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# Leading A Family Business When It's Not Your Family: Opportunity Or Potential Disaster?

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*I cover leadership of family business and wealth across generations.*

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You are contacted for a top leadership position in a large family-owned business. It's a great job with a great salary. But your inner radar raises warning signals. Family businesses have a poor reputation, with many tales of non-family leaders clashing with the family and facing politics, interference and undermining, along with spoiled or inept successors, feuds between family branches and inconsistent messages about direction.





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But you've also heard another story. This one tells how family-business owners, not feeling pressured for quarterly results or worried about stock fluctuations, take a long-term view, reinvest in the business and are loyal and respectful to customers, suppliers and employees—even treating them like quasi-family members. And once non-family leaders have proven themselves, they gain respect and job security. Furthermore, leadership in such a company can be a lifetime career—which is rare in public companies—even if you can never become an owner.

You ask yourself, which kind of family is reaching out to me? It's a good question. When offered a leadership role in a family business, a non-family candidate should conduct extensive due diligence. In addition to learning about the business and its organizational idiosyncrasies, the candidate needs to learn about the family—its culture, values and goals. Here are some key questions to consider:

### **What Is the Leadership Role of a Non-Family Member in a Family Business?**

A non-family leader in a family business has a very different role than that played by the leader of a public company (though many large family businesses are public, but with effective control by the family owners). On the positive side, you do not have to deal with disconnected groups of shareholders who press for immediate results. On the other hand, you cannot consolidate your power and stack the board with your supporters. And you must deal with the

family owners—who can be deeply aligned or have serious disagreements—who reach out to you and expect you to attend to them, no matter what degree of ownership they have. You might even hear from non-shareholders, who happen to be heirs of the owners and expect to be owners someday. The job environment in a family business is highly personal and can be political, and you might be needed as a mediator or peacemaker.

Many will tell you that there is no room at the top for a non-family member in a family business. The family intends to install a next generation of leadership, and non-family executives are expected to defer to them and even coach them or cover up for their deficiencies. That's the general assumption. But the reality, especially in larger family businesses that have been around for two or more generations, is frequently the opposite. The family is often aware that their personal gene pool does not provide professional leaders with the best vision or skills to take the business forward. Furthermore, next-generation family members might choose to lead the family in new directions by taking on roles in philanthropy, starting other ventures or entering public service. It's also possible that the business may have outgrown the family. For all these reasons, by the third generation many large family businesses turn to a non-family CEO. They recognize that such a leader can professionalize business operations, recruit needed talent and move the business into new markets while developing new products.

However, your job description might include mentoring and even preparing family members for future leadership. A non-family CEO is sometimes selected as a “bridge leader” who is expected to develop the business and prepare young family members for leadership. The role may be time-limited with a bonus for good performance.

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## Who Will You Work For?

This is not a simple question. It's important to determine whether individual family owners (and the younger family members who expect to become owners) consider their CEO to be their employee or will respect, listen to and defer to their expertise. There may be give-and-take about major policies and initiatives, but these should be conducted at a professional level. The job description and authority of a non-family CEO should be defined in working with the Board of Directors, with the understanding that this agreement will evolve and be amended over time. If this description is not clear and explicit, you should be wary. The proper arrangement is that a CEO works for the board, which represents all the owners and should speak with one voice.

## What Is the Composition and Role of the Board of Directors?

Where do the existing and potential family leaders go once they have recruited an outside CEO? Most often, they choose to exercise oversight through their membership on the Board of Directors. Many young family members who do not wish to become CEO will join the board to become a steward of the business rather than an operator.

The board will likely contain a family chairperson and several other family members, eventually representing both the older and younger generations. But by the time a family considers hiring a

non-family CEO, their board usually includes independent non-family directors as well. These are often business leaders who have broad experience that enables them to challenge and inform the family leaders about best practices. Young family members can be mentored and coached by these board members, who help them learn how to be a helpful but not interfering board member and owner. And often, these independent directors are the advocates for reaching out for a non-family CEO.

As a candidate for a leadership role in a family business, you will want to learn as much as possible about the people on the board, how they interact and how you can expect them to interact with you.

### **What Are the Wishes and Values of the Family, and How Do they Do Business?**

The family owns the business, and they know what they want from it. Every family has its unique culture—their style and way of doing things—as well as core values and goals for their business. As a potential leader, you need to know what these are and be comfortable with them. If you don't deeply share the family's values and aspirations, this is not the job for you. For while the operations may change, a new leader cannot change the values and culture of the family owners.

To learn about the family's culture and values, you cannot just listen to one person, even if that person is the chair of the board. Instead, you should meet a cross-section of family members from several generations. Some families have what they call a family council, whereby family members take care of activities that have to do with the family. They will have family documents, policies and agreements, and the prospective business leader should know what

these are. As the new leader, you may have great authority, but in the end, you serve the family.

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As a candidate, you should meet with the family council as well as the board to learn what they do, what they expect from the business, and what family business values need to be applied. Just as important, you will want to identify and develop a relationship with the key non-business family leader, who will communicate the wishes, concerns and goals of the family

### **How Will Family Elders Interact with the CEO?**

The family often has elders who have served previously as CEOs and board members. Unlike those in a public company, they do not disappear when a new leader comes in, and family employees may feel deep loyalty to them. You will want to learn how these former leaders and other key family members will interact with the business. How can a new leader gain the credibility to exercise authority in such situations? This can be a difficult and ongoing challenge. If you accept this leadership position, you should work closely with family members from the start to orchestrate your entry. There should be individual and group meetings that go into detail about their role, authority and influence. The family leaders should exercise their influence openly and in visible partnership with the CEO.

A candidate who seems to meet the business's needs and to fit in with the family culture can still fail to earn the trust of the family. A number of prominent hires into the CEO position do not last past the first year. One way to guard against this happening is to have the new CEO work for a trial period in another role, with the understanding, clear to everyone, that they are expected to ascend to the leadership role. In addition, a period of overlap with the departing leadership will enable them to develop their own

relationships and gradually take the reins. This culture fit and comfortable partnership can only be discovered in practice; it can't be anticipated in advance.

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### **How Can You Discern the Role of Family Politics?**

A family can contain several branches that are also interest groups with conflicting views of what they want from the business. Family members often get perks from the business: internships for their young people, employment and such favors as the use of business property and services. What will happen if one family member asks for a favor and wants you, the CEO, to keep it a secret? When a family has an informal structure that conflicts with the business, this is a problem that can hopefully be discovered in advance and should give a candidate pause.

### **What Can You Expect in Compensation?**

For a non-family business leader, compensation is complicated because the family cannot offer ownership. Still, while the family might want to keep ownership within their family, they can share profits and be generous in other ways. Compensation should certainly include sizeable bonuses for performance and reaching milestones.

Taking a leadership role in a family business can be a wonderful opportunity. Many of the frustrating pressures you would find in a public company may not exist. But in their place, there is the challenge of working for a flesh-and-blood family—with all their tensions, differences and personal needs. It's a trade-off. And a candidate should consider all of the above to determine if the position will offer the opportunity it seems to promise.

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