When it's time to hire a non-family CEO

Taking this major step can be the answer to your prayers or the downfall of your firm. A few tips for doing it right.

BY DAVID GELLER

SAM DUBOSE was only 31 in 1986 when he took charge as the third-generation owner of White Electrical, an Atlanta-based electrical construction firm with about 500 employees. Nine years later, the luster of running the South's oldest family-owned electrical contracting company (founded in 1910) had worn off, and DuBose concluded he was a better investor, board member and majority shareholder than a CEO. The family's next generation wasn't ready to take over; neither were the firm's younger professional managers. At that point White Electrical faced a challenge that confronts most family businesses sooner or later: how to find and hire an outside CEO.

Family firms hire outside CEOs for many reasons. For some, it's a bridge between the founder and the willing—but not quite ready—next generation. It's also a way for the controlling family to secure new talent—such as leadership ability, strategic thinking and financial acumen—as well as a fresh perspective, without relinquishing ownership.

"We needed a teacher for the next generation," DuBose says. "We also knew that our bankers, insurance people and bond people like to see a few gray hairs in senior management. It raises their comfort level." DuBose likes to cite the late Coca-Cola titan Robert Woodruff, whose secret of success was "Hire people smarter than you, turn them loose, give them all the credit for what they do and everyone wins."

The key, of course, is to hire the right person. The wrong one can destroy a company's cherished culture. After four generations of family ownership, Nordstrom Inc. installed John Whitacre as CEO in 1996—the first non-family CEO (albeit a company veteran) to head the department-store chain since its founding in 1901. But when his efforts to attract a younger clientele faltered, he was removed four years later. Retired chairman Bruce Nordstrom resumed his old position and the CEO post was eliminated. At Corning, fifth-generation family scion Jamie Houghton turned the reins over to an outside CEO in 1996, only to return from retirement in 2001 when the company couldn't cope with the telecom industry's downturn.

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Sam DuBose was relatively lucky. Using the contacts of one of his outside board members, he conducted his own search. His pursuit ultimately landed Gary Clodfelter, then 50 and a middle manager with another family-owned electrical company. Each served the other's needs: DuBose needed a seasoned executive; Clodfelter yearned to move up to a CEO position that was unlikely to open up at his previous firm. Since Clodfelter was hired, revenues at White Electrical have tripled.

Any family firm can benefit from the common-sense "due diligence" methodology DuBose used. Take the time to search for and hire the right outside CEO—someone with the qualifications, motivation and support to help lead your family business to the next level.

Create a job description that focuses on the talents you seek—those that complement

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the talents of your family members and others on your executive team. Then ask yourself why an experienced executive might want to take on this role, so you can position your company in the best possible light. If she's disenchanted with the bureaucracy of a large public company, for example, the prospect of greater control without all the red tape may appeal to her. Or your prospect may be energized by your company's unique and passionate mission statement and the story of how your business has grown and where it's going.

And don't overlook the most obvious inducement of all: money. Becoming a key player within a family business can be an opportunity to build wealth through creative performance incentive plans. The compensation package should be competitive within your market to attract the best talent. It should reward performance and be perceived as an investment in your business. Consider incentive-based bonuses, phantom equity or stock appreciation rights (instead of stock ownership), qualified and non-qualified retirement plans, and investments in business-related opportunities, such as the purchase of a building that the business will lease.

Even if you have one or two people already in mind for this critical position, it's best to do a formal search instead of choosing from people you consider to be the best available candidates. Each person you interview will give you new insights into what you want and don't want in a CEO. If your final choice has five out of the six attributes you deem most important, you can probably help develop that last trait based on what you've observed in other candidates.

Candidates for CEO must hold similar values to those held by the business and the family, such as honesty and a commitment to work/family balance. During the interview process, ask experience-based questions. For example: How did you last handle an ethical dilemma? How would you deal with a top producer who was difficult to get along with and had alienated the staff? What is your strategy for budgeting and allocating resources among key corporate initiatives? How do you personally balance work and family? How do you encourage that balance in others?

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Since key family members should approve your decision, give the top candidates the opportunity to meet them. This reduces the chance that the CEO will be undermined and overruled by the family once she's in place.

A corporate psychologist can help family members figure out the unique traits, characteristics and leadership styles that their CEO will need. A psychologist can also evaluate each candidate's fit with the job profile—probably more objectively then the family can. And after the choice is made, the psychologist can work with everyone to ensure a smooth transition.

That's true even when you're hiring below the CEO level. The Starke Agency, a 74-year-old insurance firm in Montgomery, Ala., benefited from a psychologist in 1986 when second-generation owner Bo Starke, then 48, was joined by his 25-year-old son, Trey. The psychologist, Dr. Gene Barger, spotted a gap in management styles between father and son that might have derailed their ability to collaborate. "He helped us turn a family transaction into a business transaction, insisting we put all our agreements down in a contract that we both signed and have often referenced," Trey recalls.

Trey became full owner of the firm in 1996. But he kept his psychologist on call. "When I need to hire key outside personnel, whether it's our assistant vice president or agents," he says, "I rely on our psychologist to assess the candidates. He has no emotional attachment, so he's often a better judge than I am. Out of the three agents we hired recently, the two he recommended worked out great. The one I chose over his objections was a complete failure." FB

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