Non-Family CEO

**Moderator**
Professor Lloyd Shefsky  
Founder & Co-Director  
Center for Family Enterprises  
Kellogg School of Management  
Northwestern University

**Panelist**
Jim James  
Vice Chairman & CEO  
IDEAL INDUSTRIES, INC.

David Juday  
Chairman  
IDEAL INDUSTRIES, INC.

Theodore Perlman  
Chairman  
The HAVI Group, LP

Russ Smyth  
CEO  
The HAVI Group, LP

Stuart Thom  
President & CEO  
Southwire Company
FAMILY BUSINESS INVITATIONAL CONFERENCE: SUCCESS AND CONTINUITY

FAMILY BUSINESS: NON-FAMILY CEO

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Relevance and Perspective

“Some 10% to 15% of U.S. family firms are managed by non-family executives.

As families’ generations increase and as their businesses grow and are more established, the likelihood of a non-family executive grows.

As Businesses & Generations Grow, More Likely will be Non-Family CEOs

■ At first blush, that seems strange, because:
  ◆ Each successive generation brings more candidates
  ◆ Each successive stage acquires less entrepreneurialism

■ But, actually:
  ◆ Often, later G’s feel removed from venture
  ◆ Lasting through G’s means co. successful ($$$), so kids have more alternatives
  ◆ In established co., less current need for entrepreneurialism.
King’s Speech Video Clip

Papa, we’re not a family, we’re a firm.
Management Succession
Traditional Syllogism

- Our FB’s CEOs have always been Family Members
- Our FB has successfully survived x generations
- Our FB’s CEOs should always be Family Members
Family Business: Non-Family CEO

Updated Syllogism

- Our FB’s CEOs have always been Family Members
- Times and circumstances have changed
- New circumstances may require Non-Family CEOs
Non-Family CEO

It’s not your ordinary “Internal vs External” Candidates comparison

<table>
<thead>
<tr>
<th>Non-Family Business</th>
<th>Internal</th>
<th>External</th>
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</thead>
<tbody>
<tr>
<td>+ Known Quantity</td>
<td>- Lacks next stage experience</td>
<td>- Unknown quantity</td>
</tr>
<tr>
<td>- Lacks next stage experience</td>
<td>+ Has next stage experience</td>
<td>+ Brings new processes</td>
</tr>
<tr>
<td>+ Known Quantity</td>
<td>+ Familiar with Culture</td>
<td>- Unknown Quantity</td>
</tr>
<tr>
<td>+ Potentially long-term training</td>
<td>- Hand picked by CEO (?)</td>
<td>- Unfamiliar with culture</td>
</tr>
<tr>
<td>- Limited talent pool</td>
<td>- Lacks next stage experience</td>
<td>+ Picked by proper process</td>
</tr>
<tr>
<td>- Old Baggage</td>
<td>+ Next Stage experience</td>
<td>+ Large talent pool</td>
</tr>
<tr>
<td></td>
<td>± Brings new processes</td>
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</table>
Non-Family CEO Keys to Success

- Set rules of the road in advance
- Prepare family in advance
  - What they get
  - What they give up
  - What they can and can’t do
  - How life will be different
- Prepare candidate in advance
  - Explain culture and expectations
  - Extent of authority and responsibilities
  - Hot buttons and procedure when encountered
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  President & CEO  
  Southwire Company
IDEAL INDUSTRIES Transition

Compare G2-G3 to G3-G4

Dave Juday
Chairman
Djuday@idealindustries.com
Transition as seen in the 80’s

Phase 1: Owner/Manager
Phase 2: Sibling Partnership
Phase 3: Cousin Syndicate
ELEMENTS OF TRANSITION

COMPONENTS

- OWNERS
- BOARD OF DIRECTORS
- LARGER FAMILY
- MANAGEMENT TEAM
Owner Manager Stage

OWNER/MANAGER STAGE: ALL FUNCTIONAL ELEMENTS ARE AS ONE
Sibling Partnership

SIBLING PARTNERSHIP STAGE:
DISTINCT ELEMENTS ARE EMERGING
Cousin Consortium

STAGE III

Elements are essentially standing alone
Elements of Managing the Distinct Elements

- Created the mechanism to move from a six family director, three outsider, two insider board to 4 O/S, 2 family, 2 I/S
- Elected under S-Corp rules
- As a part of the recap for S-Corp, we reconfigured our stock ownership to retain relative ownership as in the past, but put all of the voting stock, 1% of equity, into a voting trust
- Provided an exit strategy for any shareholder who wanted to liquidate, using an agreed-to formula for valuation
- Formalized our Family Council
- Worked diligently at managing within our formal structure
Beginning G3-G4 transition

- Solicited G4 who wanted responsibility
- Hired consultants to help move us along
- Struggled with format and mostly transition of authority within an existing framework
- Recognized, finally, that stewardship trumped leadership in this transition
- Founded FBSI
- Led to current plan
- Embrace the interdependence that the business and family have with each other.
- Ensure that we are the best possible partner to grow a healthy business.
**Family Strategy**

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<td>Reason for existence</td>
<td>Mission</td>
<td>Evaluation and Control: Monitoring Performance</td>
</tr>
<tr>
<td>Vision</td>
<td>Where do we want to be in 10 years</td>
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<tr>
<td>Strategies</td>
<td>Plan to achieve the vision</td>
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<tr>
<td>Policies</td>
<td>Broad guidelines for decision making</td>
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<tr>
<td>Programs</td>
<td>Goals and objectives needed to accomplish a plan</td>
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<td>Budgets</td>
<td>Cost of Program</td>
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</tr>
<tr>
<td>Procedure</td>
<td>Sequence of steps needed to execute program</td>
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</tr>
<tr>
<td>Performance</td>
<td>Actual results – review results and provide feedback</td>
<td>Performance</td>
<td>Evaluation and Control: Monitoring Performance</td>
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Process by which values, vision, mission are put into action

*Adapted from Essentials of Strategic Management, J. David Hunger & Thomas L. Wheelen, 5th Edition, 2011*
Family Values and Vision

Values
- Relationships
- Inclusiveness
- Transparency
- Stewardship
- Engagement
- Empowerment

Vision
- IDEAL is the expression of the dynamic, collective force between family members living a meaningful life and business owners sharing the same core values.
- Our governance structure creates accountability and inspires confidence in our family, board, management and employees.
- This ensures that IDEAL remains family owned.
Family Mission

We commit to:

- Remaining family owned by being the best possible partner in the relationship between the family and business
- By living our values,
- And by honoring our legacy.
Standing Committee Responsibilities

Governance and Ownership
- Policies
- Agreements
- Estate Planning
- FC Meeting
- OC Meeting

Development and Education
- Education (FC, OC, G5, individual, etc.)
- Assessments, Evaluations
- Coaches, Mentors
- Manage Development Fund
- Recommend Leadership Nominees

Business and Financial
- Business content and context
- Business finance
- Personal finance education

Family, Philanthropy, and Legacy
- Family Camp
- Family Project
- Family Fun

Family Strategy
Building Family Strategy

Values

Strategy Formulation: Developing Long Range Plans

- Mission
  - Reason for existence
- Vision
  - Where do we want to be in 10 years
- Strategies
  - Plan to achieve the vision
- Policies
  - Broad Guidelines for decision making

Strategy Implementation: Putting Strategy in Action

- Programs
  - Activities needed to accomplish a plan
- Budgets
  - Cost of Program
- Procedure
  - Steps needed to execute Program

Evaluation and Control: Monitoring Performance

- Performance
  - Actual Results

Family Governance

Family Constitution

Family Constitution

Plan
- Values, Vision, Mission, Strategies, Objectives and G3 Documents

Implementation
- Family Governance
  - Decision Making Process
  - Family Conduct/Behavior Guidelines
  - Roles and Expectations
  - Bylaws for the Family Council: membership, meeting frequency and times, format and attendance

Process
- Policies and Agreements

Historical and background documentation
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Southwire Company

Stuart Thom
President and CEO
Founded in 1950 by Roy Richards …
CEO until his death in 1985
Company ownership passed to his seven children
Oldest son (Roy Richards, Jr.) became CEO at age 25
I was brought in as COO in 2001, then CEO in 2002
($1.5 billion sales, 3.5 thousand employees)
Now over $5 billion sales, over 5 thousand employees
The number-one manufacturer of electrical cable in North America
My Preparation

5th Generation Family Company

Family Owned ➔ Public Owned

1st Generation Family Company

2nd Generation Family Company
Southwire’s Preparation
Southwire’s Preparation

Professionalized the Board; Annual Board and CEO Performance Appraisals
Southwire’s Preparation

McKinsey study and resulting re-organization
Extensive CEO recruitment process with board and family involvement
Southwire’s Preparation

No sacred cows
Clear delineation of roles between family, board, and management

Annual Statement of Shareholder Expectations

From: Southwire Shareholders

To: Southwire Board of Directors  cc: Southwire Management

We like being long-term investors together in Southwire, and it brings us both economic and emotional satisfaction. We want our Company to be:

•
•
•

The Company can earn our continued investment by fulfilling our Vision, which is that Southwire:

•
•
•

Fulfillment of our Vision encourages us to remain long-term shareholders. However, we might consider selling our shares if:

•
•
•

These views represent our shared expectations, and come to you by way of annual approval of a majority of the shares of the Company. We are not bound by this statement and each have the liberty of changing our views in the future.
Southwire’s Preparation

Roy Richards, Jr. – evolved from CEO (management) to Chairman (governance)
A Few Key Challenges
A Few Key Challenges

Roy’s two younger brothers
A Few Key Challenges

Employee and community anxiety
A Few Key Challenges

Compensation
My Advice

- Prepare your company for the transition to professional management:
  - Professional, independent Board
  - Do the dirtiest work yourself, first – don’t save it for the new CEO
  - Engineer consensus among family shareholders

- Take your time finding a new CEO who reflects your company’s unique family values

- Define family, Board, and CEO roles deliberately
  - Family member as Chairman (ideal)
  - Hands off; No sacred cows; Willingness to shift from management to governance
  - Annual letter of expectations from Shareholders to the Board
  - Thorough CEO and Board performance appraisal processes

- Make sure CEO is sensitive to compensation, unique impact on each family shareholder, employee and community anxieties, and company culture
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