



Governance Structure Framework for Family Businesses

A Comprehensive Guide to Establishing Effective Family
Councils, Board Structures, and Decision-Making
Protocols

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Successors**

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Introduction

Family businesses represent the backbone of the global economy, accounting for approximately 70% of all businesses worldwide and generating over 70% of global GDP. Yet, despite their economic significance, family enterprises face unique challenges that non-family businesses rarely encounter.

The Unique Challenge of Family Business Governance

Unlike traditional corporations, family businesses operate at the intersection of three complex systems: the family, the business, and ownership structures. This intersection creates both tremendous opportunities and significant risks. While family businesses often demonstrate remarkable resilience, long-term vision, and commitment to stakeholders, they also face challenges that can threaten their survival across generations.

Research consistently shows that only 30% of family businesses survive to the second generation, 12% make it to the third generation, and merely 3% operate successfully into the fourth generation and beyond. The primary reason for this high failure rate is not financial performance or market conditions—it's the lack of effective governance structures.

Why Governance Structures Matter for Multi-Generational Success

Effective governance serves as the foundation for family business continuity. It provides the framework for managing complex family dynamics, ensuring professional

management, and balancing the often competing interests of family members, business stakeholders, and ownership groups.

Strong governance structures enable family businesses to:

- Navigate succession planning with clarity and fairness
- Resolve conflicts before they become destructive
- Attract and retain non-family talent
- Make strategic decisions based on merit rather than family politics
- Maintain family unity while professionalizing the business
- Create transparency and accountability across all stakeholders

Framework Overview

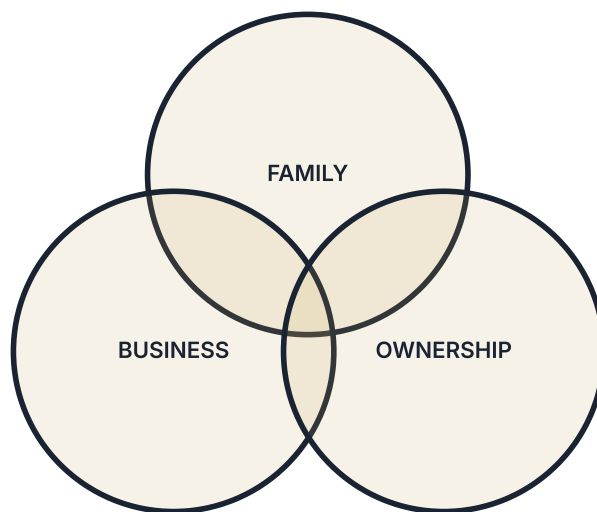
This comprehensive framework draws from best practices observed in successful multi-generational family businesses globally and incorporates proven methodologies from executive coaching and organizational development. The approach emphasizes stakeholder analysis, behavioral change management, and systematic implementation of governance structures that evolve with the family and business needs.

The framework is designed to be practical and actionable, providing step-by-step guidance for establishing effective governance while recognizing that each family business is unique and requires customized solutions.

Section 1: Understanding Family Business Governance

The Three-Circle Model

The foundation of family business governance lies in understanding the three overlapping circles that define the family enterprise ecosystem:



The Seven Stakeholder Groups

Each individual in a family business occupies one of seven possible positions within these circles:

1. **Family Members:** Related but not involved in business or ownership
2. **Employees:** Work in business but no family or ownership ties
3. **Owners:** Hold equity but no family or employment relationship
4. **Family Employees:** Family members who work in the business
5. **Family Owners:** Family members who hold equity but don't work in business
6. **Employee Owners:** Non-family employees who hold equity
7. **Family Employee Owners:** Family members who work in business and hold equity

Common Governance Challenges in Family Enterprises

Understanding these stakeholder positions reveals why family businesses face unique governance challenges:

Role Clarity and Boundaries

- Confusion between family relationships and business roles
- Difficulty separating personal and professional decisions
- Unclear authority and accountability structures
- Mixing family disputes with business conflicts

Communication Breakdown

- Information asymmetry between active and passive family members
- Assumptions based on family history rather than current realities
- Avoiding difficult conversations to preserve family harmony
- Different communication styles across generations

Decision-Making Paralysis

- Consensus-seeking that delays critical business decisions
- Emotional decision-making that conflicts with business logic
- Unclear voting rights and decision authorities
- Fear of creating family conflict through business decisions

Succession and Continuity Concerns

- Reluctance to address succession planning
- Competing expectations among next-generation family members
- Lack of development pathways for family successors
- Inadequate preparation of non-family leadership

Benefits of Structured Governance

Implementing formal governance structures addresses these challenges by creating clarity, accountability, and professional management practices:

Enhanced Decision-Making

- Clear decision rights and processes
- Objective criteria for strategic choices
- Timely resolution of conflicts
- Balanced stakeholder representation

Improved Performance

- Professional management standards
- Strategic planning discipline
- Risk management frameworks
- Performance accountability

Family Unity

- Transparent communication
- Fair treatment of all stakeholders
- Preserved family relationships
- Shared vision and values

Business Continuity

- Systematic succession planning
- Knowledge transfer processes
- Sustainable competitive advantages
- Multi-generational thinking

Key Success Factors

Successful family business governance implementation requires attention to both structural and behavioral elements:

Structural Elements

✓ Governance Bodies

- Family Council with clear charter and authority
- Board of Directors with appropriate composition
- Committee structures for specialized oversight
- Regular meeting schedules and protocols

✓ Policy Framework

- Family Constitution outlining values and principles
- Employment policies for family members
- Dividend and distribution policies
- Code of conduct and ethical guidelines

Behavioral Elements

✓ Leadership Commitment

- Senior generation modeling governance behaviors
- Consistent application of policies and procedures
- Accountability for governance effectiveness
- Investment in capability building

✓ Cultural Transformation

- Shift from informal to formal processes
- Embracing transparency and open communication
- Professional development mindset
- Long-term stewardship orientation

Note: The success of governance implementation often depends on addressing limiting beliefs and perceptions that may resist formal structures. Executive coaching methodologies, including stakeholder analysis and behavioral change frameworks, can be instrumental in facilitating this transformation.

Section 2: Establishing a Family Council

Purpose and Charter of Family Councils

The Family Council serves as the primary governance body representing family interests in the business. It acts as the bridge between the family and the business, ensuring that family values guide business decisions while maintaining professional management standards.

Core Functions of a Family Council

- **Vision and Values Stewardship:** Articulating and preserving the family's vision, mission, and core values
- **Policy Development:** Creating policies that govern family involvement in the business
- **Communication Hub:** Facilitating information flow between family members and business leadership
- **Conflict Resolution:** Providing mechanisms for addressing family disputes
- **Next Generation Development:** Nurturing and preparing future family leaders
- **Family Unity:** Strengthening family bonds and shared commitment to the business

Step-by-Step Guide to Formation

Phase 1: Assessment and Preparation (Months 1-2)

Step 1: Stakeholder Analysis

Conduct a comprehensive mapping of all family stakeholders using the three-circle model. Identify:

- Current family members' positions within the family-business-ownership circles
- Interests, concerns, and aspirations of each stakeholder group
- Existing power dynamics and influence patterns
- Potential sources of conflict or misalignment

This analysis helps ensure all relevant voices are considered in the governance design.

Step 2: Readiness Assessment

Evaluate the family's readiness for formal governance:

- Leadership commitment from senior generation
- Family size and complexity requiring formal structures
- Existing conflicts that need structured resolution
- Business maturity and strategic needs
- Family members' availability and willingness to participate

Step 3: Initial Family Dialogue

Organize preliminary discussions to:

- Share the vision for enhanced family governance
- Address concerns and resistance to formal structures
- Gain consensus on the need for a Family Council
- Begin discussing potential structures and approaches

Phase 2: Design and Structure (Months 3-4)

Step 4: Charter Development

Create a comprehensive Family Council Charter addressing:

- **Purpose:** Why the Council exists and what it aims to achieve
- **Authority:** What decisions the Council can make independently
- **Scope:** Which family and business matters fall under its purview
- **Accountability:** How the Council reports to the family and interfaces with the business

Membership Criteria and Structure

The composition of the Family Council significantly impacts its effectiveness and legitimacy within the family system.

Membership Models

Model	Description	Best For	Considerations
Representative	Elected representatives from different family branches or generations	Large, multi-branch families	Ensures broad representation but may create political dynamics
Inclusive	All adult family members participate	Smaller families (under 20 adults)	Democratic but can become unwieldy as family grows
Qualified	Members meet specific criteria (age, ownership, involvement)	Families seeking engaged, committed participants	May exclude some stakeholders, requires clear criteria
Rotational	Fixed-term membership with rotating positions	Families wanting to develop multiple leaders	Ensures fresh perspectives but may lack continuity

Selection Criteria Framework

✓ Essential Criteria

- **Family Status:** Direct descendant or spouse of family member
- **Age Requirement:** Typically 18+ years (some councils use 21+)
- **Commitment:** Willingness and ability to attend meetings regularly
- **Interest:** Demonstrated interest in family business continuity

✓ Preferred Qualifications

- **Business Acumen:** Understanding of business principles and strategy
- **Communication Skills:** Ability to facilitate dialogue and represent others' views
- **Objectivity:** Capacity to separate personal interests from family/business needs
- **Leadership Potential:** Demonstrated leadership in other contexts

Roles and Responsibilities

Family Council Chair

The Chair provides leadership and ensures the Council fulfills its mandate effectively:

- Set agendas and facilitate meetings
- Represent the Council in communications with business leadership
- Ensure follow-through on Council decisions and initiatives
- Manage conflicts and maintain productive family relationships
- Coordinate with other governance bodies (Board, ownership groups)

Council Members

Each member has specific responsibilities that contribute to collective effectiveness:

- **Preparation:** Review materials and come prepared for meaningful dialogue
- **Participation:** Contribute actively to discussions and decision-making
- **Representation:** Communicate with their constituents and gather input
- **Confidentiality:** Respect confidential information and maintain appropriate boundaries
- **Implementation:** Support and help implement Council decisions

Working Committees

Larger Family Councils often establish specialized committees:

Committee	Purpose	Key Activities
Next Generation	Develop younger family members	Education programs, mentorship, career planning
Communication	Enhance family information sharing	Newsletters, meetings, family events
Values & Culture	Preserve and evolve family values	Family constitution, philanthropy, traditions
Education	Build business and governance literacy	Training programs, expert speakers, site visits

Meeting Cadence and Agenda Templates

Meeting Frequency Guidelines

- **Quarterly:** Standard frequency for established councils
- **Bi-annually:** Minimum frequency for larger, dispersed families
- **Monthly:** During formation phase or crisis periods
- **Annual Retreat:** Extended strategic planning and relationship building

Standard Family Council Meeting Agenda

1. Opening & Check-in (15 minutes)

- Welcome and introductions
- Review and approval of previous meeting minutes
- Personal updates from family members

2. Business Update (30 minutes)

- Financial performance report
- Strategic initiative updates
- Market and competitive landscape
- Q&A with business leadership

3. Governance Matters (45 minutes)

- Policy discussions and decisions
- Committee reports
- Family development initiatives
- Succession planning updates

4. Strategic Discussion (30 minutes)

- Long-term vision alignment
- Emerging issues and opportunities
- Family input on business strategy

5. Action Planning & Closing (20 minutes)

- Decision summary and action items
- Next meeting logistics
- Closing reflections

Communication Protocols

Effective communication is essential for Family Council success and broader family unity:

Internal Communication (Within the Council)

Pre-Meeting Communication

- Distribute agendas and materials 7-10 days before meetings
- Provide background information on complex issues
- Share relevant business reports and financial data
- Collect input from family members who cannot attend

Meeting Documentation

- Record detailed minutes with decisions and rationales
- Track action items with owners and deadlines
- Document dissenting views and concerns raised
- Maintain confidentiality classifications as appropriate

External Communication (Family and Business Interface)

Family Communication

- Regular updates to all family members about Council activities
- Annual family meetings to discuss major developments
- Family newsletters highlighting business and governance news
- Open forums for family input on important decisions

Business Interface

- Formal communication protocols with business leadership
- Regular joint meetings with Board of Directors
- Clear escalation processes for urgent matters
- Annual presentation of family priorities to business management

Conflict Resolution Mechanisms

Family conflicts are inevitable, but structured approaches can prevent them from damaging relationships or business performance:

Three-Tier Resolution Process

Tier 1: Direct Resolution

Scope: Interpersonal conflicts between family members

Process:

- Encourage direct dialogue between conflicting parties
- Provide communication guidelines and conflict resolution training
- Set reasonable timeframe for resolution (typically 30 days)
- Document agreements reached to prevent future misunderstandings

Tier 2: Mediated Resolution

Scope: Conflicts affecting multiple family members or business operations

Process:

- Family Council Chair or designated member facilitates discussions
- Structured dialogue sessions with clear ground rules
- Focus on interests rather than positions
- Seek win-win solutions that preserve relationships

Tier 3: Formal Arbitration

Scope: Major conflicts with significant business impact or legal implications

Process:

- Engage professional mediators or arbitrators
- Follow predetermined procedures outlined in governance documents
- Binding decisions with clear implementation timelines
- Post-resolution relationship repair and prevention measures

Conflict Prevention Strategies

The most effective approach is preventing conflicts before they escalate:

- **Clear Expectations:** Well-defined roles, responsibilities, and decision rights
- **Regular Check-ins:** Routine discussions about concerns before they become conflicts
- **Education Programs:** Training in communication, conflict resolution, and family dynamics
- **Early Warning Systems:** Mechanisms to identify and address emerging tensions
- **Professional Support:** Access to family business advisors and executive coaches

Note: Successful conflict resolution often requires addressing underlying perceptions and beliefs that fuel disagreements. Executive coaching approaches, including perceptual reframing and stakeholder analysis, can be valuable tools in this process.

Section 3: Board of Directors Structure

Family Board vs. Advisory Board vs. Fiduciary Board

The choice of board structure depends on the family business's size, complexity, ownership structure, and strategic needs. Each model serves different purposes and provides varying levels of oversight and accountability.

Board Type	Composition	Authority	Best For
Family Board	Primarily family members and senior management	Full fiduciary responsibility and legal authority	Smaller, single-generation businesses with concentrated ownership
Advisory Board	Mix of family, management, and external advisors	Advisory role only, no legal authority	Businesses wanting external input without governance formality
Independent Board	Majority independent directors with minority family representation	Full fiduciary authority with independent oversight	Large, complex businesses or those preparing for external investment
Hybrid Board	Balanced mix of family, management, and independent directors	Full authority with balanced stakeholder representation	Multi-generational families seeking professional governance

Composition Best Practices

The Evolution of Board Composition

Board composition should evolve as the family business matures and becomes more complex:

Generation 1 (Founder-Led)

- **Composition:** Founder + key managers + 1-2 external advisors
- **Focus:** Strategic guidance and external perspective
- **Size:** 3-5 members

Generation 2 (Sibling Partnership)

- **Composition:** Active siblings + professional CEO + 2-3 independent directors
- **Focus:** Conflict resolution, professionalization, succession planning
- **Size:** 5-7 members

Generation 3+ (Cousin Consortium)

- **Composition:** Family representatives + independent majority + professional management
- **Focus:** Independent oversight, strategic direction, family alignment
- **Size:** 7-9 members

Optimal Board Size Guidelines

- **5-7 members:** Most effective size for decision-making and engagement
- **Odd numbers:** Prevent tie votes in critical decisions

- **Maximum 9:** Larger boards become less effective and harder to coordinate
- **Minimum 3:** Smaller boards lack diverse perspectives and oversight capability

Board Member Selection Criteria

Independent Director Profile

✓ Essential Qualifications

- **Industry Expertise:** Deep knowledge of the business sector or related industries
- **Functional Expertise:** Specialized skills in strategy, finance, operations, or technology
- **Board Experience:** Previous board service, preferably in family or growth companies
- **Leadership Experience:** Senior executive experience in complex organizations

✓ Personal Characteristics

- **Integrity:** Unquestionable ethical standards and reputation
- **Independence:** No conflicts of interest or undue family/business ties
- **Courage:** Willingness to ask difficult questions and challenge assumptions
- **Commitment:** Available time and genuine interest in the business success

Family Director Considerations

When family members serve on the board, they must balance family interests with fiduciary duties:

- **Business Competence:** Relevant education, experience, or demonstrated business acumen
- **Objectivity:** Ability to separate family relationships from business decisions
- **Representative Legitimacy:** Support from their family branch or generation
- **Governance Understanding:** Commitment to learning board governance best practices



Key Board Roles

Board Chair

The Chair sets the tone for effective board governance and family-business relationships:

Primary Responsibilities

- **Leadership:** Provide vision and direction for board effectiveness
- **Meeting Management:** Plan agendas, facilitate discussions, ensure productive outcomes
- **CEO Relationship:** Partner with CEO while maintaining appropriate oversight
- **Stakeholder Interface:** Represent board in communications with family and external parties
- **Board Development:** Ensure ongoing director education and evaluation

Lead Independent Director

When the Chair is a family member, a Lead Independent Director provides additional oversight:

- Lead executive sessions without management present
- Coordinate independent director activities and concerns

- Serve as alternative communication channel for sensitive issues
- Lead CEO evaluation and succession planning processes
- Ensure independent director effectiveness and development

Committee Chairs

Committee leadership requires specialized expertise and commitment:

Committee	Chair Profile	Key Qualifications
Audit	Independent Director	Financial expertise, accounting knowledge, risk management experience
Compensation	Independent Director	HR background, executive compensation experience, industry knowledge
Governance	Independent or Family Director	Board governance expertise, family business understanding, legal knowledge
Succession	Family or Independent Director	Leadership development experience, family dynamics understanding

Committee Structures

Audit Committee

Charter and Responsibilities

- **Financial Oversight:** Review financial statements, accounting policies, and internal controls
- **External Auditor Management:** Select, evaluate, and oversee independent auditors
- **Risk Management:** Assess enterprise risks and mitigation strategies
- **Compliance:** Ensure adherence to legal and regulatory requirements
- **Investigation:** Address financial irregularities or whistleblower concerns

Composition: 3-4 independent directors with financial literacy; at least one financial expert

Meetings: Quarterly, with additional meetings as needed

Compensation Committee

Charter and Responsibilities

- **Executive Compensation:** Design and approve senior management compensation
- **Incentive Programs:** Develop performance-based compensation systems
- **Benchmarking:** Ensure competitive and fair compensation practices
- **Family Employment:** Oversee compensation for family member employees
- **Succession Planning:** Support CEO and senior management development

Composition: 3-4 independent directors

Meetings: Quarterly, with annual executive sessions

Governance Committee

Charter and Responsibilities

- **Board Effectiveness:** Evaluate board performance and recommend improvements
- **Director Recruitment:** Identify, evaluate, and nominate board candidates
- **Policy Development:** Develop and update governance policies and procedures
- **Director Education:** Organize ongoing director education and development
- **Stakeholder Relations:** Manage relationships with family council and ownership groups

Composition: 3-4 directors, mix of independent and family members acceptable

Meetings: Semi-annually, with additional meetings for director recruitment

Meeting Protocols and Preparation

Annual Board Calendar

Q1

Strategic Planning & Budget Review

Annual strategic plan review, budget approval, performance targets setting

Q2

CEO & Executive Assessment

CEO performance review, executive compensation decisions, succession planning update

Q3

Risk & Compliance Review

Enterprise risk assessment, audit findings review, compliance monitoring

Q4

Governance & Planning

Board effectiveness evaluation, director development, next year planning

Pre-Meeting Preparation Standards

Information Distribution Timeline

- **7-10 days before:** Board packet with financial reports, strategic updates, and decision materials
- **48 hours before:** Any additional materials or urgent updates
- **Day of meeting:** Final agenda and presentation materials

Board Packet Contents

- Meeting agenda with time allocations
- Previous meeting minutes for approval
- CEO report and dashboard metrics
- Financial statements and variance analysis
- Strategic initiative updates
- Risk and compliance reports
- Decision items with background and recommendations

Board Evaluation Processes

Annual Board Assessment Framework

Regular evaluation ensures continuous improvement and accountability:

Multi-Level Evaluation Approach

- 1. **Full Board Assessment:** Overall effectiveness, culture, and performance
- 2. **Committee Evaluation:** Committee-specific performance and contribution
- 3. **Individual Director Assessment:** Personal contribution and development needs
- 4. **Board-Management Relationship:** Effectiveness of board-CEO partnership

Key Evaluation Dimensions

Dimension	Key Questions	Assessment Method
Board Composition	Right skills, experience, and diversity for current needs?	Skills matrix, gap analysis
Meeting Effectiveness	Productive discussions, good decisions, efficient use of time?	Meeting surveys, time analysis
Strategic Oversight	Appropriate involvement in strategy without micromanaging?	Strategy review, CEO feedback
Risk Management	Effective identification and oversight of key risks?	Risk assessment, audit results
Family Dynamics	Successfully balancing family and business interests?	Family feedback, conflict tracking

Action Planning and Follow-Up

Evaluation Results Processing

- **Data Analysis:** Comprehensive review of feedback and trends
- **Priority Setting:** Identify top improvement opportunities
- **Action Planning:** Specific initiatives with timelines and owners
- **Implementation:** Execute improvement plans with regular check-ins
- **Follow-Up:** Monitor progress and measure improvement in next evaluation

✓ Common Improvement Areas

- **Information Quality:** Enhance board reporting and decision support materials
- **Meeting Dynamics:** Improve discussion quality and decision-making processes
- **Director Development:** Provide additional education and skill building
- **Committee Effectiveness:** Restructure or refocus committee activities
- **Stakeholder Engagement:** Strengthen relationships with family and management

Note: Board effectiveness often depends on addressing interpersonal dynamics and communication styles among directors. Executive coaching methodologies, particularly

stakeholder analysis and communication flexibility frameworks, can enhance board performance and family-business relationships.

Section 4: Decision-Making Protocols

Decision Rights Framework

Clear decision rights prevent conflicts and ensure accountability by defining who has authority to make different types of decisions. The framework distinguishes between strategic and operational decisions while considering family, business, and ownership interests.

Decision Categories and Authority Matrix

STRATEGIC DECISIONS	OPERATIONAL DECISIONS	GOVERNANCE DECISIONS
<div>Board Authority:<ul style="list-style-type: none">Vision & mission changesStrategic plan approvalMajor acquisitions/divestituresCapital allocation >\$XCEO selection & evaluationExecutive compensation</div>	<div>Management Authority:<ul style="list-style-type: none">Day-to-day operationsHiring & firing (non-C-level)Vendor relationshipsProduct developmentMarketing & sales executionBudget execution</div>	<div>Family/Owner Authority:<ul style="list-style-type: none">Family constitutionBoard compositionDividend policyFamily employment rulesOwnership transferLiquidity policies</div>

Decision Threshold Framework

Establish clear financial and strategic thresholds that trigger different approval processes:

Decision Type	Management Authority	Board Approval Required	Owner Approval Required
Capital Expenditures	Up to \$500K	\$500K - \$5M	Above \$5M
Debt Financing	Working capital lines	Term loans up to 2x EBITDA	Above 2x EBITDA
Acquisitions	Small bolt-ons (<5% revenue)	Strategic acquisitions	Transformative deals
New Markets/Products	Extensions of existing	New business lines	Unrelated diversification
Key Personnel	Department heads	C-level executives	CEO selection

Note: Thresholds should be adjusted based on company size, industry, and risk tolerance.

Voting Mechanisms and Thresholds

Board Voting Protocols

Standard Voting Requirements

- **Simple Majority (>50%):** Routine business decisions, budget approvals, management appointments
- **Supermajority (67-75%):** Strategic plan changes, major capital allocations, CEO compensation
- **Unanimous:** Fundamental changes to governance structure, family constitution amendments
- **Independent Director Majority:** Related-party transactions, family member compensation

Family/Ownership Voting

Voting rights among family owners require careful consideration of fairness, control, and decision efficiency:

Voting Models

- **Pro-Rata Ownership:** Vote according to ownership percentage
- **Per Capita:** One vote per family member regardless of ownership
- **Branch Representation:** Equal votes per family branch
- **Generational Weighting:** Different voting weights by generation
- **Hybrid Models:** Different voting rules for different types of decisions

Family Employment Policies

Clear family employment policies prevent conflicts and ensure meritocracy while providing opportunities for qualified family members:

Core Policy Elements

Entry Requirements

- **Education:** Minimum educational qualifications (typically bachelor's degree)
- **External Experience:** 3-5 years working outside the family business
- **Performance Record:** Demonstrated success in previous roles
- **Business Need:** Available position matching family member's qualifications
- **Family Support:** Endorsement from Family Council or designated committee

Performance Standards

- **Equal Treatment:** Same performance standards as non-family employees
- **Regular Reviews:** Formal performance evaluations by non-family supervisor
- **Development Plans:** Clear career progression pathways and skill development
- **Accountability:** Consequences for underperformance, including potential termination

Compensation Philosophy

Market-Based Approach

- Benchmark compensation against industry and regional standards
- Performance-based components tied to individual and company results
- Transparent compensation committee review for family positions
- Separate compensation from ownership benefits (dividends, distributions)

Dividend and Distribution Policies

Dividend policies balance the business need for capital retention with family members' financial expectations and liquidity needs:

Policy Framework Development

Key Considerations

- **Business Needs:** Capital requirements for growth, debt service, and working capital
- **Family Needs:** Shareholder liquidity expectations and tax planning considerations
- **Industry Norms:** Typical payout ratios in comparable businesses
- **Lifecycle Stage:** Growth phase vs. mature business distribution capacity
- **Ownership Diversity:** Active vs. passive shareholders' different needs

Sample Dividend Policy Components

- **Target Payout Ratio:** Distribute 30-40% of after-tax earnings annually
- **Minimum Distribution:** Sufficient to cover owner tax liabilities (tax distributions)
- **Performance Triggers:** Dividends contingent on achieving profitability and cash flow targets
- **Reserve Requirements:** Maintain minimum cash reserves before distributions
- **Special Distributions:** Process for extraordinary distributions from asset sales or windfalls
- **Review Frequency:** Annual policy review with 3-5 year outlook

Investment and Capital Allocation Decisions

Strategic capital allocation requires balancing growth opportunities, risk management, and stakeholder expectations:

Capital Allocation Framework

Use of Capital	Decision Criteria	Approval Authority
Organic Growth	ROI > hurdle rate, strategic fit, risk assessment	Management (<\$500K), Board (>\$500K)
Acquisitions	Strategic rationale, due diligence, integration plan	Board approval, Owner input on major deals
Debt Reduction	Cost of capital, refinancing opportunities, covenant compliance	Board approval for significant changes
Dividends	Policy compliance, cash availability, future needs	Board recommendation, Owner approval
Share Repurchase	Liquidity provision, ownership restructuring, valuation	Board and Owner approval

Investment Evaluation Process

Five-Step Assessment

- 1. Strategic Alignment:** How does this support long-term vision and competitive position?
- 2. Financial Analysis:** What are expected returns, payback period, and sensitivity to assumptions?
- 3. Risk Assessment:** What could go wrong and how would we mitigate or manage risks?
- 4. Capability Requirements:** Do we have or can we acquire necessary skills and resources?
- 5. Alternative Analysis:** What other uses of capital were considered and why is this best?

Succession Planning Protocols

Effective succession planning is perhaps the most critical governance responsibility in family businesses:

Multi-Level Succession Framework

Leadership Succession

- **CEO Succession:** 5-7 year development pipeline with internal and external candidates
- **C-Suite Succession:** 3-5 year development plans for all senior executives
- **Emergency Succession:** Immediate interim leadership plans for unexpected departures
- **Board Succession:** Director recruitment and rotation planning

Ownership Succession

- **Estate Planning:** Coordinated wealth transfer strategies across family branches
- **Gift Programs:** Systematic equity transfers to next generation
- **Buy-Sell Agreements:** Clear processes for ownership transfer and valuation
- **Next-Gen Preparation:** Education programs for future owners

Succession Decision Process

CEO Succession Steps

1. **Candidate Identification (Year 1-2):** Internal and external potential successors
2. **Assessment & Development (Year 2-4):** Evaluate capabilities, provide development opportunities
3. **Selection Process (Year 4-5):** Board-led evaluation and final candidate selection
4. **Transition Planning (Year 5-6):** Structured handover with outgoing and incoming CEO
5. **Post-Transition Support (Year 6-7):** Ongoing coaching and board support for new CEO

Buy-Sell Agreements and Liquidity Options

Buy-sell agreements provide critical mechanisms for ownership transitions while maintaining family control and business stability:

Essential Buy-Sell Agreement Components

✓ Triggering Events

- **Death:** Mandatory or optional purchase of deceased owner's shares
- **Disability:** Purchase rights after defined disability period
- **Retirement:** Phased redemption or sale of shares
- **Divorce:** Protection against non-family ownership through marital dissolution
- **Voluntary Exit:** Right of first refusal for departing shareholders
- **Termination:** Purchase requirements if family member leaves employment

✓ **Valuation Methodology**

- **Formula Approach:** Multiple of EBITDA or book value
- **Independent Appraisal:** Professional business valuation
- **Fixed Price:** Annually updated agreed value
- **Discounts:** Minority and lack of marketability discounts for non-controlling interests

✓ **Payment Terms**

- **Funding Source:** Company redemption vs. cross-purchase by other owners
- **Payment Schedule:** Lump sum, installments, or earn-out arrangements
- **Interest Rate:** Market rate or AFR for installment payments
- **Security:** Collateral or guarantees for payment obligations

Liquidity Planning for Family Shareholders

Providing liquidity while maintaining family control requires creative solutions:

Liquidity Mechanisms

- **Dividend Policy:** Regular distributions providing ongoing cash flow to owners
- **Share Redemption Programs:** Periodic company repurchases from willing sellers
- **Internal Market:** Facilitated trading among family members
- **Family Bank:** Loans to family members secured by shares
- **Partial Sales:** Minority stake sales to strategic or financial investors
- **Dividend Recapitalization:** Debt-financed special distributions

Communication and Transparency Standards

Trust and alignment depend on transparent communication about business performance and governance decisions:

Information Sharing Framework

Stakeholder Group	Information Provided	Frequency	Format
Active Owners/Directors	Full financials, strategic plans, operational details	Monthly/Quarterly	Board packets, management reports
Passive Owners	Financial summaries, strategic updates, major decisions	Quarterly/Annual	Owner reports, annual meetings
All Family Members	Business highlights, family initiatives, governance changes	Quarterly/Annual	Family newsletters, meetings
Key Employees	Performance metrics, strategic direction, recognition	Monthly/Quarterly	All-hands meetings, updates

Transparency Principles

Best Practices

- **Timeliness:** Provide information on regular schedules, not just when convenient
- **Completeness:** Share both positive and negative developments honestly
- **Clarity:** Present information in accessible formats, avoiding excessive jargon
- **Context:** Explain the "why" behind decisions, not just the "what"
- **Accessibility:** Make information easy to find and retrieve
- **Confidentiality:** Clearly mark sensitive information and enforce confidentiality agreements

Note: Effective communication often requires adapting styles and approaches to different stakeholder preferences. Understanding various communication styles and stakeholder perspectives—key components of executive coaching methodology—can significantly enhance governance effectiveness and family alignment.

Section 5: Family Constitution & Governance Documents

Elements of a Family Constitution

A Family Constitution serves as the foundational document articulating family values, vision, and principles that guide the family's relationship with the business. Unlike legal documents, it represents the family's moral and ethical compass.

Core Components

1. Family Vision and Mission

- **Family Purpose:** Why the family stays together in business
- **Business Mission:** How the business serves family and broader stakeholder interests
- **Long-term Vision:** Aspirations for the family and business over generations
- **Legacy Goals:** What the family wants to be remembered for

2. Core Values and Principles

- **Family Values:** Fundamental beliefs that unite the family (integrity, stewardship, innovation, etc.)
- **Business Principles:** How values translate into business practices
- **Stakeholder Commitments:** Obligations to employees, customers, communities
- **Ethical Standards:** Expected behaviors and conduct guidelines

3. Governance Structure

- **Family Council:** Purpose, composition, authority, and operations
- **Board Structure:** Role, composition requirements, and relationship to family
- **Ownership Rights:** Rights and responsibilities of shareholders
- **Management Authority:** Professional management independence and accountability

4. Family-Business Relationship Policies

- **Employment Guidelines:** Entry requirements, compensation, performance standards
- **Board Service:** Qualifications for family members on the board
- **Ownership Transfer:** Rules for gifting, selling, or transferring shares
- **Conflict Resolution:** Processes for addressing disputes

5. Family Development and Education

- **Next Generation Preparation:** Education and mentoring programs
- **Ownership Education:** Financial literacy and governance training
- **Leadership Development:** Pathways for developing family leaders
- **Family Activities:** Events and initiatives to strengthen family bonds

Constitution Development Process

Collaborative Creation Approach

1. **Stakeholder Input (2-3 months):** Gather perspectives from all family generations and branches
2. **Drafting Committee (2-3 months):** Small group synthesizes input into draft document
3. **Family Review (1-2 months):** All family members review and provide feedback
4. **Refinement (1 month):** Incorporate feedback and resolve contentious issues
5. **Family Ratification:** Formal approval process (typically supermajority or consensus)
6. **Living Document:** Regular reviews (every 3-5 years) to ensure relevance

Shareholders' Agreement Essentials

While the Family Constitution addresses values and principles, the Shareholders' Agreement provides legally binding provisions governing ownership:

Critical Provisions

✓ Ownership Transfer Restrictions

- **Right of First Refusal:** Existing shareholders' right to purchase before external sale
- **Co-Sale Rights:** Minority shareholders' ability to participate in majority sales
- **Drag-Along Rights:** Majority ability to force minority participation in approved sales
- **Transfer Restrictions:** Limitations on gifts, pledges, and bequests

✓ Governance Provisions

- **Board Composition:** Number of directors, nomination process, family representation
- **Shareholder Meetings:** Frequency, quorum requirements, voting procedures
- **Major Decisions:** Matters requiring supermajority or unanimous approval
- **Information Rights:** Shareholders' rights to financial and operational information

✓ **Dispute Resolution**

- **Mediation:** Required mediation before litigation
- **Arbitration:** Binding arbitration provisions and procedures
- **Deadlock Resolution:** Mechanisms for breaking decision stalemates
- **Buy-Out Triggers:** Circumstances allowing forced purchase of shares



Code of Conduct for Family Members

A Family Code of Conduct establishes behavioral expectations that support both family harmony and business success:

Sample Code of Conduct Elements

Professional Conduct

- Treat all business matters with confidentiality and discretion
- Respect professional boundaries between family and business relationships
- Support business decisions made through proper governance channels
- Avoid public criticism of family members or business decisions

Conflict of Interest

- Disclose any potential conflicts of interest promptly
- Recuse oneself from decisions where personal interests conflict with business interests
- Avoid competing businesses or customer/supplier relationships without approval
- Use business resources only for legitimate business purposes

Family Harmony

- Address concerns directly with involved parties before escalating
- Participate constructively in family governance processes
- Honor family commitments and meeting obligations
- Support next generation development and inclusion

Reputation Protection

- Uphold family and business reputation in all personal conduct

- Coordinate on external communications about the business
- Maintain professional social media presence
- Report any situations that could harm family or business reputation

Templates and Checklists

Governance Document Checklist

✓ Essential Documents

- Family Constitution
- Shareholders' Agreement
- Buy-Sell Agreement
- Family Employment Policy
- Dividend Policy
- Family Council Charter
- Board of Directors Charter
- Committee Charters (Audit, Compensation, Governance)
- Code of Conduct
- Conflict of Interest Policy

✓ **Supporting Documents**

- Organization chart (family and business)
- Three-circle model mapping
- Decision authority matrix
- Meeting schedules and templates
- Communication protocols
- Education and development programs
- Emergency succession plans
- Confidentiality agreements

Review and Update Processes

Governance documents must evolve as the family and business change:

Review Schedule Framework

Document	Review Frequency	Triggers for Updates
Family Constitution	Every 3-5 years	Generational transition, major strategic shifts
Shareholders' Agreement	Every 3-5 years	Ownership changes, legal/tax law changes
Employment Policies	Every 2-3 years	Family employment issues, competitive changes
Board/Council Charters	Annually	Governance effectiveness issues, best practice evolution
Dividend Policy	Annually	Business performance changes, shareholder needs

Update Process

1. **Assessment:** Evaluate current document effectiveness and identify needed changes
2. **Stakeholder Input:** Gather perspectives from affected parties
3. **Draft Revisions:** Develop proposed changes with rationale
4. **Legal Review:** Ensure legal compliance and enforceability
5. **Approval:** Follow established approval processes for amendments
6. **Communication:** Clearly communicate changes and effective dates
7. **Training:** Educate stakeholders on revised provisions

Note: Document development and updates often surface underlying disagreements and limiting beliefs about family roles and business direction. Facilitation using executive coaching methodologies—including active inquiry, perceptual reframing, and stakeholder alignment techniques—can make these processes more productive and less contentious.

Section 6: Implementation Roadmap

12-Month Implementation Timeline

Implementing governance structures requires a phased approach that builds capability and credibility progressively:

Month 1-2

Assessment & Foundation

- Conduct stakeholder analysis using three-circle model
- Assess current governance maturity and gaps
- Secure leadership commitment and resources
- Form governance implementation task force
- Develop overall implementation plan and timeline

Month 3-4

Family Council Formation

- Develop Family Council charter and operating procedures
 - Determine membership model and select initial members
 - Hold inaugural Family Council meeting
 - Begin drafting Family Constitution
 - Establish communication protocols with family
-

Month 5-6**Board Structure Design**

- Assess board needs and develop board composition plan
 - Create board charter and committee structures
 - Identify and recruit independent director candidates
 - Develop board meeting calendar and protocols
 - Hold first formal board meeting with new structure
-

Month 7-8**Policy Development**

- Draft family employment policy
 - Develop dividend and distribution policy
 - Create decision rights and authority matrix
 - Establish conflict resolution procedures
 - Review and approval of key policies by governance bodies
-

Month 9-10**Legal Documentation**

- Finalize Family Constitution (family approval)
 - Update or create Shareholders' Agreement
 - Develop or update Buy-Sell Agreement
 - Establish Code of Conduct and related policies
 - Legal review and execution of all agreements
-

Month 11-12

Stabilization & Refinement

- Conduct governance effectiveness review
- Refine processes based on initial experience
- Launch family education programs
- Develop year-2 governance enhancement plan
- Celebrate implementation success with family

Quick Wins vs. Foundational Work

Successful implementation balances quick wins that build momentum with foundational work that ensures sustainability:

Quick Wins (0-3 months)

- Regular family information updates
- Quarterly family meetings
- Basic financial reporting to owners
- Initial Family Council meetings
- Conflict resolution process
- Family event planning

Foundational Work (3-12 months)

- Family Constitution development
- Board restructuring and recruitment
- Comprehensive policy framework
- Legal agreement updates
- Succession planning process
- Governance education programs

Stakeholder Engagement Strategy

Effective implementation requires engaging all stakeholders throughout the process:

Engagement Approach by Stakeholder Group

Senior Generation / Current Leadership

- **Role:** Champions and sponsors of governance implementation
- **Engagement:** One-on-one discussions, executive coaching support, leadership workshops
- **Key Messages:** Governance strengthens legacy and ensures business continuity
- **Concerns to Address:** Loss of control, complexity, cost, time commitment

Next Generation / Rising Leaders

- **Role:** Active participants and future leaders of governance structures
- **Engagement:** Working committees, leadership development, mentoring relationships
- **Key Messages:** Governance creates opportunities and clear pathways for involvement
- **Concerns to Address:** Relevance, voice, career opportunities, decision influence

Passive Family Owners

- **Role:** Informed stakeholders who support governance through ownership votes
- **Engagement:** Regular communication, annual meetings, education sessions
- **Key Messages:** Governance protects investment and provides transparency
- **Concerns to Address:** Liquidity, returns, information access, fair treatment

Non-Family Management

- **Role:** Professional partners in governance who implement decisions
- **Engagement:** Regular board interactions, strategy sessions, performance reviews
- **Key Messages:** Governance clarifies expectations and supports professional management
- **Concerns to Address:** Family interference, career paths, compensation fairness



Change Management Considerations

Governance implementation represents significant organizational and cultural change requiring deliberate change management:

Common Resistance Patterns and Responses

Resistance Type	Typical Manifestation	Effective Response
Loss of Control	"We've always done it this way and it's worked fine"	Emphasize governance as strength multiplier, not constraint; share success stories
Complexity Concerns	"This is too bureaucratic for our family business"	Right-size governance to family needs; demonstrate efficiency gains
Family Relationship Fears	"Formal structures will hurt our family closeness"	Show how structure protects relationships by preventing conflicts
Cost and Time	"We can't afford this right now"	Calculate cost of poor governance (conflicts, lost opportunities); show ROI

Behavioral Change Framework

Governance implementation requires not just structural changes but behavioral shifts. Drawing from proven coaching methodologies:

Five-Step Behavioral Change Process

1. **Awareness:** Help stakeholders recognize current patterns and their costs
2. **Commitment:** Secure genuine commitment to new behaviors and governance practices
3. **Action Planning:** Define specific, measurable behaviors and accountability
4. **Practice:** Create opportunities to practice new behaviors with support and feedback
5. **Reinforcement:** Recognize and reward governance behaviors; make them habits

Measuring Governance Effectiveness

Regular assessment ensures governance structures deliver intended benefits:

Key Performance Indicators

Structural Measures

- Governance bodies established and operating (Family Council, Board, Committees)
- Meeting frequency and attendance rates
- Policy completion (employment, dividend, succession, etc.)
- Documentation completion (constitution, agreements, charters)

Process Measures

- Decision-making speed and quality
- Information flow and transparency ratings
- Conflict resolution effectiveness and time-to-resolution
- Board and Council meeting effectiveness scores

Outcome Measures

- Family satisfaction and unity scores
- Stakeholder alignment on vision and strategy
- Business performance and strategic goal achievement
- Next generation engagement and development
- External director and advisor retention

Cultural Measures

- Professional management practices adoption
- Accountability and performance culture
- Open communication and feedback
- Long-term stewardship orientation

Annual Governance Review Process

Comprehensive Assessment Steps

1. **Data Collection:** Surveys, interviews, performance data gathering
2. **Analysis:** Evaluate effectiveness against goals and benchmarks
3. **Stakeholder Feedback:** Gather input from all governance participants
4. **Gap Identification:** Determine areas needing improvement
5. **Action Planning:** Develop specific improvements for year ahead
6. **Communication:** Share results and plans with all stakeholders

Note: Governance implementation success often depends on addressing individual and collective behavioral patterns that may be deeply ingrained. Executive coaching methodologies—including behavioral change frameworks, perceptual reframing, and stakeholder alignment—can significantly accelerate implementation and adoption of new governance practices.



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Section 7: Common Pitfalls and How to Avoid Them

Governance Theatre Without Substance

The Pitfall

Creating governance structures that look impressive on paper but lack real authority, accountability, or impact. Boards and councils meet regularly but decisions are still made informally by founding generation.

Warning Signs

- Board or council meetings are informational only, without real decision-making
- Important decisions are made outside formal governance structures
- Policies exist but aren't consistently enforced
- Independent directors are frustrated by lack of influence

How to Avoid

- Ensure senior generation genuinely commits to sharing authority and accountability
- Give governance bodies real decision rights from the beginning
- Measure and celebrate governance-driven decisions and outcomes
- Hold leaders accountable for following governance processes

Over-Complicating Structures

The Pitfall

Implementing governance structures that are too complex, bureaucratic, or time-consuming for the family's size and business complexity. The governance "tax" exceeds the governance benefits.

Warning Signs

- Multiple overlapping committees with unclear mandates
- Excessive meetings consuming too much family and management time
- Paralysis by analysis—slow decision-making due to excessive process
- Declining participation due to perceived bureaucracy

How to Avoid

- Right-size governance to family size and business complexity
- Start simple and add complexity only when needed
- Regularly prune unnecessary processes and meetings
- Focus on the minimum viable governance that delivers results

Excluding Next Generation Voices

The Pitfall

Designing governance structures that inadvertently exclude or minimize next generation participation, leading to disengagement and eventual loss of talented family leaders.

Warning Signs

- Next generation members rarely attend or speak up in governance meetings
- Age or seniority-based rules that delay meaningful involvement
- Rising generation pursuing careers outside family business
- Generational tensions and communication breakdowns

How to Avoid

- Create specific roles and responsibilities for next generation
- Establish junior boards or advisory groups for development
- Include next-gen representatives in Family Council and committees
- Provide mentoring and education to prepare future leaders
- Value fresh perspectives and innovation from younger family members

Avoiding Difficult Conversations

The Pitfall

Using governance structures to avoid rather than address difficult issues like succession, underperformance, or family conflicts. The "elephant in the room" gets bigger while everyone pretends it doesn't exist.

Warning Signs

- Critical issues (succession, performance, conflicts) aren't on governance agendas
- Surface harmony masks underlying tensions and disagreements
- Meetings avoid controversial topics or end without resolution
- Family members reluctant to raise concerns or provide honest feedback

How to Avoid

- Explicitly include difficult topics in governance mandates and agendas
- Build psychological safety and trust through skilled facilitation
- Engage professional mediators or coaches for sensitive conversations
- Celebrate productive conflict and healthy debate
- Address issues early before they become crises

Lack of Accountability

The Pitfall

Creating governance structures without teeth—no consequences for not following policies, missing meetings, or underperforming in roles. Accountability applies to everyone except family members.

Warning Signs

- Policies are routinely ignored or selectively enforced
- No consequences for poor performance or policy violations
- Different standards for family vs. non-family members
- Commitments made in meetings aren't followed through

How to Avoid

- Establish clear expectations and consequences from the beginning
- Apply policies consistently across all family members
- Create accountability mechanisms in all governance roles
- Regularly review commitments and performance
- Model accountability starting with senior leadership

Success Factors: What Makes Governance Work

Avoiding pitfalls and achieving governance success requires attention to both structural and behavioral elements:

✓ **Essential Success Factors**

- **Genuine Leadership Commitment:** Senior generation authentically shares power and follows processes
- **Right-Sized Structures:** Governance complexity matches family and business needs
- **Clear Authority and Accountability:** Everyone knows who decides what and consequences for actions
- **Inclusive Engagement:** All generations and stakeholder groups have meaningful roles
- **Professional Support:** Access to advisors, coaches, and facilitators when needed
- **Patient Implementation:** Build capability progressively rather than trying to do everything at once
- **Continuous Learning:** Regular assessment and refinement based on experience
- **Celebrating Success:** Recognize and reinforce governance behaviors and achievements

Effective family business governance is both an art and a science. While this framework provides the science—the proven structures, processes, and best practices—the art lies in adapting these elements to your unique family dynamics, business context, and aspirations. Success requires not just implementing structures, but transforming behaviors, beliefs, and relationships across the family enterprise system.



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About Leo Khoury



Leo Khoury

Executive Coach & Leadership Strategist for Family Business Successors

Leo Khoury specializes in helping family business successors, second and third-generation owners, and entrepreneurial leaders navigate the unique challenges of building sustainable, multi-generational enterprises in the Middle East and GCC region.

Drawing from real-world experience in a 70-year family business legacy, Leo brings practical insights into the emotional complexities, relationship dynamics, and governance challenges that family enterprises face. His coaching approach combines proven executive coaching methodologies with deep understanding of family business systems, Middle Eastern business culture, and the specific pressures facing next-generation leaders.

Areas of Expertise

- **Family Business Governance:** Designing and implementing governance structures that balance family harmony with business performance
- **Leadership Development:** Coaching successors to develop their unique leadership voice while honoring family legacy
- **Stakeholder Alignment:** Facilitating difficult family conversations and aligning diverse stakeholder interests
- **Succession Planning:** Guiding smooth leadership and ownership transitions across generations
- **Board Development:** Building effective boards that provide oversight without micromanagement

Coaching Approach

Leo's coaching methodology is grounded in research-backed frameworks including behavioral coaching, stakeholder analysis, and perceptual reframing—techniques proven to create sustainable behavior change and organizational transformation. His approach is:

- **Practical:** Focused on actionable insights and real-world application
- **Confidential:** Creating safe space for leaders to explore challenges openly

- **Results-Oriented:** Measuring progress through concrete outcomes and behavioral shifts
- **Culturally Intelligent:** Sensitive to regional business practices and family dynamics

Transform Your Family Business Governance

Is your family business facing governance challenges? Are you preparing for succession or struggling to balance family dynamics with business demands?

I can help you:

- Design custom governance frameworks tailored to your unique family dynamics and business needs
- Facilitate stakeholder alignment sessions to build consensus on vision and direction
- Coach family business leaders through challenging transitions and difficult conversations
- Develop your board's effectiveness through director coaching and governance design
- Address limiting beliefs and perceptions that block family and business progress
- Create behavioral change strategies that make governance structures sustainable

My coaching engagements draw from proven methodologies including stakeholder analysis frameworks, behavioral coaching for sustainable change, perceptual reframing techniques, and structured implementation processes that ensure governance doesn't just look good on paper—it transforms your family business reality.

Schedule a Confidential Discovery Session

Let's discuss your family business governance challenges and explore how executive coaching can help you build the structures, behaviors, and relationships that support multi-generational success.

Connect With Leo

Website: www.leokhoury.me

Location: Jordan & GCC Region

Specialization: Family Business Executive Coaching

Credentials: Certified Executive Coach (PCC - In Progress)

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should be adapted to your specific circumstances with
appropriate legal and professional guidance.*