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6 Questions to Ask Before Creating a Family Business Board

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As your family business grows, informal decision-making may no longer be enough. These six questions can help you decide when and how to strengthen governance.

For years, every important decision in the business came through Carlos. He approved major investments, negotiated with key customers, hired senior managers, and "settled" disagreements between his three children. Two were in the company and one, Laura, worked abroad in a financial firm. It wasn't unusual for employees to wait until Carlos returned from vacation before making decisions.

As the business grew, so did the demands on Carlos's time. His children in the business asked to be more involved in strategic decisions, and Laura asked for managerial transparency. Carlos began to feel overwhelmed when a non-family executive suggested bringing in outside advisors, and when one of his daughters proposed creating a board of directors. Carlos's response was immediate: *"We're not that kind of company."*

We often hear such statements from family business owners. Many think boards are only for large public corporations; they are just legal formalities; or result in outsiders taking control of the business. Others magically believe that if the founder is actively involved, a board causes more harm than good. Yet the question shouldn't be whether your business is "big enough" for a board. A better question is whether better governance would improve decision-making, risk identification and mitigation, and family business balance.

More formal governance rarely appears overnight. The strongest family firms didn't wake up one day and install a fully functioning board of directors. Instead, they built governance over time. As the family and business grow, good governance is no longer just a springboard to better business and family relations; it becomes essential as ownership disperses and family relations become more complex.

Building governance over time also means starting before the need becomes urgent. Good governance can help address existing challenges. It can also help families anticipate challenges before they become problems, identify risks earlier, pursue growth opportunities more effectively, and prepare for transitions that may still be years away. In this sense, governance is not simply a response to complexity: It is a capability that helps the family and business prepare for what comes next. So, how does a family know when it is time to begin strengthening that capability?

Our Governance Readiness Assessment, *downloadable above*, can help. In addition, here are six questions every business family should consider.

1: Is your governance keeping pace with where the business is going?

Most family businesses begin with relatively informal approaches to governance. Decision-making may be concentrated in one or a few people; responsibilities may be understood rather than formally defined; and important issues may be addressed through conversations rather than established processes. These approaches are common in entrepreneurial businesses, but their effectiveness depends on how well they fit the needs of the family and business.

That fit can change over time. Growth, new markets, larger investments, emerging risks, or professional management can create new demands on decision-

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making. At the same time, family members may join the business or become owners; expectations may change; or leadership and ownership transitions may approach. For some family businesses, these changes provide the impetus to strengthen governance before problems emerge (Vovk, 2026). These developments do not need to present an immediate problem to warrant attention. They may signal the need for broader perspectives, clearer accountability, and more deliberate decision-making.

Stronger governance does not mean adding bureaucracy to every decision. Effective governance clarifies which decisions belong with management and which require board-level discussion and oversight. Clear decision rights can give management appropriate operating authority while ensuring that decisions with significant strategic, financial, or ownership consequences receive greater scrutiny.

The question, then, is whether current governance processes are equipped to support what lies ahead. Signs that it may be time to strengthen governance include:

- **The business is preparing for greater complexity or decisions with significant long-term implications.** Growth, acquisitions, significant investments, new technologies, or changing risks may require broader perspectives and stronger scrutiny. When decision-making is concentrated in one or a few family members, the business may not fully benefit from constructive challenge and diverse expertise. A more balanced governance process can strengthen these decisions while continuing to draw on the vision, experience, and leadership of the founder or other senior family leaders.
- **Leadership and decision-making need to evolve.** As the organization develops, responsibilities may need to be distributed more clearly. Governance can help to clarify decision rights and accountability while keeping the board out of day-to-day management.
- **Family involvement and ownership are becoming more complex.** As family members become owners, enter or leave the business, or assume different roles, their information needs and expectations may diverge. Governance can clarify the responsibilities of owners, directors, management, and the family.
- **A leadership or ownership transition is approaching.** Strengthening governance in advance can support leadership development, create continuity in decision-making, and reduce dependence on any one individual.

These conditions do not mean a family must immediately establish a formal board. The appropriate next step depends on where the family and business are today and how they are preparing for the future. An advisory board can often provide a useful starting point, allowing families to benefit from independent perspectives and develop effective governance practices before taking on the responsibilities of a formal board.

2. Why would we want a board?

Before deciding what a board should look like, families should ask a more fundamental question: *Why do we want one?* Families often have several motivations, and making them explicit helps clarify what they expect the board to contribute. Six motivations are particularly common.

- **To strengthen accountability to owners.** As ownership expands, owners who are not involved in management may need greater transparency about performance, direction, and major decisions. A board can strengthen the connection between ownership and management.
- **To strengthen strategic decision-making.** A board provides a forum to challenge assumptions, consider alternatives, and scrutinize consequential decisions. Directors also bring knowledge, experience, and advice that broaden management's perspective while leaving responsibility for managing the business with the executive team (Allen, 2017).
- **To prepare for opportunities and risks.** Governance can create value before problems emerge. A board can help management identify emerging risks, evaluate opportunities, assess whether the organization is able to pursue them, and anticipate changes in the competitive environment.
- **To support continuity across generations.** A board can support leadership development and succession, provide continuity during transitions, and help maintain an effective

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connection between owners and management as roles change.
- **To respond to changing family and ownership expectations.** As families and ownership groups evolve, expectations about information, participation, and accountability may change. A board can provide greater clarity about how these expectations are addressed.
- **To respond to external expectations.** Family members, lenders, investors, regulators, or other stakeholders may encourage or require adding a board. While these expectations can provide an impetus for stronger governance, establishing a board primarily to satisfy others may limit its value unless the family can define what the board should contribute and support its role.

Most families will recognize more than one of these motivations. Clarifying them does not change the board's formal duties, but it helps create alignment around what the board is expected to contribute, where it should focus its attention, and the capabilities and perspectives it needs. Without this clarity, families may simply copy another company's board rather than design one that fits their own needs. A shared understanding of purpose provides a foundation for shaping the board's composition and processes, establishing realistic expectations, and evaluating whether it is adding value over time.

3. Do we understand what an effective board actually does?

Without clarity about what boards should do, board meetings can drift into operational discussions rather than focusing on strategy, oversight, and long-term performance (Botero et al., 2026).

The five core responsibilities of an effective board include:

- Safeguard the long-term sustainability of the business (Astrachan et al., 2020).
- Strengthen governance by ensuring the right leadership, structures, and decision-making processes are in place.
- Guide strategy by challenging, refining, approving, and monitoring management's strategic direction rather than developing it themselves (Vovk, 2026).
- Provide oversight of performance, major risks, and accountability (Astrachan et al., 2020).
- Support management by offering independent advice, experience, and access to networks beyond those of the executive team.

In family businesses, fulfilling these responsibilities often requires navigating a particularly complex relationship between owners and the business. Family shareholders may simultaneously be directors, executives, employees, or owners with no operational role, making clarity about roles and decision rights especially important (Botero et al., 2026).

An effective board creates a clear interface between ownership and management. It ensures that owner and family expectations relevant to the business are communicated through appropriate governance processes, while management retains the authority delegated to it (Binz Astrachan et al., 2021a). It also helps ensure that family and non-family executives are held to consistent standards of performance and accountability. In this way, the board supports both enterprise sustainability and responsible ownership across generations.

4. How do we build an effective board?

Once a family has decided to establish a board, the temptation is to recruit directors and schedule the first meeting. However, effective boards are designed, not assembled. A thoughtful process at the outset increases the likelihood the board will be valued. Families should begin with understanding the governance challenge they are trying to solve, including the ones they have not yet considered.

Step 1: Diagnose Before You Design.

Successful boards begin with a clear understanding of the family's situation and what the board is expected to accomplish (Sonderegger & Binz Astrachan, 2024). This understanding can be strengthened by reviewing existing governance and organizational information, such as bylaws, shareholder agreements, previous board minutes, organizational charts, and financial reports. These documents can reveal important gaps as well as provide insight into current governance practices.

The most valuable part of the diagnosis often comes

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from conversations with key stakeholders, including family owners, family executives, next-generation members, the CEO, and, when applicable, current and past directors. Individual discussions can reveal differing expectations, concerns, and aspirations that may not emerge in group settings. If a board already exists, observing several meetings can provide additional insight into how governance works in practice. Meeting dynamics -- such as who sets the agenda, who participates in discussions, and who influences decisions -- can reveal patterns that are not visible in formal governance structures or organizational charts (Méndez et al., 2026).

The diagnostic phase concludes by sharing the findings, with family creating a common understanding of both strengths and challenges while building commitment to the governance journey. Because establishing an effective board is a long-term process, sustained support from family leaders is essential and should be discussed openly before implementation begins. Families benefit from having an experienced, independent advisor facilitate this process.

Step 2: Design and Launch with Discipline.

The diagnosis should guide every design decision. Begin with board composition. Family businesses are heterogeneous, so no single board size is likely to be appropriate for all family firms (Corbetta & Salvato, 2004). However, most effective boards include between five to 10 members (usually depending on the size and complexity of the business) and combine family and non-family perspectives (García-Ramos & García-Olalla, 2011; Gersick & Feliu, 2014). Seats should be filled based on the capabilities the board needs, not simply on family representation (Giglio & Friar, 2024; Sonderegger & Binz Astrachan, 2024). Independent directors often play a particularly valuable role by introducing objective perspectives, strengthening board processes, and encouraging more balanced discussion (Binz Astrachan et al., 2021a; Botero et al., 2026).

Next, establish the board's operating framework. Clear guidelines should define the board's responsibilities, the authority delegated to management, meeting schedules, agenda preparation, information flows, and decision-making procedures.

Finally, ensure that the board has meaningful work to do. Reviewing strategy, approving the annual budget, monitoring key performance indicators, and supporting and evaluating the CEO provide a practical governance agenda that balances oversight with strategic guidance.

Perhaps most importantly, recognize that building an effective board is a process, not an event. Boards rarely reach their full potential after the first meeting, or even the first year. Like the businesses they serve, they mature over time through consistent practice, continuous learning, and a shared commitment to improving how the family governs the enterprise.

5. How can we help the board become effective?

A well-designed board will only add value if it is given the conditions to do its work. This starts with access to timely, relevant, and reliable information. Poorly designed board materials can prevent directors from focusing on the company's most important risks and making full use of their collective experience (Binz Astrachan et al., 2021a). Access to information, however, is only part of the equation. Directors must also be willing to ask difficult questions and constructively challenge management.

The relationship between the board and management is equally important. Management must engage openly with the board, while directors respect management's authority to run the business. This balance can be particularly important in founder-led firms, where decision-making may historically have centered on the founder.

Finally, families need to support the board's independence and authority. Directors cannot contribute meaningfully if difficult topics are avoided, information is filtered, or constructive challenge is discouraged (Binz Astrachan et al., 2021b). Consistent meetings, candid discussion, quality information, and follow-through strengthen the board's ability to provide meaningful oversight and strategic guidance.

6. How do we keep the board effective?

An effective board is never finished. As the business, family, and external environment change, the board may need to evolve with them (Giglio & Friar, 2024). Families should regularly ask whether the board is still serving its intended purpose. Are discussions focused on the issues that matter most? Does the board have the

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expertise needed for the company's next stage of development? Is it fulfilling the responsibilities outlined in Question 3? Are meetings encouraging thoughtful debate and better decisions?

Periodic board evaluations provide an opportunity to answer these questions and reinforce that the board, not just management, should be held accountable (Binz Astrachan et al., 2021b). These evaluations do not need to be complex. A candid review of the board's composition, meetings, decision-making, and overall contribution can identify what is working well and what needs improvement. It can also reveal when the board's composition, capabilities, or structure need to change to meet the needs of the business (Giglio & Friar, 2024).

Ultimately, a board's value is measured by the quality of the decisions it helps the business and family make. When families view governance as an evolving capability rather than a fixed structure, their board becomes more than a governing body: It becomes a lasting source of continuity, accountability, and strategic guidance across generations.

So... What Happened to Carlos?

Two years after our conversation, Carlos's company looks different. The advisory board now meets according to an annual agenda. Financial and strategic information is shared before each meeting. Outside advisors challenge management's assumptions, offer fresh perspectives, and ask questions that no one inside the company had been asking. Carlos still makes many of the key decisions, but he no longer makes them alone. The biggest change, however, has little to do with the meetings themselves. His children, both those working in the business and those serving only as owners, now better understand how strategic decisions are made and view the process as more transparent. Non-family executives have greater confidence that important issues will be evaluated objectively. Family conversations have become less focused on day-to-day operational problems and more focused on the future of the business.

Carlos also recognizes that the board's work is far from finished. As the next generation assumes greater leadership, ownership becomes more dispersed, or a non-family CEO eventually takes the helm, the board will need to continue evolving. The difference is that the family will not be starting from scratch. They have already developed the habits, discipline, and trust that effective governance requires.

The strongest family businesses are not distinguished by the fact that they have a board. They are distinguished by their commitment to continuously strengthening how they make decisions together across generations.

Building Governance for What Comes Next

Carlos's experience illustrates a broader lesson: Building an effective board is not about adopting a governance structure simply because other family businesses have one. It begins by asking whether current governance is equipped for where the family and business are going, clarifying why a board is needed and what it should contribute, and understanding the responsibilities it must fulfill. From there, families need to design the board thoughtfully, create the conditions that allow directors to do their work, and continue evaluating and strengthening the board as circumstances change.

The six questions in this article are not a checklist to complete once. They are questions families should revisit as the business grows, ownership evolves, leadership changes, and new opportunities and risks emerge. The goal is not simply to have a board, but to build the governance capability the family and business will need for what comes next. That begins with understanding where your governance stands today and where it may need to evolve.

Our Governance Readiness Assessment, which can be *downloaded above*, helps business families answer that question. It provides a starting point for reflecting on current governance practices, identifying opportunities for improvement, and considering the next steps in the family's governance journey. Use the assessment as a conversation starter with your family, leadership team, or advisors. It is not intended to tell you whether you "need" a board, but to help you consider whether your governance is keeping pace with the evolving needs of your family and business. The conversation you begin today can be the first step toward building the governance capability you will need for what comes next.

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