

YOU ARE AN INDEPENDENT DIRECTOR OF A FAMILY-OWNED AND FAMILY-CONTROLLED COMPANY. WILL YOU STAY OR GO?

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Acme Corporation is a privately held consumer electronics company founded by Devon, an engineer who had exited a prior venture through a successful M&A transaction. Initially established as a real estate development business, Acme evolved when one of Devon's technical side projects surpassed existing technologies and achieved commercial success.

As the company grew, family members assumed key roles. Devon's spouse, Helen, managed accounting and administrative functions. Their son, Junior, the IT Department and developed a custom-built ERP and accounting system that became deeply embedded in operations.

Following Devon's unexpected death, 100% of the ownership remained with Helen and Junior.

The Board of Directors consisted of Helen, Junior, and friends of the family.

Leadership Transition and Early Growth

A new CEO, George, was hired. George was a long-time family friend with no industry experience, George was viewed as intelligent, ambitious, and capable of learning quickly. He was paid at the 50th percentile relative to other companies in this industry within its sales volume. He did not receive equity participation because this is a family business.

Around the same time, Junior joined a startup in a senior engineering role but retained part-time responsibility for Acme's IT systems, maintaining exclusive control over the ERP and financial data.

During the COVID period, demand surged and Acme's revenue doubled. However, rising expenses offset growth, leaving profits essentially flat and only slightly above breakeven.

Rising Tensions and Governance Gaps

Flat profitability led shareholders to pressure George to improve margins.

George's response was to threaten to leave the company at this difficult time unless the Board provide him with the following:

Above-market compensation.

Equity participation.

Additional shareholder investment to fuel growth.

The company operated without bank debt and relied on loans from Helen and Junior. As tensions escalated, the company's attorney recommended establishing an independent Board of Directors to formalize oversight and reduce direct conflict between owners and management.

Board Formation and Breakdown

The newly formed Board consisted of the two family members, the CEO, and four independent directors with prior CEO and board experience. Rather than stabilizing governance, the Board became a focal point of conflict.

George resisted oversight, withheld requested information, and manipulated data to shift blame for poor profitability onto historical quality issues he had failed to resolve over seven years.

He cited deficiencies in Junior's custom ERP system to explain inconsistent or unreliable reporting. Board meetings frequently devolved into disputes between George and Junior over data accuracy and interpretation.

Meanwhile, in an effort to accelerate product launches and drive revenue, management shortcuts worsened product quality problems. Ultimately, George informed Junior and Helen that he could not work with the Board. He demanded they choose between retaining him or the Board.

The shareholders chose the Board, though with concerns about operational disruption and the challenge of recruiting an industry-capable CEO.

Interim Leadership and Operational Reset

The Board Chair introduced Charlie as interim CEO. George was terminated. Charlie's mandate was to diagnose operational and market challenges, resolve quality issues, and establish a functional management structure with accountable leaders.

Within six months:

- Employee morale improved significantly.
- A circuit redesign resolved the longstanding quality issue.
- Customer relationships were preserved.

However, revenue declined as customers delayed purchases until improved reliability was demonstrated. The past practice of knowingly shipping products with an expected high failure rate was also stopped. A revised service policy—offering rapid replacements—exposed the true financial cost of historical quality failures for the first time.

Marketing Gap and Strategic Shift

The interim CEO identified a major gap: Acme lacked a coherent marketing strategy, brand positioning, or capable marketing staff. Despite technical superiority, products were hard to find on reseller websites, and value propositions were poorly communicated. The company's engineering-driven culture assumed product quality alone would drive demand.

A new marketing program was developed, positioning the brand around well-known professionals within each customer segment and channel. The initiative was well received internally and aligned with an upcoming next-generation product launch coordinated with resellers.

Renewed Conflict: Family, Control, and Undermining

Helen and Junior strongly opposed the marketing changes. Junior questioned the agency's competence, imposed shifting milestone requirements, and began micromanaging execution. Although the Board consistently concluded the program was delivering as approved, Junior escalated his opposition.

His actions included:

- Soliciting negative feedback from employees without management's knowledge.
- Sharing selective information with the Board while excluding the interim CEO.
- Contacting customers to undermine confidence in the marketing program ahead of launch.
- Ignoring repeated Board directives to cease interfering in operations.

Junior asserted ownership rights, stating it was “his company” and that he would act as he saw fit.

Governance Crisis

A special Board meeting was convened to review the marketing program, again, to appease Junior. Instead, Junior excluded the interim CEO and marketing firm and presented a proposal to terminate both, appointing himself CEO and Chief Marketing Officer. Details were vague. Independent directors requested a written proposal addressing governance, execution risk, and fiduciary concerns. He expressed he would maintain his day job and work for Acme remotely and parttime.

Seven days later, Helen and Junior circulated a “consent in lieu of meeting” resolution seeking immediate approval. The document included indemnification of independent directors against any liability arising from terminating the interim CEO and marketing firm. The document also includes a phantom share grants for each independent director representing 3% of the appraised value of the company three years from the date of the consent agreement.

Case Questions

You are one of the independent directors. What are you going to do?

Whether you depart Acme or remain, you never want to be an independent director in a company like Acme in the future. How would you avoid such companies?