STRATEGY

THE OUTSIDER

The Challenges and Opportunities of Integrating Non-Family Executives in the Family Business

Interview with Andreas von Specht, Founder and Managing Partner at AvS – International Trusted Advisors

The introduction of a non-family CEO in the family business is a delicate process. Will this "outsider" understand and appreciate how the family operates and what it holds dear? Will he or she respect family privacy when conflicts arise in the boardroom?

Andreas von Specht, Founder and Managing Partner at AvS - International Trusted Advisors

Andreas von Specht, Founder and Managing Partner at AvS – International Trusted Advisors, has made it his mission to help family-owned businesses answer these delicate questions. The firm specialises in helping family-owned businesses hire and integrate non-family CEO's and managers and as well as establish good family governance.

Besides his many years of expertise as an advisor and consultant, Andreas von Specht draws upon experience from his own family business background: The Berenberg Bank, the oldest private bank in Germany, dating back to 1590 which after 19 generations of management always with at least one partner from the family is currently, for the very first time, led exclusively by external executives.

Tharawat Magazine met with Andreas von Specht to discuss how family businesses can successfully tackle the integration of non-family CEOs and why it's important to allocate enough time to go through the process.

Is it still the norm for most family-owned businesses to expect the next generation to take over executive roles when the time comes?

There is a piece of research by EY that I found staggering where they found that only 20% of students coming from family businesses have the intention of joining the business in the future. So at the stage where they are giving serious consideration to what the future holds in store for them, 80% have said they will not or likely not be available for succession. So even if you do have children and you think succession might not be an issue, you have to think twice because a majority of that next generation is either not willing or not able to take on this responsibility.

How difficult is it for business families to assess talent potential within their own family?

If you have a situation where a son or a daughter is willing to be a successor, and they are in fact exceptional, it becomes easy. It's also pretty clear when somebody who is willing to take on the role is clearly not qualified or capable. The real problem is usually in the middle; when the family will find it very, very hard to come to the conclusion that a next generation member has only very average capabilities and competencies. Usually, this is the context that triggers the search for an outsider to take on an executive role.

When family businesses do look to bring in someone from the outside, what are the challenges they face?

Usually, problems will relate to behaviour and values; in other words, the chemistry on both sides. You will find external executives who are utterly incapable of joining family businesses because they don't understand the DNA of the companies that they join. They don't understand the value system that they will need to represent if they want to be successful.

So when you first sit down with a family business, where do you begin to avoid such pitfalls?

It typically starts with the family; through a diagnosis of what the actual internal situation is. Like for any executive search, we define the required competencies next. But on top of that, we spend a lot of time trying to understand the value systems, the traditions, and the heritage that matter to the family. What are the values they want the non-family manager to represent? Very often people get hired on competencies and fired on chemistry. Families will engage

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in an extended, comprehensive process of hiring an outside CEO for instance. And then they think it's done. So the new executive will start work, and the family assumes that this will somehow magically work on its own. It doesn't! An integration program is required to give the new hire the best possible chance to succeed. Especially in the first six months, you have to be careful that there is no miscommunication or misunderstanding on either side.

Do you take an active role in that integration process? Do you have a methodology that you've found to be successful?

As a matter of principle, we always try to stay close to our clients and the candidates in the first months after hiring and try to sense if there is something that needs to be discussed or put on the table. After the hiring, we regularly talk to the families and suggest an accelerated integration program. Very often, the answer will be that they feel they can do it themselves. And that's fine if it's true. Unfortunately, it's not always the case. Many family businesses don't get it right, and when they don't get it right, it's usually after already having incurred the cost of hiring someone. I am convinced that especially the first six to nine months are crucial to set up a non-family executive for success.

For me, success is not when we've identified somebody competent for the position but rather when a family looks back after 5 to 10 years and realises that hiring that person has allowed them to take a new direction, to grow, or to overcome challenges. That is a success to me.

A significant part of that integration process consists of building trust between the external manager and the family shareholders. How do you deal with building trust and what can a non-family executive do to encourage trust?

I think it starts during the hiring process. My advice is to take enough time in finding someone outside the family. Ideally, the process should be moderated because you need someone in the middle to explain the family business DNA to candidates and how they have to understand this before taking on the role. You then take time and have interview rounds until you're certain about your decision. There are people who feel 'Well look, we identify someone, we hire someone and if it doesn't work, we fire someone'. That is an incredibly costly exercise. Not just because you have to pay the search consultant, but it is very expensive in terms of the time you lose, the damage to the organisation, and potentially the reputation of the family company. So if you want to bring in someone from the outside, it doesn't sound very complicated, but you'd be surprised at how very few people follow this advice – to take enough time. Doing it right from the beginning is the first step to establishing that trust. Because you're going to spend the next 10 to 20 years working together and you need to build that confidence.

In family businesses, 'blame' and 'guilt' can play a great role in board dynamics. How can this affect a non-family member who is put forward as an executive?

Now we are talking about role model behaviour by family shareholders. Generally, we see more discipline comes into the process when an external manager enters the picture as many shareholders feel more observed now, which is positive. Yes, 'blame' and 'guilt' are all too well-known to many family businesses. Often it starts with underlying or even open conflict between family members and then suddenly, an external executive finds themselves in the middle of that crossfire. You see a lot of strange behaviour which is unprofessional and not disciplined, and as soon as somebody from the outside comes in, you want to make sure it is somehow resolved or ideally changed. Of course, in many cases, that is not true, and then you get into the expensive process of hiring somebody with a lot of effort, and three months later the family itself has created a situation where it becomes impossible for that person to stay.

Your expertise in this area comes not just from your professional background but your own family history as well. Can you tell us what you've learned from your own family's experience travelling down this road?

Our family business is a bank that was founded in 1590, so it's 427 years old. And right now, for the first time, there is no family member in the management of the bank. It's a very successful bank I'm happy to say, so we are not talking about something that is problematic. We have a management that has shares and currently the managing partners and the family together own more than 50% of the bank. We have a shareholder agreement, which is legally binding, and the family charter which is morally binding. The legally binding document is very old and was designed very much in the spirit of protecting the family member who was running the bank. But when there was a generational gap and no suitable successor could be found we turned to external executives and now very strong external top managers have all the power and the family finds itself sidelined. This is not necessarily a bad thing, especially as we are fortunate to have outstanding management in place. Still, it is sometimes a bit painful. Maybe if we had had more conversations 20 years ago within the extended family we could have kept the management in the family for longer. The consequences of not changing the shareholder agreement I think were not clear to everyone but things turned out well for us in the end.

Our experience allows me to develop real empathy and understanding with families who are faced with these decisions. To help them to find the best talent and to look towards the future with confidence.

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