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CARLOS ARBESU ON GOVERNANCE AND SUCCESSION ON FAMILY BUSINESS BOARDS

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The boards of family businesses need to step up their professionalisation to broaden succession planning, introduce the next generation and improve the gender mix, says a leading international family business consultant.

Board director, professor and family business champion Carlos Arbesu has worked with more than 100 business families across Europe and Latin America over 20 years, helping them develop their long-term governance strategies and family protocols. He also participates as an external and independent director in various boards of directors and family councils.

Arbesu is a doctor in Organisational Government from the Institute of Business and Humanism of the University of Navarra and PDG IESE Business School. He conducted research stays in Washington DC, London and Atlanta, and teaches executive training in institutions and business schools in Spain and Latin America. The award-winning author has five Spanish-language written books on boards in family business, including his latest *Working The Family Business Board*.

Arbesu tells *CampdenFB* why professionalisation around the top table of a family business still lags behind, what directors can do to foster gender balance and how families can broach the sensitive subject of transferring power from the founding principal.

Are family business boardrooms keeping pace with the evolution of family offices?

First of all, good practices in boardrooms are being developed in family businesses, that is to say, "operational" businesses. Family offices have to do more with the wealth of the family, not directly with the specific and various businesses that are being managed by the family. There is a specific body of governance to family offices which is usually called the "owner´s council" and could be described as a "board of boards", half a holding board, half a family council. Nevertheless, family business boardrooms have to improve a lot to keep pace with listed companies, and that is the aim of the Wates Principles of Corporate Governance.

How would you rate the level of professionalisation in family business board rooms at the moment?

The level of professionalisation in family business boardrooms is actually very low. There is usually an excessive presence of family members, confusion with board and managerial roles, and lack of experience about the board dynamics and functioning. Family business boardrooms need exemplary models to follow, but they cannot mirror themselves in corporate governance boards. That's the reason why it is so important to know about the development and applications of the Wates Principles of Governance in Family Business Boards.

Do board members take succession planning seriously enough?

Yes, I think so, but only relating to one dimension of succession planning: the managerial succession and specifically that of the chief executive of the company. Every board member is clear about chief executive succession being one of the most important tasks, perhaps the first among others, of the board. But we have to understand that there are other dimensions related to the succession planning that are not in board's hands, but in the family council or other instances of the family. There is a succession of the ownership, a succession of the management team and a succession of the family leadership.

What should boards do to encourage more women in the boardroom?

We just need to change attitudes and be conscious about the great treasure of talent that is hidden in women and the great opportunities to enhance collegiality promoting a better mix among men and women in the boardroom. In family business there is an additional advantage which is having female family members that have the courage, sense of purpose and commitment needed to perform well as a director. At the end, the best way to encourage more women in the boardroom is to improve their education and experience in management and governance.

Is there an optimal moment when the founder should make way for the successor and what role should there be for the outgoing founder?

Founders have to be generous about their succession. I would advise founders to make way for the successor some years before the time they could think it would be convenient. Succession need a process and is subjected to occasional failures and learning by doing. The outgoing founder could have an honorary role at the board, just for the time needed to give support to the process before leaving.

How can boards deal with a chairperson who does not want to step down?

In family businesses this is a major issue. First of all, if the chairperson is a family member, board directors can persuade him to step down, or try to persuade the owners and the family council to face the issue and facilitate a viable solution. At the end, non-executive directors and specifically independent directors have an ethical duty to confront this situation, and put their resignation on the table if necessary.

Should an ageing patriarch or matriarch leave control of the family business to their board, to a family member, a trust or a staff ownership scheme?

Yes, definitely he or she should. The essence of governance is to delegate in others an activity—most important for the business as a common good—which requires an ability, knowledge and/or energy that we lack. A board is a great way to delegate, reassuring that collegiality will be the way to adopt decisions. A family member, a trust or other schemes do not guarantee this.

How can patriarchs or matriarchs introduce their next gen to the board without antagonising non-family board members?

Today, the majority of family businesses have “family protocols” and/or shareholder´s agreements that deal with this. First, next gen need to be previously trained and educated to perform governance duties. Second, there has to be an opportunity for, at least some of them in the board. Third, we need the best talent in the board and for sure some family members can have the skills and values needed, but there is no obligation to have all or some family members in the board.

Should board members’ salaries be capped to encourage solidarity, performance and the sense of ownership among family business employees?

I don´t think so. The only thing that matters here is what the market says. The salary of a family member has to adjust to the same scheme that the salary of every other employee.

Have board members made adequate efforts to protect their family businesses from cyber-attacks?

Cybersecurity is a recent issue, but a real threat. Boards are working on that, but I think we need to keep pace with the technology development. Boards find it difficult to confront risks that are so new and unthinkable before. But we are facing cyber-attacks in the real life with family businesses, not only big corporations, and the risk is here to stay.

Are you seeing sustainable investments and philanthropy trending in board rooms or is sustainability more hype?

Sustainability is naturally present in family businesses because of their purpose and intention of continuity. I would say that families are masters in the art of sustainability and philanthropy, but in a more human and comprehensible way. In Charles Handy words: to sustain the “community of companions” which the family business represents is the first aim of the family and a great purpose for the entire society.

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James Beech is the multimedia Editor of *CampdenFB,* with 21 years of international experience in daily newspapers, B2B and consumer magazines, online, social media, photographic and video journalism, in addition to editorial management, marketing, public relations and client relations, in the United Kingdom, Australia and New Zealand. He graduated from Bournemouth University in 1999.

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