Non-family CFOs in family businesses: do they fit?

Structured Abstract

Purpose: This article seeks to explore success factors for integrating non-family CFOs in family firms. The integration of non-family CFOs is of great importance to family firms, as the CFO position is often the first management position in family firms for which non-family managers are recruited. Moreover, non-family CFOs can bring in valuable know-how to the family firm and reduce the family firm's financial risk.

Design/methodology/approach: The findings of this study are based on a qualitative field study in Austrian family firms. The views of non-family CFOs, family managers, family board members, and non-family CEOs were obtained through semi-structured interviews.

Findings: Four larger success factors for non-family CFOs and five for controlling families were derived. The most important factor for non-family CFOs that emerged from the study was that CFOs should be appreciative of the peculiarities of family firms. For controlling families, the results suggest that it is advisable to provide the non-family CFO enough space to effectively conduct their job as well as respect the CFO's views.

Practical implications: Both non-family CFOs and controlling families may find the results presented in this article useful for creating a successful integration of non-family CFOs in family firms. The success factors presented should be directly applicable for CFOs and controlling families.

Originality/value: This study is the first to investigate success factors for the integration of non-family CFOs into family firms. Moreover, the results of this article may also be useful to the under-researched field of non-family managers in family firms in general.

Keywords: Chief Financial Officer (CFO), Family Firms, Non-Family Manager, Success Factors

Introduction

When family firms grow older and larger, they usually rely more on non-family managers. This can be due to qualitative or quantitative reasons. Qualitative reasons may include family members not wanting to actively work in the family firm anymore or lacking the specific know-how needed for the respective management position. One reason for this may be that the professional requirements for management positions increase as firms grow in size. Quantitative reasons include not having enough family members available to fill all management positions due to firm growth and an increasing number of management positions requiring fulfilment (Klein and Bell, 2007).

Regardless of qualitative or quantitative reasons, the first management position for which non-family managers are recruited is often the position of the Chief Financial Officer (CFO) (Filbeck and Lee, 2000). This relationship can be due to the specific finance and accounting know-how needed for succeeding in a CFO position and the fact that family members are often not well educated in these topics (Hiebl, 2012; Gurd and Thomas, 2012). However, as long as they are financially successful, family firms seem to prefer to exclude non-family CFOs from their management teams, as they fear a loss of independence and control. In contrast, when family firms experience financial distress and need to reduce their financial risk position, they often turn to non-family CFOs (Lutz and Schraml, 2012). The instillation of a non-family CFO can then help the family firm to professionalize its finance and accounting practices (Filbeck and Lee, 2000; Di Giuli *et al.,* 2011) and improve its performance. According to recent research results, the performance of small and medium family firms seems to benefit from the integration of non-family managers in the CFO position (Caselli and Di Giuli, 2010).

However, integrating non-family managers in general, and in particular CFOs, usually poses a major challenge to family firms and controlling families (Klein and Bell, 2007). The challenge begins with the selection of appropriate CFO candidates: family firms with little or no experience in recruiting non-family management team members tend to place too little emphasis on the cultural fit of non-family managers with the family firm. They would rather look at the professional expertise of the non-family manager, which they are urgently seeking. This may result in misconceptions or conflicts between the controlling family and the non-family manager about the future strategy or working culture of the family firm (Hall and Nordqvist, 2008). Having employed a non-family CFO, the classical agency problems appear because of the (partial) separation of ownership and control (Fama and Jensen, 1983). The controlling family aims to guarantee that the non-family manager acts in line with their vision and that the non-family CFO manages the firm's finances well. Thus, the family is likely to introduce incentive payments and/or management control mechanisms (Chua *et al.,* 2009; Hiebl, 2012). However, the implementation of controls that are too restrictive may limit the non-family CFOs options for action, and therefore also limit his or her potentially positive impact on the family firm (Blumentritt *et al.,* 2007).

Moreover, some family firm owners simply cannot relinquish any decision-making power in "their" firm and therefore try to maintain a monopoly in strategic decision-making (Chirico *et al.,* forthcoming). This may also lead to a situation whereby the non-family CFO tries to professionalize the family firm, increase its performance, or mitigate financial distress, but is simply not given the power for accomplishing these goals. There is also a challenge of appropriately informing the non-family CFO about the family firm's historical and current practices. This is especially relevant for family firms, as family managers tend to have large amounts of tacit and implicit knowledge, which often cannot readily be explicated (Giovannoni *et al.,* 2011). Thus, a gradual integration and handover to non-family managers might be useful.

Although academia has proven that non-family CFOs can play a very important role in family firms, research and practical advice on their role in family firms is still scarce. This is also true for knowledge on the proper integration of non-family CFOs in family firms. Thus, based on a qualitative field study, this article aims to derive success factors for the integration of non-family CFOs in family firms. Adhering to these success factors should help both family firms and non-family CFOs decrease unsuccessful employments of non-family CFOs in family firms. Moreover, this article may also help family firms improve performance, as the successful integration of non-family CFOs was found to increase performance (Caselli and Di Giuli, 2010) and the proper integration of non-family managers in general is a key success factor and enabler of survivability in the long-term development of family firms (Klein and Bell, 2007).

The field study

Between June and September 2011, a qualitative field study of eleven Austrian family firms was conducted. In order to prevent only including the subjective view of non-family CFOs on successful integration into a family firm, the family managers, family board members, and non-family CEOs were also interviewed. A total of 15 semi-structured interviews were conducted. The interviews lasted between 58 and 151 minutes, averaging roughly 100 minutes each. All interviews were recorded digitally and fully transcribed.

For the analysis of the interviews, the general inductive approach was followed (Thomas, 2006) Interview transcripts were read several times. Each time a topic appeared in one transcript, the other transcripts were scanned for the same topic and coded accordingly. Thus, this approach can be regarded as allowing topics to purely emerge from textual information.

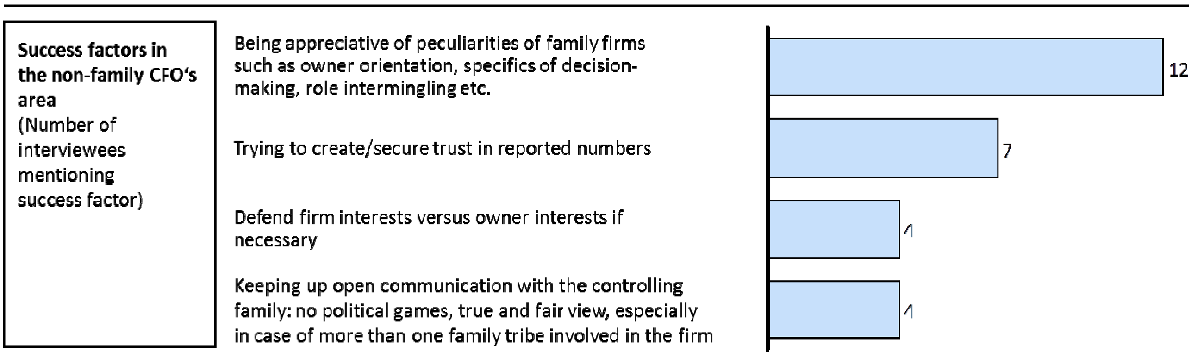
This methodology resulted in roughly 2,000 codings, which formed the basis for the following results. The results are clustered in success factors, which mainly lie in the area of the non-family CFO and success factors in the area of the controlling family.

Success factors for the non-family CFO

The factors that were found to be influenced by non-family CFOs and mentioned most often in this study are shown in Figure 1. The most important factor for non-family CFOs that emerged was that non-family CFOs should be appreciative of the peculiarities of family firms. Among others, these factors included the finding that the non-family CFO should be able to cope with high degrees of owner orientation. This suggests that compared to non-family firms, decision-making processes in family firms may not be similarly fact-based and based on rational reasoning. This can especially be problematic to non-family CFOs, who have switched from a non-family firm to a family firm and experience a type of cultural shock. A statement of one of the non-family CFOs interviewed illustrates this notion:

> *"After joining the family firm, I really felt like experiencing a cultural shock; especially because suddenly, decisions were solely made by one family or one person. In non-family corporations, in bodies such as the executive board, regardless whether harmonizing or not, all facts are being evaluated and then a decision is made. However, if one decides on his own, it is not always comprehensible for others, why that specific decision was made."*

Figure 1 - Success factors in the non-family CFO's area.



Another peculiarity of family firm governance is the role intermingling. For the non-family CFO, this might lead to situations where the senior family manager officially retired and may now only serve as a non-executive director, but is still present in the office every day and the person who is actually making the decisions. Therefore, for the non-family CFO, it is difficult to determine with whom to discuss decisions: the senior member, who is officially not in charge, but is still the most powerful person in the firm, or the junior member, who on paper is the boss, but who may have to coordinate his or her actions with the senior member. A non-family CFO is clearly in a difficult situation in this case and unlikely to solve the problem on his or her own. One family member interviewed in the field study mentioned that such role intermingling can likely be best solved by introducing a family board, where the family members discuss and create a shared family opinion, which is the only opinion communicated to non-family managers and employees. However, the non-family CFO is well advised to make him- or herself aware of the peculiarities of family firm governance before joining the family firm. A number of interviewees also mentioned that for the non-family CFO, it might be helpful to have gained some family firm experience before taking over a top management position, such as the CFO position, in order to become familiar with family firm specifics.

Other important factors for non-family CFOs mentioned in the field study were related to creating a trustful relationship with the controlling family. Amongst these, a factor often mentioned was first creating trust in the numbers that the non-family CFO reported to the family. Interviewees stated the mistrust in finance and accounting numbers was often one reason for recruiting a non-family manager for the CFO position in the first place. Therefore, making the family believe in the numbers is not only a way to enhance the CFO's credibility, but should also be part of his or her mission. The non-family CFO can thereby also evolve into a role as an independent informant and advisor to the family. The interviewed CFOs also stressed that it was very important to always openly communicate with the family – both positive and negative messages. A family CEO added that this was most important in situations where several different family tribes are involved in family firm management. In such situations, the non-family CFO must try to avoid at all costs the impression that one family tribe gets more information than the others or receives information before the others.

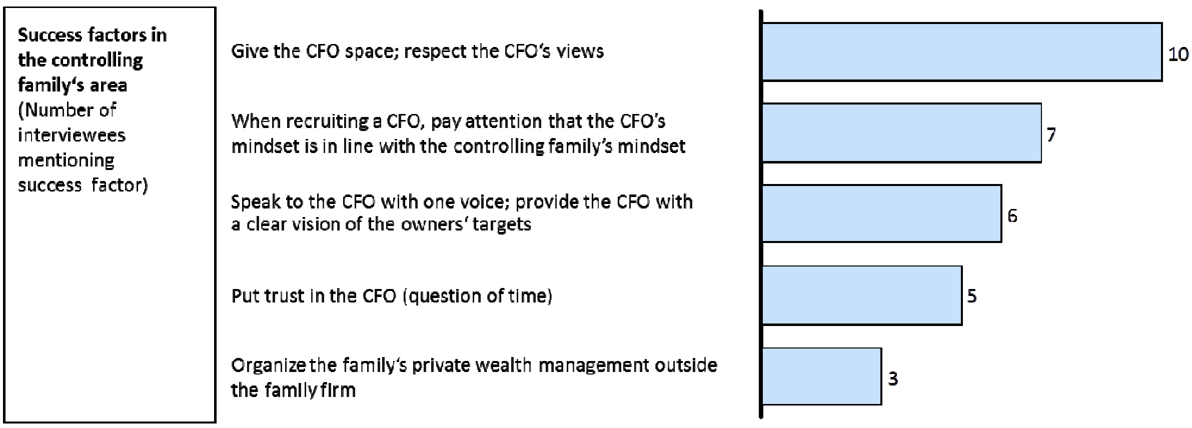
Interestingly, three family members and one non-family CFO interviewed also mentioned that – if necessary – the non-family CFO should act as defender of the firm's interests versus the owners' interests. According to those respondents, family managers sometimes tend to be very enthusiastic about new ventures or overly optimistic when it comes to sales forecasts. In this case, the non-family CFO should act as a kind of economic or financial conscious of the family and attempt to bring the family "back down to earth". However, reconsidering the usual high degree of ownership orientation mentioned above, a non-family CFO can only advise the family in such cases. If the family does not follow the non-family CFO's recommendations, then the CFO also has to cope with the family's decisions, as they usually hold the majority of ownership rights.

Success factors for the controlling family

The factor that the controlling family can influence, which was most often mentioned in this field study, was to give the non-family CFO enough space to perform their job effectively and to respect the CFO's views, so that the CFO is able to create a positive impact on the family firm. This factor was stressed in most interviews, because when recruiting the non-family CFOs in the first place, one of the main goals of the controlling families was to professionalize the family firm's finance and accounting practices. However, when control mechanisms were implemented that were too tight and the controlling family maintained too much decision-making power, it appeared that the non-family CFOs were actually not able to drive the desired professionalization. Interestingly, both interviewed family firm owners as well as non-family CFOs stressed this point in equal measure. One interviewed CFO illustrates this success factor:

> *"Our firm owner does not take a hand in my daily business. He spares me detailed instructions, as he says – and he is very frank in this regard – that he is not able to tell me how to do my business. We agree on targets and he wants me to reach these targets. But he does not prescribe how. I like that very much. That's very professional."*

Figure 2 - Success factors in the controlling family's area.



Clearly, giving the non-family CFO needed space requires that the controlling family has trust in the CFO's actions. This also leads to the second most mentioned success factor, which suggests that when recruiting a new non-family CFO, the controlling family should pay close attention that the CFO's mindset and values are in line with the controlling family's mindset. The interviewed family firm owners especially emphasized this point, as they regard the area of financial management as a very sensitive part of the firm where substantial damage can be done. In this regard, the family firm owners closely assessed whether there was a significant overlap between the controlling family's values and the CFO candidate's values, even during the recruitment process. Moreover, the majority of the family firm owners also noted that they did not want to recruit a job-hopper who would be likely to leave the position after two or three years with the family firm. In contrast, they aimed to recruit a non-family CFO who was willing to stay for a long period of time, which in turn would enable the creation of trust in the collaboration between the CFO and the family.

Family firm owners further stated that if they feel that they can trust a newly hired non-family CFO, then they are more willing to put a significant amount of trust in the CFO right from the beginning of the employment. This also corresponds with the fourth most mentioned success factor for controlling families. Of course, the level of trust is increased even further by the long-term employment of a non-family CFO in a family firm. This is also why controlling families attempt to retain their non-family CFOs as long as possible when they feel that they have found the right personality for the job, as an interviewed CFO illustrates:

> *"The CFO's personality must fit the family firm. That's a question of cultural fit. This is why it is hard to find the right CFO. […] Controlling families tend to watch potential CFO candidates very closely. Therefore, the collaboration between controlling families and CFOs often lasts very long. If it works out right, family firms often keep the same CFO until retirement."*

Another important factor that enables such long lasting relationships is that the family provides the CFO with clarity regarding the family's targets. This emerged from the study as being especially challenging when there is more than one family tribe (still) active in the family firm management team. This might lead to a situation where the goals of the different family tribes are conflicting and, as a result, the non-family CFO also receives conflicting instructions. In such situations, it seems extremely important that the controlling family tribes strive to speak to the CFO with one voice, as a family firm owner interviewed states:

> *"In our history as a family firm over five generations, we also had difficult times. One challenging situation was when we had severe disharmony between two family tribes. This was immediately transferred to our management team and employees. […] For the non-family CFO who was in charge then, this was an extremely difficult situation. I only recognized later that as our firm's central administrator, he permanently found himself having divided loyalties. In the end,*

he left the firm. For sure, one of the reasons for this was that he was not willing to bear these conflicts between the two family tribes any longer."

In three of the eleven family firms investigated in the field study, more than one family member was active in the firm. In two of these cases, the problem of conflicting instructions for the non-family CFOs from different family members was mentioned explicitly. However, in these cases, the controlling family seemed to be well aware of this problem. In one case, the controlling family installed a family board in addition to the board of directors. In this family board, the controlling family sought to align the family members' views on strategic issues, as the interviewed family member explains:

"For the coordination of the owners we have this family board. Whenever there pops up a topic in the top management team, which is clearly to be decided by the owners, we discuss the topic in the family board. We then decide on the topic, and this creates a clear family opinion, which is supported by all family members involved."

Another success factor identified deals with the controlling family's wealth management. In three cases, the family's wealth management also resided in the non-family CFO's area of responsibility. This not only created additional requirements for the CFOs, but also additional tasks, which the interviewed CFOs felt were not part of their primary duties. As a consequence, they suggested that ideally, the family should organize its private wealth management outside of the firm, as the CFOs' incentive payments were also not linked to their success in wealth management, but rather to their performance as CFOs. Moreover, from the controlling family's point-of-view, it may also be not advisable to let the family firm CFO manage their private wealth (such as savings accounts, stocks, bonds, and mutual funds). Large parts of a controlling family's assets are usually already bound in the family firm (Hamilton, 1992). The management of these assets therefore already lies – at least partially – in the hands of the non-family CFO. If the CFO also manages the family's other private assets, then a type of bulk risk for the family may be created, as the majority of their private wealth would then rely on just one person.

Conclusions

This qualitative field study aimed to explore the most important success factors in the collaboration between a controlling family and a non-family CFO in a family firm. The results presented suggest that non-family CFOs should bring with them a great deal of understanding of the peculiarities of family firms. This might pose a substantial challenge, especially for CFOs with pure non-family firm working experience, as decisions made in family firms did not appear to be as fact-driven and rational as those in typical non-family firms. Moreover, non-family CFOs are well advised to cultivate open communication with the controlling family and thereby create trust in the numbers reported. This should also include the CFO defending firm interests versus owner interests when needed. However, the CFO must respect that in the end, he or she is “just” an employee, and despite better arguments, the controlling family might use its decision-making power to not follow the CFO’s recommendations.

This article presents evidence suggesting that the controlling family should at least allow the non-family CFO to share his or her opinion freely and provide the CFO enough space in his or her area of responsibility. Only then does it seem possible for the non-family CFO to effectively contribute to the development and professionalization of the family firm. However, the non-family CFO can only receive enough freedom of action if the controlling family puts trust in him or her. Therefore, as this field study shows, controlling families are well advised to closely watch CFO candidates during the early stages of the hiring process in order to determine whether they might fit in the family firm in terms of values and mindset, and not judge CFO candidates based solely on their professional capabilities. Once a family firm has recruited a proper non-family CFO who the family can trust, it seems important to give the CFO clear direction about the family’s goals. A family board may be a valuable addition, especially in situations when several family members are involved in the family firm management, for focusing the entire family’s view and then communicating this single view to non-family managers, including the CFO.

The success factors presented in this article clearly cannot comprise all facets of the relationship between a controlling family and a non-family CFO. However, the results presented in this study may offer valuable advice for controlling families who are considering the recruitment of a non-family CFO as well as non-family CFOs who are thinking about joining a family firm. Moreover, family firm advisers may also find these results useful in escorting family firms through the integration of non-family CFOs in their management teams for the first time.

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