

## Function and Responsibilities of the Board of Directors in the Family Enterprise

A family enterprise needs sound governance mechanisms to achieve its goals and to succeed down the generations. These governance structures contain the plans, statements, policies, rules and agreements that allow the family enterprise to clarify its direction and identity. In this technical note, we will focus on one of the most important business governance structures in the family enterprise: the Board of Directors and its connection with the Executive Committee. The main functions of the Board of Directors and the Executive Committee, as well the challenges faced by these governance structures, are explained in the context of a family enterprise.

### Family Enterprise Governance Structures

The main structures of business governance in the family enterprise are shown in Figure 1. The Board of Directors and Executive Committee are shown in the context of the whole family enterprise governance structure.

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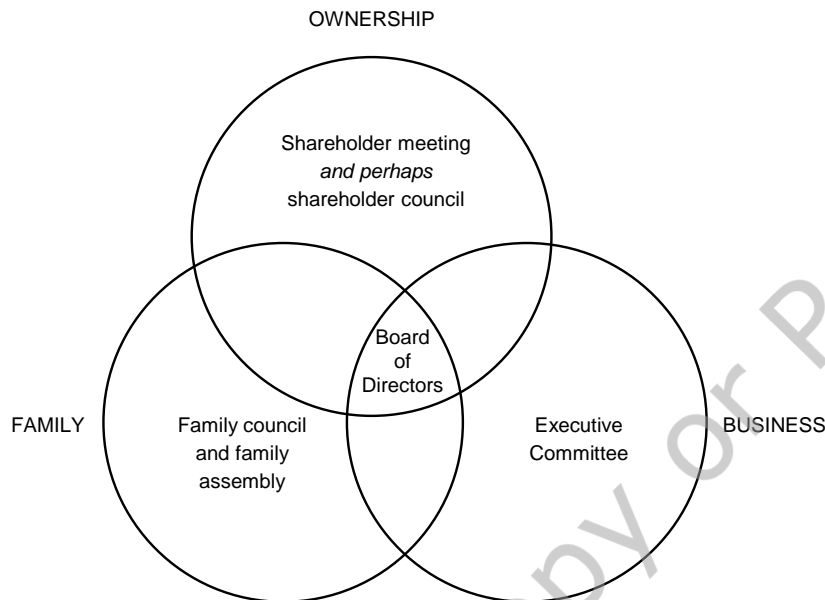
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**Figure 1**  
**Most important governance structures of the family enterprise system (adapted from John A. Davis, 2007)<sup>1</sup>**



## The Board of Directors and the Executive Committee in the Family Enterprise

The Board of Directors and the Executive Committee are the two vital parts of the corporate governance of a family enterprise. Without one of the two, the effectiveness of how the family enterprise is governed will be hampered. Both are needed to build a long-term future for the enterprise.

The Board of Directors should act as the mentor of the Executive Committee. It should not interfere with the Executive Committee's work. It should help the Executive Committee members to develop their strengths as executives, acting as a reliable sounding board for any ideas, concepts or projects that the Executive Committee may want to bring forward. At all times, it should exercise effective oversight of the Executive Committee's actions, serving the interests of the shareholders and all the stakeholders involved in the family enterprise. The Board should also serve as the engine that drives or stimulates new projects, offering the Executive Committee new challenges.

It is important to emphasize that there are certain generic tasks where it is best to allocate roles clearly to the Board of Directors and the Executive Committee. In Table 1, we show a proposed division of responsibilities between the bodies in some key areas of corporate governance in the family enterprise: mission and values, strategy, control, institutional development, development of managerial talent and management teams, decisions about investments and resource allocation, mergers and acquisitions, and succession. Please be aware that the division of roles is sometimes fuzzy and should not create closed compartments. Any decision should be accompanied by the intention of seeking the family enterprise's long-term survival.

<sup>1</sup> Davis, J.A. (2007) "Governance of the Family Business." Harvard Business School Background Note 807-022.

In the technical note “Boards of Directors and Corporate Governance,”<sup>2</sup> Professor Jordi Canals offers the framework presented in Table 1. It is interesting to look in greater depth at the different responsibilities of the Board of Directors and the Executive Committee using the original source.

**Table 1**  
**Responsibilities of the Board of Directors vs. the Executive Committee in a family enterprise**

Responsibilities	Board of Directors	Executive Committee
Vision, mission and values	Define	Implement
Strategy	Approve	Design/implement
Control	Strategic/financial	Strategic/financial/ operational
Institutional development	Drive/approve	Drive/execute
Development of managerial talent and management teams	Of the Executive Committee	Of the whole organization
Decisions about investments and resource allocation	Approve	Propose/implement
Mergers and acquisitions	Drive/approve	Propose/implement
Succession	Plan and supervise	Collaborate

Source: Adapted from Jordi Canals (2004)<sup>3</sup>

Besides all these aspects, Boards of Directors in family enterprises need to pay special attention to several family-related aspects. There is no single model of Board activities that works best for all family enterprises. In each company, the owners of the company, the Board and the Executive Committee must sort out responsibilities and their authority for setting goals and strategy for the business. Below there are brief descriptions of several important tasks that are useful for the Board of Directors in a family enterprise to consider.

- **Defining and Safeguarding the Family Enterprise's Values**

The Board should define the values that will govern the life of the family enterprise. These values should be in line with the values of the owning family. Remember that values are vital as they guide the selection or evaluation of behavior, objects and events.<sup>4</sup> In other words, values are part of an organization's identity. The Board should revise these values from time to time, especially during transitions such as the succession process. Likewise, the Board is responsible for finding ways to communicate and implement the family enterprise's values in everyday practice.

<sup>2</sup> Canals, J. (2004) “Boards of Directors and Corporate Governance.” DGN-639-E, IESE, 2004. ([Available on IESEP](#))

<sup>3</sup> Ibidem.

<sup>4</sup> Fernández Pérez, P. and A. Colli. (2013) *The Endurance of Family Businesses: A Global Overview*. Cambridge University Press.