

How strong boards can transform decision-making in owner-managed private firms

Good governance can temper how owner-managers in private firms respond to performance feedback, for more balanced investment decisions.



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What role do boards play in privately held firms? In public companies, boards are clearly central to governance, with established norms, duties and checks on managerial power. But in private firms, especially those controlled by an owner who also manages the firm, the answer has long been more nuanced.

Boards in these settings often provide advice and support, drawing on experience and offering guidance. Yet their ability to exert real oversight remains less clear. Do they actually shape strategic decisions when the owner retains ultimate authority and has personally selected the directors?

The fundamental tension is evident: Boards may express concerns or suggest alternatives, but when their influence depends entirely on the owner's willingness to listen, can they genuinely constrain decisions?

This dynamic has led many to question the depth of board influence in owner-managed firms. When the owner calls the shots, boards may lack the leverage to truly impose change or challenge direction. Their presence may formalize governance, but their capacity to enforce accountability or redirect strategy may remain limited.

Does the Behavioral Theory of the Firm hold in privately held firms?

In [research with William Schulze](#), drawing on data from 27,000 U.K. and 7,000 Belgian firms, we demonstrate that board oversight — when meaningfully present — can fundamentally alter how private firms, including owner-managed ones, respond to performance feedback. Our findings reveal that governed and ungoverned private firms respond very differently to success and failure.

Firms with strong board oversight — as reflected by board size, turnover, directors' external appointments and representation of independent directors — are more likely to follow what academics call the [Behavioral Theory of the Firm](#). At its core, this theory suggests that firms constantly compare their actual performance to an internal benchmark or aspiration level, and that such comparison drives strategic changes.

When performance falls short, well-governed firms are more likely to increase risk and undertake strategic changes, such as increasing investment, to address shortfalls. When performance exceeds expectations, they tend to exercise restraint and avoid unnecessary

risk.

This logic has been extensively studied in large, publicly traded firms, where decision-making follows established, more professional norms and emerges from coalitions of stakeholders with varying interests and time horizons. Until now, much less was known about whether these patterns apply to private firms.

What is striking about our research is that it shows similar disciplined behavior in privately held firms — but only when strong board oversight is in place. Boards appear to foster a more collective response to performance signals, fundamentally influencing investment decisions.

Strong boards act as counterweights to owner-manager tendencies

In contrast, firms dominated by owner-managers tend to do the opposite. When performance falls, they retreat, cutting investment to preserve capital. And when things go well, they double down, continuing to invest even when performance is already high. This persistent optimism, especially common in firms bearing the owner's name, may reflect a desire to affirm personal success rather than a disciplined strategic assessment.

Crucially, our research finds that owner-management and board oversight also operate independently. Board oversight doesn't negate the influence of owner-managers; rather, it tempers it. In firms with both strong boards and high owner-management, investment patterns are more balanced.

Governance, in this sense, isn't about wresting control from owners. It's about introducing a counterweight — one that fosters dialogue, challenges assumptions and brings a broader perspective to key decisions.

The broader implications are substantial. Many owner-managers value autonomy and speed, yet this research suggests they may unintentionally adopt defensive postures during difficult periods or pursue excessive expansion following strong performance.

Well-designed board oversight provides a cost-effective counterweight that enhances the likelihood that firms will accelerate investment when necessary and exercise restraint when prudent.

The message is clear: effective governance isn't just about compliance; it's about fostering

long-term value creation through better strategic decision-making.

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