Looking outside the Family Boundaries to Re-invigorate your Business

Family leaders are often highly competent, committed and driven business individuals. However, appointing an outside CEO may be the best fit for your family business, particularly if major change is required or no suitable family successor exists. The CFB's ***Martina Brophy*** *looks at the situations where non-family leadership is often strongly considered and, in some cases, enacted.*

All businesses require re-invigoration at some point. This is particularly true for family businesses. Following successive generations of a family line, these businesses can become risk-averse, stale, stagnate or simply lose sight of their original vision. Re-invigorating the business may take the form of new products, new market entry, diversification or a change in leadership. Changing from family to non-family CEO can be a daunting move but could make business sense.

There are numerous reasons as to why a family firm would consider non-family leadership. Firstly, the company requires change but wishes to retain family control, thus "a transformational non-family CEO" is deemed preferable to a company sale; secondly, there are no family successors sufficiently qualified to take the role as CEO; and thirdly, any potential successors are too young or unprepared for leadership and so an interim CEO is needed to provide mentoring and support (Poza, 2010, p.240).

In the first instance, the firm is often loss-making and requires major change. The Lego group was one such family business that needed transformational leadership. Founded and owned by Danish family dynasty, the Kristiansens, the company became world renowned for its multi-coloured toy bricks. But in 2004, the 100% privately owned family company was on the brink of bankruptcy.

Third generation, Kjeld Kirk Kristiansen was at the helm of Lego for 25 years before the company's first non-family leader, Joergen Vig Knudstorp, became CEO in 2004. He oversaw huge change in the company by renewing their strategic focus, implementing cost-cutting measures and transforming the organisational outlook. He led the company out of financial crisis to uncover new found growth; in 2015, Lego was declared the toymaker with the largest sales in the world.

Appointing a non-family leader could make business sense as shown with the Lego group.

Lego has no direct family management and is completely privately owned by the Kristiansen family. In April 2016, it was announced that Lego is undergoing a succession process whereby Thomas Kirk Kristiansen, fourth generation family member, will succeed his father as vice chairman of the group. While the family's intention is to retain ownership across generations, Thomas is insistent that non-family leadership will remain into the future (The Wall Street Journal, 2016).

The Kristiansen mind-set is one that recognises ownership and management as two distinct areas. The family can accept that major change is needed and that, in their case, a non-family leader is best for implementing such change. For many long established family firms, appointing non-family management is perceived as a loss of family control or a dilution of the family image or values. Some consider it "a slippery slope leading to corporate bureaucracy" (Poza, 2010). Yet, as evidenced by the Lego story, non-family leadership can stabilize and rejuvenate a family business.

In the second instance, when there are no family successors that are sufficiently qualified for leadership, a non-family CEO must certainly be considered. Family business leaders tend to adopt an ambivalent attitude to succession. Some acknowledge the prospect of departing the business but fear they will not secure a suitable replacement. Rather than extending a departure date indefinitely or appointing an inappropriate family successor, incumbent CEOs should consider the merits of a well experienced outsider with extensive industry knowledge and contacts.

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In the third situation, there is the incumbent CEO who is ready to depart yet there is no family successor who is qualified or prepared to undertake the position. Here an interim CEO may be considered an appropriate option. An interim CEO can be someone working within the company, as was Joergen Vig Knudstorp at the time of his appointment, or an outside expert who has experience at C-suite level. Their appointment may be intended for an interim period (e.g., 3-5 years) to accommodate the development of the next family leader.

The benefits of such an appointment are numerous. The leadership gap is filled by a competent and capable individual that can lead the company's strategy. Next generation members may respond better to direction and support from an impartial mentor as opposed to a parent (Brown). Furthermore, a non-family CEO facilitates outgoing family leaders as they transition to board level and consider retirement options (Brown). Most significantly, external CEOs, whose accumulative experience relates to larger companies, can aid in the professionalization of the family firm.

Choosing a successor should not be a case of deciding between family and non-family, but in evaluating the individual and the value they can bring to the organisation. In some cases, the most suitable and capable candidate for CEO is a family member. When adopting an external CEO, the family must consider ways of attracting and retaining such a person (e.g., suitable compensation) and be open to having organisational procedures and practices scrutinised. When the firm requires re-invigoration and no family member is suitable, qualified or ready to lead organisational change, look outside the family boundaries to find your leader.

References:

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