WHEN YOUR FAMILY BUSINESS HIRES A **NONFAMILY CEO**

For an outside chief executive to thrive, a family business needs strong board governance, and the family must give that person the freedom to lead.

By Jeremy S. Lurey, Ph.D.

Much has been written about transitioning a family business to a NextGen family member, but what if there is no NextGen who is capable of or interested in running the family enterprise? Families who want to sustain their legacies and continue their businesses may need to transition to a nonfamily CEO. This is quite common at the third generation and beyond, because NextGens in those families may not have grown up around the family business, as the founder's children did. A nonfamily CEO can help the family succeed in continuing its legacy.

Board governance. Having a strong board of directors is critical to the success of a nonfamily CEO. The CEO is responsible for actively managing the business, but the board is responsible for establishing clear processes for monitoring the nonfamily CEO's performance and holding the chief executive accountable for achieving key objectives. Boards also support nonfamily CEOs with strategic problem-solving and decision-making whenever something goes awry.

Families with high-performing boards tend to be more effective in defining their mission, vision and values. Doing so helps the nonfamily CEO understand the ground rules for running the company. For example, is the family driven by customer and employee service, or are the owners currently driven by specific financial goals and their distributions? Values establish a code of conduct for nonfamily CEOs and clarify what matters most for family owners at any given time.

Strategic focus. Setting the company's strategic direction is essential to help nonfamily CEOs succeed. Imagine you are the first nonfamily CEO steering the ship. If the family's shareholders haven't charted a clear course to follow, then you run a good chance of running aground.

Nonfamily CEOs, who don't share the family's rich history and more intimate relationships, need to be clear about the family's priorities. Is the primary objective business development and growth to provide larger shareholder distributions to the family? Is it maintaining the business and providing secure jobs for people in the community? Neither is right nor wrong, but the nonfamily CEO must know what the goal is.

If a NextGen family leader is positioned to take over in the next five to 10 years, then your first nonfamily CEO might also be expected to develop and groom that person. Hiring a professional manager on a short-term contract can ensure stability of the business and drive generational continuity, but only if the nonfamily CEO is clear from the start that the intention is for a family transition in the coming years.

Finding the right fit. Some family business owners are fortunate to have longtime tenured leaders on their teams who are "like family." These reliable, capable leaders may have grown up in the business, serving side-by-side with family members. A long history with the company can build trust between the family and the nonfamily executive. But longtime staffers who are promoted to CEO still need proper governance and a clear strategic focus to be successful.

If you need to look outside the company for your next leader, be intentional about finding the right fit through a well-executed executive search. You need to be diligent in establishing specific selection criteria for your next CEO.

Going forward, are you seeking strategic growth, or would you like to sustain the business as is? Will your next CEO have to turn around the business in a turbulent market, or are they stepping into a profitable business in stable conditions? It's not about filling the shoes of your previous CEO. It's about finding the right executive to understand and achieve your future objectives, which could be very different from what initially made the family business a success.

Trust, but verify. Once the nonfamily CEO is on board, monitor their performance against the clear goals and objectives you have already established. Create a performance management committee on your board, not just to set the CEO's compensation but also to drive accountability and results. You need someone at the helm who takes ownership for the company's results and can course-correct as needed when those results are not in line with the plan.

Give your CEO some latitude. They won't be perfect, and your business strategies won't always be flawless. Just be sure to hold the CEO accountable to specific results, such as an EBITDA target and consistent shareholder distributions, or perhaps the timeline and investment for a new initiative to expand into new product lines or markets. Nonfamily CEOs are there to serve the shareholders, so they should always be focused on improvement. It's OK to trust, but be sure to verify.

Including executive sessions on the agenda at every board meeting is one of the best ways to monitor CEO performance. Executive sessions give board members the chance to speak freely about a CEO while the chief executive is excused from the conversation. When things are going well, the conversation may last only a few minutes to confirm the CEO is on track. With an executive session as a standard practice, there won't be any surprises when one is called. After discussing your concerns, be brutally honest with your nonfamily CEO so they can get back on track.

Onboarding the CEO. Any time a company brings a new leader into its organization, it's important to help the CEO assimilate with their team and direct reports. There may be no more important time to do this than with a first-time nonfamily CEO.

In addition to partnering with the board, CEOs must also earn the respect of their senior leaders and maintain strong working relationships with them. Senior leaders need to get to know the new CEO on a more personal level and understand their leadership and communication style right from the start.

Beyond the formal reporting relationships and governance processes established by the board, you might also identify someone to be the nonfamily CEO's champion for success. Typically, this would be a nonoperating shareholder who knows the family's culture and general wishes. Building on the leader assimilation process and depending on your specific circumstances, it could also be a tenured, trusted senior executive who knows the family well.

Let go. One of the biggest challenges for a nonfamily CEO is when the founder or other family owners won't let go. They may be used to being in control and making all the decisions about the business. If your nonfamily CEO is going to be successful, you must give up the reins and empower them to make the operational decisions needed to achieve your stated objectives. The board and ownership group should provide strategic direction and overall governance, not run the business.

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Letting go includes being transparent and sharing financial information freely rather than withholding it. Nonfamily CEOs do not need to know everything about the family's balance sheet and broader estate, but they do need to know, for example, what capital the family is willing to invest or what distributions are expected from the business. It isn't sustainable to treat the family business like the family's bank or blindly draw distributions as desired.

There are many reasons for a family business to transition to a nonfamily CEO. Whatever the reason, these strategies will make it a smoother transition. Whatever course you choose, just remember the success of the business, and quite possibly your family's legacy, is dependent upon having strong leadership in place. ■

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