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Hiring External Leadership in Family Business: Balancing Tradition & Innovation

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Family businesses that are grappling with generational decline amid an evolving business landscape may benefit from external leadership - but navigating cultural dynamics may present a significant challenge.

Family businesses are frequently esteemed for their enduring legacy and economic resilience. They are custodians of a reputation built across generations, with deep commitment to both community service and employee welfare. As a result, the family business is one of the most trusted types of company, able to foster employee retention and customer loyalty even in turbulent times.

Despite these strengths, many family businesses grapple with generational decline. Innovation-driven sales often diminish, signaling the need for a strategic shift. Yet, resistance to reevaluating established infrastructures can impede the ability to adapt and meet evolving market demands, creating a potential roadblock to progress.

In this dynamic environment, the integration of external leadership emerges as a strategic pathway, unlocking the latent potential of family-owned enterprises. The challenge in doing so is to balance tradition and established core values with innovation and transformation, navigating unique cultural dynamics at every step.

The Evolving Landscape of Family Businesses

Family businesses are traditionally structured in a tightly knit hierarchy, passing the baton of leadership from one generation to the next to foster inherent knowledge and core values. They are tied closely with the communities they serve and usually operate within local and regional spheres. But in the evolving business landscape, marked by post-pandemic considerations, geopolitical shifts, and technological advancements, many family businesses are working to recalibrate.

Digital transformation and globalization are two paramount trends that are ushering in a new era of change and challenging the traditional paradigms that have defined family businesses for decades. Geographic boundaries are now blurred, consumer behaviors and expectations have evolved significantly, and emerging technologies require nimbleness and adaptability, which traditional hierarchies may struggle to achieve.

Leadership that is rooted in familial bonds has its strengths but may not be naturally positioned to navigate this new landscape. Almost overnight, their once-localized operations

must now expand their reach to the far corners of the digital realm and grapple with the global currents of change.

Discerning When to Bring in External Leadership

Recognizing when to weave in external leadership is a delicate interpretation process. One key indicator, according to McKinsey, is a plateau in growth. When a business experiences stagnation, struggling to push beyond its existing thresholds, it might be time to bring in a fresh perspective that can catalyze transformative change.

PwC points to another indicator: family businesses are traditionally pillars of trust in their communities and networks. But when those levels of trust dip, it's a sign that external leaders, with an objective stance, might be required to navigate complexities, rebuild trust, and infuse a new sense of confidence among stakeholders. Trust may be construed as an intangible element, but it is tightly correlated with profitability, and thus should be measured as a key performance indicator.

A further sign that external leadership is needed manifests when internal structures and culture become misaligned with the evolving dynamics of the business landscape. According to Deloitte, this often happens when old and new generations of leaders disagree on business initiatives. This commonly leads to a lack of confidence in the younger generation, which inevitably impacts collaboration, innovation, and performance. The older generation becomes resistant to change and the business gets stuck in the fray.

Many of these indicators coincide with a family business's attempt at succession planning. When the dynamics of passing the reins becomes fraught with distrust, cultural misalignment, resistance, and challenges, external leadership may serve as the guiding light to move forward.

Benefits of External Leadership in a Family Business

Bringing in fresh perspectives and diverse skillsets is one of the biggest advantages of hiring external leaders. Although familial leaders may have a deep inherent knowledge of the company's operations, history, and culture, there may be skills gaps they don't even realize exist. External leaders can bridge those gaps, bringing a diversity of experience and additional skills to complement the family strengths and breathe new life into the business.

While many family businesses are steeped in tradition and thus slower to make significant

changes, external leadership can also introduce a more dynamic approach based on their outside perspectives and diverse experience. With a unique outside view of the market or industry best practices, plus a wider network of connections and partnerships, their leadership can help the business adapt to evolving market conditions and embrace new business paradigms.

Furthermore, external leadership can bring a level of objectivity that can help enhance a family business's professionalization and corporate governance, which position the business for long-term sustained success while simultaneously bolstering trust among stakeholders.

Finally, in instances where there are generational chasms due to a lack of confidence or disagreements, external hires can bridge the gap, facilitating and restoring collaboration and communication.

Navigating the Cultural Dynamics of External Leadership

Family businesses thrive on strong relationships among their employees, customers, suppliers, and partners, which creates a distinctive atmosphere. Bringing external leaders into the mix requires an honest audit and committed understanding of that unique culture to ensure a smooth transition.

External leaders must demonstrate alignment with the family's purpose and character, reinforced by transparent communication, open dialogue, trust, and collaboration. The right leaders in this scenario are self-aware, curious, relational, and flexible. They are also committed to the legacy of the family business from day one.

In some cases, external leaders will want to stay as objective as possible, maintaining a professional distance from the intimate family bonds between existing leaders and colleagues. This will help them identify weaknesses and make changes to established infrastructure and processes without subjective influence. However, other family businesses may be better served by an external leader who seeks to guide with compassion and relationship, getting closer to the family in order to gain trust and buy-in. There's no right answer here—this is where the company's board and external hires must work together to determine the right way forward.

Ultimately, external leaders must strike a delicate balance between tradition and innovation in order to implement lasting change that stays true to the family legacy while simultaneously driving transformation.

How will your family-owned business plan to navigate the transition of external leadership?