight and advice, and to approve strategic plans which management will then implement.

Family-Owned Businesses

I especially enjoy serving on the boards of family-owned businesses and seek opportunities to assist in leadership succession from one generation to the next. I love mentoring

the next generation, not only to assist them in preparing for their new leadership position, but also in helping them think through how to lead the company into the future, while also keeping the prior generation's leader engaged for the continued benefit of the family. For me, there is no greater satisfaction than assisting the next generation in setting their course and putting their mark on the future of the family's business.

If you have never served on the board of a family-owned company, it is important to understand why the owner wants to have a board and wants you as a director. For me, rooting out answers to these questions determines whether I accept a seat on the board. Many family-owned businesses mistakenly believe that newly-appointed independent directors can solve issues which, I believe, fall outside the realm of responsibility for corporate directors. Remember, directors are there only to provide business oversight and advice as it relates to strategy, CEO performance, financial reporting, and risk mitigation.

Here are three scenarios which I will approach with caution:

- **Family Disputes.** Directors are responsible for the oversight of the business. They should not attempt to negotiate or mediate family disputes, which are often mired in emotions rather than based upon business facts. These issues need to be handled by the family council. Then the directors can receive appropriate direction based on one voice from the representative of the family council. Before accepting this type of assignment, I always remember that "blood is thicker than water."
- **Owner-Management Disputes.** After the second generation, family-owned businesses are often run by outside management and most family owners don't fully understand the business. When management dominates the

board, yet owners are dissatisfied, I make it very clear to management that my foremost allegiance is to the owners and their company.

- **Financial Source Requirement.** If the company's bank requires that an independent director be appointed to the board, I would exercise extreme caution before accepting this assignment. I want to be selected based upon my expertise/experience, not so that the company can obtain financing. I do not wish my fellow directors to think of me as the "bank's guy on the board."

With all of this said, I have found serving as a director of a private, family-held business to be one of the most rewarding positions in my career. When a real need for my expertise exists, there is no higher satisfaction than seeing my assistance drive significant value to the owners and all stakeholders of the family-owned or privately held company.

Dave Phillips is co-founder of Cincinnati Works, a nonprofit dedicated to helping people become financially self-sufficient. Previously, Dave worked for Arthur Andersen for 32 years, most recently as firmwide managing director of industry. He has served on 19 corporate boards, including eleven private family businesses, three public family businesses, and five other public or private companies. He acknowledges the valuable review and comments for this article supplied by Jack Moore, former director of Benjamin Moore Paints and leader of NACD's Family Business Initiative.

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