



# Getting succession right

## External executives in Family Businesses (I)

by **Andreas von Specht and Nick Harris**

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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”. We were almost ready to publish our study in February 2020 when the Corona pandemic suddenly struck. We therefore decided to conduct further research and interviews to take a closer look at how Family Businesses are coping with this global crisis.

Some of the key takeaways and insights are:

- Succession continues to be the most important – and challenging – issue that owner families face.
- The owners of Family Businesses not only want to pass on a company, but also a legacy to the following generations.
- Family Businesses that are run by external executives tend to develop significantly better than those that are run by the owners.
- Family Businesses are better able to cope with the effects of COVID-19 than public companies.
- COVID-19 has accelerated a move away from the stereotype of the CEO as a “charismatic, lone decision maker”.
- Owners and CEOs have to agree on a “change contract” – on the type and speed of the transformation a business needs – even before the new CEO starts.
- Coming into a family business from outside is a great challenge; an active onboarding & integration programme is essential.

Family Businesses (“FB”) operate in a very challenging environment and all the more so in this global crisis. Let us now take a closer look at some of the major findings:



### Succession continues to be the most important – and challenging – issue that owner families face

- Overall, the need for external leadership in FBs is pretty obvious and self-explanatory. Top talent within the owning families is often rare – and those gifted, qualified and also interested to take over responsibility increasingly so. However, the challenges and risks of external appointments are also considered to be quite high.
- Succession can cover three different dimensions in FBs: leadership, supervision and ownership succession. Overall, succession is the single most important challenge that owning families have to face.
- As we all know, few FBs survive the transition from one generation to the next. And it seems to get more difficult with each new generation. A single untalented or unsuitable family successor can be enough to bring the FB to its knees.
- In addition, the number of NextGen members from owning families who are ready and qualified to succeed them has steadily decreased over many years. Today the number is at a record low. Owning families often have no choice but to look outside.
- But many owning families have little or no experience with outside recruiting – and then often get it all wrong. Especially the first time, and even more frequently if they do not rely on professional help.
- Despite the obvious benefits of hiring outside executives, some FB owners have expressed great concerns about this option. They seem to perceive the transition to a non-family member as heralding a potential loss of power and control over their company. They argue that a family member – or at least an in-house candidate, who is well known and has proven themselves over many years – might be the safer option.
- And there is sometimes another – more emotional – motive for scepticism and even fear with regard to external succession, especially of the top job: FB owners not only want to pass on a business, but also a legacy to future generations.

We examined the advantages and disadvantages of the appointment of an internal, as opposed to an external, successor:

#### Internal CEO succession

- The most convincing argument for an internal appointment is often “continuity”; a successor who is promoted from within is a well-known quantity – and, in return, also already knows the organization. His or her learning curve will be less steep.
- The argument against internal appointments often has to do with “change”. The more obvious the need for a significant change, transformation or reinvention of the business model, the more likely many owning families are willing to entrust such a task to someone with change management credentials from the outside.



### External CEO succession

- The perceived need for “change” is one of the strongest arguments in favour of external appointments: an external CEO can more clearly signal a new era. A strong leader from the marketplace could bring knowledge transfer, a new perspective on the business and best practices from blue-chip professional organisations. And, more importantly, an emotionally unattached outside executive might be better suited to act as an effective change agent.
- The most frequent argument against external appointments has to do with risk assessment; the inherent risk of the search and hiring process, the risk that the new CEO will not adapt to the specific FB culture, and the risk of losing internal candidates.

### **FBs run by external managers seem to develop better than those run by the owners**

PwC research shows that family-owned businesses managed by external executives grew better than those managed by the owners. While FBs managed by external executives grew on average by 7.0 percent in the period from 2015 to 2019, those managed by members of the owner family grew on average by only 4.9 percent. (These results are based on an analysis of the revenue compound annual growth rates of the 100 largest unlisted FBs worldwide).

### **FBs are better able to deal with the effects of COVID-19 than public businesses**

COVID-19 has accelerated a shift away from the stereotype of the CEO as a charismatic, lone decision maker. And the pandemic has also strengthened the sense of responsibility that many FBs have traditionally shown towards their employees. The study clearly shows that FB owners feel obliged to be caring.

The prevailing image of how a modern CEO should appear and communicate is now changing rapidly:

- The Corona crisis has accelerated the turning away from the stereotype of the super-charismatic alpha male. Caring has become more important than charisma – and humility has become one of the most important qualities of an authentic and convincing leader.
- A CEO’s ability to adapt to the specific culture and environment of an FB is absolutely critical. It is at least as valuable as a high level of entrepreneurial and social competence. The potential to adapt and develop oneself further is also of critical importance.
- And in times of uncertainty, CEOs and owners have to become even more caring and inclusive in their communication – and create a “people first culture”.

As far as external executives for FBs are concerned, one conclusion from our study is very clear: executives with “great talent & small ego” are in demand! Successful external executives in FBs need to demonstrate an ability to control their ego – and to be aware of their place.





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## Office Frankfurt

Untermainkai 31  
60329 Frankfurt  
Germany

[frankfurt@avs-advisors.com](mailto:frankfurt@avs-advisors.com)

## Office Munich

c/o The Boardroom Munich  
Leopoldstraße 18  
80802 Munich  
Germany

[munich@avs-advisors.com](mailto:munich@avs-advisors.com)

## Office Hamburg

Neuer Wall 80  
20354 Hamburg  
Germany

[hamburg@avs-advisors.com](mailto:hamburg@avs-advisors.com)

## Office Geneva

Quai du Mont-Blanc 29  
1201 Geneva  
Switzerland

[geneva@avs-advisors.com](mailto:geneva@avs-advisors.com)

## Office Zurich

Tödistrasse 36  
8002 Zurich  
Switzerland

[zurich@avs-advisors.com](mailto:zurich@avs-advisors.com)

## Office Paris

7, rue Georges Ville  
75116 Paris  
France

[paris@avs-advisors.com](mailto:paris@avs-advisors.com)

## Office London

9 New Square  
Lincoln's Inn  
London WC2A 3QN  
United Kingdom

[london@avs-advisors.com](mailto:london@avs-advisors.com)

## Office Bogotá

Edificio Bogotá Trade Center-  
Cra. 10 No. 97A-13, Torre A,  
Oficina 701  
Bogotá, Colombia

[bogota@avs-advisors.com](mailto:bogota@avs-advisors.com)