Why Family CEOs Outperform Their Non-Family Predecessors

Pitfalls and solutions for non-family chief executives.

Family firms, especially established ones, often hinge on a story. History is a kind of intangible asset that is unique to these firms, like Hermès. When we buy an Hermès scarf, it's not only the silk material and bold pattern that draw us in, we are also buying a story and a brand integrated into French culture. For family firms like Hermès, it's important to have a family member in the top job because the name of the family is integral in story building.

Yet, for 14 years, Hermès had a professional CEO who wasn't part of the family. In **2013**, rather than continuing the professionalisation of the firm, the family chose Axel Dumas, a descendant of the Hermès line, to lead, reaching back to the family for leadership.

In situations like this, when the family owners reassert direct control after a period of interregnum, what might we expect to see vis-à-vis business performance?

Professionalisation is the transition from a purely family-managed and governed firm to the inclusion of non-family members in the top leadership, both the corporate board and top management. There is a huge variation in this transition, but on average, it's productive for family firms to have professional managers at some point. Family firms often embark on this process during the transition from an older generation to a younger one.

On average, professionalisation **benefits** family firms, but the transition can be difficult. After all, these firms have been built around the family for decades so the transfer of power, leadership and CEO position to a non-family member may be uncomfortable.

In a recent **paper** co-authored with **Mario Daniele Amore**, **Isabelle Le Breton-Miller** and **Danny Miller**, we posited what happens when a family firm that has shifted to professional CEOs subsequently returns the top role to the family. Our sample was 489 Italian family firms with revenues of over €20 million that experienced the departure of a professional non-family CEO at any time from 2000 to 2016. We looked at those families who have chosen a non-family CEOs and then their successors, both outside and inside the family. We found that post-professionalisation, which is when a family member returns to the CEO role, improves profitability by 18 percent. The reasons for this are nuanced.

What happens when professional CEOs step in

For a professional CEO to be successful in a family firm, they must understand the values of the family. Every family has its identity and in a family firm, that identity can be part of its **intangible assets**. And it's often much more than just making profit.

Professional CEOs in family firms are liable to make the kinds of mistakes that aren't apparent in non-family firms. One challenge is the communication between leaders and family members. Sometimes the family doesn't speak with a single voice, so different family members approach the CEO with different agendas. Unfortunately, professional CEOs are sometimes involved in the family issues, which are pure poison.

It is also disastrous when the family and the board lose their faith in the CEO. In a family firm, we see a leadership triangle – the board, the family and the CEO – which is very difficult for a CEO to manage. A family's worst nightmare is that the professional CEO wants to steal – or sell – the company away.

A professional CEO must also manage the role of the family. In a family firm, there are some family members who do good for the firm and from time to time, others who don't add value. The family may be frightened that the professionalisation process will make the family's shortcomings transparent. This is a very particular problem for professional CEOs of family firms: Avoiding a fight within the family or with the family should be paramount because the CEO, as an outsider, will always lose. They will never be a family member, but always an employee – even in the corner office.

With this in mind, the increase we saw in profitability after the CEO role returned to the family may be due to one of three reasons. The firm should not have been professionalised in the first place. The founder who stepped back but returned put new fuel in the engine. Perhaps the firm had a prolonged succession with a placeholder professional CEO.

In Japan and other parts of Asia, traditionally a CEO must be 50 or older. A placeholder professional CEO can hold the helm until the next generation is old enough to lead. Toyota, for example, had 14 years of professional CEOs and it looked as if it had been **transformed into a non-family-run firm**. In 2009, Akio Toyoda, grandson of the carmaker's founder, was announced as president and the company stock increased 3 percent.

When professional CEOs don't understand the family's values, their personal strategy, it is another problem. A certain type of family firm – those with very strong family assets – are not best served by professionalisation. If a founder or younger generation continues to add real value, maybe looking outside the firm for leadership is a misstep.

Our research also indicated weaker results after a return to family leadership when the industry was highly volatile and needed innovation. Since families create more value in businesses with a long history, their expertise is in more traditional industries. It naturally follows that encouraging innovation thrives under an educated leader with professional risk experience.

When should a family firm professionalise?

Over time – decades and generations for family firms – there's a tendency to see the good in professionalisation. The family should always ask itself, "What value are we creating for the firm?" If family members are crucial in the value creation of the firm, this is the best argument for family management. But over time, fewer and fewer families continue to create value just by being family members, so they should look outside for help.

One mistake that families often make is that they feel entitled to run the firm. Of course, they are entitled to own the firm, but this is not the same as managing the firm. For the employees and community, the best people to run the firm ultimately are those who create the most value. A good, strong, value-creating family wants what is best for the company.

Advice for professional CEOs of family firms

Professional CEOs working in family firms need a particular temperament, unlike non-family firm CEOs. They must be more resilient than traditional CEOs as the fights they may take on supersede the business world. First and foremost, professional CEOs require a very clear division of roles between the family, the board and their own position. I recommend three strategies for professional CEOs working with family firms:

1. Make sure you share the values of the family.
2. Earn the trust of the family.
3. Always remember that you are not a family member and this isn't your firm.

The professionalisation process is one of the biggest governance challenges that family firms have today, all over the world. Outsiders have incredible opportunities if they follow the strategies I recommend because working in a family firm, especially one linked with longstanding values, is incredibly rewarding. When the family trusts you, it's a wonderful place to be a CEO. They won't fire you because of a weak quarter or because your plans take too long to be implemented, unlike a traditional firm.

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