# From Succession to Continuity: How a Non-Family CEO and Effective Board Can Bridge the Gap

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In the lifespan of a family business, appointing a first non-family CEO could be a planned event, but is often required due to unforeseen events, as a bridge from one generation of family leaders to the next, or in response to the increased complexity of the business. Introducing a first non-family CEO marks the separation of the manager, owner, and family roles, potentially impacting owner-business alignment, introducing new board responsibilities, and influencing family communication dynamics.

This case study will address two scenarios highlighting challenges facing one family business system. The first scenario addresses the interaction of the new non-family CEO and the owners (via their board) in the budgeting process, and the second explores how the family system responds to the employment of a family member with aspirations of being a future CEO.

## The Balcar Manufacturing Family Business

Balcar Manufacturing* is a Midwestern B2B specialized manufacturing business. Jerry, now 64 and recently retired, was the second-generation CEO, having taken over from his father. Jerry had worked in the business for 28 years and holds the majority ownership. His two brothers pursued outside professions and are minority owners. No members of the third generation have expressed interest in working for the family business. Balcar's board recently selected Chet, age 49, as its first non-family CEO. Chet, a 15-year employee, has been leading Balcar's Marketing and Product Development.

Two years prior, in preparation for the family CEO's retirement, Balcar added two independent directors to its board, joining board chair Jerry and his two brothers on the board. The independent directors brought experience managing growth in family businesses. They strengthened the board's ability to act together on behalf of the owners and serve as a resource in specific situations.

## Aligning Business and Owners

After his first year on the job, Chet presented the board with his first budget. The budget included a significant investment in equipment and technology that the management team recognized as necessary to keep Balcar competitive. In one-on-one discussions, Jerry would remind Chet that the company's purpose was not solely about making money. "Balcar's mission extends beyond making a profit," Jerry explained. "It is about doing good and balancing business success with a shared sense of purpose." Chet appreciated and understood those values; however, putting those words into action proved more challenging in practice than anticipated.

At the initial budget meeting, the board delved into how this significant investment would align with Balcar's closely held family values and non-financial and financial considerations.

Financial considerations included:

- Evaluating the appropriate company cash position
- Assessing the impact on future dividends
- Exploring additional lines of credit or debt financing

- Considering the risk/return considerations
- Establishing goals for the company's profitability and growth

Closely held family values and non-financial considerations included:

- Making decisions with an eye to Balcar's longevity
- Embracing innovation, and therefore taking measured risks
- Aligning with the owners' preference for a "long-term growth and income" approach
- Providing employees, customers, and suppliers with a trusted partner

During Jerry's tenure as CEO, a budget decision like this would have been simply rubber-stamped by the board. The new board took a deliberate approach and weighed the impact of the potential investment against the risks to achieve a likely return. The board also considered other possible uses of cash and the impact of the taking on additional debt. Over several months, a working budget plan emerged, balancing business goals and maintaining alignment with the values and goals of the family owners.

This marked the beginning of a new culture for Balcar, creating process changes in decision-making, risk analysis, use of capital, and expectations for Balcar's future. The business plan aligned with the owners' financial and non-financial goals and matched the business capabilities as realistic and attainable. Chet may have been the catalyst, but the board meetings provided an environment for transformative change and growth.

## Aligning the Business, Owners, and Family

After three years of Chet as CEO, Jerry was pleased with Balcar's trajectory. Unexpectedly, over Thanksgiving, Jerry's 29-year-old daughter Georgie expressed interest in joining the family business. With an excellent seven-year track record at a large corporation, Georgie proposed pursuing an MBA and expressed a desire to contribute to the family business as a leader and perhaps as CEO someday.

Jerry called a special meeting of the board after the holidays. The independent board members took the lead in a thoughtful and measured conversation about the ramifications of Georgie joining the business. The independent directors undertook several actions intended to support everyone's success:

Initiated discussions with Chet on his plans, reaching his own career goals, and his role as a possible bridge to Georgie's future.

Formed a Next Generation Committee, led by the two independent directors, to prepare a job offer and build a mentoring plan and evaluation process for Georgie.

Requested that Jerry initiate the creation of a family council to serve as the "family voice" concerning non-operational topics such as family employment policy and family compensation guidelines.

The board and Chet worked together to refine his role and responsibilities with respect to running the company and preparing Georgie as his possible successor. This led to developing a 10-year plan for each Chet and Georgie.

As part of that plan, the board wanted to ensure that Chet's focus remained on running the company. Chet and the board would develop goals and a strategic plan to form the foundation for Chet's evaluation. At no point would Chet be put in the position of assessing Georgie's readiness. The board would do that. Initially, Georgie would not be one of Chet's direct reports; however, Chet and other senior managers would be part of Georgie's structured mentorship plan.

The board, after soliciting input from the family council on several options for Georgie's development plan, set the expectation that Georgie's personal and professional development was her responsibility. Georgie's progress would be merit-based, with the board overseeing her evaluation process. Georgie would be supported and monitored by the board's Next Generation Committee. Any changes the board made to her responsibilities or compensation would be consistent with family council policies. No single person would act as her mentor; instead, the Next Generation Committee would establish mentoring relationships that would be flexible and for specific time periods and purposes.

## From Succession to Continuity

In the old days, Jerry had worn "Three Hats" as the business leader, ownership leader, and family leader. Jerry served as the glue throughout these systems. Owner, family, and business topics had all been blended at board meetings, and Jerry was the "go-to" for everyone on any issue. In contrast, Chet wore just one hat as a business leader. Chet only provided leadership and governance within the business system. Absent the implementation of new governance structures, Jerry's previous roles as ownership leader and family leader might have been neglected. These new governance structures would facilitate healthy interactions within each group, prevent unreasonable expectations that Chet might have "all the answers," and offer necessary guidance to Chet and the board regarding business alignment with ownership and family objectives.

Before Jerry's retirement, his focus had been solely on succession planning for the Balcar business, finding a new CEO, and strengthening the board. Looking forward, his goal became "continuity planning" for the entire Balcar family business system that would support processes for continued strong leadership, an evolving winning strategy, a voice for owners and family, and preserving the shared purpose of "doing good."

The board became the forum for Chet and the owners to engage in challenging and productive discussions and foster an environment for change and growth. The family council represented the family's voice and provided a forum for family members to be informed, have discussions, and find unity. A new era of family involvement began to unfold at Balcar, marked by establishing the board's Next Generation Committee, the family council, and Georgie's return. Georgie now had the support and opportunity to contribute to the family business legacy.

## Conclusion

A first non-family CEO introduces challenges to a family business system. The leadership and governance structures will not initially exist in perfect working order. However, the ultimate goal of continuity for the family business system begins with (1) recognizing the need for leadership and governance in all three groups – business, ownership, and family; (2) understanding why that is a necessity, and (3) taking the first steps to get started.

**We value confidentiality. The examples mentioned in this article are composites based on our client experiences.*

*It is important to note that the board's involvement in employment matters at this level is not a standard board responsibility. Typically, board members adopt an "eyes open but fingers out" stance. Yet, the distinctive values of the owning family and a strong desire for independent review influenced the approach chosen by the board for guiding Georgie's career path.*

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