Family Business

The board's role in the search for a non-family CEO

BY CLARKE MURPHY

There is often an assumption at family firms that the family tree will always provide the right leadership for the organization. But this doesn't always hold true. Take, for example, a global manufacturing company—run by the same family for four generations—whose CEO was ready to step down. The next CEO would have to immediately contend with several major business challenges that threatened revenue growth and raised questions about the company's long-term viability. To remain competitive, the company would need to make a significant investment in technology, but the family shareholders struggled with the amount of capital required. What's more, intergenerational disagreements over product development threatened to end the company's decades-long position as the leading manufacturer in its category.

The board recognized the need for a fresh perspective at the top, and decided that its best option was to look outside the family for the next leader. Doing so, however, clearly brought risks. The new CEO would have to create and implement a new strategy while building trust with the family and affirming their ongoing role in the firm's future. Where would the board find such a leader, and how could it select the best candidate?

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Turning complexity into an opportunity

Any CEO transition is challenging, but bringing in a non-family CEO to run a family-influenced company involves an extra layer of complexity that comes from years, if not decades, of family dynamics and history. This is true even if the family relinquished day-to-day management long ago. But the good news is that this complexity can also be a great benefit—if the board questions their unspoken assumptions about the succession process and looks at the company in a different way.

When the boards of family-controlled firms contemplate going outside for leadership, they often assume that one task of the outsider CEO will be to "professionalize" the company and make it more like non-family firms: more linear and clinical in its decision making and less personal and emotional. This view is reinforced when tough strategic decisions are hampered by family infighting, as occurred in our example.

But boards can take that perspective too far, and end up throwing out the baby with the bathwater. Very often, the firm has certain advantages precisely *because* of its family roots. For example, there is research to suggest that family firms can make longer-term capital investments, execute more quickly on entrepreneurial decision making, earn greater employee loyalty and have a deeper commitment to research and development than non-family firms. In addition, family firms may have certain assets that are particularly valuable, like a business network that spans generations.

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Of course, there will be the bad along with the good. The company's human resources strategy and compensation policies may not be attracting top talent, or its decision making may be weighed down by the need for consultation with multiple constituencies. The bottom line is that the board must take deliberate, thoughtful inventory of not only what should be changed but also what should be preserved, realizing that some of what should be kept will come from the company's family history.

Company culture at the core

In addition to an inventory of the company's pluses and minuses, before embarking on a CEO search the board must also fully assess the company's culture—the unwritten code of values, expectations and procedures that makes the organization unique. Even in the world of companies without family control, CEOs all too often are "hired for skills, fired for fit." The extra layer of history and emotion that comes from family involvement makes cultural fit between an outsider CEO and the company all the more important.

In undertaking this cultural assessment, the board should be aware that the family members themselves are likely to have a less-than-perfect perspective on that culture. This is because family decision makers often think about their company as "just a business" and don't address head-on the role of family in their enterprise. Family businesses also may have a private "family language" that is a highly effective way to communicate but can hinder the organization from looking at itself in a more objective way. Because of this, it's the board's responsibility to foster a non-threatening discussion that probes at the unspoken. Does the company have a traditional hierarchical structure, or is it more agile and matrixed? Does it place a great value on innovation, or is it more focused on the execution of proven strategies? Is there a team spirit throughout the organization, or is it beset with factionalism?

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This cultural analysis should include issues specific to the family ownership of the firm. What is the exact nature of the family's involvement? Do certain family members have "shadow control" that isn't captured on an organizational chart? What will the role of the family be in the CEO selection process? In addition to providing a guiding framework for the succession process, this close examination of the family's role may also uncover corporate governance issues that should be addressed. For example, the boundaries between the board and management, or the role of family and non-family members on the board, may need to be clarified or redefined. Identifying these issues prior to the CEO transition means the board can manage them independently from the leadership change.

After taking a measure of the culture of the company, the board then must assess the emotions surrounding the succession. Is the mood generally positive, or is there tension? Asking these questions and others like them helps paint a picture of what the new CEO will be walking into—and which skills he or she will need to be successful. For example, if the new CEO will be taking the helm of a company that is undergoing significant market change, with a high degree of family involvement but also a great deal of tension, he or she will have to spend significant energy building trust and establishing a comfort level among the various constituencies. The board will thus want to probe for these sorts of experiences and capabilities in the selection process. If, on the other hand, there is a high level of family involvement but the business is fairly stable and the overall emotional environment is positive, the board is likely to look for a strategic leader who can implement a long-term vision while preparing the family for changes that may come in the future.

One reason cultural fit is so important when family firms are evaluating outside CEO candidates is that the new CEO is likely to have less latitude to change that culture than his or her peers at non-family firms do. It takes a certain temperament to be able to take charge while not having completely free rein, and this may well disqualify certain candidates who meet all the "technical" requirements.

Finding an outsider who fits at the top

So what happened at the global manufacturing company in the example above? Incorporating the steps we've discussed into its succession process, the company developed a detailed set of qualifications for its new leader. Foremost among them was a track record of increasing productivity and driving growth through consensus building and an inclusive leadership style. This led the search committee to pursue leaders at private equity-backed companies—which, as closely held companies, often have dynamics similar to those family-controlled firms—who had proven experience in managing rapid change. Ultimately, the committee found a leader with the right competencies and experience to transform the company while winning the confidence of the family and affirming its role. FB