

## Why appoint independent directors to family owned companies?

Independent directors bring discipline, objectivity, new perspectives and fresh thinking to the board of a family owned company. This can help preserve family relationships and sustain and grow the business.

### **Separation of family and business**

The distinction between family matters and business matters is often unclear in family owned companies. This confusion is detrimental to both the family and the business. An independent director can be a pragmatic arbiter of company issues. The independent director operates without the baggage of family issues to distract from the need to act in the best interests of the company.

The discipline of formal board meetings where business issues are debated and decisions made promotes the healthy separation between business and family (and the separation between corporate roles of governance, ownership, management and employee). The family dinner table ceases to be a de facto business meeting and board meetings cease to be venues for family disputes. This makes for a healthier business and family life.

### **Growth**

As a business grows, the need for robust governance grows proportionately. Independent directors bring fresh thinking around managing risks and taking advantage of opportunities. They can ask difficult questions (like, is a particular family member really the best person to manage a new venture?), help set strategic goals and make changes to the company's culture and direction that will help the business grow.

The need for funds to expand the business is often the catalyst for bringing independent directors on to the board of a family company because the bank makes formal governance a requirement for advancing more funds. Lenders take confidence from the presence of independent directors on the board and so are more willing to lend.

### **Chairperson**

Where shares in a family company are held by more than one family member, the independent director could usefully be the chairperson of the board. This is especially so where factionalism exists among board members. An independent chairperson can help protect minority shareholders who are vulnerable to family factionalism that can spill over into company decision-making. The chairperson is also a source of support and guidance for the chief executive.

### **Cost**

Given that the remuneration of independent directors for SMEs is often no more than \$10,000 a year per director, the benefits can greatly outweigh the cost of bringing this fresh thinking to the governance of a family owned company.

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