

Outside Leadership Can Save the Family Business

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Cultures around the world acknowledge just how difficult it can be for a family-run enterprise to sustain itself over time. Many have their own version of the adage that family businesses go from “shirtsleeves to shirtsleeves” in three generations. The Scots say, “The father buys, the son builds, the grandchild sells, and his son begs.”

Why is this? In many cases, it’s because the family has reached the limits of their ability to take a successful startup to the next level and surmount the inevitable market challenges. The key to survival is the one thing that many family businesses think they can’t do: hire talented outside leaders with fresh perspectives and trust their judgment.

In his new book “Resilience of 100-Year Family Enterprises,” Dennis Jaffe points out that by the third generation, successful family enterprises have shifted from a “family business” primarily serving the family’s needs and dynamics to a professionally-run enterprise based on “clear, firm and effective business principles.” This often means that the family must step back from active management and adhere to a new sort of discipline, Jaffe adds.

In 12 years of advising midsize businesses, I’ve seen that many families can’t do this. Whether the challenge is a threatening marketplace competitor or managing growth in a hot market, they respond to it by choosing a mediocre leader from the family ranks rather than from a broader talent pool that includes people who will be far better leaders. In so doing they risk mismanagement, failure, and the loss of an underlying asset – the business – that could have served as a wealth generator for years.

For family businesses under pressure to grow, the primary threat to the family is business “leadership inbreeding”—where the older generation (typically who started/ran a smaller business) denies the next generation the mentorship they need from accomplished

non-family executives. The result is that the next generation is ill-equipped to take the helm for the next 10-20 years. Underlying this behavior is an “us or them” mentality: we either give jobs/opportunities to us (family) or them (outsiders).

This is zero sum thinking and keeps small businesses small. Great leaders (inside or outside) contribute to growth, and growth creates more opportunities for leaders. A business with \$50 million in revenue has far more entry points/jobs for family of all skill levels than a \$5 million revenue business.

Hiring the Next Generation of Leaders

As a family business grows into midsize, the enterprise needs a disciplined recruiting process designed to find experienced talent ideally suited to fill the role. One added caveat: they must be the kind of person looking to develop younger leaders around them—including members of the family that owns the business. These leaders strengthen the business and strengthen the family’s talent pool. Here is how to find them:

- Be real about what the business needs and how the new hire can help achieve it. To get an objective view of what it will take for the new role to be successful, consult with peer groups, industry associations, consultancies and other outside groups.
- Run a full search process, interviewing 4-8 of the best candidates to understand available talent and their skill levels. Be methodical and objective. Assessment tools like [PXT Select](https://www.pxtselect.com/Home.aspx) (<https://www.pxtselect.com/Home.aspx>) can be indispensable. <http://www.ceotoceo.biz/site/wp-content/uploads/PXT-Select%E2%84%A2.pdf> Interviewing forms and scoring sheets encourage fair comparisons. Include any family members under consideration in this process, so they are fairly compared to other candidates.
- Hire the best candidate, whether that’s from the inside or outside, based on their career history,

their interview, their assessment results and the needs of the business at present and in the next few years.

- If family members fall short in the process, clearly identify the gaps in their skills/experience, and hire them in a lower role with a disciplined development program that expedites their development. This would include mentorship by the candidate you hired. If it's important to keep family members in top roles, invest money and resources early and often to develop family members. If they care about leading the family (and the family business), they will be active learners.
- Recognize that some family members care deeply about the business but are more interested in being a steward (i.e. a good owner) of a family asset (the business) rather than a manager of that business. Give them a role that respects this preference. This preserves the business for future generations to lead and helps today's family members enjoy its financial benefits. Not everyone is built to be a manager or leader of a business.

One company that recognized the value of this strategy is [Torani](https://www.torani.com/) (<https://www.torani.com/>), a San Francisco-based flavorings company whose flavor products are used at coffee shops, cafes and other restaurants worldwide. Torani was 65 years old, in its second generation of family leadership, and facing flat growth when it hired Melanie Dulbecco as a general manager 27 years ago. The son and daughter of the current family leader at that time were engaged in other careers and not interested in taking the helm, so Torani took an unusual and bold move to hire outside the family.

With Dulbecco's help, Torani re-focused on its Café Market and on promoting its new-to-the-world innovation, the flavored latte. It was a bold move – the family had to unwind from some parts of the business they had worked hard to build – but the new strategy worked. As the company took off with high double-digit growth, Dulbecco stepped into the company's first COO role, and became CEO a few years later. In the past 27 years Torani has had a CAGR of about 18%. The company has hired other senior leaders from outside. Family members continued to steer the company as a Board of Directors, and an outside coach helped them determine the structure and a protocol for decision-making, including hiring other senior leaders from

outside.

Such changes require a courageous leap for enterprises accustomed to being led and managed only by family members. But as Torani shows, outside leadership can preserve the enterprise and ensure it continues to generate wealth for many generations to come. The first step forward is for family members to realize they must take a step backward.

References

Jaffe, Dennis T. Resilience of 100-Year Family Enterprises: How Opportunistic Innovation, Business Discipline, and a Culture of Stewardship Guide the Journey Across Generations (Kindle Location 95). Kindle Edition.