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Ensuring Success with a Non-Family Executive

Being hired does not mean you have earned trust.

This assumption is the single most common mistake the newly hired non-family executive makes.

The situation often plays out like this: after a thorough vetting and hiring process, you have been hired for the job. And, in your view, this means that the family business has endorsed you to lead the vision, strategy and execution of the business, just like any other business, right? So why am I struggling?

The mistake here is thinking exclusively in terms of 'business' and forgetting the 'family' dynamic. To an executive without family business experience, this can seem illogical, after all you were hired to manage a business and it was your business credentials that got you the job. While inarguably true, this is only half of the picture: <u>you have been hired to be the steward of a legacy that has taken the shape of a business.</u>

Emotions and identity get tied up in legacies. But, for a business owning family, the business is also inextricably tied into how a family tells its story. As a non-family executive, managing the business is only part of managing the legacy and you need to figure out how to manage both at the same time.

The relationship between a non-family executive and the family is both complex and delicate – especially in the early stages. The family has acknowledged the skills of the new executive and the desire to incorporate them into their legacy, but trust is earned, not given. All parties must be proactive, open, and transparent to build a strong foundation so that when the interests of family and business diverge, trust does not fracture and both family and non-family can work together.

Our vantage point as a family business and as an executive search firm that helps family businesses recruit capable leaders has provided us the opportunity to get a clear view of what it takes to be successful as a non-family executive.

Here are five keys to success for anyone considering a role as a non-family executive.

Learn about family businesses.

Around here, we like to tweak a famous Tolstoy quote to say: “*All happy family [businesses] are alike; but all unhappy family [businesses] are unhappy in their own way.*”

One of the red flags in vetting candidates for non-family executive positions is the anecdotal fallacy. This occurs when a candidate assumes that their experience with one family business will be relevant to another. The opposite is also common – when a family business seeking their first non-family executive assumes that an executive with family business experience will always be better than one without. This simply is not true.

Exposure to and experience with family business is not a predictor of success when recruiting non-family executives. What is far more important is the executive’s ability to work within THIS family business’s specific environment. Potential candidates should acknowledge that each family business is unique, and each faces a complex set of issues, personalities, tensions, values, and traditions that play a more central role to success than their non-family counterparts. To succeed, they will need to dedicate time to learning about family business best practices – both in general and within that particular family business.

To ensure the success of a newly hired non-family executive, we develop tailored onboarding plans and advise our family business clients to encourage and support their NFE’s ongoing family business education. One core recommendation from our firm is the book “More Than Family” by Craig Aronoff and John Ward, the co-founders of the Family Business Consulting Group.

Learn the “Whys”

About a decade ago, we placed a President in a family operated real estate business. In her first few months on the job, she dutifully assessed the business and learned the operation. In this process, she found an old building on the balance sheet. The utilities were being paid, but there were no renters. The property seemed to be collecting dust. Moreover, it was an underutilized storage facility, so it made perfect sense to sell the property.

Doing so almost lost her the job. As it turns out, that simple storage unit was the first building the founder ever built. In the President’s mind the decision was simple: the business was losing money on an easily divested asset. Selling the asset was quick and easy win to show her value. Her mistake was that she never sought to learn about *why* the company owned the building despite its apparent lack of value.

In our experience, most family businesses will have quirks like the old storage facility. It might be a legacy technology, a factory layout, or a troublesome employee that can’t be fired. The natural temptation is to step in and fix the issue. Our advice is to avoid this “fix-it” mentality whenever possible and first explore the history behind the problem.

Learn the “Hows”

In 2019, a family-owned consumer goods business needed to bring in a non-family executive to oversee all manufacturing operations. The business, run by two brothers, had grown significantly over the past five years, and recently expanded into a two-million square foot facility. This uptick in complexity required outside expertise, so Stranberg took the assignment to help this business find a Vice President of Operations.

After the hire, our placement found himself struggling to be effective in the plant. He had been hired to improve efficiencies, but his ideas weren't sticking. As it turned out, the root issue was that at right around 4am every day, the retired owner (and father of the current presidents) showed up on his road bike and rode around his shiny new facility.

The man on the bike knew the layout like the back of his hand, had great relationships with the employees and had the ear of the presidents. Yet he was no longer active in the business, took home no salary and had no responsibilities. He had no authority but held significant "soft" power over the people in the business. The VP of Operations did not witness or understand this influence first-hand so, to be an effective leader in this business required him to develop a relationship with the man on the bike.

While this is an extreme example, the takeaway is that in a family business the 'Hows' are not always obvious. Family businesses tend to have more unwritten rules, unique personal relationships, and cultural nuances that diverge strongly from standard businesses. The key is to take the time to learn and understand the business, culture, and people - open your eyes and ears and observe how things get done. Relate to stakeholders and family members and figure out how to fit in, influence people, and effectively lead the organization to ensure success is achieved.

Learn the Cadence.

Moving from a public company to a family operated one is a singular challenge. While some family-owned businesses operate on the same market-driven cadence, the vast majority have bespoke models to fit the needs of their business, as opposed to the demands of the market, and tend to be more focused on long-term value than short-term earnings.

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This flexibility stems from a longer horizon than the standard public company. While shareholder value is a vital metric for all companies, a quarterly focus can punish companies who invest in the long-term because it hurts short-term earnings. Instead, many family businesses are thinking generationally.

We asked a Chicago based family business to describe their decision to invest into a new territory outside of the Midwest, and their response was telling: “The growth of our business needs to support the growth our family.” When a family business engages our search firm, it is almost always the case that that they are looking for an outside executive that can help them ensure the future of their family ownership and control over their legacy.

This long view is attractive to most executives but many underestimate how difficult it is to adapt to that change of pace. The cadence of decision making can seem sporadic, and it is common for a new executive to lose patience or confidence in the process. To absolve this issue, it is imperative to build trust and transparency with all stakeholders and family members in the business and on the Board of Directors. Learn the family’s philosophy of ownership and how that influences decision making across the organization. As a non-family executive, you bring valuable outside experience and perspective to the decision making process – but you need to learn how to use and communicate that information in the context of this family business.

Become a steward.

The term ‘Steward’ is most often applied to the current family member in control of the business, whose responsibility, first and foremost, is ensuring the ongoing legacy of the business. Legacy is bigger and more important than any one person and requires the ‘steward’ to acknowledge they are “standing on the shoulders” of past generations. She or he is accountable for assuring that the legacy is cared for and maintained, even if not in their personal best interest.

A standard business has owners (investors) and employees. In a family a family business, the same person may be an investor and an employee. Your role as a non-family executive is to understand what the business means to the family, and how that informs business decisions. For those with family members active in the business, it is critical to define and separate their role as “owner” from “manager”

- Owners are investors, they look out for the legacy and financial health of the business while keeping a distance from the day-to-day decision making. (Essentially ensuring the family does not destroy the business and the business does not destroy the family.)

- Managers guide day-to-day operations and make decisions to support the owner’s vision for the legacy.

For some families, legacy boils down to dollars and cents. If that’s the case, being a steward means building on that value. For other families, non-monetary factors take priority - tradition, social impact, culture & employee welfare, community and (do we need to say it?) family. Your responsibility is to learn how these factors have been imbued into the business beyond the financial and to ensure that they are safely upheld.

A non-family executive’s relationship with the family is complex and delicate. It is a professional relationship but, given the nature of family businesses, it is also an inherently personal relationship. Similar to a marriage, it is a relationship that always begins with the best intentions, but needs mutual commitment, care, and work to be successful.