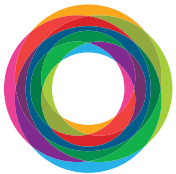


Succession Planning for the Family Business: Hiring a Non-Family CEO

by Rich Folts and Bruce Walton



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Succession Planning for the Family Business: Hiring a Non-Family CEO

Succession planning has always been a critical concern for family business owners, but in the past few years we've seen a surge in the number of family businesses searching for new leadership. This uptick in succession planning is the result of two converging factors. First, the boomer generation is reaching retirement age. Boomer entrepreneurs who started businesses early in life are thinking about passing the baton. However, the economic recession forced many family-owned businesses to delay succession planning. Now that the economy is showing signs of a rebound, owners are beginning to actively discuss succession strategies.

We're now seeing the release of this pent-up demand for new leadership, and many businesses are bringing in non-family executives in the absence of a qualified or interested family successor. Family business owners and their advisors feel a sense of urgency and want to act swiftly. But a hurried succession plan is destined to fail. Based on our experience recruiting external executives to family businesses for decades, we recommend a number of key best practices.



About Our Firm

Founded in 1963, Battalia Winston is one of the world's largest woman-owned executive search firms and is consistently ranked as one of the top fifteen executive search firms by Kennedy Publications. The Firm is headquartered in New York City with offices in Boston, MA; Chicago, IL; Edison, NJ; Los Angeles, CA; and Washington, DC. Over the past 50 years we have conducted executive search assignments and established expertise in virtually every major industry and functional area. Clients range from early stage companies to Fortune 10 global enterprises.

- **Start early.** The family must begin to formulate a succession strategy well before the chairman is ready to step down. Ideally, the planning would begin when the chairman is in his/her early 60s in order to ensure a smooth transition before s/he reaches 70 or has a health issue. Waiting until the chairman is any older can cause emotional complications (e.g. the owner's identity is too enmeshed in their professional role, which ultimately hinders the transition and hurts the value of the enterprise) and practical complications (e.g. the chairman develops health problems that force an unplanned transition).

- **Seek Expert Help.** Every family business is different, and the particularities of organizational structure and family dynamics can lead to complex business challenges, especially when bringing in an outside hire. At the very least, family businesses should build an advisory board to provide outside, unbiased perspective. The business owners should engage a family business advisor who combines expertise in family systems, psychology and business governance.

- **Establish Appropriate Incentives.** Hiring a leader from outside of the organization can energize a business, but it requires both the right skills and temperament. To attract the right type of candidate, family business owners must provide a way for the CEO to share in the value they create. Doing so will attract candidates who have both the ability and the desire to grow the business.

To demonstrate the effectiveness of implementing these best practices, we'd like to share two case studies. In both

Our Family Business Expertise

Battalia Winston's Family Business Practice understands that recruiting non-family executives presents unique requirements and opportunities. We understand the critical importance of culture fit and the need to align values. Our Consultants seek out executives who will embrace the family's core mission and vision, and have the capacity and patience to deal with family dynamics without becoming embroiled in them.

We serve clients across the full spectrum of sectors in the Industrial, Technology, and Consumer Industries. Our consultants are also able to advise on succession planning, mentoring and assimilation programs.

"We had an excellent experience using Battalia Winston to help recruit a non-family executive to be my 'co-pilot' and successor. Their Partner's knowledge of, and experience with, private family businesses was a critical part of our decision to engage the firm. Their process-driven approach to conducting the search provided the structure and discipline we needed in order to have a successful search. The firm was very responsive and proactive in keeping us apprised at every step of the process."

*~Daniel B. Hatzenbuehler
E. Ritter & Company, Chairman & CEO*

cases, bringing in an outside executive resulted in a thriving business and a happier (and wealthier) family business owner.

Case Study: Regional Distribution Company

Several years ago Richard Folts, a partner in the Chicago office, worked with a family-owned regional distribution business. The chairman wasn't quite ready to step down, but he wanted to prepare for his impending retirement. The executive team who had helped build the business were also interested in retiring. With no obvious successor in line, the chairman worked with Rich to find a new CEO who had the vision and experience to both maintain the culture and build the necessary infrastructure to move the company from a regional to a national distribution business. We hired a seasoned CEO who had prior experience growing two similar regional distribution businesses into national organizations and was looking to continue this pattern by purchasing a regional franchise business. This opportunity fit perfectly into his plan and removed the financing issues associated with an actual purchase. We set up a strategic incentive plan: After ten years, the new CEO could accept a substantial buyout, sell the company, or walk away. In the meantime, the family maintained ownership.

In the six years since being recruited to the company, the new CEO has

- Doubled top line revenues
- More than doubled shareholder value
- Expanded the business from a regional to a national distributor

Because the family business started early and created an enticing, effective long-term incentive plan, the transition has been a success for all parties involved.



Richard joined Battalia Winston in January of 1997 as a Partner in the firm's Industrial Practice. Prior to joining Battalia Winston, Rich's 20+ years in executive search included three years as a Principal in a growing Chicago search practice, Vice President with A.T. Kearney International, and 10 years as the National Financial Services Industry Practice Leader in the Executive Search Practice of "Big 60 Public Accounting/Tax/Consulting Firm, Coopers & Lybrand (C&L).

Rich conducts searches for senior level and executive management positions in nearly all functional disciplines for a broad range of industries to include: Consumer Packaged Goods, Automotive, Professional Services, Utilities, Office Furniture and Heavy Manufacturing, specializing the past several years in the food processing, automotive, and equipment manufacturing industries.

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Case Study: Global Manufacturer of Engineered Industrial Components

Bruce Walton partnered with a \$70 million company that produces engineered industrial components for major companies like HP, Toyota, and Bosch. While the chairperson was family and there were other family branches represented on the board, there was no remaining family in the business, and they had suffered losses for a number of years.

The company had an ESOP, and the family expressed mistrust of the previous CEO. We were looking for a transformative CEO to restore profitability and the family's trust. We brought in an innovative CEO who had been working in Germany for a mid-cap private manufacturing company where he had been well-trained by a very professional German board chair. With children approaching school age, his family was ready to return to the US.

The new CEO was able to return the business to profitability within nine months. In just under five years, the CEO's leadership has led to a significant increase in the new business pipeline, resulting in 70% more revenue and an expectation of doubling revenue by the seven year mark. With a focus on "doing things right" and investing in human capital, profitability is healthy and the ESOP share value has already doubled.



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Bruce Walton joined Battalia Winston (BW) in January of 2010 as a Partner in the firm's Boston Office. Bruce has 25 years of executive recruiting experience. He primarily recruits CEOs and their direct reports to mid-cap industrial, technology, and family-owned businesses.

Before joining Battalia Winston, Bruce was a Managing Director at Conley & Company, a boutique executive search firm in Boston. Prior to that he was a Partner with Heidrick & Struggles after 10 years as a recruiter with Russell Reynolds Associates. Before entering the search industry, Bruce spent 7 years in sales and regional marketing roles with IBM.

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