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Family Businesses: 10 Tips For Hiring Your First Nonfamily CEO

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Transitioning to a new CEO is always challenging. Doing so in a multigenerational family business is harder. But hiring the first nonfamily executive to run a family business may be the riskiest type of CEO succession. There are only a few ways for things to go right, but an infinite number of ways for them to go wrong.

While you have likely heard numerous stories about failed successions, you may not have heard of the many successful transitions that have occurred in family-owned businesses.

So, what are the secrets to success? Here are some suggestions for how to get it right the first time.

1. Everyone must agree on the candidate.

The selection decision needs to be an agreement, preferably a unanimous one. As with many decisions in the board room, it is acceptable to strongly disagree during the decision-making process, but once a decision is made, everyone needs to visibly support it for the good of the organization.

2. Define the new CEO's authority.

In most family businesses, there are written rules and unwritten rules about how things get done. When there is no one to tell the new CEO about the unwritten rules, they tend to find out too late. Worse, this happens while they are trying to develop relationships and build trust.

As part of the hiring process, the company must thoroughly negotiate the decision-making authority of the new CEO. This means determining which decisions they can make alone versus when a discussion needs to happen (with the whole board or the chairman, whoever the CEO reports to directly) before a decision is made. This determination will be very specific to each company's situation.

By defining the CEO's authority, the organization will come to know who is really in charge. Is the new CEO a "real" CEO, a COO or just a caretaker while the ownership makes up its mind on what it wants to do?

3. Provide a clear mandate to the new CEO.

The ownership group needs to be clear on what it wants this person to accomplish and when. The new CEO will value their time and is likely to be ambitious. The mandate will be the key incentive for them to join the organization, as they will likely want to accomplish something meaningful and not waste their time. The candidates want a clear idea of what ownership expects them to deliver.

4. Allow them to build their own relationships.

Every CEO needs to develop their own relationships within the organization to get results through collaboration. The family needs to give the new CEO enough runway to figure out who does what, how to motivate them, how things really get done and what makes the organization tick.

5. Have a transition timeline.

The outgoing CEO needs to consider how they will turn over the reins to the new hire. What can be achieved during onboarding? What takes more time? What do you "just have to be there" to understand? Key relationships, with customers and suppliers, take time. At what point in these relationships does the outgoing CEO stand in front of the new CEO, beside the new CEO or behind them, and at what point do they walk away?

6. Provide a simple reporting structure.

While the CEO often reports to the board, it is not effective for the CEO to have five to seven people to report to, each of whom might give different marching orders. The board needs to decide on a single point of contact for the CEO and manage its discussions through that one person.

7. Be clear on how conflicts get resolved.

How are conflicts resolved in your organization? How does the process change based on the type of conflict, magnitude of risk and participants? The more the board makes the CEO guess, the more mistakes they will make.

For family businesses, who is the tiebreaker on key decisions? When the family is deadlocked, do they expect the nonfamily CEO to be the tiebreaker? While that often happens, it may only be effective after many years of trusted service.

8. Discuss future ownership composition and its implications.

Before taking the job, the leading candidate will want to understand what the ownership group looks like today and what will likely happen in five to ten years. This lets them know who they will be reporting to, their future wants and needs as owners and how desirable the situation may become. Just as you are interviewing them, the candidates are interviewing you to assess how desirable you are as an employer.

9. Create the right incentives.

A good CEO will want to know how they can benefit from their efforts. Will they be able to purchase equity? Can they earn it? If not, is a phantom equity program available? If not, why not? If so, what are the rules? Ownership should have these answers at the start of the recruiting process.

10. Let them do their job.

After developing the transition plan, stick to it. The exiting CEO should disappear for a while — go to Hawaii for a month, or something similar — to prove to the organization that the new CEO is really in charge.

The first nonfamily CEO cannot solve existing family disputes, and that should not be their job. There are other ways of handling those issues. The family needs the new hire to run the business.

Final Thoughts

The success of a new CEO depends on their understanding of the owners' priorities and the company culture, as well as their ability to develop a rapport with key stakeholders. The recruiting process needs to address all the delicate issues that will come to the fore once the candidate is on the job before the offer is made. If in doubt, spend a little more time and ask a few more questions, so you don't regret your decision later.

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