DEBATE: Should the business hire a non-family CEO from the inside or reach out to find the best in the market?

Tom Davidow is founder and principal of Thomas D Davidow & Associates, a Brookline-based consultancy.

Yao-Song Chen is a consultant at Egon Zehnder International, a global executive search firm

Tom Davidow says:

A non-family CEO hired from within a company, who is familiar with and appreciates its culture and values, is far more likely than an outside CEO to continue the company's success. As Jim Collins points out in Built to Last, companies that last for generations maintain the original founder's culture and values. It doesn't matter if it changes its product.

The values of the original founder invariably place importance upon relationships, which, based on honesty, fairness, integrity and open communication, exist not only between family members, but also between the company and its employees, suppliers, customers and community. If the head of a family business or CEO does not behave in a way that embraces those values, he puts the culture and the business at risk. Here are two examples:

In the first situation, a husband and wife, founders of a successful business, thought that it was time to begin the succession process. Their board of directors, consisting of four family members and two independent directors, decided to hire an outside CEO for the interim—hopefully, for five to 10 years. The CEO was experienced in their business and came highly recommended. He knew that as part of the transition he had to work successfully with the husband and wife, and they understood that he had his own ideas and would make his own decisions.

Tension arose between the husband and wife. They had once been a really good team, with balanced input and mutual respect for each other's opinion, even when they differed. However, the CEO had been discussing matters only with the husband and ignoring the wife, even though her thoughts and philosophy were vital to the company's success.

Not only did the CEO exclude the wife from the decision making process regarding the company to which she was still emotionally attached, but he also marginalised members of the next generation who were working in the business—two daughters, who, although not yet fully trained, were bright and competent.

I met one of the senior managers who I thought was the smartest and most creative of them, and who, because he had been in the company for 25 years, embodied, endorsed, lived and breathed the culture as a wonderful environment.

In long, difficult conversations, I advised the company that the outside CEO should leave. He did. The fellow who embodied the culture became the new CEO, and the company thrived.

He trained the next generation and provided exceptional mentoring for them. He also maintained his relationships with the founders and negotiated his position so that his authority and responsibility were protected in a way in which they were all comfortable. Even though the founders did not always have the right to a decision, and he had the right not to follow their advice, the CEO kept them informed and, more importantly, listened to them. He gave them the opportunity to be heard, which is sometimes far more important than to be agreed with.

Needless to say, the relationship between the husband and wife improved. In the second situation, the oldest son was expected to take over a very large, publicly-traded, family-controlled company built on a model of inspirational leadership that represented all the best characteristics, including fellowship and appreciation of its employees. The founder had not only built a wonderful culture, but he had also built an infrastructure of high quality senior managers and executives.

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It soon became apparent that the son's leadership style was dramatically different from his father's, while a non-family senior executive who had grown up in the company did embody the same characteristics of leadership as the founder. Although the process was painful and detailed, everyone, including family members, came to the conclusion that although the son had a key role to play in the overall culture of business, it was not necessarily as the CEO.

Even when you appoint someone from within who grew up in the business and has relationships with the family, those relationships will be extremely complex and will require a lot of attention and awareness.

Although this second situation worked, the non-family CEO had to deal with other family members' unconscious resentment that they weren't in charge.

If you bring in an outside CEO, the risk is very high that his/her integration into the family/business culture will be highly challenging, if not chaotic. The outsider may be pulled into a family issue and unwittingly get caught in family dynamics. Even if the CEO shares the same values, the expression of them could be idiosyncratically different from the family.

Given the importance of a company's culture and the complexity of the relationships involved, I advise you to train and hire a non-family CEO from within.

Yao-Song Chen says:

Family businesses should always look for the best candidate from both internal and external pools. Internal candidates can sometimes be perceived as being more qualified and prepared than external choices as they already have an understanding of the family's aspirations, cultures and values. Th is understanding is a critical "soft" requirement that is often overlooked in an external search process.

However, these requirements are not too different from other public listed companies' CEO succession needs. One element that is perhaps more unique to family business is the chemistry between the candidate and the family/founder. The big "if" is how an outsider can behave and think like a family. From experience, this is one of the most difficult elements of an external search.

However, there are numerous examples where external hires have become a trusted member of the family and business. An external CEO in this case does not take away the importance the family/founder plays in the company. It also does not mean that the CEO has 100% say. It is often the case that the family/founder still has significant influence over key decisions and is frequently consulted.

The selection process must begin with a clear understanding of the background and requirement of the succession. The background to trigger the CEO succession can be determined by many factors such as business strategy and ambition, the next generation's readiness and willingness for the role, or even the larger and more complex question of family business governance structure.

In one example I worked on, the founder was looking for a CEO to lead a successful business that he had been intimately involved in since day one. The business had been led by a trusted veteran COO with more than 30 years tenure with the family. The COO was considered for the role but the founder recognised a different skill set was required and in order to grow the company further, it needed a change agent and a strong leader to transform the company into a global player.

The challenge in this case was identifying candidates with a business transformational track record and the ability to work in a family business environment. The former requirement limited internal options entirely. The opportunity for business growth meant the founder was inclined to go with an external solution rather than wait for an internal candidate to be ready.

During the selection process, the founder was personally involved in several long meetings to engage the final candidate to get a sense of value, chemistry, style and capability. In the family's mind there is always a risk to hiring an external candidate, but they believed by having a rigorous search process, the risk was minimised.

There are other cases where recruiting an external CEO is unavoidable. For example, some family businesses struggle to find a successor for an aging founder because the next generation are either too young or have no interest in the business. In these cases, a rigorous search process with close engagement from the family is critical to identify the right outside CEO who will preserve the value and culture of the family.

When it comes to non-family member insiders, it is debatable whether they are always a better choice than an external candidate. Business objective usually dictates such a decision. For example, when a family I worked with was looking for a CEO of a subsidiary company, the first choice went to the best non-family executive who had worked at the company for more than 10 years. There was strategic alignment and shared values between the non-family CEO and the founder.

However, that was also exactly the issue. The founder was looking for fresh ideas to grow the company, and the CEO's thinking was too similar to that of the founder. The CEO did not create issues with the business but he also did not grow the company as expected. The founder decided to look outside for a solution. Again, in this case, the challenge was getting the right "fit".

The question of whether any external CEO can ever fully appreciate the value and culture of the family is frequently on the family's mind. Experience shows that the best candidates usually come from companies with a similar culture and environment.

Whatever their previous background, it will always take time for any outside CEO to prove themselves and to build trust with the family. ●