Finding and binding

Competing for external top talents in family businesses

by Andreas von Specht

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Research indicates that the number of younger family members willing and interested to take over responsibility in their respective family businesses in the future is currently at a record low. Family businesses will increasingly have to take part in the global "war for talent" to attract the best suited company leaders – and, almost more importantly, to make sure external managers will also stay and perform with the family business over a long period of time. Here is the challenge for both owners and external executives: most of these external top talents will not necessarily come from a family business background. It requires certain skills, competencies and role-model behaviour from both sides to make this marriage a happy one.

Apart from being an advisor on leadership and governance issues to other family businesses, I come from a family business background myself. Our bank in Germany, the Berenberg Bank, goes back to the year 1590. It is hence the oldest bank in Germany – and the 2nd oldest in Europe. Two family branches which have pooled their votes, together with the external general partners still control far more than 50% of the votes. The year 2015, i.e. the 425th year of the bank's existence, was the most successful year ever. This is the result of a longer phase of significant reinvention and restructuring. The complete and highly successful "renovation" of the bank over the past 10-15 years was predominantly driven by two strong non-family executives. Both were made general partners several years ago and today have significant equity stakes. Even if perhaps different in style to previous generations of private bankers, they were highly successful when it came to reshaping our business model and improving the substance of the bank. And until recently, there was still an active member of the extended family on the board, who carried the family name. The less well known part of the story is this: since 11 years and for the first time in the 426-year history of the bank, no family member is operationally active in the leadership team. The family saw this situation coming and yet we did little to adjust. We didn't change the slightly outdated shareholder agreement which grants the acting general partners an enormous

amount of influence, decision making power and control. As long as our dominant family branch was always represented amongst the general partners, this never seemed a burning issue. It might differ now as the bank and its culture is changing. From today's perspective it appears rather unlikely that our family business will be run by one of our family members in the foreseeable future. Is that necessarily a bad thing? Probably not – but it depends on the family's ability to influence and calibrate events as shareholders. One can draw some interesting conclusions and lessons from this family business story. For example: great entrepreneurial genes in a family are not necessarily passed on from one generation to the next. "Good Governance" in a family business is hugely important – to attract external management, but also to protect the family interests. And there are many more.

AvS – International Trusted Advisors and EY, together with a leading university, have just completed a comprehensive study on external managers in family businesses across Europe. When talking to both the family business owners and the external CEOs and CFOs, you understand very quickly that there is a special "Family Business Spirit" in these organisations. Owning families are normally emotionally much attached to their business. The company represents an important aspect of their identity – and is in most cases far more than a financial investment. The "Family Business Spirit" becomes visible in the company culture, in the relationship between family business owner and external management – and in the working environment. Family businesses, even if highly dynamic and innovative, are always long-term oriented. An important, if not the most important objective and challenge for many is to transfer the business to the next generations.

The special "Family Business Spirit" is the bright side of family businesses. If family business owners provide long-term stability, a platform for rapid, independent decision-making, a sense of purpose and strong values – the importance of such positive role-modelling cannot be overestimated. However, this coin also has a flip-side: if family lines and shareholders are involved in underlying or painfully open, unresolved conflicts amongst themselves or with the external management, the risk of departure of external top management increases over-proportionally. Even if there are offspring interested to enter the family's own business that still doesn't say anything about their qualifications. What are the required experiences prior to entering the family business – and who will decide if the son or the niece brings the right mix of critical competencies necessary to make it in the top job? If a succession within the family can't be organised – or if the future entry of a successor from within the family needs to be bridged over several years, external talents come into play.

In many family businesses you can sense some degree of uncertainty as to how an external recruiting process should be managed. They know intuitively that wrong decisions with regard to the hiring of external top executives will become painful and very costly. And yet, because external hiring of the top positions simply does not happen frequently in most family businesses, many seem to get it wrong – especially the first time. The successful "fit" of an external executive in a family business will often be "judged" after only a few weeks or months. If something feels wrong, even before the honeymoon period is over, it often has to do with a lack of deep understanding: how a family business 'ticks' and the dos & don'ts in this special environment. Many

family businesses are difficult to analyse from the outside; their true performance, for example, is often not published. It is still surprising and sometimes almost shocking, how little some executives appear to research and investigate prior to signing an employment contract about the culture and DNA of a family business – and how this might differ quite dramatically from publicly-owned businesses. However, it can be equally surprising how little effort some owners invest into the hiring process and the careful integration of external talent.

The hopes of external top managers will mostly focus on a stable business platform with long-term, reliable investment horizons and decision–making independent of quarterly results. They expect to find flat hierarchies, few decisions-makers, uncomplicated and non-political ways of communication. And they hope to find the bright side of the "Family Business Spirit" – with a value-based entrepreneurial culture and a strong people orientation. The fears of external executives joining a family business will be around potential hidden agendas among family members, a general lack of transparency and irrational behaviour.

The ideal profile of an external executive for a family business will naturally include the most important critical competencies of such an individual. This is not only a question of previous experience, but defines a certain skill-set and the degree to which an individual displays competence in important areas. For example, the ability to initiate change, to modify a business model or to bring about true customer orientation across a large organisation. Apart from entrepreneurial and social competencies, a competence most critical to success is the ability to function in the specific environment of the family business. This is probably "the" central competency that differentiates between suitable and unsuitable executives for family businesses. It can be spotted by 'performance based prediction': what has somebody experienced in the past that allows a forecast for how he or she will function in a special family business culture? And even more importantly: how does he or she do it? In our experience, the majority of external executives don't fail because of functional shortcomings. We have encountered situations where the functionally strong executive appeared completely taken by surprise when he was "suddenly" asked to leave. Simply because he had missed the subtleties of critical feedback on behaviour – which the owner ensured us he had made so crystal clear. Hired on competency – fired on chemistry and style!

Interestingly enough, compensation does not play the decisive role in attracting external executives. What really does influence the decision of external executives to join and stay in family businesses over a longer period of time, is entrepreneurial freedom. The ability to shape and form, to make educated decisions and to take full responsibility. When our firm is called in to support owners with a critical succession or appointment, almost every single brief touches upon "the search for an 'entrepreneurial' manager". Well, if you seek true entrepreneurs, then you also have to treat them as such – and grant the necessary space and trust to let them flourish! And – at the same time – you will have to put 'good governance' in place and carefully check the competencies of your external executives.

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