How can a family preserve long-term ownership of their family business?

Evolve governance to provide clarity, alignment and continuity for generational transition

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For many growing and transitioning family businesses, governance decisions can feel daunting. Although governance models typically evolve over time — which can allow for the structure that best fits the size, stage and ambitions of the enterprise — many control parties do not understand the elements of a professionalized pathway. To improve outcomes, the ideas shared herein outline leading practices to help family members engage productively and with shared purpose.

1. Introduction

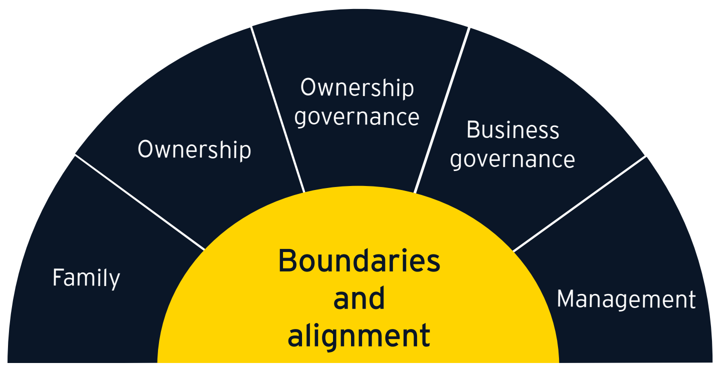
Family businesses are the backbone of the US economy and often operate with a purpose beyond profit: creating long-term value for employees, communities and future generations. Being privately held allows families to make decisions rooted in their values and culture, with a focus on continuity rather than short-term results.

Over time, sustaining a long-term, values-driven focus becomes more complex. Growth, generational transitions and an expanding set of lineal descendants can introduce new pressures on decision-making and alignment. In response, many families begin to explore governance mechanisms that provide structure without sacrificing flexibility — prompting the question of whether a more professionalized board could play a constructive role.

For many business-owning families, however, the idea of setting up a board of directors can feel daunting. Governance is not one-size-fits-all, and boards in family enterprises can take many shapes — ranging from informal, family-led forums to more formal boards with independent directors — and often evolve alongside the business and family throughout the years.

As a family enterprise grows over generations, ownership and leadership typically shift from a founder to siblings and, over time, to a broader group of trustees, cousins and shareholders. With each transition comes greater complexity: more stakeholders, more perspectives and potential for a greater variety of expectations for how decisions are made. If not managed, the result can be confusion or misunderstanding around the blurred lines between the various roles. Governance becomes less about adding bureaucracy and more about providing clarity of decision-making rights, alignment of expectations and continuity through change.

As a family enterprise grows, managing key stakeholders within the ecosystem becomes more complex.



For families intent on maintaining control across generations, the challenge is deciding when and how to evolve a board that fits the company's life stage, supports growth ambitions and strengthens family cohesion. Choosing the right governance structure today also means recognizing that it may need to evolve tomorrow.

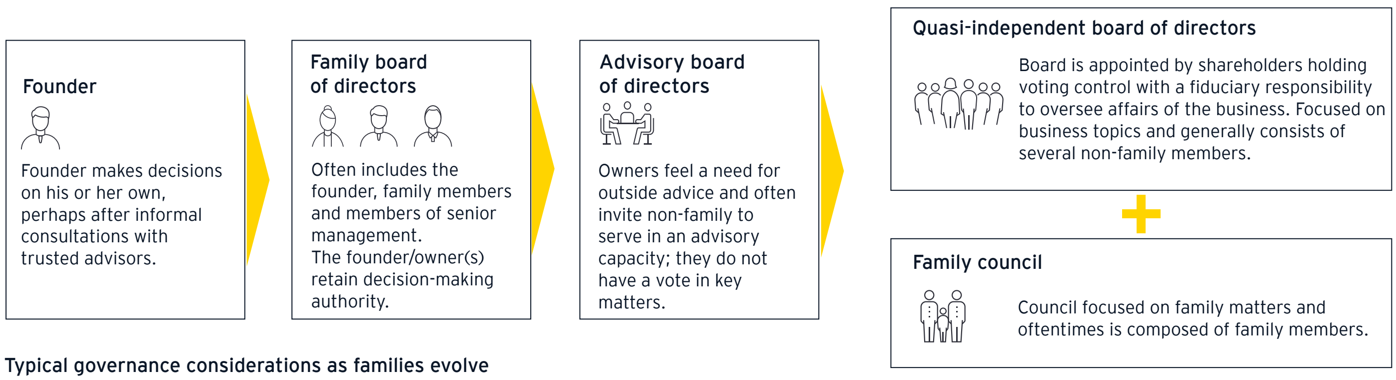
Here are a few of the most common questions to consider:

- How should business and family governance change as the business matures and the family grows?
- What is the purpose of a board of directors?
- Will a board force me to give up control?
- What are the responsibilities of a board member?
- Who should be on the board?
- When is it time to separate business governance from family governance?

Taken together, these questions point to a broader reality: governance in a family enterprise evolves over time as the business grows, generations change and decision-making becomes more complex. Recognizing this progression can help families choose structures that fit their organizations' stage of development.

2. How governance evolves in a family business

Not every business follows the same trajectory, but there is a common pattern. Governance evolves from less formal to more formal, and from a blend of business and family decisions to clear separations between these decisions. The following graphic depicts such an evolution.



Typical governance considerations as families evolve

1. Preparing next generation for ownership and leadership
2. Concentration of decision-making and key-person dependency
3. Depth and readiness of the executive bench

1. Balancing family perspective with external strategic insight
2. Separation of ownership matters and business governance
3. Evolving governance practices as scale and complexity increase

1. Ability to attract and retain experienced external advisors
2. Clarity of role, authority and expectations for advisors
3. Board readiness, including discipline, professionalism and meeting effectiveness

1. If structured properly, helps maximize business value while providing focus on the family legacy
2. Clarifying authority between the board and controlling owners
3. Leveraging the board for strategic insight vs. reporting

Families often begin exploring the formation of a board of directors in response to specific pressures or turning points. Generally, families will consider setting up a board of directors because:

- The founding generation wants to prepare the next generation to be owners.
- The business is now led by a non-family CEO, and the shareholders want to know that there are sufficient oversight and accountability.
- There is an impending succession of leadership to the next generation, who could benefit from broader mentorship and accountability beyond their relatives.
- There are many inactive shareholders who would feel more confident knowing a well-functioning board is looking out for their best interests.
- Leadership wants strategic thoughts and ideas from outside experts who have skills and experience relevant to the future growth plans for the business.
- The business wants to access growth capital, and funding sources are more agreeable if there is a formal board of directors.
- The risk of shareholder litigation is reduced because the board has a formal decision-making process.

Case study: Governance continuity sustains growth

The importance of evolving governance across generations is often most clearly seen when that evolution does not occur, as shown in the following example.

The first generation (G1) believed in a strong, independent board, and the founder was the only family member on the board. After the founder’s death, his son took over the company but didn’t see the value in the board, so he dismantled it. The result was a slow erosion in business growth, profits and vision, and there was broad shareholder dissatisfaction. This could have been prevented with a stronger focus on succession planning and having all G2 family members observe or participate in board meetings to understand how a functioning board works.

3. The importance of parallel governance

As family enterprises grow, the lines between family matters and business decisions can become blurred. A parallel governance model helps clarify those boundaries by establishing distinct processes for both family ownership oversight and corporate governance. Under this model, these two systems operate independently while remaining aligned and promoting long-term generational ownership.

While parallel governance creates clearer separation between family and business systems, governance itself is not static. As family enterprises grow and circumstances change, the question is not whether governance should evolve, but when and how to adjust governance structures to meet new demands.

4. When to transition between governance structures

While we have touched on some of the most common reasons for forming a board, different stakeholders often have more specific motivations for wanting to move between each of the governance structures.

Founder

The founder of a high-growth entrepreneurial company is typically very much in control of decision-making, drawing from years of market intuition and firsthand knowledge of the operations.

Therefore, the founder may not feel the need for a board, because of either concerns of giving up control or skepticism of the ability of outsiders to contribute anything of value. However, as the decades pass and the next generation becomes active employees and/or owners and beneficiaries, the founder may begin to consider what's next in terms of succession and continuity of family ownership. At that point, a board is often an ideal mechanism to provide stability of business oversight through ownership transitions and leadership succession while preparing the next generation for leadership and governance roles.

Family board of directors

Family shareholders may gather periodically to review business financial statements and vote on key items required by the corporate bylaws, often including key executives. Typically led by the family CEO, family boards are made up entirely of owners, beneficiaries, key executive or other "insiders," such as long-term trusted professional advisors. Some of these boards are informal, and the lines between business and family issues can become blurred.
Other family boards choose to adapt professional board standards and intentional efforts to operate more formally.

Advisory board of directors

An advisory board is often a stepping stone toward a formal board of directors. It can be beneficial to family business leaders who may not be ready to share governance decision-making rights but recognize the value of getting perspectives from other seasoned executives. Business growth or industry changes may be leading them into new territories, or perhaps they want experienced advisors to provide guidance on operational or organizational challenges.

Quasi-independent board of directors

The increased scale and complexity of the business warrants more robust governance oversight to elevate strategic growth vision and plans and/or capital allocation decision-making, as well as broader expertise and objectivity. Shareholders may want a board with independent members to hold the executive team accountable in growing and protecting the family business's legacy and equity value.

Family council or owners' board

With the transition to a quasi-independent board of directors, the family should consider establishing a separate group to govern and develop the family business and create a shared understanding of what it means to be good stewards of the family enterprise legacy.

This group is often called the owners board or family council. Family councils are intended to encourage cohesion and stewardship among the family, creating the conditions to promote patient capital.

Family governance provides a forum for the voice of the family to be heard and a communication channel between the shareholder and board of directors. Family councils also address family education and next-generation development while allowing the quasi-independent board to focus on growing the business.

Case study: Early governance choices enable successful succession

The following example highlights how timely governance decisions can position a family enterprise for success well beyond the founder's tenure.

G1 formed a family board early in the life of the business. As the founder aged, she restructured the board to include two outside directors. At the same time, she formed a family council to handle family communication and education and build unity. These changes positioned the family and the business to better plan for succession and thrive long after she passes.

Case study: Separate family and business governance to strengthen unity and performance

The impact of clearly separating family and business governance becomes evident when families formalize both structures intentionally, as illustrated in the following example.

G2 was running the business, and the board was composed of all G2 siblings. Board meetings were informal and often involved rambling conversations about operational items with no clear actions or strategic decisions. To better position itself for long-term success, the family restructured their board of directors, adding two outside members and created a separate family council. This significantly improved family unity, made business board meetings more professional and improved the business's focus and growth.

5. Purpose of a board of directors

In considering where a family and business reside in the continuum of governance evolution, it is important to understand the purpose of a board of directors.

One common question often is raised by leaders of family-controlled companies: "I started this company, and I make the decisions. I don't need any help with that, so why should I form a board of directors?"

It's possible that a board to oversee the business today is not needed (although one might argue that it can help identify and manage a leader's blind spots). But what about after the leader is gone? If a family wants the enterprise to stay in the family, a board of directors can help prepare family members to lead the business and encourage a greater sense of stewardship and accountability among the family shareholders. The board also can smooth the transition during one of the highest risk points in the lifecycle of a business — transitioning from one generation to the next. Establishing and leading such governance during a leader's life significantly increases the likelihood of the business staying in the family for generations to come.

As a strategic body created to serve the interests of the owners, customers and management, a board of directors fulfills multiple purposes, including the following:

- Achieving shareholder objectives (business performance; value creation; stewardship; environmental, social and governance (ESG) goals; etc.)
- Managing executive leadership oversight, compensation and succession
- Providing business strategy oversight (viability, relevancy, growth agenda, etc.)
- Guiding risk-based capital allocation decision-making
- Driving risk management oversight (market, capital, fiscal, etc.)
- Protecting the culture, values and integrity

Case study: Shadow boards build future leaders

Some families intentionally use the board as a developmental tool for future leaders, an approach illustrated in this example.

As the family grew and matured, the older generation wanted to take additional steps to prepare the younger generation for business leadership and future board roles. They created shadow board positions, allowing select younger family members to observe board meetings. They were there to listen and learn, and their questions were addressed in mentoring sessions outside the board meetings.

10 benefits of an active board

When thoughtfully structured and actively engaged, a board can generate lasting value by:

1. Improving long-term strategy and enterprise value creation
2. Introducing independent judgment and constructive challenge on major decisions
3. Supporting the company through major inflection points (growth pivots, mergers and acquisitions (M&A), crises, leadership and generational transitions)
4. Strengthening accountability through clear performance expectations
5. Enhancing risk oversight and resilience across key enterprise risks
6. Improving capital allocation discipline across growth investments, leverage and liquidity demands
7. Serving as a trusted sounding board for the CEO
8. Overseeing CEO and executive succession to enable leadership continuity
9. Improving decision quality through disciplined governance processes
10. Bringing external market, customer and competitive perspective into decision-making

Key responsibilities of the board

Governance structures and board composition matter, but board effectiveness ultimately depends on clarity around roles and responsibilities. The following are some of the most common responsibilities of a well-functioning board:

- Approve the annual budgets
- Approve the strategic plan and monitor ongoing market trends
- Oversee execution of the strategy
- Assess CEO performance
- Plan for CEO succession
- Approve executive compensation
- Approve shareholder dividends (based on dividend policy)
- Approve acquisitions or divestitures
- Approve capital structure or debt
- Identify, monitor and mitigate risks

Clarifying authority and responsibilities

Blurred lines of responsibility are not uncommon in multigenerational family businesses, especially when family members wear many hats. A matrix that outlines the distinction of responsibility between business governance, management and ownership tasks helps define the lines between various groups.

6. Independent board members

Introducing non-family board members often elevates the meetings, making them more productive as outsiders participate in the process.

Independent board members can serve as mentors or a sounding board to the CEO, or act as a buffer to family dynamics. These members often bring a new perspective to the board because of their varied backgrounds, often identifying opportunities or challenges that may not have been previously considered.

Lastly, non-family members on the board may enhance the image of the business in the view of potential customers, suppliers or banks or funding sources, making it easier to obtain financing or win contracts.

Who should be on the board?

When selecting board members, family leaders should consider the current business situation while anticipating the challenges and opportunities of the next three to five years. Ideal board candidates will complement the current executive team by filling in experience gaps while bringing advanced industry, market or innovation experience relevant to the future outlook.

Although it is easiest to identify potential candidates from a current group of friends or peers, it is best to approach board selection objectively by defining the qualifications and experience required, and then cast a wide net to find the best candidates available in the market. There are many resources that specialize in supporting board searches, such as specialty search firms and governance organizations.

While representing shareholder interests is key, directors also need to bring credibility, demonstrate cultural chemistry and act as team players. Here are some of the key criteria for selecting independent board members.

Industry experience

When looking for board members, families often want someone with experience in similar industries in which they operate. Often, this is a CEO (current or retired) of an adjacent industry or competitor. Some board members are selected based on their access to potential markets or customer segments of interest.

Strategic priority topics

There are areas where functional expertise can be more valuable than direct industry experience, particularly when it brings perspective to specific challenges or opportunities the business may be facing. For example, if acquisitions are on the horizon, having someone with extensive M&A experience may be beneficial. Other priority focus areas where deep expertise may be valuable could include strategy, talent, culture, AI and cybersecurity risk. These are all topics that can significantly impact growth, risk and profitability.

Board chemistry

The board needs to work as a team. Some level of disagreement is healthy because it helps the board evaluate its options and select the best solutions. However, excessive conflict — or the wrong type of conflict — creates an unhealthy board dynamic that can hinder the business's goals. Prospective candidates should be evaluated on whether they would fit well with existing members.

Values

Above all, candidates should respect the family owners and maintain a commitment to understanding and sharing the key values of the business and the family.

Personal character traits

One of the hallmark characteristics of a good board member is the ability to challenge management without putting them on the defensive. Determine in advance the ideal qualities and traits that would add value to the experience of a board meeting. Some examples are curiosity, humility and clear communication.

Time

Serving on a board requires time commitments for participating in meetings, reviewing financials and other materials, and attending other events. The person needs to be willing to dedicate the required amount of time.

Family members on the board

Ideally, family qualifications are specified in family or business governance documents, such as the business bylaws, family charter or trust documents that define the family's agreed-upon selection criteria (e.g., education level, management experience, attendance of specialized board training programs, prior service on another board, or prior experience as a family council member or board observer). Key criteria may also involve blood relation (can spouses serve, and if so, must they have been married for a minimum number of years?) and age.

If a family member works for the company, is serving on the board still allowed? Some families specify that this is permissible only if the person serves in an executive role. They don't want a family member to participate in strategic company discussions that the person's manager is not privy to.

Sample board criteria

The following are some examples of criteria that a family may determine as important in screening and selecting board candidates. Ideally, the list is narrowed down to a few categories with a prioritized list to rank against candidates during an interview process.

- Applicable industry experience
- Applicable market segment or customer experience
- Experience in innovation
- Proven track record of growth
- Talent management and executive succession planning experience
- Board and governance experience
- Effective capital allocation and returns
- Understanding of AI applications
- Mentorship skills
- Restraint when listening
- Bias toward action

7. Finding board candidates

To find the right people to serve on the board, families may consider engaging with advisors, executive networks or a search firm. It is important that the candidates have enough experience to bring value to the board, as well as enough confidence to ask tough questions and offer critiques — even if they are contrary to what a family member has said. Here are some tips for finding the right candidates for a board:

- **Think long term.** Find directors who can help the business get to where it aspires to be, rather than where it is today.
- **Formalize the board job description.** This should include what type of commitment they need to make, what their role will be and how they should conduct themselves.
- **Communicate.** Board members need to understand what is happening in the business and the family, including upcoming changes, current and future challenges, as well as what is expected of them.
- **Drive diversity.** Effective boards are composed of members who each bring something different to the table, whether that is experience, industry contacts, specialty areas or unique thought processes.
- **Prioritize team unity.** While diverse backgrounds are important, the board should also be able to work together effectively.

Taken together, these considerations reinforce that building an effective board is less about a single decision and more about sustained, intentional governance design.

Conclusion

Like the families they serve, governance structures are not static. Governance must evolve to provide clarity, alignment and continuity as family enterprises grow and transition across generations.

Families that approach governance proactively, rather than in response to crisis or transition, are better positioned to prepare future leaders, manage complexity and preserve long-term family ownership. In doing so, they build a stronger business and a legacy that can endure for generations.

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