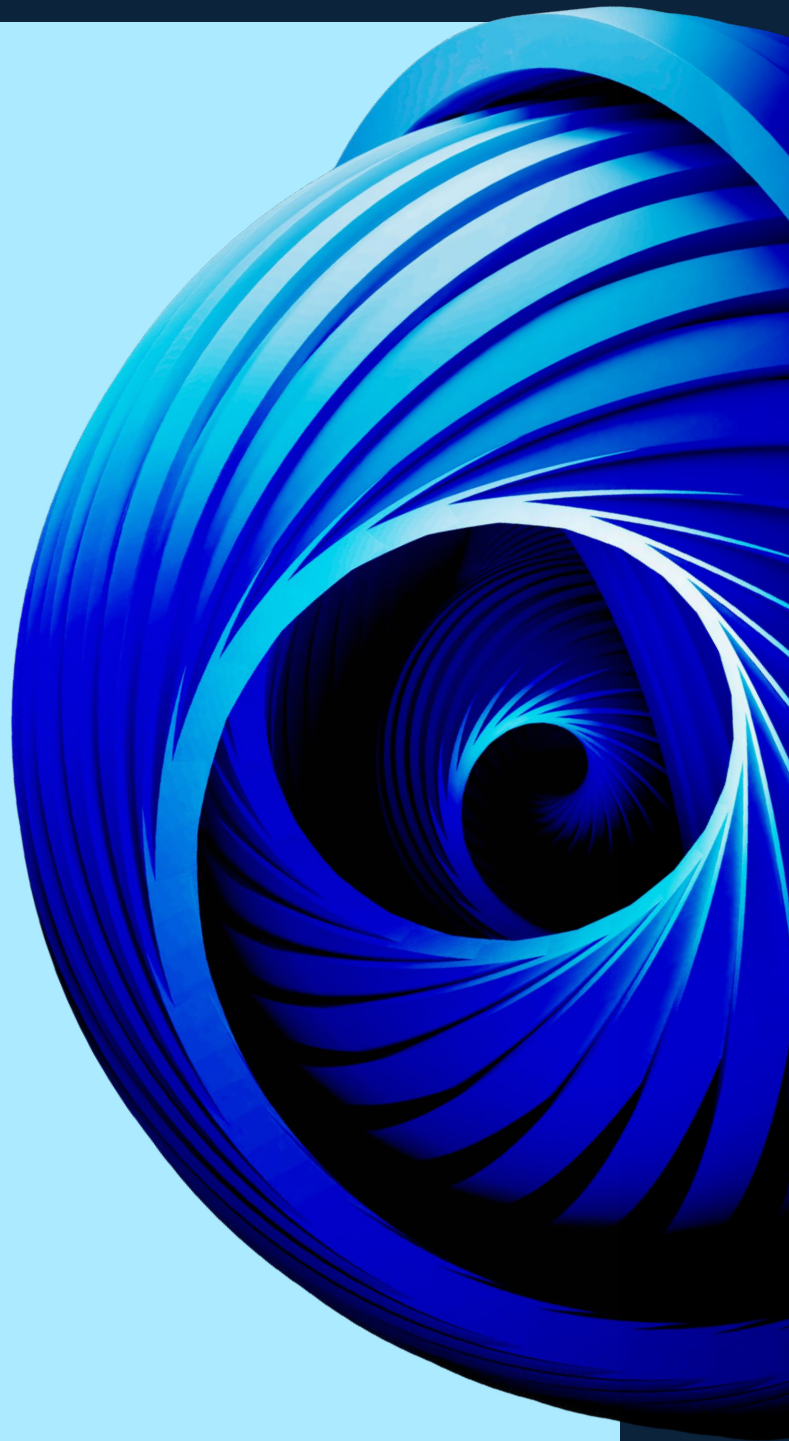


The Sages family business story

**Case study 16:
Building a board of directors**

Written by Professor Christine Blondel from INSEAD

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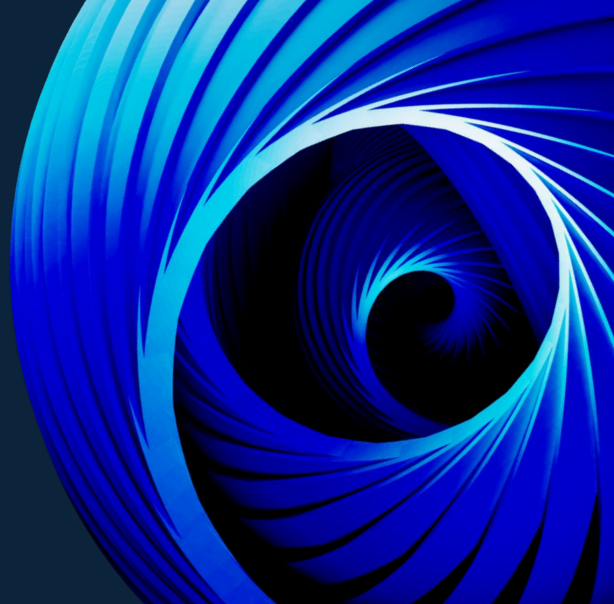


Family business dynamics — Governance



Source: KPMG Private Enterprise Family business dynamics, 2017

Part 1: The story



Case study 16



On a grey winter's day, the board of directors of the Sages Group convened without its Chairman for the first time in more than 50 years. Thomas Sages, the charismatic founder of the group, had died a few days before. The funeral was attended by hundreds of employees and business friends, but the board members did not have much time to mourn as business needed to continue and a new chair needed to be appointed.

It did not take long to appoint Martina, Thomas Sages' wife, as Chairwoman. She had been there from the start and would therefore provide continuity. Once this was done, her son Timothy Sages suggested that the time may be right to start thinking of changing the board's composition of the board. He suggested inviting outsiders to join the board. His suggestion was received with caution by his mother, but the other members of the board thought the idea deserved consideration.

The Sages Group had a legal board of directors from the beginning, consisting of Thomas Sages, the founder, his wife Martina and his long-standing friend David, who owned 10 percent of the capital. For many years, they had met once a year to sign the legal documents of the board and the general assembly of shareholders. They had enjoyed both business success and friendship.

When his children joined the company, Thomas invited them to participate in the board meetings, and when David passed away in 2004, his son David Jr. replaced him on the board. The board was then composed of Thomas Sages, his wife Martina, his children Timothy and Caroline, and David Jr. (who was also Caroline's husband). This new board met twice a year but spent significantly more time reviewing the business results and minor details than discussing the business's future strategy. This was a time when Thomas became less receptive to change, and disagreements had started to surface about strategy. The board of directors was clearly not fulfilling its role, but Thomas never saw the benefit of changing it.



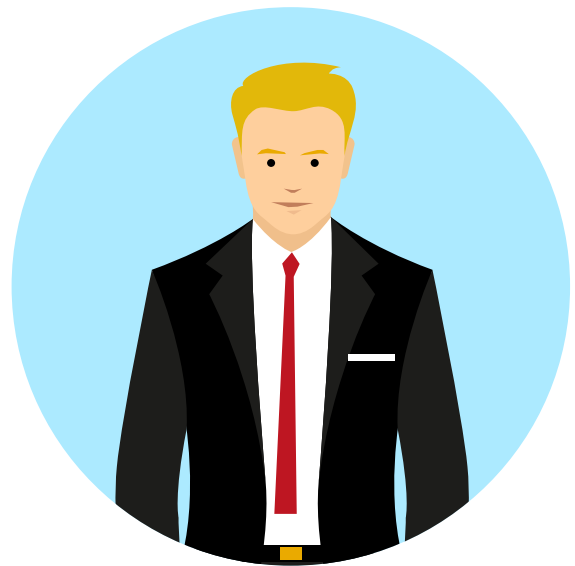
Part 1: The story

Case study 16

Now that Timothy had suggested changing the composition of the board, many questions were raised, including:

- What would be the benefit of adding new members? Would the new members need to see confidential financial information?
- What type of people should the new board members be? Where would they find them? What would motivate them to join?
- How often would the new board meet? Should they receive a fee?
- Thomas's other children were also shareholders. Should Louis, his son from his first marriage, join the board? And what about Charles? He left the business and the board several years ago. Should he be invited back?

The board agreed that these questions needed to be investigated. David Jr. was put in charge of calling their trusted advisor to discuss these issues.



Questions for discussion

- What is your personal experience with boards? Do you have independent members (non-family, non-management) on your board of directors? If yes, is it beneficial?
- What advice would you give the board of the Sages Group?

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