Guidelines for Family Business Boards of Directors
Suzanne Lane, Joseph Astrachan, Andrew Keyt, Kristi McMillan

Governance reform of publicly held corporations is an important topic these days, but a critical subtext has been missing from this often searing debate. Namely, what is the significance of these governance reforms, de jure and de facto, for the publicly held corporation's distant, smaller, but economically robust brethren—namely, the closely held, family-owned business? Should these family-owned entities be held to the same governance guidelines and standards that apply to those firms making up the ranks of the Fortune 500, for example? To put it another way, does one size fit all? We caution that many of the most popularized corporate governance practices may be detrimental to family businesses. Many of these recommendations may harm family unity or might be too complex for private firms, and many are applicable only to very large, public companies with dispersed ownership. Popular corporate governance practices are focused toward a market model of corporate governance, found prevalently in the United States and United Kingdom, which involves companies with a widely dispersed shareholder base and a majority of independent, outside board members. In contrast, the typical family-owned business exhibits characteristics of the control model of corporate governance, found prevalently in continental Europe, Latin America, and Asia, which involves companies with a concentrated shareholder base and family member “insiders” active in management and the board. As a result of these differences, many of the new laws and recommendations may actually be harmful to family-owned businesses.

Introduction

Governance reform of publicly held corporations is the white-knuckled topic du jour among denizens of boardrooms, federal oversight bodies, in the halls of academia, and in newsrooms. Indeed, the recent nearly daily onslaught of unseemly, eye-popping reports of unethical and criminal conduct, fomented by an insatiable greed and lust for power, by certain CEOs, CFOs, board members, and other corporate chieftains—from the Enrons to the Global Crossings of America's blue chip business landscape—has triggered endless calls for change. Many corporate leaders, acting of their own volition, have already reconfigured the moral compasses by which future executive conduct is to be reckoned (Donaldson, 2003). The U.S. Congress stepped in with Sarbanes-Oxley, a sweeping federal statute providing business leaders with a road map by which they are able to align corporate goals with more effective governance systems. This is good, fitting, and proper. But a critical subtext has been missing from this often searing debate. Namely, what is the significance of these governance reforms, de jure and de facto, for the publicly held corporation's distant, smaller, but economically robust brethren—namely, the closely held, family-owned business? Should these family-owned entities be held to the same governance guidelines and standards that apply to those firms making up the ranks of the Fortune
500, for example? Do the same rules that apply to corporate behemoths with a 200-million-share stock float also apply to the family-held entity run by husbands, wives, sons, and nephews with a stock float of a few thousand shares? To put it another way, does one size fit all?

This is not a trivial question. Recent data, disclosed by Astrachan and Shanker (2003), conclude that family businesses in the United States represent the lion’s share of all annual U.S. tax return filings: a stunning 89% of the total. These entities generate no less than 64% of the gross domestic product. By another compelling measure, the family-owned business employs a whopping 62% of the nation’s workforce. Because of the contribution family-owned companies provide to the U.S. economy, it is imperative that they undertake a concerted effort to maintain and enhance governance standards of their own to assure their continued success.

We sound here a dramatic note of caution lest the cure be worse than the disease. Many of the most popularized corporate governance practices may be detrimental to family businesses. Many of these recommendations may harm family unity or might be too complex for private firms, and many are applicable only to very large, public companies with dispersed ownership. Popular corporate governance practices are focused toward a market model of corporate governance, found prevalently in the United States and United Kingdom, which involves companies with a widely dispersed shareholder base and a majority of independent, outside board members. In contrast, the typical family-owned business exhibits characteristics of the control model of corporate governance, found prevalently in continental Europe, Latin America, and Asia, which involves companies with a concentrated shareholder base and family member “insiders” active in management and the board. As a result of these differences, many of the new laws and recommendations may actually be harmful to family-owned businesses.

Popular recommendations may also be problematic in that many promote form over substance, as these so called “best practices” often become generalized laundry lists that do not lead to identifiable positive results (Atkinson & Salterio, 2002; Robinson, 2002). And although some of the issues most prevalently discussed in family and nonfamily business literature, such as the significance of independent boards, are important, fixating on such issues tends to overshadow the issue that is at the heart of corporate governance problems around the globe: accountability. Accountability, in this respect, refers to the need for decision makers to justify and accept responsibility for decisions taken and their implementation. Additionally, for family firms, accountability entails avoiding conflicts between family members’ roles in the family and roles in business, while preserving an atmosphere of trust and unity. Corporate governance guidelines for family firms, therefore, must focus on the need for the primary governing body—the board—to have the competencies to hold others accountable, and be held accountable, for their actions.

To fill a dangerous void, this article describes guidelines and their rationale that, if implemented, will lead to greater board accountability and, in turn, positive identifiable results in board and family-company performance. To understand the guidelines described here, we first point to a significant source of bias in popular proscriptions for “best practices” for board behavior. In the second section of this article, we describe (1) the board competencies necessary to ensure shareholder accountability; (2) ways shareholders should exert their rights in order to hold the board accountable; and (3) actions the board must take to hold management accountable for its actions.

The “Market Model Bias” in Corporate Governance Reform

Corporate governance is embedded in the cultural, legal, and financial frameworks of various countries. These frameworks have given rise to two models of corporate governance: market and control.

Market Model

The market model of corporate governance is common in countries where capital markets are
highly liquid and shareholders are widely dispersed, such as in the United States, the United Kingdom, and Ireland. This model involves a large dispersed class of investors with no prior connections to the companies listed on the public exchanges (Coombes & Watson, 2001b). The focus of corporate governance reform in countries employing this model is on board structures and practices that ensure that the board is a distinct entity, capable of objectivity and able to act separately from management (Gregory & Simmelkjaer, 2002). It also insists on independent boards and demands a high level of financial and business disclosure. Examples of companies that follow the market model include most public companies in the United States, such as General Electric and AT&T. One difficulty of this model is that it seeks the near impossible mission of eliminating all current and future conflicts of interest.

**Control Model**

The control model of corporate governance, commonly found in Asia, Latin America, and much of continental Europe, is prevalent where control rights are not fully separated from ownership and ownership tends to be concentrated. The model sees conflicts of interest as endemic and seeks to institutionalize them or provide sanctions for them rather than eliminate them. An example of this is when a large shareholder, such as a family or institution, maintains a control stake. The purpose of investment for these types of shareholders is not to produce short-term gains, as with most market model corporations (Shleifer & Vishny, 1997); rather, particularly for family businesses, the shareholders tend to maintain a long-term perspective on their investment that benefits current, as well as future, generations. An example of a control model company is Fiat SA, Italy’s third most valuable company (LaPorta, Lopez-de-Silanes, & Shleifer, 1999), where ultimate control (over 25%) belongs to the Agnelli family and members of that family are also board members and part of management teams. U.S. examples of this are the Ford family, which maintains approximately 40% voting power, and the Sulzberger family, owners of the *New York Times*, where the family owns 18% of the company while maintaining voting control over board members through a special class of stock not available to outsiders. For control model companies, it is natural for the owners to expect to have a board presence, particularly because they are not anonymous

<table>
<thead>
<tr>
<th>Table 1 Characteristics of the Market and Control Models</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market</strong></td>
</tr>
<tr>
<td><strong>Setting</strong></td>
</tr>
<tr>
<td>Prevalent in UK, US</td>
</tr>
<tr>
<td>More reliance on public markets</td>
</tr>
<tr>
<td>High ownership liquidity</td>
</tr>
<tr>
<td>Shareholders are anonymous investors, not managers</td>
</tr>
<tr>
<td>Widely dispersed shareholders</td>
</tr>
<tr>
<td>Shareholders only have financial connections to the company</td>
</tr>
</tbody>
</table>

**Elements of Governance**

<table>
<thead>
<tr>
<th><strong>Market</strong></th>
<th><strong>Control</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>High level of disclosure</td>
<td>Secretive</td>
</tr>
<tr>
<td>Focus on short-term strategy</td>
<td>Focus on long-term strategy</td>
</tr>
<tr>
<td>Independent board members</td>
<td>Shareholders with control rights in excess of cash flow rights</td>
</tr>
<tr>
<td>Shareholders view company as one of many assets held</td>
<td>Shareholders have connections to the company other than financial (i.e., managers, board members, family)</td>
</tr>
<tr>
<td>Ownership and management are separate and at arm’s length</td>
<td>Insider board members</td>
</tr>
<tr>
<td></td>
<td>Ownership and management overlap significantly</td>
</tr>
</tbody>
</table>
(Coombes & Watson, 2001b). Typically, shareholders of control model companies are managers as well. This often results in shareholders having control rights significantly in excess of their cash-flow rights. This concentration of ownership in the control model is an easily identifiable concern that has led to corporate governance reform focusing on the fair treatment of minority shareholders (Gregory & Simmelkjaer, 2002).

**The Market Model Bias**

Perhaps because of media attention on dramatic cases of corporate abuse in the United States and the United Kingdom, the ease with which information on publicly listed companies is attained, and the tremendous amount of wealth in the public equity markets, corporate governance recommendations throughout the world have formed a “market model bias” toward best practices that lead to increased transparency and financial disclosure through outside, independent boards that attempt to be objective. Although desirable in form, this inclination toward market model best practices in all situations is flawed in substance due to its excessive reliance on concepts in agency theory.

Rooted in economics, finance, and Western attitudes toward property, agency theory relies on the problems that occur in public companies when there is a separation of ownership from control, as pointed out by Berle and Means (1932). Agency theory asserts that management and ownership pursue different interests, where top managers may be more interested in their own personal welfare than that of shareholders (Jensen & Meckling, 1976). Agency theory takes a Hobbesian view, where managers are assumed to be primarily self-interested and need to be watched more closely to make sure they do not break rules or contractual obligations. Because of its focus on management opportunism, agency theory takes a “monitoring approach,” in which the board’s role of monitoring management and the value of extrinsic motivation (e.g., compensation) become of utmost importance (Hillman & Dalziel, 2003). As a result of a need for discipline due to underlying feelings of distrust for management, market model proponents have utilized concepts in agency theory to advocate outside independent boards, CEO/chairman duality, and outcome-based compensation, such as stock options. Even though monitoring management and extrinsic motivation are significant, the focus of corporate governance worldwide must be broadened beyond these two concepts, in particular due to the imbalance in the way risks, penalties, and rewards are shared (Daily, Dalton, & Canella, 2003; Plender, 2003). As a result, market model practices are potentially lacking the following key components.

First, market model practices do not address the board’s *ability to monitor* management, which invokes the “collaborative approach” of stewardship theory. Stewardship theory proponents, tapping into insights from sociology and psychology, focus on the need to enhance collaboration and decision making between the board and management by empowering managers (Davis, Schoorman, & Donaldson, 1997). Somewhat contrary to agency theory’s implications, stewardship theory stresses the advisory capacity of the board and operates with the assumption that managers are able to personally identify with the firm, internalize its mission, and obtain satisfaction from intrinsic motivation (Sundaramurthy & Lewis, 2003). Unlike the myopic view of agency theory in the market model, both concepts of agency and stewardship theory can be combined to encourage trust in capabilities, distrust of human limitations, and conflict aimed at tasks and not individuals in order to manage appropriate amounts of monitoring and collaboration (Sundaramurthy & Lewis, 2003). It is the balance between monitoring and collaboration among governance actors that allows for an effective governance system (Demb & Neubauer, 1992).

Second, market model practices overlook the diverse identities of various types of investors, such as families, who may have different interests, time horizons, and strategies from typical public firm investors (Aguilera & Jackson, 2003). While focusing on the dispersed and inactive shareholder base of public companies, market model proponents fail to address the interests of compa-
nies with concentrated ownership. Market model proponents see family business governance as lacking objectivity because families often have strong influence over management and the board. However, family-owned businesses, regardless of the legal, financial, and cultural frameworks in which they reside, have been able to successfully operate within the control model of corporate governance. For example, even in the United States and the United Kingdom, where the market model is most prevalent, family businesses have been successful with owners who act as managers and board members. Much of the success of family businesses and control model companies in general is because the investors value nonfinancial returns and long-term business health. As long as shareholders of family firms receive communication, education, and a sense of shared interests and values exemplified by the board, these shareholders tend not to demand high current returns on their equity (de Visscher, Aronoff, & Ward, 1995). Family business investors believe in the business's long-term potential for future generations, and it is the long-term investment philosophy of family businesses that creates one of their greatest competitive advantages (Habbershon & Williams, 1999).

For a typical family-owned business (see Figure 1), the control model may be a workable form of corporate governance, but in order to be successful, the focus of corporate governance must be on accountability. After all, the essence of good governance involves being able to hold the corporation and its leaders accountable for delivering on their commitments, while still preserving an atmosphere of trust and unity. Therefore, the next part of this article discusses the board competencies to ensure accountability.

**Establishing Accountability in Family Business Corporate Governance Around the World**

Accountability of the board for the activities of the corporation is a central theme of corporate governance codes worldwide. How that accountability is expressed and to whom it is directed varies somewhat, depending on how the primary objective of the corporation is viewed (Gregory & Simmelkjær, 2002). Corporate governance principles typically specify that the board should either promote the interests of the company, the interests of the shareholders, or both (Gregory & Simmelkjær, 2002). Although in most control model countries the emphasis is on promoting company interests, the focus of market model Anglo-American corporations is on promoting the shareholders’ immediate interest (Mobius, 2001).

Family firms generally have the benefits of a strong identity and sense of unity that enable them to carry on a long-term view of the business and its sustainability (Kets de Vries, 1993; Taguri & Davis, 1996). On the other hand, sometimes unification of the family through means such as nepotism, resistance to change, and curtailing growth can damage the economic interests of shareholders and cause the failure of the company (Kets de Vries, 1993). Accountability for the family firm involves making decisions that do not sacrifice long-term health for short-term personal or corporate gain.

The following guidelines delineate ways the typical family-owned business operating under the control model should promote accountability. It is with a focus on the accountability of the board, being the primary decision-making body,

The family can control effective strategic direction of the business.
The business contributes significantly to the family’s income, wealth, or identity.

**Figure 1** Primary Attributes of the Typical Family-Owned Firm.
that the separation of management from ownership can occur without losing the identity of the family business.

Family-Owned Boards Must Have the Competencies to Be Held Accountable

**Qualifications**

- **Market Model Bias:** Strategic business competencies and diversity of skills and background are sufficient board qualifications.

- **Guidelines for Control Model Family Firms:** Strategic business competencies and diversity of skills and background are important, but not sufficient. The most critical qualification is having the ability to hold the company accountable and the discipline to not interfere in company operations.

Much of the corporate governance literature for large public firms and family businesses alike focuses on strategic business competencies and diversity of skills and backgrounds when discussing board qualifications. Many pundits in the corporate governance field believe that an ideal board profile includes active or retired CEOs and other professionals with expertise in such areas as finance, marketing, operations, technology, law, and public policy (Moore, 2002). In addition, a common theme apparent in corporate governance codes worldwide is that the quality, experience, and independence of the board affect its ability to perform its duties (Gregory & Simmelkjaer, 2002). Although these qualifications are important and desirable, they are not sufficient for family firms. Particularly for the typical family business, family dynamics often impinge on what should be a culture of communication and open dissent (Sonnenfeld, 2002). Often, conflicts arise because the roles board members play in the family (parent) can emotionally clash with the objective role that is to be carried out in the business (the employer). Therefore, it is the way board members interact and communicate with each other and management that is a primary determinant of board success or failure (Sonnenfeld, 2002).

The board of the typical family firm must have the competencies to ensure strategic guidance of the company, effectively monitor management, and be accountable to the company and its shareholders. This concept of a competency-based board means that as long as board members conduct a forum of open communication, embody a culture of open dissent, have a basic understanding of business (i.e., have an understanding of risks and of the measures that lead to financial and nonfinancial indicators of success), and collaborate with the management team, board members can be held accountable for their actions and those of management.

**Size**

- **Market Model Bias:** Smaller boards are more manageable.

- **Guidelines for Control Model Family Firms:** Mid-sized boards promote greater accountability.

The corporate governance literature is split regarding the appropriate size of a board. Many corporate governance specialists assert that since individual responsibility tends to dissolve in larger groups, smaller boards are more desirable for family businesses (Neubauer & Lank, 1998; Ward, 1991). Many of these authorities recommend that the most effective boards range between five and nine directors (Nash, 1995; Newell & Wilson, 2002). Others insist that boards that are “too large” can encounter coordination problems and difficulty developing effective communication and teamwork (Felton, Hudnut, & Witt, 1995).

However, other experts believe that a range of 9 to 15 directors is beneficial (Moore, 2002). For example, in many of the European Union member states, the average size of the board is closer to 12 or 13 (Gregory & Simmelkjaer, 2002). In addition, many experts believe that smaller boards may not have enough breadth and can hamper the separation of director and committee assignments (Moore, 2002). Indeed, a larger board can lead to greater accountability as long as each individual board member has the necessary competencies to render good judgment, have their judgment be evaluated by his or her peers, and, in turn, be held accountable for his or her actions. In addition, more board members may also imply more eyes
capable of noticing problems and ensuring accountability. Therefore, the most effective board for the typical family firm consists of 7 to 12 people, depending on the gaps in competency levels that are revealed at the board’s collective or individual level. However, although larger boards lead to greater feedback and, therefore, greater accountability, larger boards may inhibit full participation; therefore, boards should not be too large as to create factions that limit participation and communication. For example, a study conducted by Yermack (1996) found a negative relation between board size and firm value as boards become too large (i.e., 12 directors or more).

**Independent outsiders**

- **Market Model Bias:** Boards should minimize the use of insiders and include a significant proportion of independent outsiders.
- **Guidelines for Control Model Family Firms:** Independent status is largely irrelevant to achieving accountability. A board of owners may be beneficial.

The ability to exercise objective judgment of management’s performance is critical to the board’s ability to monitor management (Gregory & Simmelkjaer, 2002). A general consensus among market model proponents has developed that this is an issue of board composition, and that boards should include a significant proportion of outsiders (Gregory & Simmelkjaer, 2002). The corporate governance codes in market model countries, such as the United States, devote considerable attention to the appropriate mix of inside and outside members to ensure that the board is distinct enough from the management team to play a supervisory role and to bring a diversity of opinions to bear on issues facing the company (Gregory & Simmelkjaer, 2002). Additionally, most market model corporate governance advocates agree that in order to strengthen their autonomy, boards should be comprised of a substantial majority of “independent” directors, that is, directors who are free from commercial or personal ties that could impair their ability to probe and challenge management (Felton & Watson, 2002). Many market model proponents suggest that independent board members should play an important role in areas where the interests of management, the company, and shareholders diverge, such as executive remuneration, succession planning, changes of corporate control, takeover defenses, large acquisitions, and the audit function (OECD, 1999). Although some commentators contend that boards should be comprised of at least half outsiders (Newell & Wilson, 2002), others state an ideal board should consist of only independent outside directors in addition to the CEO and chairman (Ward, 1991).

Family businesses, however, have been criticized for being slow to adopt the concept of outsiders. The American Family Business Survey (2002) indicates that family members still constitute the majority of board members. Entrepreneurs and family businesses traditionally have resisted bringing in outsiders because they do not want someone directing their actions or revealing family secrets (American Family Business Survey, 2002; Nash, 1995). We suspect much of the reluctance to adopt a board is due to a desire to avoid accountability. But despite the fact that businesses often need fresh creative perspective, objectivity, and openness—all traits generally considered to be advantages brought about by independent outsiders (Aronoff & Ward, 2002b)—we believe family businesses can achieve these results by adopting a competency-based view and composing their boards accordingly.

Since outsiders can often be easily swayed by compensation, perks, recognition, and potential as well as actual business dealings (with the company as well as with other board members), we suspect that a board occupied by outsiders does not guarantee objectivity. Even though boards consisting primarily of insiders (current or former managers/employees of the firm) or dependent outsiders (directors who have business relationships with the firm and/or family or social ties with the CEO) may be considered to be less effective at monitoring others (Lynall, Golden, & Hillman, 2003), insiders, in particular, are seen to provide rich firm-specific knowledge and strong commitment to the firm (Sundaramurthy & Lewis, 2003). We believe a
board member who has the ability to render an opinion unfettered by other board members is more important than whether or not the individual works inside the business. Additionally, even though several academic studies have provided evidence that suggests that independent outsiders add real value to a company (Felton et al., 1995; Rosenstein & Wyatt, 1990), outside independent board configurations have not been associated with firm performance (Dalton, Daily, Ellstrand, & Johnson, 1998). Independence is a mindset of disinterest that cannot be predicted by the lack of prior relationships of the parties involved. Therefore, in order to promote objectivity and accountability, board members should consist of individuals who base their decision making on the merits of the decision rather than extraneous influences or considerations, such as personal relationships or financial and personal gain.

Frequency of board meetings

- Market Model Bias: The focus of board meetings is on how many meetings are sufficient.
- Guidelines for Control Model Family Firms: The focus of board meetings is communication, conflict resolution, and accountability. To achieve this, we recommend no more than six, nor less than three meetings per year.

Current corporate governance recommendations suggest various frequencies for board meetings. Many governance professionals in the United States claim that six meetings per year in alternate months is a good balance for most companies, supplemented by occasional special meetings (Moore, 2002). The European average is about eight meetings per year (Gregory & Simmelkjaer, 2002). It has been proposed in the family business literature that boards meet formally at least four times per year, supplemented by additional monthly executive committee meetings attended by lead directors, the chairman, and the CEO along with senior management (Ward, 1991).

However, many governance experts have failed to account for the reason behind having board meetings in making recommendations about meeting frequency. Board meetings exist to provide a forum to conduct regular and purposeful communication, ensure accountability, and resolve conflict. For this to occur, the board of a typical family business would need to meet anywhere between three to six times per year in order to keep the lines of communication open between the board and management, and between the board and the shareholders. At board meetings, board members require management to give them company information to analyze, and the shareholders, in turn, require the board to give them information and reasons behind, or how to improve, company performance. However, when extraordinary events are occurring within the business, and in turn more accountability is created on behalf of the board, then more meeting times are needed. Although the board must be aware that its role in governance is an active one, its role should not carry over into the role of management. Therefore, having more than six meetings without a crisis probably means the board is operating in a managerial fashion, and not promoting accountability, while holding fewer than three meetings per year is probably promoting form over substance and not providing accountability.

Content and process of board meetings

- Market Model Bias: The content of board meetings should include all key matters brought forth by senior executives to the board, while the process by which boards make decisions is by consensus.
- Guidelines for Control Model Family Firms: The content of board meetings should include all key matters brought forth by senior executives to the board, while the process by which boards make decisions is by simple majority vote to create greater accountability. Additionally, all pertinent board information should be encapsulated in a board manual.

Most of the contemporary corporate governance recommendations properly suggest that the content of board meetings should include all key matters brought forth by the CEO and other senior executives to the board, such as the results of
operations, the status and outlook of financial and strategic plans, proposed or rejected business deals, the current financial forecast and early signals on changing trends, the economic and competitive environment, public policy issues, shareholder matters, and any proposals for board approval (Moore, 2002). However, when it comes to the process by which boards make decisions, many current recommendations falter when they suggest that board members can make decisions by consensus rather than employing a formal vote. However, decision making by consensus allows the most powerful board member or coalition on the board to sway other members into complacency by stature rather than the merits of a decision. In such situations, consensus tends to yield a decision that most can live with rather than one that the majority supports. Therefore, having a formal voting process by simple majority (except in cases where a larger majority is called for) allows for a process where issues are discussed at length and members’ opinions are polled, thereby creating greater accountability.

Additionally, in order to capture all relevant information on key matters brought forth by management, as well as decisions made by the board, every board should have a board manual. The board manual can include pertinent corporate information (values, vision, plan, director and officer bios, organization bylaws, job descriptions, committee assignments, contact numbers, important dates, etc.), as well as the goals of the board and system of evaluation. Not only will the board manual aid board members in organizing the content and process of its decision making, it will help in the evaluation process, as well.

Board member selection
• Market Model Bias: A nominating committee should be formed to help in the board selection process.
• Guidelines for Control Model Family Firms: A nominating committee should be held accountable for eliciting all board members’ input in the board selection process.

Most corporate governance experts properly advocate the creation of a nominating committee to help aid in the selection of board members. Duties of the nominating committee include setting board and committee performance goals, nominating directors and committee members with the qualifications and time to meet these goals, and monitoring board composition and operations (NACD, 2002).

However, as a clarification of these duties, we believe the nominating committee’s role in family businesses is to build unity among the board, as its job is also to elicit opinions from all board members and share ideas on board needs and criteria, as well as build agreement on proposed nominees based on all the board members’ input. We believe the nominating committee should be formed with board and nonboard members (e.g., significant shareholders not represented on the board), and its role, in turn, is to be accountable for running the board selection process.

Board commitment
• Market Model Bias: Nominal participation is adequate for most boards.
• Guidelines for Control Model Family Firms: Active participation is necessary for family firms. Board members should devote sufficient time to their responsibilities and actively contribute to the company’s performance. With regard to family businesses, however, the Mass Mutual Financial Group/Raymond Institute American Family Business Survey (2002) indicates that a substantial percentage of family business respondents reported weak board performance. The results indicate that 15% of respondents regarded their board’s contribution as “fair,” 2% rated the board’s contribution as “poor,” and 25% of respondents cited “no contribution” by the board. An explanation as to why boards do not make a more positive contribution is likely due in large part to inappropriate board participation.

Boards can be involved in the performance of a business in varying degrees. Table 2 delineates Wheelen and Hunger’s (1994) six degrees of board involvement, ranging from low (phantom) to high (catalyst).

A study conducted by Judge and Zeithaml (1992) indicates that 70% of boards participate at
levels from phantom to nominal in the United States. Despite many corporate governance experts observing that a board's role is reactive, thereby indicating that this level of participation is adequate, the boards of typical family businesses should actively participate in their respective businesses. Accountability requires more than nominal participation, but a catalyst role may undermine the authority of management and appropriate checks and balances.

A related issue is that service on too many boards can interfere with the performance of board members (OECD, 1999). Because boards have such difficulty evaluating the performance of companies and managers, many directors believe they should spend more time on a single directorship (Felton & Watson, 2002). Some companies have limited the number of board positions that can be held to make directors more committed to their work (Felton & Watson, 2002). This may help ensure that members of the board enjoy legitimacy and confidence, and in turn create greater accountability (OECD, 1999). We believe a prudent rule of thumb is that active participation on three boards may be a limit of effective board service.

**Board term and turnover**

- **Market Model Bias**: Directors have predetermined terms or no term limits.
- **Guidelines for Control Model Family Firms**: Directors are reviewed regularly and kept if performing well; directors are thanked and let go if no longer capable of ensuring accountability. Studies conducted by Shen and Cannella (2002) have proven that a board member's effectiveness (and therefore accountability) decreases after 14 years, thereby indicating that in order to keep a director for a long period of time, he or she must be making significant contributions to the business. This is why many market model proponents have advocated predetermined terms for directors. Some experts have recommended that the term for directors, although reviewed annually, should be for two to three years, with a mandatory retirement age set between 62 and 65 years old (Ward, 1991).

However, the reason why boards of most companies, particularly publicly held companies, have term limits is largely a political one and at best loosely related to the accountability of their members. Therefore, we believe that a board member's term should be for a limited, yet not necessarily predetermined, time period. Although many boards of the typical family firm are filled with individuals who are close friends of family members, or are family members themselves, this close relationship does not preclude the fact that board members should serve for a limited period of time. Board members who serve indefinitely become entrenched in the business and generally lose their ability to be objective and promote accountability. As a result, a length of time that promotes accountability would be a minimum term limit of approximately three years (in order to get the director acclimated to the business) and an extensive review process after that three-year

<table>
<thead>
<tr>
<th>Table 2 Board of Directors Degree of Involvement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Phantom</strong></td>
</tr>
<tr>
<td>Never knows what to do, if anything; no degree of involvement</td>
</tr>
<tr>
<td><strong>Rubber stamp</strong></td>
</tr>
<tr>
<td>Permits officers to make all decisions; it votes as the officers recommend on action issues</td>
</tr>
<tr>
<td><strong>Minimal review</strong></td>
</tr>
<tr>
<td>Formally reviews selected issues that officers bring to its attention</td>
</tr>
<tr>
<td><strong>Nominal participation</strong></td>
</tr>
<tr>
<td>Involved to a limited degree in the performance or review of selected key decisions, indicators, or programs of management</td>
</tr>
<tr>
<td><strong>Active participation</strong></td>
</tr>
<tr>
<td>Approves, questions, and makes final decisions on mission, strategy, policies, and objectives; has active board committees; performs fiscal and management audits</td>
</tr>
<tr>
<td><strong>Catalyst</strong></td>
</tr>
<tr>
<td>Takes the leading role in establishing and modifying the mission, objectives, strategy, and policies; has a very active strategy committee</td>
</tr>
</tbody>
</table>
period. There must also be a process for evaluating the contribution of the director, as well as criteria for “keep/let go” decision making.

**Board evaluation process**

- **Market Model Bias:** Aggregate board evaluations are sufficient; otherwise, collegiality suffers.
- **Guidelines for Control Model Family Firms:** Aggregate, committee level, and individual board performance evaluations are necessary to promote accountability.

Board evaluations can be powerful tools to develop and support high-performing board members. Boards should regularly and formally evaluate the performance of the CEO, other senior managers, and the board against goals and performance standards. Evaluations should include annual assessments of the functioning of board processes and board committees. The board should conduct reviews of its own processes annually and make changes where necessary. Although not absolutely necessary, the use of independent third parties for these reviews is recommended.

However, although evaluating aggregate board performance is necessary, it is not sufficient. To promote the accountability of the board, board members of all firms, in particular family firms, must also be evaluated individually. Many directors do not want to conduct individual evaluations because they feel they must share in the responsibility, or they feel that they will be disturbing the collegiality present in boardrooms. However, in order for directors to be held accountable for creating and maintaining a high-performance board, they must be able to distinguish good contributions from poor (Felton et al., 1995) and, above all, ensure that all directors act to hold themselves and the company accountable.

**Leadership: role of chairman and CEO**

- **Market Model Bias:** CEO/chairmen duality is a matter of debate.
- **Guidelines for Control Model Family Firms:** CEO/chairman roles can be combined if, and only if, one person is the best option for handling two jobs.

The chairman, as the conductor of the board, can play a central role in ensuring the effective governance of the enterprise (OECD, 1999). The chairman acts as the parliamentarian for the meeting and is responsible for agenda setting and controlling discussion on agenda items, while allowing appropriate discussion of essential items (Nash, 1995). Whether the role of the chairman should be separate from the role of the CEO has become a matter of debate. The results of the McKinsey & Company *US Directors Survey* (2002) indicate that currently 75% of S&P 500 companies have a single person serving as both chairman and CEO. Many corporate governance experts believe that the business culture of the United States lends itself to having the CEO be the board chairman in order to focus a company’s leadership (Moore, 2002). In addition, other advocates for the CEO/chairman role claim that a company risks added divisiveness by splitting the role of the chairman and CEO and that it reduces the CEO’s freedom of action (Felton & Watson, 2002). However, many others, particularly in the United Kingdom, believe that the separation of the CEO and chairman roles ensures an appropriate balance of power. Many commentators have viewed a lack of separation as impeding the supervisory ability of the board; others claim that if the leader of the supervisory body is also the leader of the managerial body under supervision, he or she faces a significant conflict of interest (Gregory & Simmelkjaer, 2002).

We believe that the roles of chairman and CEO should be combined only when the single person can do the two jobs effectively. Since the role of the chairman is to guide board processes, moderate meetings, ensure that the board completes all tasks in a timely and effective manner, and counsel the CEO—not direct the CEO—an increase in the role of the CEO with the additional responsibilities of the chairman functions presents a limited number of conflict of interest issues. As long as the CEO is the best person to handle this additional moderator job effectively and be held accountable, the CEO may be able to carry on both roles without causing an imbalance of power. The implementation of the single
CEO/chairman role begs the question, however, of “who evaluates the CEO?” We advise that the board institute evaluations where the opinions of individual directors and managers are sought and then synthesized in a report presented to the board and discussed privately with the CEO and that whoever chairs the committee responsible for this task is not the CEO nor reports directly or indirectly to the CEO.

An additional area of controversy concerning board leadership is whether the retired CEO should stay on the board in the capacity of chairman as part of the succession transition. Many times, the prior CEO is not able to surrender all of his or her authority when staying on as chairman and often, as soon as there is a crisis, the departed CEO feels compelled to return to “rescue” the organization. However, as long as the successor is able to initiate change and assert his or her leadership, and as long as sufficient knowledge transfer occurred from old leadership to new, then we believe the prior CEO can stay on as chairman without undermining the authority of the new leader. However, we recommend that separate committees monitor the situation and act to remedy any problems if the former CEO undermines the new one.

**Board compensation**

- **Market Model Bias**: Board members should be compensated according to what the market dictates.
- **Guidelines for Control Model Family Firms**: Board members not employed in the company should be compensated at a rate equivalent to the CEO.

Even though the *American Family Business Survey* (2002) found that fewer than 61% of family businesses compensate their board members, compensation is one way to attract and retain the most qualified and accountable board. How board members should be compensated has increasingly become a controversial topic in corporate governance due to the current collapse of investor confidence in companies’ performance. Generally, companies operating under the market model compensate board members according to market norms. Many experts claim that creating investor confidence requires performance-based compensation rather than retainers or salary (Felton & Watson, 2002). For instance, they claim that issuing restricted stock rather than offering stock options may help meet the investors’ demand that directors be accountable to the actions that they implement. Even for nonfamily companies we believe this approach is short-sighted in that it may stimulate rather than eliminate the manipulation of financial statements.

Compensating directors with stock may hold other disadvantages for the family-controlled company. Linking directors’ judgment to share price presumes that intermediate term share value is the goal, which is not always the case because family businesses often provide owning family members nonfinancial returns. This practice also rewards directors for industry effects rather than objective corporate performance. Furthermore, family members often have a bias against stock in nonfamily hands, for which such an approach cannot account. To send a message that the board is as important as the CEO, we recommend that directors be paid for their time commensurate to that of the company’s CEO. A simple heuristic is to divide the CEO’s annual pay by 250 working days and then each board member should be paid the resulting amount per day for each day spent on board matters (Ward, 1991). In addition to financial compensation, opportunities to learn, grow, and make a contribution are among many of the other benefits of a position on a strong and vital board.

**Family-Owned Boards Must Be Accountable to Shareholders**

Regardless of whether the market or control model is utilized, in corporate governance codes around the world shareholders are viewed as having the following rights: the right to participate in the profits and cash flow of the corporation; the right to influence the corporation through shareholder participation in general meetings and voting; the right to affect control over the corporation; and the right to information...
about the corporation (OECD, 1999). It is within these rights that shareholders affect the performance of the board and, in turn, force the board to be held accountable for its actions.

Even though shareholders are encouraged to participate and positively influence the corporation, particularly in the family firm, shareholders must not inappropriately seek to influence and control the board. Unlike firms that operate in the market model of corporate governance, shareholders of family firms generally are not averse to participating in the governance of the firm. While in market model jurisdictions the shareholding body is made up of individuals and institutions whose interests, goals, investment horizons, and capabilities vary, in control model jurisdictions, the concentrated base of shareholders often exercises a degree of control over the corporation disproportionate to the shareholders’ equity ownership in the company (OECD, 1999). This disproportionate degree of control occurs because shares have more significance to family shareholders (LaPorta, Lopez-de-Silanes, & Shleifer, 1999). Family firms engender more participation from shareholders because they have more than a financial stake.

However, unlike shareholders operating under the market model, shareholders of family firms are often unable to separate their ownership duties from managerial duties or parental obligations. Family member shareholders often become too involved. This level of activism may weaken the decision-making process, decrease accountability as confusion increases, increase the risk of passive management, or cause the sale of the company (Family Business Advisor, 1996). This section highlights the mechanisms that shareholders of family businesses can utilize to influence the corporation, encourage accountability, protect their interests, and promote family unity, while not becoming overly involved or intrusive. Once again, it is the appropriate balance between monitoring mechanisms and collaborating mechanisms that creates the best form of accountability for family firms.

### Influence the composition of the board

- **Market Model Bias**: Shareholders utilize cumulative voting and market liquidity to protect minority interests.
- **Guidelines for Control Model Family Firms**: Shareholders of family firms should utilize cumulative voting and shareholders agreements to protect their interests and participate in the accountability process.

Shareholders operating under both market and control models can help promote their interest in the company by influencing the composition of the board. After all, the shareholders’ right to influence the corporation is essentially their right to influence the decision makers, that is, the board, by being able to select its members and approve extraordinary transactions, which, in turn, leads to greater accountability (OECD, 1999). Although companies operating under the market model have been encouraging their shareholders to adopt mechanisms to ensure adequate board composition and representation of shareholders, companies operating under the control model, including family firms, have been known to use unorthodox methods, such as favoritism of family members, for determining board composition, which can be detrimental to minority shareholders.

One significant way of influencing board composition, while not alienating minority shareholders in the process, is through cumulative voting. Cumulative voting is a procedure used in the election of directors whereby the minority shareholders have a greater opportunity to secure representation of their interests on the board because they can accumulate their vote for a single candidate. In the absence of cumulative voting, a shareholder, or group of shareholders, with 50% of...
the shares plus one can elect the entire board of directors, assuming each share has only one vote. However, under cumulative voting, the shareholder multiplies the number of shares he or she holds by the number of directors to be elected in order to obtain the aggregate number of votes the shareholder is able to use. The Business Corporation Act in the United States allows shareholders under cumulative voting to spread these votes evenly among an entire slate of directors, or give them all to one director—possibly assuring the election of that director, depending on the percentage of shares held and the number of directors to be elected (Murdock, 1996). Although we believe cumulative voting is an important mechanism to ensure accountability, it should be a last-resort mechanism that is invoked only after a family breakdown or extremely poor corporate performance. We believe an effective nominating committee that works in concert with the board review process is the best and least disruptive way to ensure the protection and promotion of interests.

Another way to influence board composition is through shareholder agreements. Shareholder agreements can codify issues such as how the board or the chairman is selected, succession-planning issues, estate-planning issues, and dispute-resolution mechanisms. Some experts recommend that in order to ensure that shareholders’ interests are represented on the board, shareholder agreements should include provisions stating that a family member shareholder can seek a contractual right to select a specified number of directors (Friedman & Friedman, 1994). Even though family firms do not always advocate these mechanisms for fear of divisiveness, we believe they must encourage shareholders to protect their interests so that they can participate in the accountability process and perpetuate the family’s goals.

Create communication channels/forums

- Market Model Bias: Minimal communication between minority and majority shareholders is required, including quarterly and annual financial statements.

- Guidelines for Control Model Family Firms: Communication between minority and majority shareholders is necessary. Communicating with shareholders is necessary in order to perpetuate the family’s vision, for more information is needed in addition to financial reports. Basic strategic plans, values, and industry, supplier, and customer information are required. Regular surveys, questionnaires, and meetings with shareholders to gain their views are also needed.

Corporations must develop better channels of communication with shareholders in order for them to affect control over the company’s decision making. Many market model proponents advocate communication in order to remove the artificial barriers to participation that are prevalent by controlling shareholders against minority shareholders, such as charging fees for voting, having prohibitions on proxy voting, or requiring personal attendance at general shareholder meetings to vote (Gregory & Simmelkjaer, 2002). These proponents advocate voting by proxy, as well as the enlarged use of technology to increase access to and simplify voting (OECD, 1999).

However, market model proponents have not addressed the specific role that the board must play in furthering communication. Particularly in family businesses, communication is critically important between the board and family shareholders. The board must understand the needs of the family shareholders it represents. Additionally, within the typical family business, the board is dealing with a family that has a culture with some collective needs, such as family unity, that the board must understand. Shareholders need to be reassured that the board is attending to those needs. Therefore, in order to facilitate this communication, mechanisms must be in place to ensure that the voice of these shareholders is heard. Regular letters to the board, family meetings and/or dinners with the board, and family councils are all mechanisms that can be utilized to enhance this communication. This consistent, timely, meaningful two-way communication becomes the key to obtaining accountability from board members with respect to owners.
Involvement in Strategic Decision Making

- **Market Model Bias:** Shareholders leave decision making up to the board and management.
- **Guidelines for Control Model Family Firms:** Shareholders of family firms should be informed of all strategy conversations and decisions, and the board should take family goals and desires into consideration.

Shareholders operating under the market model tend to leave strategic decision making entirely up to the board and management. Conversely, shareholders of family firms operating under the control model tend to direct manage, make decisions on their own, or lobby individual board members. This form of decision making weakens the power of both the board and management, and may result in factionalizing the shareholding body. We believe appropriate involvement by shareholders would entail establishing the values, vision, and goals of the business, as well as being a “partner” in strategy (Aronoff & Ward, 2002a). This means helping management and the board to understand owner goals as a basis for developing business strategy, and then embracing and supporting the strategy that is proposed by management and endorsed by the board (Aronoff & Ward, 2002a). This form of involvement in strategic decision making allows shareholders, the board, and management to become united in their decision making in order to add richness and strength to their business culture.

Family-Owned Boards Must Hold Management Accountable for Their Actions

The role of management in family-owned businesses is to develop and execute the business’s strategy and to meet the expectations of the board and the owners through its leadership of the company (Aronoff & Ward, 2002a). The board’s role, as a result, is to monitor management and hold it accountable for its actions. The McKinsey & Company US Directors Survey (2002) indicates that directors have been dissatisfied with the way they have been monitoring management (Felton & Watson, 2002). The survey indicates that many directors do not have enough time to get to know top managers other than the CEO and tend to shy away from conflict (Felton & Watson, 2002).Directors of control model family businesses, conversely, know the owners and managers, or are themselves managers, of the business. In addition, conflict may be prevalent, particularly among family members. Therefore, boards of family businesses need to have the ability and mechanisms in place to effectively monitor management’s performance and manage conflict.

Monitoring strategic execution

- **Market Model Bias:** Boards often leave strategic decision making to management.
- **Guidelines for Control Model Family Firms:** Boards must approve the strategic plans of management and monitor them regularly.

One way that boards can effectively monitor management is by approving the strategic plans of management. Although boards of companies operating under the market model often “rubber stamp” proposals from management or leave the strategic decision-making process up to management, boards of companies operating under the control model tend to involve themselves too much in the decision-making process. However, even though board members may be experts in their respective fields, they should not be formulating company strategy; rather, they should be critically evaluating the strategy that management creates. Therefore, if management’s strategic plan is not appropriate, we believe the board should make management amend the strategic plan—that being the most effective form of accountability.

Additionally, another aspect to monitoring management is ensuring that management continues to be held accountable for fully executing its plans. The board must periodically “check in” with executives in the short term to ensure that plans are executed, as well as benchmark results against long-term indicators, such as market share, budgets, and margins. By continuing this monitoring function, board members can help
identify obstacles and figure ways to overcome them when performance falls short.

Executive compensation
• Market Model Bias: Executive compensation should be transparent. Boards should tie compensation to stock performance.
• Guidelines for Control Model Family Firms: Compensation should be transparent among family members. Boards should tie compensation to the organization's mission, annual business performance (financial and nonfinancial), and long-term financial results.

Due to continued reports of excessive executive compensation, particularly across EU member states, there is an increasing call for disclosure of executive remuneration among market model boards, such as those in the United Kingdom (Gregory & Simmelkjaer, 2002). Even though privately held family businesses are not obligated to announce executive remuneration, family businesses must also create an atmosphere of trust and transparency among family members. Many family business owners are too comfortable keeping pay undisclosed. However, nondisclosure does not prevent family members from forming strong emotions, suspicions, and beliefs about one another's compensation (Aronoff & Ward, 1993). Therefore, we believe that information concerning compensation should be easily available to family member shareholders and reviewed annually by the board in order to preserve an atmosphere of accountability.

Additionally, there have been debates over how best to compensate executives. Many institutions operating under the market model primarily define performance simply as stock performance. This emphasis on stock performance, however, tends to stimulate extreme emotions—greed when things are going well, demoralization when the market falls (Elson et al., 2003). Further, business performance is only one ingredient in stock performance, which also includes economic, industry, acquisition prospects, and other factors. Therefore, for market model companies, it is now being recommended that businesses rebalance elements of executive compensation and tie compensation more closely to the organization's mission, annual business performance, and long-term financial results, which, in turn, will create real shareholder value over time (Elson et al., 2003).

Shareholders of family businesses have a vested interest in long-term performance and this is quite consistent with tying compensation to mission and long-term financial results. We also recommend that compensation be tied to the performance of nonfinancial measures, which are based in what the owning family values. These can include opportunities for the family, company reputation, employee satisfaction, information availability, family educational opportunities, and community and philanthropic activities. Some advisors recommend a compensation philosophy that can help family businesses make difficult decisions, such as whether to pay family members equally or according to market value (Aronoff & Ward, 1993). A written compensation policy, according to the family’s philosophy of compensation, assures that the family’s value system and vision are parallel to the way that it is operating the business.

Evaluation of corporate officers
• Market Model Bias: Evaluations should be conducted and emotions cast aside.
• Guidelines for Control Model Family Firms: Expectations for executives must be clarified in order to be able to objectively evaluate and promote accountability.

Another way for boards to promote accountability of management is for boards to ensure that the evaluations of top managers are in line with performance standards. Most companies operating under the market model conduct evaluations assuming emotions and prejudice are cast aside. However, for family businesses emotions are unavoidable. Evaluating performance and making difficult decisions about promotions can be more difficult when managers are also family members. Many families use the same values to operate the business as the family, such as promoting family members based on birth order or gender, rather than on skills (Loeb, 2001). The difficulties
associated with evaluating family members often causes performance management systems in family businesses to be overlooked entirely or implemented only for nonfamily employees (Driscoll & Korman, 2001). As the family and business grow, however, these decisions can have a negative impact on business growth as well as on the emotional health of family members (Loeb, 2001).

As a result of its potential for conflict and role confusion, we believe that performance management for family businesses is a system and not a once-a-year event (Driscoll & Korman, 2001). As such, an effective performance management system, implemented by the board, should have clear performance criteria and consequences for performance, position descriptions for family and nonfamily employees, and documentation of performance successes, issues, and results (Driscoll & Korman, 2001). Performance standards need not neglect the family dimension of the family business, but they need to be set and monitored. In addition, boards need to ensure that management has a plan for building a reserve of new leaders and that the plan is followed.

Summary

The thesis of this article can be summarized as “accountability, accountability, accountability.” All the recommendations herein are directed toward this goal. The board is the governor of the family business and as such sits squarely between the owners and their leadership. Although the owners are ultimately responsible for strategic direction and this can clearly be seen in their investment, the board must ensure that strategy as detailed by management is in keeping with the family owners’ desires and that company leaders execute the strategy in a timely and complete fashion. To achieve accountability as described here, a competency-based board with a focus on balancing the appropriate amounts of monitoring and collaboration is needed for the typical family-owned business operating under the control model (see Quadrant 1 of Figure 3). The emotionality, overlapping roles, and oft-perceived unbusiness-like behavior have caused market model corporate governance specialists great skepticism about family-owned businesses’ ability to be held accountable. However, as long as the family is psychologically mature and at least moderately unified, and the board executes the task of holding family business members accountable to clear standards and well-understood expectations that are mutually set, accountability is likely.

However, as family businesses move away from the typical control model, which occurs when the number of active family members decreases and ownership becomes more widespread, family businesses begin to move closer to the market model (see Quadrant 4 of Figure 3), and assuring appropriate accountability may need to shift. Family firms operating closer to the market model need control mechanisms, such as independence, discipline, and objectivity, to sustain the business. Such controls are needed to ensure that independent management acts in the best interests of the owners. Family firms operating under the market model may not have some of the strategic advantages of family companies that do not as they lack the ability to efficiently align the interests of management with ownership in order to create a shared sense of “purpose,” since the identities of the family and the identities of the business can become distanced.

There are two other ways family businesses migrate from the control model of governance. One is when family become less active in the management due to retirement or lack of interest by subsequent generations (moving from Quadrant 1 to 3 in Figure 3), but family shareholders maintain their stakes in the business. In this scenario, family shareholders become passive investors who see the business as merely an investment in a portfolio. One danger is that when such “portfolio model” shareholders become disinterested, they feel increased pressure to liquidate their shares and even may be prone to litigate to do so. Again, as they move away from the control model, the business loses some of the competitive advantages of a family company, in this case the biggest loss perhaps being patient capital.
SHAREHOLDERS

Should...
Influence composition of board
Create communication channels
Be involved in strategic decision making

BOARD

Should...
Be mid to large sized
Not focus on independent status
Enhance communication and conflict resolution
Actively participate
Have limited/not predetermined terms
Conduct individual board member evaluations
Allow CEO/chairman role
Compensate equivalently to CEO
Monitor company and hold it accountable

MANAGEMENT

Should...
Be monitored by the board
Tie compensation to mission, vision, long-term indicators
Clarify expectations for evaluations

Figure 2 Accountability's Three Tiers.
Another way a family business may move away from the control model is when family remains active in management or the board as the business moves through generations, but the family expands and becomes less unified as a result of expected centrifugal pressures. This situation may be characterized by multiple families or family branches in the business with different ideas on how the business should be run. This type of “dynastic model” of governance is extremely unstable, where the lack of unity can create a sale of shares of the company (see Quadrant 2 of Figure 3), or the company may be at risk of failure. Governance in this arena needs to concern itself with family unity and ensure that unity among family shareholders is of utmost importance.

One can see from this brief exploration that there is no one single model for corporate governance that can account for the many differing configurations of family, shareholders, and business conditions. What have been outlined here are guidelines best suited to the typical family company. The intent was to explain why each guideline makes sense for the particular configuration of family, shareholder, and family involvement in the business. With a modicum of
careful analysis and consideration of family, ownerships, and business characteristics, these guidelines can be tailored to meet most family business situations.

References


Guidelines for Family Business Boards of Directors

Robinson, A. (2002). Is corporate governance the solution or the problem? Corporate Board, 23(133), 12–16.

To learn more about corporate governance codes globally, visit the website for the World Bank at <www.worldbank.org> or the European Corporate Governance Institute at <www.ecgi.org/codes/all_codes.htm>.

Suzanne Lane is president of Avant Consulting, Inc., in Chicago, Illinois.
Joseph Astrachan is Wachovia Eminent Scholar Chair of Family Business and professor of management and entrepreneurship at the Coles College of Business, Kennesaw State University, in Kennesaw, Georgia.
Andrew Keyt is executive director of the Loyola University Family Business Center in Chicago, Illinois.
Kristi McMillan is associate director of the Cox Family Enterprise Center at the Coles College of Business, Kennesaw State University, in Kennesaw, Georgia.