We see more family businesses interested in corporate governance today than we did a decade ago, as shown in changes they’ve made to their boards and results from our Family Business Survey\(^1\). While some family businesses have a board only to satisfy legal compliance requirements, more are thinking strategically by moving towards more mature policies, procedures and structures for their governance systems.

Creating a board of directors

Family businesses often start out small, with the founder doing the heavy lifting of both running the company day-to-day and making long-term strategic decisions about the future of the business and needs of the family.

Establishing a board of directors provides a more formal method for governing and controlling the business. A board can help provide formal structures and processes so that the family continues to make effective decisions.

Additionally, having independent directors (non-family, non-management) can help a company gain additional skills and insights necessary for implementing future strategies, as well as an independent and objective point of view.

The role of a family business board

As a family business grows in size and complexity or undergoes a major milestone like a generational transition, governance becomes more important than ever as a way to effectively and efficiently oversee and manage the business. A board of directors can provide unique support on some of the particularly challenging issues that family companies face, as outlined below:

- **Separating the company’s needs from the family’s needs** - Sometimes family issues become intertwined with company issues which can distract management and cripple decision making. The board can make sure that family issues do not overlap with the business.

- **Help the CEO look beyond tactical issues** - CEOs often find themselves caught up in day-to-day operations with little time to think strategically about the business. Discussing strategy with a board can help the CEO focus on the big picture and spot trends, changes in the marketplace, and new opportunities.

- **Accountability** - Periodic board meetings can help instill discipline in the executive team. Leaders will need to report on strategy, projects, financial results, and other matters. The board acts as a sounding board as well as a check of managements actions.

- **Planning/advising on CEO succession** - An established board can provide continuity and guidance to a younger generation and help preserve the founder’s vision for the company.\(^2\)

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How do you know if your family business is ready for a board of directors?

Family businesses that are anticipating a generational transition or bringing the next generation into the business, experiencing significant growth, expanding into new business areas, facing competitive threats and disruption, or changing or enhancing their strategy, see value in maturing and professionalizing their boards. We find that these events or circumstances tend to challenge a family to think about whether they need to evolve or change their governance model. Because of this increase in complexity, responsibility and accountability, companies are also adding more expertise on the board to meet the needs of the family and the business. Independent directors can bring skills or experience to the board that are otherwise missing, and may be in a position to challenge the founder/owner(s) in a positive way. They also introduce objectivity and accountability to the board. You may find that board processes and policies become more formalized with independent directors on the board.

Board governance at a minimum

Creating a professional family business board is an important way to provide oversight of a growing company, but it can also be a scary transition where management’s judgement will likely be challenged. Enhanced governance is also an investment, not only from a cost perspective but also the time and resources required by management. The trade-offs become the risks versus the rewards, and there is no one size fits all. However, our experience is that the value an effective board brings often outweighs the time and investment. No matter where a family business is in its maturity, we recommend the following at a minimum:

• Establish a fiduciary or advisory board
• Develop a board charter or bylaws that establishes the board’s roles and responsibilities
• Appoint board officers to direct the functioning of the board
• Define the board’s decision-making authority and delegations
• Determine criteria or qualifications for serving on the board
• Establish an appropriate board committee structure
• Hold periodic board meetings so the board can carry out its responsibilities
• Establish adequate reporting to the board to support decision-making
• Create an environment that encourages candid board discussions and healthy debate
• Assess board performance on a periodic basis to promote effectiveness
• Maintain a clear separation of family versus business issues by establishing a separate family governance structure

Additional resources for family business boards

Go to our Family Enterprises governance webpage for detailed resources on building your board, CEO succession planning, performing a board diagnostic and more.

pwc.com/us/familyenterprises/governance

For a detailed board diagnostic or a deeper conversation on how we can serve your family and your business, please contact:

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