Corporate Governance for Family-Owned Businesses

By Alan S. Gutterman

Family businesses remain an important part of the economy and continue to generate a substantial amount of revenue and provide employment for millions of persons around the U.S. In general, a family-owned business is no different than any other; however, they present special challenges given the need to manage family relationships at the same time as business decisions are being made. In addition, family-owned businesses face unique problems with respect to succession planning and their ability to provide attractive opportunities for managers and employees who are not family members. However, there are ways in which corporate governance principles can be woven into the management of a family-owned business, and studies appear to indicate that family-owned businesses that are successful in this attempt make better strategic decisions, grow faster and survive longer. Some of the key success factors in integrating corporate governance into a family-owned business are as follows:

- Outside directors should be added to the board of directors and the board should be given greater authority with respect to evaluating and setting company policies and strategies. Outside directors can bring a greater degree of objectivity to the business and should be more immune from the day-to-day conflict that sometime arises among family members.
- Family members should have a clear understanding of the importance of separating family relationships from the governance and management of the company. This may be difficult; however, recruitment of key managers and other employees from outside of the family can accelerate the process and make it clear to family members that they have taken on responsibilities that extend outside of the familial group.
- The business, working through the outside directors, should establish a clear and logical organizational structure with a clear chain of command and a decision-making process that is transparent and free of opportunities for family conflicts. If family members are to be placed in management positions, they should have the authority to make decisions without reference to their "place" within the family. Moreover, decisions that may be made by outside managers and employees must be respected.
- In order to reduce strife within the family and build trust among managers and employees who are not family members, the company should establish clear policies with respect to recruitment, promotion and compensation and then follow and respect those policies.

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