Can a family business prosper without a family member at the helm? Can a family business remain a family business and retain its owning family's values when a family member is not the chief executive officer? If family members aren’t qualified and/or motivated to lead the family business, isn’t the best course of action to sell the company?

These questions confront many family businesses. And in many cases, if family members are unwilling or unable to maintain a successful and profitable family business, the best answer may to hand that responsibility over to someone who can.

But if family owners can pass a series of three rather rigorous tests, exiting does not have to be the only available avenue. Not surprisingly, the three tests correspond to the three key dimensions of family business systems: family, management and ownership.

**Test One: Family Commitment.** When a family business finds itself facing top-management succession without a qualified family successor, but with a wish to keep the business in the family, the first order of business is to meet with family owners to clearly determine the family’s vision, goals and desires. Sometimes, the senior generation’s dreams are not shared by the younger generation. Sometimes the younger generation cannot agree amongst themselves concerning the future. And in some cases, when the older generation has decided to sell, the younger generation rallies together to convince their parents to keep the business in the family.

Whatever the case, if the business is to remain in the family, successor family owners should be firmly committed not only to a shared vision of the future but also to a shared rationale for their vision. This is usually achieved through extensive discussion among family owners and development of plans and documents to ensure ongoing mutual commitment. The plans and documents typically include a family mission and values statement (how does the business fit into family goals, and how are family values represented by the business); a shareholder’s agreement that includes a liquidity program for current and future owners; a series of family policies governing the relationship between the business and the family; a process for family governance (so that family cohesiveness can be perpetuated and a process exists for family decision making and conflict resolution); and a commitment to professionalism in management and corporate governance.

In one case, a proud third-generation owner/manager eventually bought out his siblings and dreamed of passing his legacy to his children. All three children, however, chose careers in public service: medicine, teaching and social work. A series of family meetings were held to discuss the benefits and responsibilities of ongoing ownership. The quality of management, ownership and profit sharing with employees, professionalizing
In another example, a second-generation four-sibling team decided that they wanted to continue to own the business. After extensive meetings in which they developed their own relationships and programs for governing themselves, they publicly committed to having the best-possible professional management (whether executives were family or non-family) and an outstanding board of directors (with a family member serving as chairman). Arrangements were made to transfer ownership over time in the most efficient manner. The company is prospering under the leadership of a non-family CEO.

**Test Two: Professionalize Management.** To survive and prosper, your family business needs the best possible executive leadership. If your plan is to continue the business with non-family leadership, your executives must be empowered, acculturated and rewarded.

Ideally, top-notch non-family talent already exists in the family business because it has been recruited, developed and rewarded. But some family companies have also been successful when using executive search firms to identify talented, experienced leaders from outside the family.

In addition to finding the right person or people, your non-family leaders must be given the opportunity to lead. That requires that the incumbent generation’s leaders let go and that all family owners offer their support. Second-guessing, meddling, or unclear lines of authority and responsibility undermine leaders and make them ineffective.

In selecting and directing non-family leaders, be extremely clear about your family’s and your business’s values. Let the executive know what performance is cherished and what is out-of-bounds. Carefully evaluate non-family successor candidates not only for their professional capabilities and background, but also in terms of their fit with the family business culture.

Finally, be prepared for the compensation requirements of outstanding executives. Executive compensation is an investment on which family owners should expect a significant return. Moreover, compensation should be structured to align owner and management goals. Non-family executives should have the opportunity to earn significant money, but large portions of their compensation should vary depending on predefined performance criteria. The long-term portion of their pay package is also an important way to align executives’ goals with family owners’ transgenerational objectives.

**Test Three: Becoming Great Owners.** Families who own but do not run their businesses must become adept owners. They should hone their financial sophistication and expectations, and they should feel assured that an excellent board of directors represents them.

Owners of businesses provide the capital required for a business to function. As providers of capital, family owners should expect a return on their investment through distributions and/or capital appreciation. But to be effective owners, financial goals should be discussed and agreed on in terms of expected profitability, business growth, risk, liquidity and distributions.

These financial goals as well as goals related to the business’s culture and relationships with its constituencies (employees, customers, suppliers, community, etc.) should be clearly communicated to the board of directors. The board’s job is to hold management accountable and to help management achieve ownership goals. Choosing directors who are willing to understand family ownership goals and who bring a level of business sophistication necessary to assure accountability is a key to success.

Ultimately, family business depends on preparing the business, the family and owners to meet the high standards required for success. When business owning families are willing and able to take on those challenges, they can achieve great things — whether or not a family member is actually running the business.
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