Transitioning from Family Leadership to Non-Family CEO: Best Practices for Maintaining a Family Enterprise

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As a family business moves down the generations, the likelihood that it will need to turn to a non-family leader increases. Because of either lack of interest or lack of skills, families frequently find themselves in the situation of having to consider a non-family leader. The ability to navigate this change successfully is one of the determinants of family business survival.

Following are observations of FBCG consultants and researchers on the characteristics of family firms that have successfully transitioned from family-managed to family-owned. We owe special thanks to our founders, Craig Aronoff and John Ward, for several insights that are documented in their many books and articles.

Credible Family Directors

Successful families find that family directors who are capable of engaging in the business strategy and who bring the unique perspective of a family owner are influential both on the board and with the broader family shareholder group. Specifically, they excel at providing these unique contributions of a family member:

- Ensuring that the mission, values, and future vision of the family shareholders are clearly represented in the context of whatever is first and foremost on the board's or family's agenda;
- Speaking in clear, neutral terms when the business family encounters a dilemma between what is best for the family and what might be best for the business; and
- Serving as the vital communication link between the board and the family, often getting out in front of a developing potential conflict and listening well so that a family feels informed and well represented on the board, and the board feels it can proceed with consideration of family concerns.

Each unique contribution is further enhanced when family directors see their role as representing the whole family as opposed to their own branch or personal interests.

Active and Enabled Successor Generation

This happens when members of the second generation or beyond, many of whom are not employed in the business, actively take ownership for the important roles vigilant family shareholders must master, in particular:

- Managing the family governance function such that unified decisions concerning ownership vision and goals can be communicated to management and the board;
- Keeping alive, over time, a well-articulated, compelling vision for the future of the family enterprise; and
- Educating themselves and their children about the role of active and knowledgeable family shareholders and the methods of vigilance.

Family Governance Mechanism

This involves a place and rules for making decisions as a family and ownership group to govern the family's relationship with the business. The family governance body (e.g., family council, family assembly) may take a leadership role in clarifying the family's comfort level with and expectations of non-family management.

Capable Independent Directors

A set of qualified and dedicated individual thinkers who represent key strategic areas critical to the business yet, more important, understand the unique perspectives of a family business can navigate a difficult business/family paradox, practice vigilance, and earn the trust of and inspire support among family shareholders. They help to assure family members that non-family management will be held accountable to pursuing their vision, values, and goals.

The Right Non-Family CEO

While important for any position, the first non-family CEO must have qualities that will help the family transition to accepting and supporting the success of this role, including the following:

Subjugates the Ego

A successful business leader does not have a strong need to be recognized internally, and especially externally, for his or her accomplishments. The individual is a team builder and team player who gives credit for success to the previous generations of family leadership; a strong, principled family shareholder base and the associated culture of the business; and a committed and talented employee organization. Individual public appearances are minimized, and PR is consistent with the family's culture.

Values the Family Business

The CEO views the family shareholder base as a competitive advantage to be nurtured, developed, and utilized to its full advantage. Thus, the CEO is committed to proactive communication with the owners and employees (both listening and explaining/educating) and forms relationships with family influence leaders, yet has conduct that is completely above-board in order to maintain trust.

Is Gracious, Firm, and Fair

The CEO should be able to consistently enforce rules in a uniform manner even when it is unpopular to do so (e.g., for family employment decisions). At the same time, he or she coaches and supports family members who must make difficult transitions in their roles and maintains respectful privacy around these transitions. This person demonstrates objectivity in dealing with business divisions or branches of the family whose goals may not be consistent.

Affects Change in a Nonthreatening Manner

The CEO can bring the benefit of outside experience and perspective without criticizing current practices and can help the family business evolve to professional business practices in a way that does not threaten the history and culture of the family and the business.

Demonstrates a Commitment to the Business

Even without a track record in the business, the CEO can demonstrate an appreciation for and commitment to the business the family has built over a number of years.

Is Able to Earn the Family's Trust

The CEO earns the family's trust by listening to and actively considering shareholder and employee input, demonstrating consistency of action, and taking responsibility for mistakes made.

A Clearly Defined and Well-Communicated Succession Process

To ensure acceptance of the outside executive, it is critical that shareholders and employees view the process used to arrive at the decision as fair and objective. Qualifications for the position should be clearly defined and tie in to the needs of the business. Stakeholders in the process, including employees and shareholders, should have an opportunity to contribute their input to determine leadership qualifications. All interested individuals (including internal non-family and family employees) should have an opportunity to apply for the position. An objective team of interviewers should vet candidates. Final selection of the CEO should be conducted by the legally responsible party, typically the board of directors.

Other Best Practices

Several business families have adopted practices that assist in making the transition to — and maintaining the success of — a family-owned business with a non-family CEO at the helm, including:

- Multiple opportunities for contact among members of the family, independent directors, and management, such as regular dinners before board meetings where family members can build relationships with company leaders and directors; jointly attended seminars and workshops on topics such as strategic or tactical business issues and family business success factors; or private workshops on topics such as business competitive advantage related to family culture/values, the merit system, market economics, and investor strategy.

- Independent directors participating as a family employment committee such that all employment decisions affecting family members are at least reviewed by the committee for fairness, with the understanding on the part of the broader family that the directors are performing this practice and that management actions are fair.
- Cultural audits and balanced scorecards with the board vigilantly overseeing management's implementation of the business family's values and beliefs, and actively measuring and reporting in the context of the business climate and market demands.

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