

The role of non-executive directors in Family Business

KPMG Family Enterprise Practice

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In this article we will explore some areas which make family businesses unique, and how these impact the role of the NED in a family firm.

Socio emotional wealth

Families are often focussed on matters far wider than just the bottom line – there are a number of non-financial goals; the extent of family involvement and influence, social and community relationships, a family's emotional attachment to the business, and a desire to perpetuate the business for future generations of family. These aspects are known as socio emotional wealth, and put together with the family's expectations on return on their investment comprise the family's shared purpose. It is this that is a unique feature of family businesses that sets them apart from their non-family counterparts.

The family business system

The other area to consider is the three concentric circles of the family business system: the family, the owners, and the business – all of which have inter-dependent and often conflicting needs. Consider the following examples where a family owner is also the CEO who must make a decision:

— Leadership roles

Who should lead a new division? A family member who has relatively less experience, or a non-family member of staff who is eminently more qualified for the job? As a parent they will likely want to give their children an opportunity, but as a CEO one would expect that they would chose the most suitably qualified candidate. Which takes priority?

— Investment decisions

When considering a location for a new factory, one site presents a strong commercial case, but the other is tied to communities where the family have been based for generations.

Breadth of experience

The Board may comprise a number of family members who may not have benefitted from the experience of working outside of the family firm meaning that someone with external expertise can be hugely valuable in providing external perspectives and challenging group think.

The role of the NED in a family business:

The role of the Board in a family business is to understand the family's shared purpose, and design and deliver a strategy that fulfils that purpose. The Cadbury Report states that a non-executive director: "should bring an independent judgement to bear on issues of strategy, performance and resources including key appointments and standards of conduct". Practically, a strong NED can help the Board deliver by:

- Providing independent rigour and challenge, and ensuring the Board make efficient and effective decisions;
- Ensuring that the strategy set by the Board is aligned with the family's shared purpose and values;
- Being mindful of the family dynamics and therefore be adaptable and able to handle tricky situations skilfully – including helping groups reach consensus in sometimes more emotive situations;
- Being able to add to the Board's expertise, be it technical, market or sectoral experience;
- Provide support and challenge around all aspects of corporate and family governance – Is there a family council, or owners assembly? What is the relationship between that and the Board? How is information communicated and decisions made?

There is no legal distinction between executive and non-executive directors. As a consequence, in the UK unitary board structure, NEDs have the same legal duties, responsibilities and potential liabilities as their executive counterparts, emphasising the need for a NED to be impartial and independent.

The family dynamics and the aspect of socio emotional wealth create a strong sense of purpose within family businesses. As a result, acting as a NED, adding independent rigour and challenge to the Board, and holding them accountable to deliver to that purpose can be a hugely rewarding role.

Advertise your non-executive director roles for free on KPMG Connect On Board, more details below:

KPMG Connect On Board

KPMG launched [Connect On Board](#) to encourage the business community to create greater diversity on boards.

Connect On Board is an online platform designed to help connect non-executive director (NEDs) candidates, many of whom have experience of working with Family Businesses, from a diverse talent pool with organisations seeking to build better boards.

If you are seeking a NED you can advertise a role with us for free.

Please contact Miles Davies at miles.davies@kpmg.co.uk

KPMG Connect On Board is part of the [KPMG Board Leadership Centre](#) programme.

Contact us



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