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## ***How can an Operating Board of Directors impact the Succession of my Business?***

Most family members associated with a family-owned business look at their Board of Directors (BoD) as a mere formality. In some instances this is appropriate. Although a business may be classified as family-owned, due to the age, location, preoccupation of children who presumably have a vested interest in the business or the liquidated value of the business, it is not practical for them to be involved in business oversight. In fact, the involvement of famously uncooperative or disinterested family members on the BoD could create more problems - and who needs more problems? This being the case, meetings are muddled down to a form letter with perfunctory minutes as it is the most efficient way to address BoD formalities that on occasion are of interest to the IRS and subsequently of importance to you. We classify these situations as a non operating BoD.

There are circumstances where an Operating Board of Directors (OBOD) could be a very powerful succession tool. There may be family members (children, siblings, cousins, nieces, nephews and/or surviving spouses) who recognize and appreciate that they have a vested interest in the business leadership and management. An OBOD would be activated at the choice of the majority stockholders (most likely parents) or the controlling stockholders (siblings or cousins) because they believe that this forum would be an asset to family harmony and family business succession.

The OBOD could position prospective family successors to gain valuable insight into the business and hopefully, support their inclination to pursue a career in the business. A classic example would be a recent college graduate who is gaining maturity and experience, working outside of the family's business or a daughter who is taking an extended leave of absence to start/raise her family.

The OBOD may also position passive family members with direct business ownership or with prospective ownership depending upon the fulfillment of estate plans. A classic example would be a daughter who is not employed in the business, whose husband may or may not be employed in the business. Assuming a cooperative attitude, an OBOD not only affirms the vested interest of passive owners but also provides a forum to answer questions that would otherwise not be asked or directed as a distraction to the CEO. Furthermore, productive participation on an OBOD provides an opportunity for a passive family member to be paid for a semi-active role in the family's business activities.

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By definition, an Operating Board of Directors is a BoD that operates as a productive leadership and management oversight institution. No doubt being productive is a learned OBOD competency because when family members initially come together to discuss business, the results are initially, anything but productive. An OBOD is a family involvement mechanism affirming Ben Franklin's theory: "Tell me I know. Show me I understand. Allow involvement and it is mine." The expectation is that the involvement of otherwise uninvolved family members will bring strategic advantage.

From an operational perspective, after training in Board protocol as well as the "Family Business Golden Rule Number One" (who has the gold sets the rules), family members will recognize that Board meetings are not playtime or gripe sessions. During the same indoctrination period selected OBOD members will hopefully grow in understanding and appreciation of strategic issues impacting business operations. The reasonable expectation is that with appropriate training, patience and time, OBOD members can make a substantive contribution to oversight direction and management of the business. If after a reasonable period of time this is not the case, by the same vote that this institution was created, OBOD can be dissolved.

It is also reasonable to include in the OBOD one or more Very Special Key Managers (VSKMs). Participation would validate a VSKM's value to the family and take advantage of his/her valuable insights. Without question, it is unhealthy for an OBOD to be out of harmony with the feelings and practices of a VSKM. An informed, empowered and productive OBOD will serve as a Contingency Succession Bridge<sub>sm</sub> that will provide enhanced peace of mind to all directly or indirectly involved in the business that business continuity is not totally dependent upon any one individual. Furthermore, the OBOD will serve as a major facilitator of communications and harmony between key managers, active family member employees and passive family members.

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