Managing the CEO succession process and ensuring a strong executive team are the ultimate board responsibilities. And while all succession and team-building processes are complex, certain CEO succession and executive hiring scenarios are especially challenging. One such scenario is that of the family-controlled firm that has decided to conduct an external search for a CEO or other senior executive.

This hiring process may represent the first time a non-family CEO takes the helm of the firm, a division or a function. Or it may be that family members relinquished managerial control decades ago but remain shareholders today. In either case, the presence of family dynamics, history, culture and expectations provides an additional layer of complexity to the senior executive hiring process.

Contrary to common perception, within this complexity, there also is an opportunity to tap into a positive family force at a critical time of transition. To do so, boards, along with family member managers and/or shareholders, must approach the succession task with an analytical mindset and process that balance the strengths and traits of the company, the level of involvement of the family, current business imperatives and the emotional backdrop against which the transition is occurring.

Identifying the company’s ‘distinctive familiness’

The notion that a family-controlled company’s family history can be a positive force is rather recent. Traditionally, family firms seeking to bring in an outside CEO or other non-family leaders saw the move as ‘professionalising’ the enterprise. In this way of thinking, in order for the firm to reach its next level of growth, it must look and act more like non-family firms – be more linear and clinical in the decision-making, place greater emphasis on efficiency and short-run returns, and be less personal or emotional in its human capital strategy. This earlier approach viewed the cultures and priorities of ‘family’ and ‘business’ as inherently conflictual.

In contrast, the thinking of family business experts has evolved in recent years to recognize the fact that a family business may enjoy unique strengths precisely because of its family roots and historical path. The unique ownership between the business, the family unit and the individuals within the family, in fact, may give rise to values, assets and capabilities that the board and leadership should preserve even as the company transitions or continues with non-family leadership.

For example, there is research to suggest that family firms can make longer-term capital investments, execute more quickly on entrepreneurial decisions, and build greater employee loyalty and a deeper commitment to the research and development needed for new businesses than non-family firms.

The family-based characteristics that give the firm a market advantage have been called the firm’s ‘distinctive familiness’. This distinctive familiness and the aspects of the company that support it must be preserved rather than diluted by the external CEO or senior executive team brought in.

It is important to note that this distinctive familiness changes over time and is dependent on where the firm is in its lifecycle. When the founder is still CEO, or there is a family member in senior management, the firm’s family-based advantages are likely to be very concrete in nature, such as hands-on leadership, technical knowledge, and business relationships. For a late-stage company run by third or fourth generation family members, however, the distinctive familiness is likely to be more abstract, centered on cultural assets and practices like the values employees embrace, the reputation the firm maintains in the marketplace or its business model and organisational structures.

Just as a family firm enjoys certain advantages due to its family history, it can be enshrouded by family baggage as well – what can be called ‘constrictive familiness’. It is this constrictive familiness that often leads family members, boards and non-family leaders to conclude that ‘family’ and ‘business’ do not mix. In reality, however, these constraining factors are not always straightforward, the family-specific aspects of a family business that help or hinder it are not always immediately obvious. This is exacerbated by the fact that family CEOs often think about their company as ‘just a business’ and neglect to probe the role of family in their enterprise. Family businesses also may have a private ‘family language’ that gives them a highly effective way to communicate but that can hinder the organisation from looking at the firm’s strengths and weaknesses in a more analytical way. For that reason, it is incumbent on the board to include this objective analysis in its succession planning. Applying a set of diagnostic questions can help in this more analytical process.

Contextual, emotional and familial factors

Having identified the characteristics of the firm that need to be preserved or mitigated when choosing outside executives, the next step is to probe further and identify the contextual, external and emotional factors that determine the environment in which the succession process takes place. Having done so, the board then can incorporate the implications of this environmental scan into the selection process.

First, the board must assess the involvement and control of the family in the business. This not only dictates in a very material way the environment into which the next CEO or senior executive will be stepping, but it also helps determine the cultural dynamics of the company needs in its next leader. Is the family part of the board, in senior leadership roles, and as its presence confined to the boardroom? Or does the company make business decisions (like a family) or has it adopted more formal policies and procedures?

Second, the board must incorporate the external market environment in which the firm is operating – factors that are independent of the firm’s family ownership but which are nonetheless critical to success. Is the market environment family-friendly and the company strategy strong so that what is needed is a leader who can build on a solid foundation? Or is the market undergoing turmoil and change brought on by globalisation, falling barriers to entry or rapid technological innovation, requiring more of a transformational leader?

The above factors then can be combined into a two-dimensional model that plots the organisational and market change the company faces against the level of family involvement and control, resulting in four distinct environments in which succession can occur.

CEO SELECTION: A FRAMEWORK FOR SUCCESS

The process of selecting a non-family member to be a CEO or other senior leader at a family-controlled firm is fraught with emotional, business and governance challenges. Clarke Murphy from Russell Reynolds Associates identifies the key factors boards of family-controlled companies should consider in their succession planning and provides a diagnostic framework to help boards navigate the process.

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Four possible family-firm succession environments

Organisational and market change

High/Low
High organisational and/or market change
Low family involvement and control

High/High
High organisational and/or market change
High family involvement and control

Low/Low
Low organisational and/or market change
Low family involvement and control

Low/High
Low organisational and/or market change
High family involvement and control

Family involvement and control

Each of the four environments brings its own set of CEO requirements. The board then must take into account the ‘emotional charge’ within the family regarding the change. To what extent is there agreement among the family members regarding what their own relationship with the company should be? What is the communication capability of the family as a group? Is the family culture one of openness and exchange or is it secretive and closed? Whether this charge is positive or negative adds another layer of requirements to be considered in the candidate screening process.

High change, low family control

If the emotional charge is positive: This situation suggests a classic transformational leader – one who can come in and quickly establish a new direction for the company. The replacement senior executive could even be a short-term leader by design. With low family involvement and a lack of family tension, the primary concern will be that the transformation be successful.

If the emotional charge is negative: If the family is fragmented, there is the risk that the transformational leader will exacerbate those divisions, as various groups react differently to the change unleashed by the new senior executive. With the family exerting influence in the boardroom but not actively involved in management, it is important that the family governance guidelines on voting, control and senior management changes be clear and that there is agreement about them. Establishing explicit boundaries will allow the transformational leader to meet the task at hand while respecting the rights of family members.

High change, high family control

If the emotional charge is positive: In this situation, a transformational leader is called for as well, but he or she also must be able to build a strong partnership with the family, which may be relinquishing day-to-day control for the first time. Even with that partnership, change is likely to happen more slowly than the new leader would like – a situation which he or she must be able to manage.

If the emotional charge is negative: The transformational leader must be able to traverse an emotional minefield and be prepared to spend significant energy building trust and establishing a comfort level. This challenge will be heightened by the task of transitioning out a family member CEO or other senior leader. A third-party family dynamics coach who specializes in family business issues can be helpful in assisting family members through the many issues this transition will raise for them.

Low change, low family control

If the emotional charge is positive: This quadrant has the fewest external factors weighing upon it. It calls for a ‘steady as the helms’ leader with a proven track record in the current business.

If the emotional charge is negative: This is similar to a non-family company in which the new CEO must contend with disgruntled shareholders. In this case, the CEO must be able to draw upon strong communication and diplomatic skills.

Low change, high family control

If the emotional charge is positive: This situation calls for a strategic thinker who can use the luxury of time to prepare the company for the future. Then he or she can actively partner with the family and help maintain its sense of unity.

If the emotional charge is negative: Without the urgency brought by an imperative for change, a negative environment within the family can lead to a passive-aggressive stalemate between the senior executive and the family. He or she will have to be comfortable confronting hard issues and having difficult conversations to keep such a standoff from solidifying. This also is a situation where an outside family dynamics consultant particularly can be helpful.

Identifying the right selection criteria is key

Combining an identification of the characteristics of the company that need to be preserved or changed with an analysis of the contextual, external and emotional environment in which the succession is taking place provides a rigorous, multidimensional set of criteria that can be used to inform the succession process. While recruiting an external CEO to a family-controlled firm always is complex, the appropriate selection criteria generated from the right analytical tools can significantly smooth the process and increase the chance of long-term success.

Clarke Murphy is a managing director at Russell Reynolds Associates, and the leader of the firm’s global CEO and Board Services practice. This is a version of an article that Clarke prepared for In Touch with the Board. Russell Reynolds Associates’ Australian contact is Peter L. O’Brien, email peter.obrien@russellreynolds.com.