




# Outside Help: Non-Family Management in the Family Business

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# Why is non-family management important to you and your business?

- You know the importance of bringing in and keeping the people with the skills that your family does not have
- You want the business to play by business rules, not family rules and outsiders can help on this
- You are planning for leadership succession and you know that nonfamily managers can contribute with their executive coaching/mentoring and their bridging leadership
- You see the need for the business to change in order to remain competitive and you know that leading this change is less painful for nonfamily managers to do
- You know that your nonfamily managers symbolize “professional or best practice management” and a commitment to the future, to business continuity across generations



# The Role of the Nonfamily Manager Is Essential to the Health and Continuity of the Family-owned Business

“A strong sense of family history, willingness to employ nonfamily executives, and the ability to exclude incompetent family members ensure business health which maintains family control.” -*The Financial Times of London, in a review of success stories of the oldest family businesses.*



## Key Finding of Case Western Reserve University's Discovery Research:

- Nonfamily managers had perceptions of the family enterprise that were significantly different from those of chief executive officers and other family members.



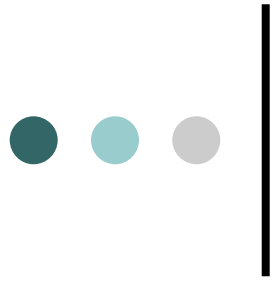
# The Good News Is...

- “It is a tribute to family businesses that nonfamily managers whom they employ tend to regard their firms positively. Most nonfamily managers would like, in fact, to see the companies continue as family businesses”.
  - Poza, E. And Alfred, T., From Family Business Magazine, “What the silent majority thinks (but may not tell you)”, autumn 1996.



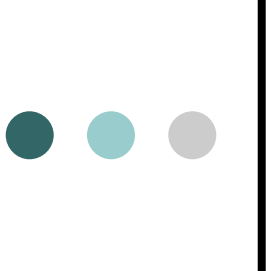
## “Love the Business But...”

- Nonfamily managers are less positive about management practices, like the business’ ability to innovate and grow, and about succession practices, than their employers.



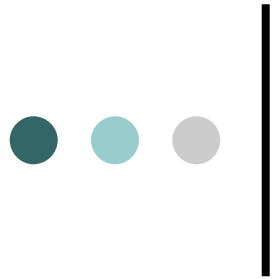
# Compensation is a sore point

- Asked the extent to which they agreed or disagreed with the statement, “Nonfamily managers are compensated fairly and equitably here.” On a scale of 1 (disagree) to 5 (agree), CEO ratings averaged 4.45; the rest of the family 4.36 and nonfamily managers, 3.78. ( $p < .000$ )
- Publicly held, management-controlled companies paid their top managers anywhere between 15.4 percent and 29.5 percent more than did their private owner-controlled corporations. (1995 Compensation Study reported in *The Academy of Management Journal*.)
- Big company employees earn 39% more on average for similar work compared with what employees working at small companies earn. The gap has increased over the last two decades. *St. Louis Post-Dispatch*, 10/26/98, from study by *Economic Policy Institute*, Washington, D.C.



# Pay, career opportunities and benefits are all sore points

- In contrast to what publicly-held firms weigh in the pay decisions: “Owners only look at sales and profitability here. Other corporations would have more criteria to evaluate you against.”
- “Bonuses are performance-based, but we have very loose goals here. In fact, goal-setting is non-existent, which means that the bonus is subjective.”
- “Career paths to senior positions are not equally available to nonfamily managers” \*
- “I miss the benefits from a larger company, especially vacation policy. We get very little vacation. Owners work very hard but they also enjoy very flexible schedules, we don’t.”
- Health insurance, which covers close to 69% of big company employees, is available to just 30% of small company workers. *St. Louis Post-Dispatch, 10/26/98, from study by Economic Policy Institute, Wash. D.C.*



# The Challenge

- Q: How can we motivate top-flight executives who realize that the top leadership positions are likely to go to family members who may be less qualified than they are?
- Q: How can we retain top-flight executives who may not earn as much as in other companies nor have clearly-structured jobs where achievement in the job itself is a key motivator?
- Q: How can we motivate them without their involvement in setting the direction for the business?
- Q: How can we keep them committed, behaving as owners, in the absence of equity participation?



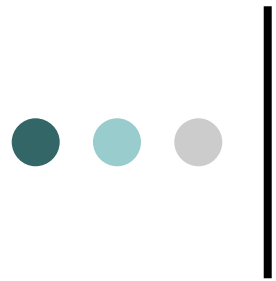
# Active Involvement in Planning, an Important Source of Motivation

- This represents a remarkable and nonmonetary source for nonfamily manager motivation and long term commitment to the business.



# Performance Measures, the Scorecard, Builds Motivation

- In top management much motivation is derived from the feedback the job itself provides; P&L, revenues, profit margins, market share, shareholder value, all highly motivating scorecards.
- Invest in information and financial control systems and further structure or formalize communication on results vs. budget, or goals. And lead a change in culture to value these measurements.
- A nonfamily CFO says: “I have built an Indy Car information system for a Model T mentality organization.”



# Actions You, the CEO, Can Take

1. As CEO, provide active, involved leadership especially during generational transition
2. Actively involve nonfamily managers in business plans, succession plans and the strategic direction of the business
3. Review goals vs. results in managerial performance and reward based on performance and loyalty, not just loyalty
4. Have compensation plans that are benchmarked to others in the industry, the profession and the community
5. Periodically hold meetings between key nonfamily managers and shareholders to promote mutual understanding
6. Simultaneously emphasize the contributions that 'family' and nonfamily managers make to the family business and its success (e.g., American Greetings)