Building a Successful Family Business Board

A Guide for Leaders, Directors, and Families

Jennifer M. Pendergast
John L. Ward
Stephanie Brun de Pontet

A Family Business Publication

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Foreword

This book is an updated, revised, and substantially rewritten successor to *Creating Effective Boards for Private Enterprises* (John L. Ward, Jossey-Bass Publishers, 1991). The focus of this new book is different, supported by new survey research and co-written with two talented colleagues in The Family Business Consulting Group.

In the original book, the purpose was to persuade business founders and owner-managers of privately held small and mid-size companies (50 to 500 employees) to establish an "outside board"— a group composed of three or four other business owner-managers to stimulate their strategic thinking, to prepare for succession, and to challenge themselves with increased accountability. I believed then and I believe now that such a board—a voluntary act by a controlling owner-manager—is the best resource possible for leadership and business effectiveness. The original book went on to show the business owner how to form such a board and how to use it to its fullest advantage.

Happily, several thousand copies were sold. While I wish I knew how many did put an "outside board" together, I do know that nearly all that I have met who did so extol its benefits.

A lot has changed over the years. Most compellingly, the study of multigeneration family businesses has blossomed. Twenty years ago there were only a handful of books on family business, very few business schools interested in the subject, and virtually no consulting organizations devoted to family enterprise continuity. That has all changed.

Today, more and more family businesses are owned by larger groups of family members who may, or may not, work in the business. Primogeniture ownership succession is less common. Instead, it is becoming increasingly common for families, especially in the Western Hemisphere, to divide the family's business ownership more equally among a greater number of family members. This trend, of course, raises powerful questions on the roles and responsibilities of family members in governance.

Concurrently, the general topic of corporate governance has grown in importance. From Enron to Parmalat to Lehman Brothers, governance practices have been questioned and interest in developing effective oversight has grown exponentially. As a result of many perceived corporate governance failures in recent years, boards have become more vigilant overseers of management behavior and corporate performance.

At the same time, legislation has been enacted with new proposals on the table every year to strengthen oversight, primarily of public companies. Many business schools, including my own (Kellogg Business School at Northwestern University), have created intense training and coursework to understand the proper functions of governance, and to prepare people for directorships and chairmanships.

While the topic of governance is certainly in the limelight, this heightened focus sometimes generates "noise" that leads to the too-frequent loss of two important truths. First, while high-profile cases have raised concerns about lack of appropriate oversight, most companies have sound ethics and an unselfish long-term view. Certainly that is especially true for businesses owned by families, for whom values-driven culture and perpetuity of ownership are hallmarks.

Second, we are keen to promote in this book the concept that effective boards are a particularly great value-added resource for success and succession, not just a protector of stakeholder interests. According to our research survey and our working definition, an effective board is one that meets at least three times a year, is well-organized and managed, and includes three or more independent (i.e., "outside") directors.

Since our previous book was published, we have grown to appreciate even more the special benefits of an effective board to businesses owned by later generation families. In addition, we know these boards frequently (in 60 percent of cases) will include nonemployed family owners, and specific guidance is needed on how to best integrate this resource into an effective board.

So, in *Building a Successful Family Business Board*, we not only shift our focus to *family* enterprises, but also to older and larger families and businesses where the role of family on the board is also important, as well as to the essential role of independent directors. From our consultations with such families, we know how vital and sensitive the processes of selecting family and independent directors are; we also know how essential and often under-considered is the process of preparing directors for service on the family business board—both independent and family directors. We devote several chapters to these topics. We incorporate from our survey the experiences of more than 350 family businesses. (We are particularly appreciative to the Young Presidents Organization/World Presidents Organization for their invaluable participation in the survey.)

Also new to this book is the participation of co-authors, both colleagues who are independent authorities on family business governance. Jennifer Pendergast holds a PhD in corporate governance, and is a long-time consultant to business families, and the head of the governance practice for The Family Business Consulting Group. In that role she has likely assembled more boards for more family businesses than anyone, anywhere. Jennifer is our lead author.

Stephanie Brun de Pontet holds a PhD in psychology, is an experienced and published consultant, and also a member of The Family Business Consulting Group, with particular interest in generational successions and developing the next generation for governance roles. Stephanie also led our research studies.

Jennifer and Stephanie both reshaped this book substantially. And, in order to collate our three voices and perspectives, we benefited greatly from the editing assistance of Jeff Wuorio.

In all our thinking, we acknowledge and genuinely appreciate the special knowledge of our colleagues in The Family Business Consulting Group, Inc. Collectively they have brought to us 200 man-years of devoted family business consulting experience and insight from more than 500 family business boards. In addition, we thank the families who graciously offered to share the stories of how they developedand use their boards, to serve as role models for their family-business peers.

As in the first book, we hope to persuade you that an effective board is your most valuable resource. We hope we have provided a very practical and comprehensive guide to establishing a board and maximizing its effectiveness. New is our particular focus on family businesses—large as well as smaller, family business boardrooms, and family members as directors.

Please share your comments, questions and experiences with us and your fellow readers at http://familybusiness consultinggroup.com.

John L. Ward
Chicago, Illinois

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Independent Boards of Directors and Family Business: Introduction to a Powerful Alliance

When Robert Rodale, second-generation CEO of Rodale, Inc., died in a car accident, his wife, Ardath, was thrust into the leadership role. Current CEO and third-generation member Maria Rodale says, "When my father was alive, he never would have used a board. At the moment he died, we put a board in place—to educate our generation, give us insights into the business, and support our mother."

Rodale's first board was comprised of Ardath, Maria and her siblings, and several nonfamily managers. Maria continues: "As we got our sea legs, our generation started to get more involved and active and become true board members." The board faced its first challenge when the most senior nonfamily manager announced he would retire in two years. "We were worried his departure would be very disruptive. As family members, we came together to address the succession." They decided to do a full, widespread search for the next CEO. As a result, two internal candidates for successor left the company, and Rodale hired a new nonfamily CEO from the outside. "At that point, we also decided that adding independent directors would be crucial to our success going forward. The presence of independent, objective oversight for our new CEO gave us confidence in transitioning to non-family leadership."

Challenges such as the one faced by Rodale—and the integral role played by the company's board of directors—are nothing new to businesses, particularly family-owned businesses. They illustrate an essential, yet powerful, truth—that an active, independent board of directors is a most valuable tool for family businesses of all types. There is substantial value added when the objectivity and experience of independent directors combines with the legacy and commitment of family ownership.

The Family Business Boards Study conducted for this book bears this out in numerous ways. We will be referencing findings and the specific demographics of our study throughout the book (summary in appendix 9). A few central results are worth noting at the outset of our discussion, including:

- An active board is perceived as a very valuable tool for managing complexity in a family business.
- Boards with independent directors are viewed as being more effective than boards comprised only of family members.
- Nonemployed family directors play a pivotal role on family business boards and should receive formal preparation to fulfill this role.
- Despite the perceived value of an active board, particularly one with independent directors, boards are still underused by most family businesses.

These and other findings further substantiate the value of an effective board for family businesses and the need for a better understanding of how to build and use boards. To be clear on meaning at the outset, when we use the words "active board," we refer to a board that meets three or more times per year. Further, when we refer to "independent directors," we mean individuals with no other ties to the business or family (not employees, not advisors, not shareholders) who serve on the board. Finally, when we use the term "independent board" this indicates a board with meaningful independent representation, preferably three or more independent directors, the number we believe is required to have a meaningful impact on governance.

Although all companies are required by law to appoint an official board of directors—at least on paper—owners decide whether they wish to create an effective board that adds value to the business.

Board Insight

The central theme of this book is that an active board comprised of a mix of independent and owner directors is an invaluable tool for any business, regardless of ownership structure or size.

A well-constructed, energetic and involved board of directors can prove essential to family-owned businesses of all types, providing direction, feedback and oversight on a variety of issues and challenges. To better understand how family businesses actually use their boards, we have conducted extensive research to break down the structure, use, and value of family business boards, particularly examining how these indicators vary based upon the maturity and complexity of the family business system.

Importance of Boards in a Family Business

By law, a board must be named to fulfill the responsibilities of selecting and removing corporate officers, setting officer compensation and declaring dividends. Most functioning boards take on a more expansive role, reviewing and approving budgets, strategic plans, and policies; overseeing the audit process, and approving significant capital expenditures.

While these board responsibilities are common to all types of businesses, the board of directors of a family business can contribute in unique ways. For instance, independent directors can play a valuable role in ensuring all shareholders are equally represented, setting compensation for family members in management, reviewing the performance of family members in the business, and ensuring that family dynamics do not create conflict in business decision making. By emphasizing professionalism and objectivity, a strong, independent board of directors can help keep family issues and business issues as separate as possible. A 2005 study of family businesses throughout the United Kingdom by the banking concern Coutts found that an independent board of directors decreased the impact of emotions in the family business boardrooms.

The leadership-succession process is one where the board of a family-owned business can play a crucial role. Due to the relationships and emotions involved in family business, succession is often a difficult task. A 2007–08 survey of family businesses by Price Waterhouse Coopers bears this out. One-quarter of the family businesses included in the study were due to change hands within the next five years, yet roughly half the companies that participated in the study had no succession plan in place. A board with independent directors, serving as an objective steward, can oversee the development of a succession plan that makes sense for the business and the family.

Beyond succession planning, a board can help the family business focus on long-term planning and goal setting. The 2007 Laird Norton Tyee Family Business Survey identified a lack of formal planning. Families have the opportunity to think in the long term because they are often committed to a broad family legacy and willing to invest capital with a longer time horizon. Making the most of this potential strategic advantage requires the presence of a long-term plan for the business. The board can help in ensuring that a viable plan is in place.

When is a Board Useful?

Some readers may feel their business is not big enough to leverage the benefits of an active board. In our experience, a board can help almost any family-owned firm that seeks continuity.

Ideally, the board should be in place before the company reaches major—and sometimes predictable—transitions. For instance, a company often hits an "entrepreneurial plateau" when the business outstrips the owner's—or owners'—ability to run it alone. At this point, the energy and expertise of board members are often needed to take the business to the next level. This expertise may include implementing systems or processes to ensure consistency in the business, including budgeting, strategic planning, or performance evaluation and management. These changes to the business may be very challenging for the owner to accept, which underscores why a board needs to be very highly respected by the leader in order to successfully encourage these significant changes that will enable the business to grow to the next level.

In addition to business growth, growth of the family and of the ownership group can also make the role of a board that much more critical. Larger ownership groups make decision making more complicated, requiring a more formal decision making structure and clear delineation of roles among owners, management, and board. The board provides a channel for ownership involvement and concerns, and it facilitates the separation of ownership and management issues. As this separation of ownership and management becomes increasingly complex with a growing ownership group, independent directors are an increasingly crucial part of the mix to make a board effective. In fact, our research establishes that the larger the business and the larger the ownership group the more likely a business is to have independent directors.

Throughout the following chapters, we will make the case for developing a strong, involved board of directors that leverages the skills of independent directors. By focusing on the unique issues, challenges, and opportunities present in family enterprises—and on the role the board plays in addressing them—we will show how a board can be a valuable resource for companies of any size, age, or ownership structure. We will also address the crucial role that qualified, prepared family representation plays on the board. Finally, we will provide detailed advice on how to select board members, both family and independents, and use a board effectively to get the most value for your business and family.

In particular, individual chapters address the following issues:

- In chapter 2, we look at various truths and misinformation that can surround a family business board, and we outline the ways a board can contribute.
- Chapter 3 describes the special value independent directors can bring to a family-owned business board, including succession planning, mentoring of family members, ensuring appropriate compensation levels, and providing strategic perspective from other businesses and industries.
- Chapter 4 begins to go into detail regarding the role of an independent board and how it functions best.
- Chapter 5 details how an independent board can help direct the various sorts of planning necessary for a business to grow and undergo smooth changes in leadership.
- In chapter 6, we look at where to begin in setting up the board—deciding the appropriate mix of owner, management, and independent directors; determining the qualifications and characteristics of independent board members; and developing a board prospectus. This chapter also addresses the practical issues of how many meetings to hold and how to structure them; how to compensate directors; how to create meeting agendas; and how to make the best choice for board chair.
- Chapter 7 shows how to identify and select board members—roles for family and management in the search and nomination processes; determining which owners will sit on the board; how to approach candidates; and what to do if an improper choice is made.
- Chapter 8 addresses strategies for managing the board in and out of meetings—determining what issues are discussed at board meetings; use of the board secretary

and board minutes; and the importance of ongoing evaluation of a board's involvement and performance.

- Chapter 9 covers the varied roles a board can play when working with a family business, including mentoring, development of business vision and goals, and making certain that shareholder opinion is considered.
- Chapter 10 discusses how a board that includes independent directors can help address issues and challenges faced by older, more complex family businesses in the second generation and beyond.
- Chapter 11 is targeted to the directors of family enterprises, helping them determine how they can add most value to the enterprise by asking the right questions, supporting the CEO and helping draw a line between family issues and business issues. This chapter also helps director candidates determine if a position is appropriate for them.
- Chapter 12 is our "Call to Action," summarizing our perspective on the value and contributions of an active, independent board.
- Finally, the appendices provide examples of specific documents family businesses use to develop and manage their boards.

Examination of these and other issues is augmented by profiles of real life family businesses and their boards of directors. These profiles highlight how boards have supported family enterprises in a variety of ways, from goal setting to problem solving. They serve as vivid and provocative examples of the value a carefully constructed and active board of directors can bring to family businesses of all sizes and levels of complexity.

With all the advantages apparent in the presence of a board in a family business, why are so many family businesses unwilling to commit to a strong, effective board? We'll begin considering that question in the next chapter when we discuss the truths and myths that surround a board's makeup and function.

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Truth and Myths about Boards: Meeting the Challenge

Every business must name a board to meet legal requirements. In our survey, we found that many family businesses stop there. Only 48 percent of respondents have a board that meets more than two times per year. Boards that meet no more than every six months cannot effectively support management during challenges, nor can they provide maximum value to key strategic decisions.

We commend families that have taken the first step to formalizing governance by organizing a board that meets regularly to oversee the business. But it is important to take the next step further, adding independent directors who bring objective oversight and perspective, which significantly enhances board value. Independent directors play a crucial role in holding management and owners accountable and by injecting fresh, unique perspectives into strategic decision making. They bring a level of objectivity free from familial relationships or history with the company.

While data and experience support the value of independent directors, our survey shows that only 25 percent of companies with active boards (those that met three or more times per year) had two or more independent directors on their boards, and 21 percent had three or more independent directors. Even for companies of sales greater than $100 million, only 58 percent had active boards and only 33 percent had three or more independent directors.

In our experience, independent directors are the richest resource available to family-owned companies. So, why do so few companies take advantage of this resource? We have seen that fears about relinquishing control, admitting weakness, or finding directors who truly understand a family's situation limit use of this valuable tool. Examples in this book show that most business owners' fears about independent directors vanish in the light of experience.

For many family businesses in our study, owners and CEOs felt that independent directors brought new ideas, perspectives, insights, or self-confidence. In many cases, independent directors acted as catalysts for important strategic, financial, and succession planning. Almost universally, owners and CEOs reported strategic insights or organizational suggestions that were invaluable.

Independent directors served a critical role as a confidential ally to the chief executive and/or owners in grappling with knotty succession or family issues. Almost unanimously, these owners reported that independent directors have improved the quality of decision making at their companies and increased their chances of perpetuating private ownership, should they choose to do so.

Here are two real-life examples:

- One entrepreneur credits his board with helping his specialty baked goods concern develop an upscale image and a brand name for its new line of cookies. While the board members did not name the products or come up with the packaging design, they really pushed management to define the image they were looking for and asked questions that helped management clearly identify their target customers. "You can see the influence of the board here," says the owner, proudly showing off an array of attractive products.
- Another family-held concern says its independent directors correctly refocused top management's attention toward strategy and long-term planning and away

from day-to-day operating details. One director cites a specific board conversation: "Management asked for our input on a decision to invest in new equipment for the plant. The board members asked management their long-term plan for the product categories that would be produced with the new equipment. We had a concern based on some earlier conversations that this product line may be phased out in the next few years." The board encouraged management to identify a three-year plan, including projected product volumes by category to aid in capacity-planning decisions. The board "has really helped us to move the company forward," says one family member.

In our survey, respondents with independent representation on their boards reported a much higher level of board effectiveness than respondents with no independent directors. And reported effectiveness increases with the amount of independent representation.

Type of board	*Percent of sample rated board effective*
Family board	54 percent
Two or more independents but NOT a majority	83 percent
Majority independents	96 percent

These results mirror earlier research showing that almost 90 percent of the CEOs with at least two independent directors term their boards "useful," "very valuable," or "tremendously valuable" to the company—a far higher level of satisfaction than that expressed by CEOs with boards of only shareholders, family, or top managers.

Resistance to Boards

With research and testimony for family business owners demonstrating that an independent board is a valuable resource for the family-owned business, why are there not more of them? To be fair, business owners' resistance to creating a board is occasionally well-founded. Sometimes unusual tensions among shareholders weigh against it. In one family business, for instance, the 62-year-old CEO and his wife, the company's financial executive, were eager to hand the business over to their daughter, who was working in the company. However, their energy was consumed by struggling to help hold together the daughter's troubled marriage to a man also employed in the business. In this situation, the family needed to resolve some of these internal problems before it could deal effectively with a board.

In other cases, the family leader's own position is too tenuous to involve active outside directors. Perhaps he has constructed a tense truce among shareholders who are continually nipping at his heels. Another potential challenge a board may create is increased family involvement. Especially in situations where a family member has been troublesome or difficult in the past, an active board—where all owners participate alongside independent directors—may provide another platform for the challenging family member to negatively insert himself or herself into the business.

Some family members are not emotionally prepared to deal with a board. Others are not receptive to constructive advice. All of these may be valid reasons to avoid forming an independent board (although we will argue later in the book that the independent board helps address some of these issues.)

More often, though, resistance is rooted in a lack of experience or understanding of the potential benefits of effective directors—advantages that most often outweigh any drawbacks. Let's take a closer look at some of the reasons most often cited by family company leaders for avoiding a board.

"Why Would I Want a Board Like *That*?"

Many business owners' only experience with independent boards is as directors of local banks or charitable or civic organizations. These are often poor examples. Community banks tend to pick directors for the primary purpose of business development, often packing their boards with customers. Directors in this heavily regulated industry also tend to become mired in operations, meeting monthly, or even more frequently, to vote on loan approvals and other operating matters. Similarly, boards of philanthropic or civic organizations are often assembled with political goals in mind, appealing to various constituencies, building alliances, or aiding fundraising efforts. They are often far larger and more bureaucratic than a business board should be. Boards of publicly traded companies are another well-known model. But their board operations are influenced by a fiduciary responsibility to a diverse and far-flung shareholder base and to public company reporting requirements.

While public company boards can function well despite these obstacles, owners of family businesses typically only hear or read in the media about the worst: boards hit by liability lawsuits, boards ousting company leadership, boards under attack by special interest groups, and boards that crumble from infighting.

Yet, family business owners do not need to embrace any of these models—the bank, philanthropic, or conflict-ridden public company boards. An effective family company board can operate much differently.

While it requires some courage to invite active directors into one's business, says one owner, "The more you understand their role, the less intimidating the whole idea is."

Fears and Misconceptions about Boards

With so few good role models, many family businesses harbor a variety of fears about independent directors. Here are a few of the most common ones:

"Why should I give up control of my company?" Many family business owners suspect independent directors will somehow rob them of control of their business. This fear obscures the fact that *all* directors serve at the pleasure of shareholders. In the family-owned company, owners structure the board to meet their needs. Few issues need come to a vote.

If independent directors are not aligned with owners' vision and goals, directors can be removed as quickly as a shareholders' meeting can be called. (And in a family-owned company, that can be a matter of a few phone calls.) "Let's face it, in a family-held firm, the family holds all the votes," says one family business owner. "If directors kept disagreeing on decisions we felt strongly about, the owners would disband the board, and we'd move on. But, frankly, I don't imagine that ever happening. They respect us, and we'd be fools not to consider their opinion."

Moreover, a power grab is the furthest thing from the mind of a family company director. Most see their role as a sounding board, a guide, a confidential ally, and a resource. And their motivation is usually to offer help when they can and to learn what they can in the process.

As we mentioned earlier, some family businesses believe a board will merely give certain family members greater opportunity to involve themselves in the business—often, not for the better. In many cases, the opposite is true—a professional and qualified board composed in part of independent members may exert a positive influence on family members who may, in the past, have been disruptive, uncooperative, or merely uninvolved.

"They won't respect our values." Many family businesses are concerned that independent directors will not abide by certain traditions and values that are imbued in the business, such as closing on Sundays, loyalty to employees, or even reticence to take on debt. In fact, a qualified board including qualified independent directors will acknowledge the importance of those values and the effect they have had on the family business' success, rather than trying to change them.

"The liability risk is too great." Both experience and research show this fear is overblown for family company boards. And means of alleviating the risks are certainly available, such as shareholder indemnification or director and officer liability insurance. (These issues are treated in detail in chapter 7.)

Another alternative preferred by many family businesses is the naming of outside advisors to an advisory board rather than to a board of directors. The advisory board does not make any final decisions but provides advice and insight. In most cases, an advisory board can be almost as effective as an independent board.

Ultimately, the best defense against legal liability is conscientious and good faith conduct by the directors—a guiding principle routinely embraced by effective board members.

"I don't want to give up any of my privacy." Many entrepreneurs strongly resist sharing financial information, but as a business grows, financial performance data become crucial management tools. Some level of disclosure to top managers becomes necessary to set goals, measure progress, and grow. Owners need not fear disclosure to well-selected independent directors or advisors, as they will know to treat any confidential information of the business or family with the utmost care and respect, just as if it were their own business.

"I don't have any idea whom to choose." Many families have been too busy building the business to develop an extensive network of outside contacts. Many worry that qualified people will not want to serve; some fear making bad choices. Yet, the process can be virtually fail-safe if approached deliberately and thoughtfully. Business owners typically have more resources at hand than they realize to help identify good candidates, and a careful screening can dramatically reduce the risk of making a poor choice.

"I'm not organized enough to deal with a board." Many business leaders have neglected organizational and management skills in favor of growing their companies. But these are not just boardroom skills. As a company and its workforce grow, leadership's ability to articulate ideas and goals becomes increasingly important to the quality of management. Managing a board can reinforce development of these professional abilities, leading to benefits throughout the growing business.

"Outsiders could never understand my business." No one will ever understand any family business as well as the family and management team. Good independent directors know that. Effective directors are not there to run the business, nor will they try. Directors will develop valuable knowledge of the company in time. And because good boards tend to focus on broad, long-range issues, such as strategy and succession, the directors' diverse experience can greatly enrich the discussion and, therefore, be an asset rather than a liability. Additionally, qualified independent directors help boost the overall professionalism of any family business—for instance, a board can be instrumental in formalizing various policies and procedures, a step that can prove critical should a sudden change in leadership occur due to death or illness.

In particular, directors who come from a family business background may understand more about running such businesses than you might assume, such as the importance of maintaining the core values a family brings to its business. In that sense, they can bring empathy to their responsibility—a firsthand understanding of the issues and challenges a family business can face.

"Independent directors will force me to act more quickly than I want to." Many family businesses fear that raising an issue with an independent board will force them into quick action. Effective boards do not operate this way. The role of an effective family business board is never to force or coerce, but to listen, lend counsel, encourage and support, and raise questions.

"An independent board would be a bureaucratic headache." Meeting legal requirements for board actions is easy when Mom and Dad and the family lawyer or advisor are the only directors. In practice, though, a well-managed, independent board can deal with its legal duties almost as efficiently, sometimes more efficiently if it can reduce family discord and ineffective decision making.

As stated above, there are many misconceptions about boards—but the reality is: Boards help a business move forward.

Ten Benefits of a Board

1. In-house Experience, Expertise, and Empathy. Independent directors can bring a wealth of experience to a business. A board of risk-taking peers—others who already have passed the milestones that lie ahead for your business—can ease the fear of the unknown and help anticipate new challenges. Directors who have come from a family business know first-hand what challenges a family business can face, and they can genuinely empathize with you about the dilemmas these challenges may create for you in your leadership role.

Often, directors bring a network of personal contacts to the business. At least once in most board meetings, directors offer helpful resources: "If you need advice on this, why don't you talk to so-and-so?" At other times, they offer special expertise that may be peripheral to operations but valuable to the overall smooth functioning of the business—suggestions for a disaster-recovery program or employee-safety training, for instance.

2. Self-discipline and Accountability. As much as many family business owners relish autonomy, many find accountability is a crucial tool in helping to preserve it. If a family business is transparent with its goals, the likelihood of achieving them increases. Many of these owners even ask their boards to review their own performance annually against the goals they have set for themselves. Directors can also prove particularly effective in reassuring owners who are not active in the business.

Often, directors help develop the tools family businesses need to set measurable goals and gauge performance against those goals. Many owners say their boards have helped them master financial reporting techniques, including key performance ratios.

A vigilant board brings another, often unforeseen, benefit: organizational accountability. As the discipline encouraged by independent directors trickles down through the company, many family businesses see improvement in performance at all levels of the organization.

3. A Sounding Board. An experienced board can serve as a valuable sounding board. Like most anyone else, family business owners are full of ideas that range from great to mediocre. What many of them lack is a sounding board to help evaluate those ideas—a panel that is knowledgeable and objective and will listen and react honestly, appropriately, and without unintended consequences. In our survey, the value of a sounding board for senior management was often cited by study respondents as an extremely valuable benefit, ranking second only to "giving input on strategic direction" in a list of the benefits of an independent board.

For the founder of a publishing concern, an independent board pointed out the risks of his idea to affiliate with a foreign partner. "It's easy when you're by yourself to get off on a tangent and come up with something you think is a good idea," the founder says. "But the board helped me see the problem: that the amount of capital I would probably get compared with the independence I would have to give up wouldn't be worth it. As a result of one board discussion, I put it out of my head—after messing around with it for years."

In other cases, a board may give the family the confidence they need to charge ahead. "In business, you've always got one foot on the gas and one on the brake," says one CEO. "The directors are the clutch. They let you know which one should take over."

4. Honest, Objective Opinions. A well-chosen board can provide an excellent forum for gleaning honest, objective opinions. Family business owners and senior executives exert little power or influence over good board members. Effective directors have nothing to prove or gain by promoting their own interests; nor are directors' fees enough to make them beholden to the company. As discussed later, the compensation typically paid directors (in a range of $15,000–$40,000