From FFI Practitioner

CEO succession to a non-family executive is particularly challenging to a CEO who is a family member. For executive recruiters, “Will the CEO really let go?” is always a concern expressed by those around the incumbent. This week’s edition by Bruce Walton discusses success factors that help consultants prepare their clients to let go as part of a successful leadership transition.
The Chairman/CEO of a substantial, family-run company once asked me, “What are the five most important things for a successful transition to a non-family CEO?”

One key issue is that the incumbent needs to “let go.” To do that successfully, we know that the current CEO needs to have something to go to, a worthy substitute for his or her natural focus and energy. That said, the comfort level for the family CEO to let go is built upon the confidence that the company will be secure and in good hands moving forward. My response to the chairman’s question was largely based on three articles I have written for the FFI Practitioner (Fit – 4/19/17, LTIPs – 6/7/17, Best Practices – 10/11/17). The full answer, however, was a combination of Fit, Structures & Processes, and Mindset. In this article I have tried to pull it all together, hoping the FFI Practitioner readers will find it a useful tool to use as a conversation starter with their clients.

“THE BEST CANDIDATES ALSO HAVE THE CAPACITY AND HIGH EQ (EMOTIONAL QUOTIENT) TO DEAL WITH FAMILY DYNAMICS WITHOUT BECOMING EMBROILED IN THEM.”

Fit

1. **Culture**: Since you can never separate the family from the business, the non-family CEO must be comfortable with and embrace the family’s “core values”, the values that underpin the culture of the company. The new CEO becomes a steward of those values.

2. **Competency**: At the same time, the successor needs to have the competencies that will be called upon to do the job successfully, so identifying and prioritizing a competency model is an important exercise. Candidates must be judged against these competencies.

Experience further tells me that the best candidates for family-owned business leadership tend to be somewhat overqualified. They don’t need to prove that they know how to be a CEO; they know it. The best candidates also have the capacity and high EQ (Emotional Quotient) to deal with family dynamics without becoming embroiled in them.

Sidebar: Related Articles by Bruce Walton

If you enjoyed this article, view these related articles by this week’s contributor, Bruce Walton, discussing the recruitment of non-family executives in family enterprises:

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Structures & Processes

To let go, the incumbent CEO must be assured at a deeply emotional level that things are in place to ensure a successful business and protect the family legacy. Key elements are:

3. **Board Governance**: A well-functioning and independent board (one that is not too deferential) and good governance processes will serve the family well going forward. While a family company board may be described as fiduciary, carrying legal responsibilities and liabilities, most still have an advisory feel to them. But it can quickly evolve into feeling like a formal fully-fiduciary role if the family company leader gets hit by the proverbial "bus" or if a fight develops among shareholders.

4. **LTIP**: The non-family CEO will want to share in the financial value that he or she creates through a long-term capital accumulation program that enables the non-family CEO to feel, act and think like an owner. This means being involved in strategic planning and major decisions. There are ways to structure LTIPs without giving away stock.

“RESPECT AND RAPPORT ARE ALSO THE FOUNDATIONS OF A SUCCESSFUL RECRUITMENT PROCESS. CANDIDATES WILL LOOK FOR SIGNALS IN INTERVIEWS TO UNDERSTAND WHAT IT WILL BE LIKE TO WORK AT THE COMPANY.”
Mindset

5. Respect and Rapport: To complete the fifth part of the response, I called a former successful candidate who came in as COO of a $600 million NYSE traded conglomerate (family-controlled), with a contractual commitment to be named CEO one year later. He was promoted on time and was CEO for over a decade before stepping up to a non-executive chairman role. I asked him what made it work. He responded, “It’s about Respect and Rapport.” Of course, there must be rapport between the old and the new CEO. But the old CEO needs to respect his or her successor and understand that the new CEO will come to the game with a “different toolbox”; he or she will do things differently. There will inevitably be times of disagreement and some tension. Good respect and rapport will help them get past those pressure points.

Respect and Rapport are also the foundations of a successful recruitment process. Candidates will look for signals in interviews to understand what it will be like to work at the company. To recruit a good successor, the CEO should hire someone at least at his or her own level in terms of role, scale and complexity of experience. In a recent search I heard the comment, “The company needs to hire for the job five years into the future; then let the successful candidate drag you there.” If the CEO sends signals that he or she is looking down at candidates, things do not usually work out. If the family CEO doesn’t demonstrate genuine respect for the candidates, good candidates will withdraw.

Recruiting executive leadership can never be done without some risk, but if you pay attention to Fit, Structures & Processes, and Mindset, you can build foundations for success.

About the Contributor

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