Creating an Environment for Successful Nonfamily CEOs

One of the ways family businesses can enhance the professionalisation of their management is by bringing in professional managers from outside. In fact, any business, whether family or non-family, which managed to survive the initial challenges of growth, subsequently reaches a stage when its existing resources and capabilities are no longer sufficient to exploit the growth opportunities. On reaching this threshold, family businesses turn to hiring professional managers from outside for managing the business. Consequently, ownership and management of the business become separate. From then on, family members must moderate their extent of involvement in the business. Their primarily responsibility is to be owners of business and not to be the managers. And as responsible owners, their focus should be to find competent managers to run the business and create conditions for their optimal performance.

When family firms hire a non-family CEO (NFC) to run the business, specific challenges arise. Like their peers in the non-family business, NFCs are accountable for the business performance. However, unlike these peers, NFCs have to often confront peculiar, and at times, awkward situations. On organizational charts, they often find themselves as superiors to people who are board members and evaluate their performance. Sometimes they even encounter situations when they have to demote or even dismiss the children of the family that owns the firm. Given such predicaments, how can a family firm create an environment that will enable the NFCs to perform in the larger interest of the business? What are the conditions that enable NFCs to succeed?

Seeking answers to these questions, Tim Blumentritt, Andrew Keyt and Joe Astrachan conducted an exploratory study, published in the journal of Family Business Review, which offers insight on the issue. They undertook group interviews with 27 participants, including family members and non-family executives. Four major themes emerged from the data, which can be further classified into two broad categories: one from the perspective of the NFC; another from the perspective of the family. From the standpoint of the NFCs, the study found that the key determinant of their success is their ability to balance the business and the family concerns. Apart from the business acumen of the NFCs, what particularly matters is their character and integrity, which enable them to leverage the unique nature, characterised by trust and informal relationships, of family business. The successful NFCs had a genuine appreciation of family concerns and they were able to navigate with aplomb the complex web of relationships in a family business, without getting sucked into the political undercurrents. This implies that CEO competence in family firm is more than just management ability and that NFC who takes up the position with only business performance and compensation do not make the grade. The authors of the study further note that the key to maintaining the balance between the family and business depends on the fit between the NFC's personality and the family firm where he or she is employed. Thus, while recruiting the NFC into a family firm a good personality match is a decisive factor.

From the side of the family owning the business, the two mechanisms through which they could facilitate the success of NFCs are the support of a strong board and family council. For a strong board, there must be significant presence of external experts who are not part of the family. Apart from the two primary functions of board in non family firms--governance and resource provision-- in family firms, especially in the ones managed by NFCs, strong board plays a critical role in two ways. First, the board acts as a buffer between the family and NFC. In the absence of such a buffer, the NFC, who usually does not have any ownership stake, become helpless when there is a lack of consensus among the family member on how to run the business. Second, board may provide the much needed support for NFCs to pursue strategic decisions that are necessary in the overall interest of the business but are unpopular with the family members. Family council, on the other hand, is a representative governance group within the family that looks into issues related to the ownership of the business. Family council plays a vital role in creating a conductive environment for the success of NFC. Family council provides an effective mechanism for the family to manage internal conflicts and ease consensus building on relevant issues. Using this platform, the family can act as cohesive unit and clearly communicate their expectations about the business with the NFC. Both, strong board and family council, are mechanisms that enable the regulation of the boundaries between the family and business system. These regulatory mechanisms give clarity to the NFCs so that they can focus on the task at hand.

Overall, these findings of the study highlight that successful interaction of NFC and family members requires efforts from both parties. The NFCs must be particularly cognizant of the importance of relationships in the family business context. The primary challenge for them is to balance their business acumen and interpersonal skill. At the same time, as the owners of the business, it is the responsibility of the family to institutionalize governance mechanisms such as strong boards and family councils to boost up NFC's capability to move the firm forward.

Source: Timothy P Blumentritt, Andrew D. Keyt, and Joseph H. Astrachan, "Creating an Environment for Successful Nonfamily CEOs: An Exploratory Study of Good Principals," *Family Business Review* 20, no. 4, December 2007: 321-335.