Risks and Rewards of Non-Family CEOs

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Last year I interviewed several non-family CEOs (Chief Executive Officers) from around the country. I was interested in how they became involved in a family business, what they liked and disliked about working in a family business, and what they perceived as the risks and rewards of their position. Over the years, I have also spoken with scores of family business owners about the possibility of bringing in an outsider to run the company. It is a trend that makes a lot of sense if the fit is right. That, however, can be a challenge.

If you are considering a non-family CEO, you will need to evaluate that option from a variety of perspectives. The following questions may help you get started.

Is there a gap in skills and experience between the current and next generation of family insiders?

If the answer is Yes, the right non-family CEO might be just what you need during the interim. Why? Often the next generation badly needs mentors and coaches. Dad or Mom might have a harder time with those roles than an outsider. And, the next generation might have an easier time taking direction from someone other than a parent.

Leadership development is a long-term process that builds skill sets through training and hands-on experience. Senior generation owners/managers generally let go of day-to-day control of the business gradually. With a non-family CEO, they have the opportunity to stay involved at the board level, but have more free time to explore retirement options.

The next generation of family business leaders needs guidance, help with setting and meeting goals, regular feedback about business performance and the chance to take on challenges incrementally. Non-family CEOs frequently have experience in larger corporations where strategic planning, budgeting and performance appraisals are built into the corporate culture.

They can use that experience to professionalize systems to support the next generation's learning process while moving the business forward.

What should you look for in a non-family CEO?

A friend and colleague of mine, Arnold Martin, identified seven attributes of effective non-family CEOs based on over 30 years' experience as a key non-family manager.

- 1. Competence and credibility
  2. Orientation to ongoing teaching and learning
  3. Self-direction and willingness to take direction
  4. Commitment to a shared vision
  5. Integrity and courage
  6. Flexibility
  7. Team-building and coaching skills

Can the current family CEO really "let go" of enough authority and give a non-family CEO enough autonomy to manage the day-in-day-out operations?

If the answer is No, a non-family CEO will have a difficult time succeeding and the business will probably suffer. If the current owner/manager consistently "meddles," he/she will undermine the non-family CEO's authority, credibility and effectiveness. Employees and may be placed in the awkward position of taking sides in power struggles.

To function effectively, a non-family CEO needs a job description that delineates expectations, boundaries and accountability measures. Once those are established, the CEO needs the space, time and resources to build effective management teams and strategic management systems that will foster sustained growth and competitive advantage in the market place.

Once you find the right non-family CEO for your company, how can you best retain him?

Mr. Martin also identified five requisites for retaining effective non-family CEOs. They are:

- 1. Delegation of real authority and reasonable autonomy
  2. Compensation related to contribution
  3. Recognition of achievements and effort
  4. Chance for development and growth
  5. Courteous and consistent treatment

What are some of the risks of bringing in a non-family CEO?

The current owners/managers will lose both personal and financial privacy. I've worked with family business owners who didn't even share financial information with family members, much less an outsider.

There is also the risk that as the non-family CEO learns more about the company, family secrets might surface — a family member, for example, who is basically retired on the job, and often shows up drunk for work. There may be very strong family pressure to keep that person on the payroll. There may be equally strong pressure from non-family employees to let that person go. If the non-family CEO doesn't have any real authority and autonomy, he/she will be in an untenable position.

Another risk relates to compensation of that non-family CEO and inadequate formalization of management/owner relationships and expectations. Only one of the non-family CEOs interviewed expected an equity position in the company. However, all of them found compensation negotiations difficult. Those most comfortable about the outcome of the negotiations cited the owners' willingness to look at options for tying compensation to performance and to provide some kind of deferred compensation or phantom stock. Most used an outside compensation expert to help create the compensation package.

What are some of the rewards of bringing in a non-family CEO?

Outsiders can bring expertise not available in the family. That might include international market development or experience financing growth. They may also provide critical crisis transition leadership in the event of the unexpected death of the current owner/manager. The right CEO can strengthen both the external and internal credibility of the company.

Suppliers, customers and employees all worry about the company's survival of the succession process, particularly if there is no obvious family member being groomed as the founder's successor.

And, finally, if no one in the family really wants the pressure of running the day-to-day operations, a non-family CEO will enable the family business owners to pursue other interests.

How should you start the selection process if you're looking for a non-family CEO?

I think it's important to analyze both the skills and traits of the CEO, and the needs of the business. What does the current CEO do on a daily, weekly, monthly and annual basis that contributes to the company's success? It's also important to have a sense of what the business will need from its leaders in the next three to five years. What are the external opportunities and threats the company will face in the market place? What are the company's internal strengths and weaknesses?

You will probably want to get input from a variety of sources — family members, key non-family managers, board members, managers, and industry leaders. In some cases, using an outside search firm makes sense.

Give the process enough time. Identify and analyze as many options and candidates as possible. Look for a fit not only in terms of experience and skill, but also in terms of comfort level with the family. Ask yourself whether the timing is right. If you're the family member currently running the company, ask yourself whether you're really ready to let go. One family business owner told me that he resisted bringing in an outside CEO for years even though he knew it was the right thing to do. When asked what finally made that possible, he said, "Once I felt like I was moving toward something in the future, not just moving away from everything that had been my life."

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