

Preparing for new leadership from outside the family business

BY JANICE DIPIETRO AND MARGARETE DUPERE

Family firms account for two-thirds of all businesses around the world, and an estimated 70% to 90% of global GDP annually is created by family businesses, according to the Family Firm Institute. Whether the business in question is a \$3 million operation or a \$3 billion multinational enterprise, family business success and continuity matter—not only to the family but also to their employees and to the country's economic health.

Leading any organization successfully requires a clear vision, operational and managerial capability, market insight, the right people and a differentiated product or service, among other critical factors. Overlay family dynamics (functional or dysfunctional), the responsibility and desire for legacy and a business climate where the rate and pace of change are unprecedented, and you have a challenging and complex landscape.

Leadership from outside the family can provide additional perspective and a set of capabilities that contribute to the sustainability and growth of your business. Here are four pivotal issues that family business owners and directors should consider in determining whether the next leader should come from outside the family firm.



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1. The business: Current state and path forward

Considering any change in leadership requires a careful assessment of where the company is at present, and also of where it is going. Although none of us has a crystal ball, this is the time to ask the tough questions about your business.

How effective and efficient are you today from an operating perspective? How well positioned are you operationally for the future? How are your markets changing and evolving? What new markets might be available to you? What market or competitive forces are you likely to face over the next three to five years? What are the implications from a financial standpoint?

Include these factors in your analysis:

- **Growth:** What's the rate of growth? Is it occurring organically? Might an acquisition or strategic partnership accelerate it?
- **Performance:** Is the business performing to its potential? How do you know?
- **Market:** Has the competitive landscape shifted? Have markets changed owing to new entrants, new technologies or new buyer behaviors?

An objective and rigorous review of the business, the markets in which it operates today and those it likely will face going forward will help inform your assessment of the leadership capabilities most needed in the future.

Does your organization possess the talent and, in particular, the leadership capabilities to address and drive these critical business issues and seize the market opportunities ahead? As the CEO or a director of the company, can you answer this question in an objective manner? Understandably, it is difficult for many of us to recognize that the leadership skills needed to capitalize on future opportunities may be different from the ones we or other leaders in our organization possess.

2. Leadership capabilities

If your business assessment yields any of the following conclusions, it may be time to consider bringing in a leader from the outside.

- Changes (or likely future changes) in the marketplace will require new capabilities or experience.
- The company has grown significantly via M&A yet has limited internal capabilities to manage a larger organization.

- There is a desire for “new blood,” given the stage of the business or its products or services.
- The CEO or other key business leader will be ready to retire soon, and no internal successors have been identified. (Prospective future successors are either not ready or not interested.)
- The growth of the business or scope of the role has outpaced the incumbent leader.

For many, determining the need for outside leadership is the easy part. The process of identifying the right person, however, can be daunting. It begins with role definition and clarity regarding the skills and experience required for success in the position. It continues with careful selection and assessment of candidates and concludes with the integration and assimilation of the new leader.

In assessing candidates for your family business, consider the following:

- **Chemistry:** Does the candidate share your family and business values? Does he or she have a temperament that can work with your family dynamics?
- **Insight:** Does the candidate understand the intricate links between family and business?
- **Passion:** Is the candidate “fired up” about your business, products or services, and industry sector?
- **Trustworthiness:** Does the candidate demonstrate integrity and credibility? Can he or she be trusted to make decisions that are in the best interest of the business?
- **Capability:** Would the candidate bring new skills, creative thinking, experience and business relationships to your company?

3. Preparing the retiring leader

You may have identified a great new leader, and the business may be ready for the change, but are you yourself ready for the transition? How will you hand over the role? The best leaders will want to have full authority to run the business from Day One. How do you transition leadership quickly yet ensure the family asset is being protected?

It's critical to determine in advance what the new governance model will be. Will the retiring CEO assume the role of chairman when the new CEO takes over? What decisions must the outside CEO first discuss with the board?

Planning for your personal transition is as important

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as planning for the business transition and should be given the time and attention it deserves before a new leader is brought into the business. How will you fill your days when they have been traditionally focused on the day-to-day running of the business?

4. Preparing the family

Even in highly functional business families, there may be benefits to changing the dynamic by bringing in a new leader from outside the family, who can help change unhealthy communication patterns. And when family business interactions have become untenable, outside leadership can be essential to maintaining family bonds while strengthening the family business. As stated before, a leader from outside the organization often provides a fresh, objective perspective that can help the company to grow and evolve.

Before the new leader comes aboard, the family should establish or reinforce its governance processes to separate business from family issues. This should include “soft” issues, such as decision-making processes, as well as “hard” issues, such as expense controls.

The board of directors and the family must also ensure that the new leader has authority in addition to responsibility. An outside leader should not be brought into a business unless the shareholders are willing to truly give that person the authority to do the job. This includes the recognition that, as is true of all leaders, not everything the person does will be perfect.

Bringing in a leader from outside the company involves real change for the business and the family. The readiness of the family and the organization must be carefully considered. A critical first step involves analyzing where the business is today and discerning the best path forward; this will help identify what qualities are needed in a new leader. Understanding how to identify a high-potential new leader and preparing yourself and the family for this major decision is paramount, as the family legacy, and likely its most valuable asset, are at stake.

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