The Trust Currency:

What Makes Successful Family Business CFOs

FAMILY MATTERS

(Pun Intended!)

Family owned businesses in Asia are highly selective when hiring external CFO talent, while prospective talent is often cautious of working for a family business. The resulting dynamics make recruiting external CFOs for family businesses a challenging task.

Based on our experience of trying to resolve this paradox and interviews with successful family business CFOs in Asia Pacific, Russell Reynolds Associates examined the unique operating context of Asian family businesses and key competencies that make successful family business CFOs.

Asian family businesses face a conundrum when hiring external CFO talent

At the inception of founder-led businesses, financial oversight is either managed by the founder or, if they are fortunate, by a trusted advisor with a finance background who worked closely with the founder during the early years. As family businesses begin to scale, often with multiple generations involved and sometimes with private equity in the picture as well, they sometimes outgrow the founder's finance confidant's capabilities. This necessitates an external search for a qualified finance leader.

However, many family businesses struggle to find someone who can provide an impartial lens while maintaining the founder's trust. On the other hand, many CFOs are wary of joining family businesses, as they have concerns about the level of professionalism and independence, and are unsure of their ability to make a difference.

To help develop a roadmap to solve this challenge and simplify the hiring process, we analyzed 59 of the largest Indian and Southeast Asian companies from the world's top 750 family businesses,[i] and conducted interviews with current and past CFOs at several successful family businesses. Our goal was to gain insights on what makes an Asian family business CFO successful and identify their differentiating characteristics.

The unique operating context of Asian family businesses

There are critical distinctions between operating cultures at multinational corporations and family businesses that need to be kept in mind while selecting a CFO. In fact, some of the operating differences can be quite attractive for certain candidates. These differences include:

Figure 1. A comparison of multinational corporation and family business environments that impact the CFO role

	Multinational Corporation	Family Business
Operating Environment	A structured environment, operating under specific boundaries	Fluid environment, constantly shifting between perfection and speed
Loyalty	Role-centric; loyal to the business	People-centric; loyal to the family
Trust Building	Trust is formed on a performance-driven matrix; efficiency is mapped by the rating on the achievement of the matrices	Trust is built over time, with accountability and relationship
Timeline Orientation	Short/medium term 1-5 year orientation	Long-term multi-generational orientation
Shareholder Dynamics	Structured governance around shareholder dynamics	Greater fluidity in shareholder dynamics

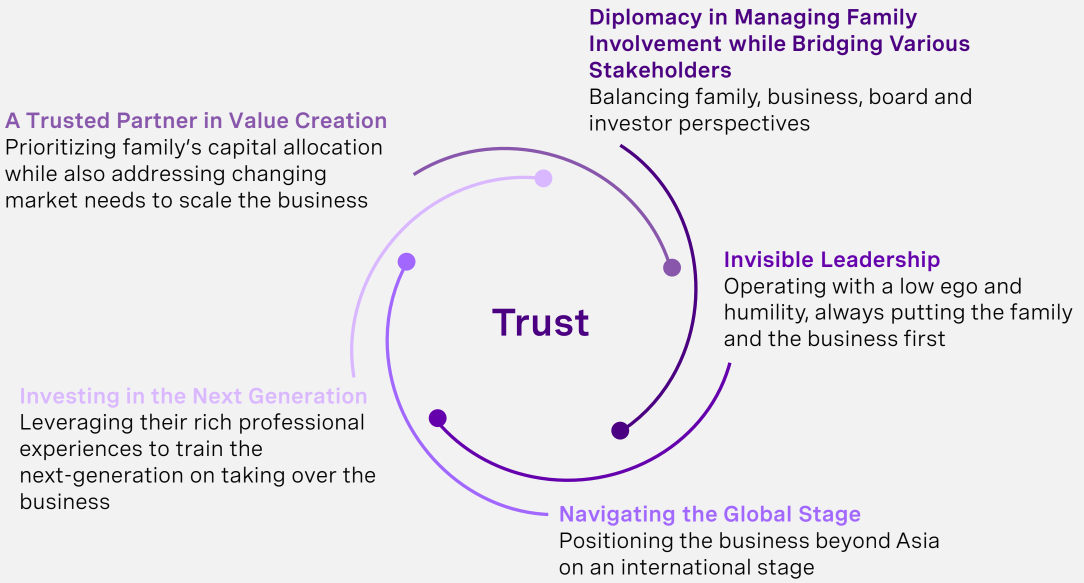
Source: Russell Reynolds Associates APAC Family Business Analysis

CFOs are attracted to the family business environment because of the potential autonomy it affords them; the challenge of navigating a complex, family matrix; and the opportunity to have an end-to end impact on the organization. Although the personal risks and accountability may be higher, CFOs who choose to work in family businesses are keen to lead transformational, impactful work in this high-velocity, less bureaucratic environment. These outcomes can be extremely compelling from a business impact standpoint and, more importantly, from a personal rewards perspective.

Family business CFO: Five key competencies with "Trust as the Centerpiece"

Our research surfaced five key competencies that made CFOs successful in Asian family businesses, all of which center around **trust**:

Figure 2. Five key competencies of successful family business CFOs



Source: Russell Reynolds Associates APAC Family Business Analysis

1. A trusted partner in value creation. As family businesses progress and grow beyond geographies, the CFO becomes an increasingly valuable partner who can influence the business' direction and, by extension, its valuation. CFOs are expected to create a proposition that simultaneously prioritizes the family's capital allocation while also addressing changing market needs to scale the business. Best-in-class CFOs proactively translate innovative learnings from previous experiences into the family business context. CFOs who can operate with agility outside of "textbook methods" become especially valuable as next-generation executives join the ranks, pivoting to new business models, establishing best-in-class leadership practices, and increasing technological capabilities. Within this mix of professional and entrepreneurial environments, the CFO plays a key role in guiding the business' risk management strategy, ensuring that growth is value accretive, while serving as a trusted advisor and providing the necessary balance for family leadership.

2. Diplomacy in managing family involvement while bridging various stakeholders. Family involvement in the business can vary widely depending on the business and family context and CFOs need to be discerning about balancing contrasting viewpoints. In addition, although the founder's family typically has the strongest influence over the organization, as it is interested in passing a successful business down to future generations, there may be a diverse range of stakeholders, including the board and investors. The CFO is critical in carrying along all stakeholders, bringing a structured view, enhanced governance, and deeper financial management discipline, while still maintaining the family's position of strength. To do so, it is important for the CFO to be resilient in the face of difficult conversations, judicious when it comes to key business decisions, and diplomatic in all interactions.

3. Invisible leadership. The family business CFO needs to be discerning around when to seek attention, when to share the limelight, and when to work quietly behind the scenes. Often, the CFO might not receive public recognition, due to sensitive family relationships and perceptions that may need to be created in this business construct. At times, the direction may change after private conversations or influence from certain family members. CFOs need to pivot without drawing unwanted attention to the change. Through it all, it is important that the CFO operates with a low ego and humility, always putting the family and the business first.

4. Navigating the global stage. As family businesses become increasingly global, Asia is no longer the only playing field. There is an increasing demand for CFOs who can position the business on a bigger stage. CFOs with international experience are being increasingly valued by family businesses, as they bring world-class financial and technical competencies and a broader set of interpersonal skills, including nuanced cultural understanding and innovative cross-collaboration. Such CFOs can also anticipate and strategize around global markets' impact on the business.

5. Investing in the next generation. The most successful Asian family business CFOs not only bring their functional competencies to the table, but they also leverage their rich professional experiences to train the next-generation pipeline. The most trusted CFOs are not only respected by and relied on by next-generation leaders to define and create the business' future value proposition, but founders also rely on them to equip their children with the right capabilities to eventually lead the business.

Summary

Family businesses in the Asia-Pacific region are undergoing continuous shifts, such as focusing on leadership succession, developing the next generation, partnering more with private equity, and leading the way in sustainability (see our recent research on Asian Family Businesses[ii]). As Asian family businesses pivot and scale in size and complexity, partnering with a CFO who can serve as a trusted steward—someone who can co-create value, bring an entrepreneurial mindset, demonstrate egoless leadership as they build a professional finance function, while balancing complex stakeholder dynamics—is crucial in building a currency of trust that runs through the veins of family businesses.

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i. Family Capital. (2022). The World's Top 750 Family Businesses Ranking. Retrieved from Family Capital: https://www.famcap.com/the-worlds-750-biggest-family-businesses/

ii. Russell Reynolds Associates. (2021, September 30). Asian Family Businesses. Retrieved from Russell Reynolds Associates: https://www.russellreynolds.com/en/insights/articles/asian-family-businesses

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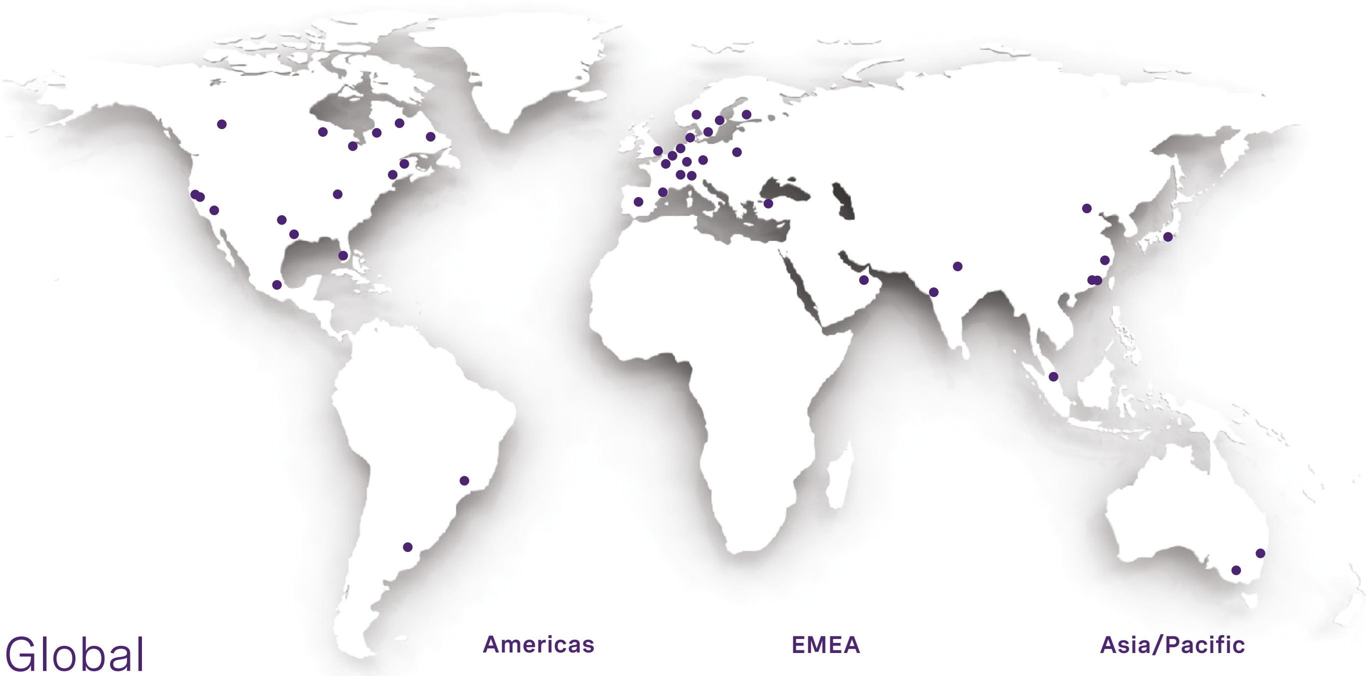

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