



GOVERNANCE TREND

WHAT IS A PORTFOLIO BOARD?

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A PORTFOLIO BOARD is increasingly being utilized by family business owners when a family owns multiple companies together. It is sometimes referred to as a holding board, a top board, a portfolio strategy board, or a portfolio management board. When the owners need a high-level, macro view of their full portfolio of companies—and typically have effective boards in place for their operating companies—a portfolio board is often the next step in the evolution of a family company’s governance system.

BENEFITS OF A PORTFOLIO BOARD

The purpose of a portfolio board in a family business system is to oversee the collective operating companies (and sometimes investment companies) that a family owns. It ensures that there is a designated governance forum that maintains a global view of the family companies, with given authority to monitor and guide those companies from a strategic standpoint.

Owners receive great benefits from a portfolio board, as it ensures that the family is not over-exposed in terms of risks, the family is adequately leveraging all of its assets and generating sufficient returns, and that the “total is greater than the sum of its parts.” When

no portfolio board exists, one of the businesses (often the ‘legacy business’) tends to get the most attention and remain the top priority in strategic discussions, whether or not it can still create significant economic value in the future. If not the ‘legacy business,’ then sometimes the small, newly acquired companies may take all of the energy and attention of the group, despite their still relatively minor capacity to generate significant value. Distortions in any direction is not good.

“ A portfolio board reports to the shareholder group.
It is the agent for the owners. ”

WHAT DOES A PORTFOLIO BOARD DO?

A portfolio board typically reports to an owners council or a shareholder group. It is the agent for that group. As such, the portfolio board’s mandate varies according to the responsibilities and duties that the owners delegate to it.

Typically, the portfolio board is charged with long-term business visioning, resource allocation, and resource optimization across the companies, which involve:

- Setting strategic goals for the portfolio and for each company within it
- Defining medium-term and long-term mandates for each company
- Determining what kind of contribution is expected of the companies and what kind of resources will be given to the companies to make such contribution
- Monitoring aggregated performance and risks from an owner’s perspective
- Ensuring the best roles and use of family skills for the businesses

A more hands-on portfolio board provides deeper direct expertise and advice to the companies and may also define the kinds of guidelines, processes and support that each company will need to follow or use (performance reporting, strategic planning, risk management, talent strategy, and shared services, to name a few).

A portfolio board is often composed of a small group of strategically minded, active owners and independents. It might interact with company (e.g. subsidiary) boards—if they exist—or directly with the CEOs of the companies. It is often assisted by a Corporate Office to perform its duties.

WHEN DOES A FAMILY BUSINESS NEED A PORTFOLIO BOARD?

When a family owns more than one company—whether in the same industries or not—and wants to accelerate growth and possibly diversification of its operations, a portfolio board is not only useful but essential. A sound portfolio board, well composed in terms of qualified members, and with a clear mandate and sufficient degrees of freedom, will anticipate and lead the family into its next growth stage. It will help to make the bold and sometimes difficult decisions needed for long-term shareholder value creation.

“A portfolio board will lead the family into its next growth stage, helping to make bold decisions for long-term shareholder value creation.”

In today's disruptive environment, family business owners need to better understand their performance with greater analytics support. They need to constantly look at their risks and their next opportunities for profitable growth. The high-level strategic view and planning that a portfolio board provides not only enriches the dialogue among owners and with executive leadership teams, it also supports stronger family alignment.



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