

Preparing the Board for a Non-Family CEO

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The introduction of a non-family CEO into the leadership structure of a family business can be a traumatic event for the business and its board of directors. A non-family CEO may signal a change in ownership philosophy from operating owners to governing or investing owners. The appointment of a non-family CEO may also be used as a temporary measure until the next family leader is ready, and in such cases the non-family CEO may be charged with developing the next family leader. Sometimes, a non-family CEO may provide the leadership and vision to take a family business “to the next level” of growth that may be needed to support an expanding ownership group.

Preparing the Board

Before a non-family CEO is hired, it is important to make sure you have the right board. A board of directors that was helpful as advisors to the founder may not be capable of the engaged leadership necessary to effectively supervise and hold accountable a non-family CEO. New non-family directors, who bring professional business acumen to the board and are not connected with either the new or past CEO, may be needed. Many outstanding family companies have found the best practice in board membership to have a majority of outside directors. Ideally, non-family board members should be perceived by everyone as neutral outsiders whose only goal is to work with management to achieve the vision of the owners for their business.

Often the culture of the board must change dramatically to function properly with the appointment of a non-family CEO. A board that has provided only advice and counsel to an owner-manager must undergo a cataclysmic shift in perspective to allow the new CEO to function properly. If the board acquiesces to the

wishes of the new CEO in the same way they responded to the owner-manager or founder, they run the risk of disenfranchising the shareholders and separating management from ownership. However, if the board can develop an appropriate culture of representing the interests of shareholders to management, they will become the conduit that empowers management to lead the business in concert with the vision of its owners.

Changing Roles: Support vs. Accountability

While the board needs to operate as the “trustee” of the owners, access to ownership will need some “rules of engagement” for interaction that everyone respects. The board must perform its proper role in representing the interests of ownership to management and providing a buffer between management and ownership to allow day-to-day business operations to function strategically. This can only happen if the board develops a structure for its operation that makes it possible to “listen” to the voice of ownership and make sure management understands how to translate the owners’ vision into functional reality. Therefore, outside directors, with the aid of family directors, must become astute at understanding the owners’ goals, objectives and expectations. This may require a change of perspective for non-family directors and the new CEO to realize that “pure profit maximization” is often not the only goal of family owners. Spending some time with owners discussing their family values can help the board get a good grasp of what they need to know in directing a new non-family CEO.

In addition to understanding the interests of the entire ownership group and communicating those interests to management, the board must be prepared to hold the non-family CEO and other key managers accountable

for acting in concert with the owners' interests. This presents the board with the challenge of becoming partners with management in setting strategic direction for the business, while at the same time becoming partners with owners in holding management accountable for implementing the strategy.

The development of standing committees to handle matters such as audit, governance and compensation functions will help to define a new role for directors. An audit committee, working directly with the CFO and outside auditors to review and approve the annual audit, can provide an increased level of accountability and transparency between the board and senior management. Likewise, a compensation committee, composed of outside directors, can assure management, the board and owners that executives are being rewarded appropriately for the jobs they do. This committee can work with the human resources department and compensation consultants to develop benchmarks within the industry that guide salary and other compensation decisions. The governance committee reviews the functioning of the board to help it maintain the proper strategic perspective as well as managing the director nomination process.

Focus on the Health of the Business

Although the board can help the owners—and the family at large—understand the importance of a healthy business to the preservation of the family legacy, its focus must always be the business. A board that has been composed primarily or entirely of family members/owners in the past may have developed a practice of making ownership decisions and discussing family issues at board meetings. The introduction of a non-family CEO calls for a new or renewed commitment to being a business board. Otherwise, the non-family CEO and outside directors may feel left out of discussions that are for family only. If a family business does not have a separate Ownership Council or Family Council, this is the time to develop these other components of good family business governance.

Separating CEO and Chair Roles

Best practices in corporate governance call for a division of the roles of CEO and board chair. This encourages a more independent board and helps to focus board discussions at a higher level than day-to-

day operations. However, in a family business, it is often natural for the CEO to also serve as the chair of the board, particularly if he or she is the founder. When a non-family CEO is hired, the former CEO often retains the position of board chair. This can be a good transition for a former CEO and family leader but it requires a new perspective and perhaps a new set of skills. The former CEO must be capable of leading as the “first among equals,” not as “the owner.” Additionally, the chair of the board is expected to draft the meeting agendas and to be a skilled facilitator who works to engage all board directors in discussion.

Much depends upon the individual when planning a role for a departing family CEO. Just as with family successors, it is desirable if the former CEO can play a role in advising the new CEO and board of directors. However, this person must be totally committed to the decision to employ a non-family CEO and must be able to function under the direction (not just advice) of the board. The transition from a day-to-day leadership role in the business to that of leading the discussion among equals on the board is often difficult. Employing the help of a consultant or (non-family) lead director to develop agendas and coach the former CEO in this new role can be an important step. Sometimes, it may be more productive for the former CEO to transition out of any formal role in the company or the board of directors and serve as an informal advisor or even paid consultant.

When a New Chair is Needed

In some cases it is necessary for a new chair of the board to be appointed along with a non-family CEO. One family that we have worked with faced the need for a non-family CEO when the founder died unexpectedly. The family was well prepared with a functioning board that contained non-family outside directors. The founder's son was well educated with an MBA from a top university and had been working in the business for the past few years. However, he was not far enough along in his personal development to assume the role of CEO. With the help of the board, the founder's wife led the search for a non-family CEO and promoted her oldest daughter, who did not work in the business, to the role of board chair. The daughter had followed in her father's footsteps as an active member of not-for-profit boards in the local community and had gained a deep

understanding of how boards should function. This proved to be a winning combination with a dynamic new CEO who understood the industry well and a committed board chair who understood the needs and values of ownership but was not tempted to micro-manage in day-to-day operations.

Summary

Many family businesses function well with non-family CEOs in either transition periods between qualified family leaders or as families evolve from business

operators to enterprising owners. A non-family CEO can provide the vision and leadership to take a business to “the next level” and create more value for owners as a family grows. This is also an opportune time to professionalize the functions and structure of the board of directors to be able to work with this new type of business leadership. When the CEO is not a principal owner, the board must be prepared to be both a partner in setting strategic goals and the supervisor of the accomplishment of those goals.



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