Attracting and retaining top talents

External executives in Family Businesses (II)

by Andreas von Specht and Nick Harris

For the past two years, we have worked together with INSEAD & PwC on a Europe-wide study that deals with the topic of “External succession in Family Businesses”. In our previous article, we presented the most important findings of our joint study around succession in the unique context of a Family Business environment. In this second article, we dive deeper into the key themes of recruiting, onboarding and retaining top executive talent.

Finding and retaining external executives

External executives often have an essential role to play in securing the long-term future and prosperity of a Family Business (“FB”). However, some owning families express great concerns about this option. So, how can owners successfully identify, select and retain the rare species that is a well-qualified and also ‘FB-friendly’ top executive? How does a FB go about “finding and binding” an outsider?

- The selection of a new CEO, COO or CFO for a FB is complex. You have to evaluate the critical competencies. The development potential should be assessed. Suitability for the specific culture of the FB (or a Family Office) is absolutely crucial. And all of this needs to be confirmed in a series of interviews and through a comprehensive referencing process.
- “Performance-related prediction” is still very important. Especially when assessing competencies such as results orientation, the ability to bring about change or the leadership of high-performance teams: what has someone done in the past that can predict their success in the future? And how did he or she do it?
- The FB owner also has to get an idea of the future potential of the external candidate: how will they deal with uncertainty, unforeseen challenges and new situations?

- The assessment of competency areas and development potential may best be gauged by "how" questions. The typical "what" questions, which are still prevalent in many traditional interviews, are insufficiently challenging and revealing – and make it too easy for candidates to default into narration or 'sales mode'.
- The study found that 83% of the executives surveyed had no prior relationship with the owning family before they joined. It is therefore critical for a hiring process that both sides really do their respective homework. Failure is extremely costly. Both sides have to carry out a due diligence – on each other! A no-brainer? Not really. Even experienced FB owners can be poor interviewers, too much in 'selling mode' of their great company rather than carefully investigating the external candidate, or talking all about themselves rather than asking questions. On the candidate side, too many come badly prepared, without having done their homework on the business and with no challenging questions for the owner.

Hopes and fears

- Both owners and external CEOs enter these selection processes with "hopes and fears". The owning family must be able to build a sense of comfort that they will be placing their business in the hands of a chief executive who is both competent and trustworthy.
- The hopes of executives revolve around finding a professional home that offers a long-term orientation, sound investment decisions, a flat hierarchy, entrepreneurial freedom, quick decisions and so on. All typical advantages of a well-managed and functioning FB.
- Their fears, on the other hand, are about possible hidden agendas among family members and a (often perceived) lack of transparency; they have heard about the risks of irrational behaviour or underlying conflict between family shareholders. The bottom line here is: relationships need to be defined – and trust needs to be built. Between the family, the (supervisory) board and the incoming CEO.
- One element that strongly influences these relationships is the state of the company when the external manager takes on the new role – and the degree of transparency and openness with which the 'real situation' was described to the candidates in advance!
- The Chair has an important bridging and relationship-building function, during and after the hiring process. (In the words of one CEO: "Good leadership leads to better attitudes.")

Owners and CEOs have to agree on a "change contract"

Coming into a FB from outside can be challenging. However, the importance of onboarding & integration processes in FBs are still vastly underestimated! An active onboarding is much more than a 'nice to have'.

- Onboarding is often viewed as a formality both by FB owners and by the incoming executive. A lot of energy, attention and investment are often put into the search process but "the rest" – i.e. what happens after the contract has been signed – is then left to chance and good luck. We strongly believe that onboarding & integration should be seen as an integral part of the hiring process! And it should not just be delegated to an HR support function.

- An important element of the onboarding process could be referred to as the "change contract": an explicit agreement between the owner and the CEO on how much improvement or transformation the business requires – and within what time-frame. We have seen too many situations where both sides "thought" they had an agreement on the degree and pace of change necessary but, in reality, they were worlds apart.
- It is also important that the change agenda is made transparent and not just kept behind closed doors: buy-in and proactive communication across the management are crucial! The momentum and energy created by a handover of the leadership must also be leveraged effectively.
- Onboarding & integration ideally begins in the interview phase; the more open, honest and transparent these discussions are, the better!

An Active Integration comes in three phases

Once a successful candidate has been identified and the hiring process completed, there are three important phases:

- Phase I (between signing and starting): this stage should be used to build a deep understanding. A comprehensive onboarding plan should be developed together. Important stakeholders need to be identified. We have also seen several situations in which the new CEO – supported by the owning family – commissioned a management appraisal of the executive team in order to have an objective, qualitative assessment of the most important team members from day 1 in the company.
- Phase II (the first 90 days): this is a phase in which trust is built. The new leader initiates business meetings, meets all key stakeholders and builds a relationship with the management team. Well organised and regular feedback is important; even minor communication problems should be addressed immediately during this time. In this phase, the new CEO should also write an "Elevator Speech" in which he/she explains their reasons for joining the company and what they hope to be able to contribute.
- Phase III (the second 90 days): the following three months are about building a dynamic. After a lot of listening, observing and analysing, action should now follow – important decisions could be announced and change programmes initiated. It is very important that there are some checks & balances in this phase: a 360° or other kind of structured feedback process must be carried out to ensure that no showstoppers develop and that all stakeholders are still aligned.

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