

## Governance of the Family Business Owners

— John A. Davis

---

In this discussion note, Professor John A. Davis of Harvard Business School presented a framework of governance process in the family business system. The author emphasizes the importance of family owners being united and responsible toward both the business and the family. Their unity and responsible conduct are likely to lead to well-managed and governed business as well as the family, whereas an absence of these is likely to derail and weaken both the family and the business. Conflicts and irresponsible behaviour on part of family owners may lead to tensions and indecisiveness among management team, board and the family. This would take the focus away from dealing with competition and planning for future. Good governance serves as preventive medication for such problems that a manhandled family business system is sure to encounter.

Good ownership governance seeks to establish – a distinct **identity**, a sensible **direction** and **discipline** – in the family and the business. In order to achieve each of these governance objectives, the author lists the important governance activities that family owners must undertake:

### **Identity –**

- Being a steward of the company with firm commitment to build long-term value of the business.
- Developing successors with family's core values and selecting future owners who are likely to become good stewards.
- Supporting the identity and mission of the family and the business.

### **Direction -**

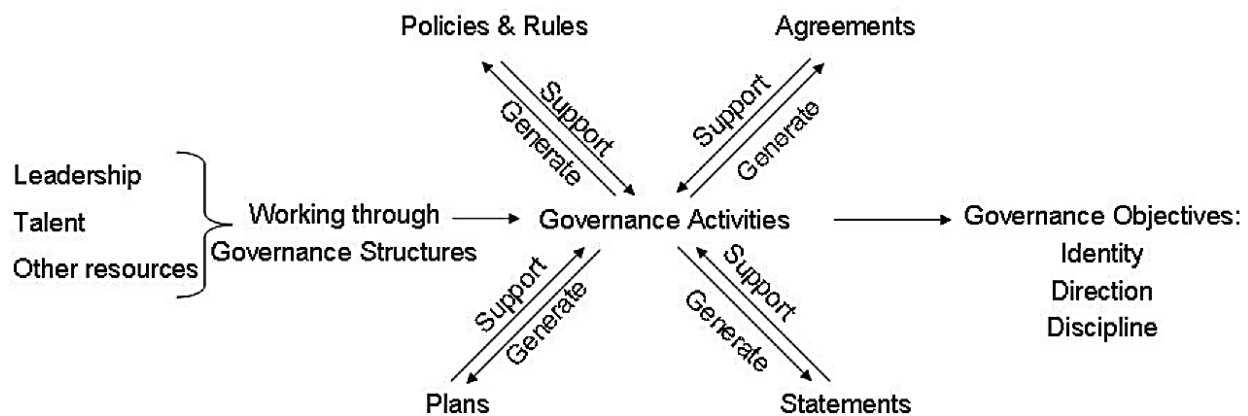
- Clarifying needs, goals and values of the family and the business to managers and monitoring their performance on those counts.
- Ensuring alignment of the company's vision and mission with the owner family's goals and values, and monitoring business performance on these criteria.
- Electing an effective Board of Directors/Advisors that ensures management effectiveness *and*
- Sustaining the mission and vision of the family by promoting effective family governance.

### **Discipline -**

- Clarifying roles, rights and responsibilities of family owners and insisting upon responsible conduct towards business and family.
- Developing and ensuring adherence to - rules, policies and agreements – for cohesive functioning of the business and the family.

- Maintaining effective communication and decisiveness among family owners.
- Undertaking activities that build trust, pride, commitment and loyalty to business and family.
- Providing performance feedback to the board of directors and holding it accountable for management oversight.

Encapsulating all the above, the author presents the ‘**Governance Process**’ framework given in figure 1.



**Figure 1** Governance Process

Source: Author.

The author advises that for maintaining clarity regarding the identity, direction and discipline of the ownership group, the family owners must formulate -

- a clear ownership succession plan,
- a statement of family owners' commitment to business,
- ownership policies and rules to regulate behaviour (in any area where friction may occur) *and*
- ownership agreements (that define family shareholders' rights, terms of transfer, stock valuation and buyout process).

The author concludes that good governance of family ownership group is essential for good governance of the family business. The owners of family firms must be aware of their responsibilities and rights, and employ effective governance mechanisms to fulfill their family and business objectives. With an appropriate combination of structures, plans, policies and agreements, the owners can play a constructive role in the family business system.

---

*Source: Discussion Note No. 9-807-021, Harvard Business School, July, 2007.*