Leading a Legacy:

How Outsiders Can Thrive as Family Business CEOs

Russell Reynolds Associates

When Guy Laurence lost his job as CEO of Rogers Communications in October 2016, it quickly became the subject of newspaper headlines and evening news reports. Hired in December 2013 to run the family-owned Canadian business, Laurence was a successful, experienced executive. Previously the CEO of Vodafone UK, he came to Rogers with seemingly all the skills, background, and abilities necessary to thrive – yet he lasted less than three years.

Reports after the fact suggest that while Laurence understood how to run a large telecommunications company, he failed to understand the unique challenges that come with being an executive in a family-owned enterprise. Though larger-than-life founder Ted Rogers passed away in 2008, his son Edward leads the Rogers Control Trust, which owns 91 percent of the voting shares in the company. While the younger Rogers "had no official operating role in the company, [he] still wielded undeniable influence," according to media reports.[1] In a May 2017 profile in *The Globe and Mail*, several individuals inside Rogers Communications argued that Laurence "lost his job not because he failed to deliver, but because he blithely ignored the advice just about anyone at the company will give you for free: Never forget whose name is on the building."

All CEOs face challenges, but as Guy Laurence's story shows, outside leaders of family-owned businesses often find themselves in especially difficult circumstances as they strive to balance family dynamics with the needs of the business. While most public companies take a quarterly approach to results, for example, family-owned businesses are more likely to be looking out forty years. Where public companies can to some extent pick and choose the shareholder issues they address, family-owned businesses are often uniformly beholden to a broad and diverse set of relatives. Some executives quickly fail under these circumstances, while others thrive.

Methodology

In total, 37 CEOs of family-owned businesses participated in our study, completing the Occupational Personality Questionnaire (OPQ-32) to measure management and leadership style and behavior. This tool looks at how people try to influence others, their approaches to innovative thinking, and their self-motivation, among other factors. Almost all of the data was collected in the first quarter of 2017.

The study participants represented a wide range of industries and geographies. Fifteen were CEOs of Consumer companies, 15 were from Industrial and Natural Resources, three were from Financial Services, and one each were from the Healthcare, Non-Profit, Technology and Real Estate sectors. Twenty-two were from the Americas, 13 were from Europe, and two were from Asia Pacific. The median family-owned company in the sample has been in business for 66 years.

The data was analyzed in multiple ways. First, the 30 non-family CEOs of family-owned businesses were analyzed as a full group and compared to Russell Reynolds Associates' database of executive psychometric data, including a broader pool of global public-company CEOs (approximately 100). They were then subdivided and analyzed by geography, industry, and similar criteria. Non-family CEOs were also compared to a small group of seven family-owned business CEOs who are related to the founding families.

Lastly, the psychometric data was combined with qualitative data and published studies from academic researchers and family-owned business consultants and advisers.

[1] All quotes in the introduction from: https://www.theglobeandmail.com/report-on-business/rob-magazine/robmaghow-ceo-guy-laurence-fought-the-rogers-familyand-lost/article35063144/.

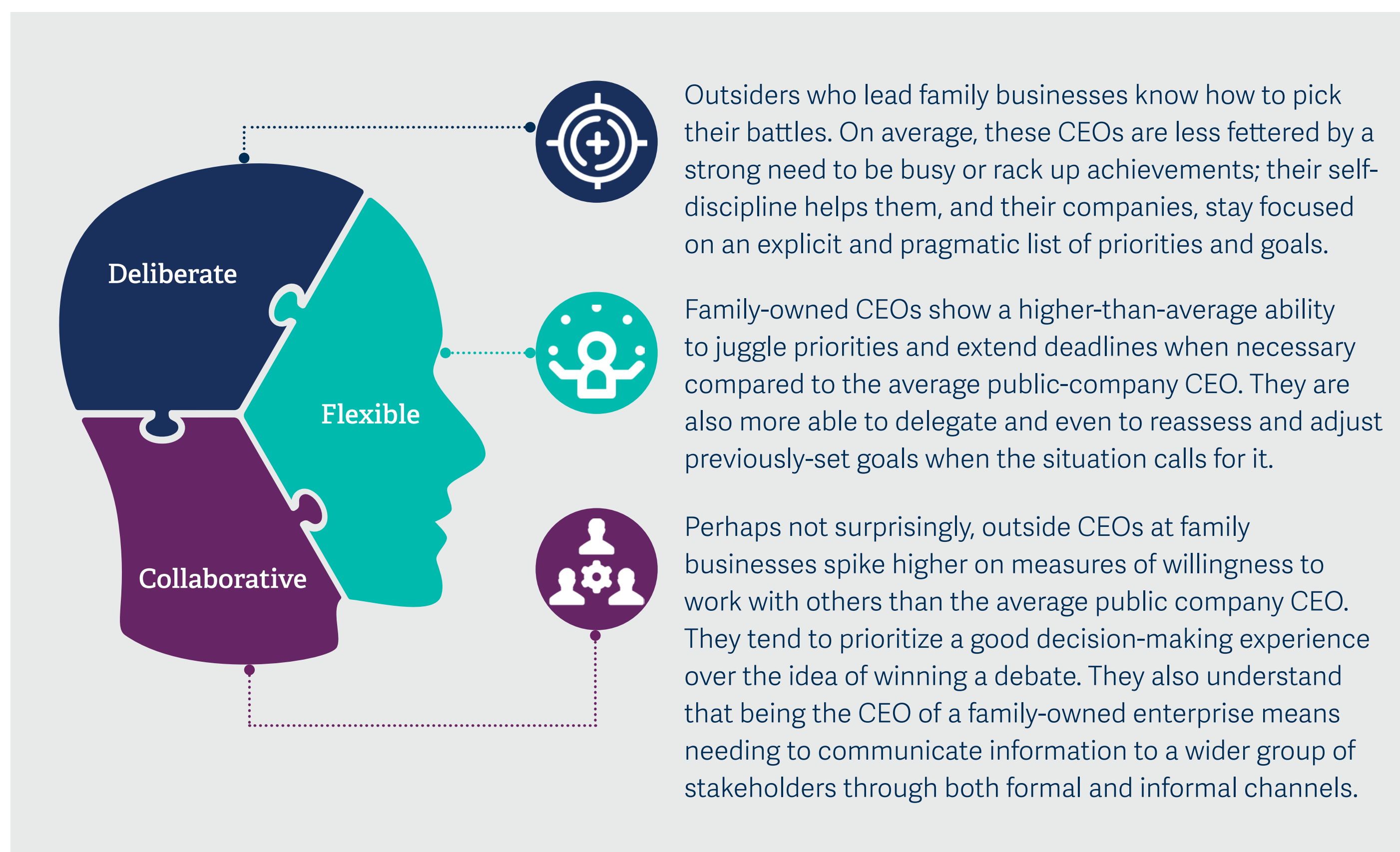
Inside the Mind of the Family-Owned Business CEO

What sets apart the outsiders who become effective family-owned business CEOs? And how can family members and corporate directors of family-owned businesses identify and hire CEOs who will flourish in such distinctive environments?

To help answer these questions, we reached out to some of the most successful non-family CEOs of family businesses in our network to better understand what's behind their longevity and high performance. This group of 30 spans industries and geographies, with significant clusters in the Americas and Europe. Sixty percent of the companies they work for have been in business for more than 50 years, and close to half report more than $1 billion in annual revenue.

Based on the psychometric data they provided us, we found these family-owned business CEOs stand apart in some important ways from leaders at public companies without family involvement.

Outside CEOs of family-owned businesses on average score significantly higher than public-company CEOs on three characteristics:



Outsiders who lead family businesses know how to pick their battles. On average, these CEOs are less fettered by a strong need to be busy or rack up achievements; their self-discipline helps them, and their companies, stay focused on an explicit and pragmatic list of priorities and goals.

Family-owned CEOs show a higher-than-average ability to juggle priorities and extend deadlines when necessary compared to the average public-company CEO. They are also more able to delegate and even to reassess and adjust previously-set goals when the situation calls for it.

Perhaps not surprisingly, outside CEOs at family businesses spike higher on measures of willingness to work with others than the average public company CEO. They tend to prioritize a good decision-making experience over the idea of winning a debate. They also understand that being the CEO of a family-owned enterprise means needing to communicate information to a wider group of stakeholders through both formal and informal channels.

Putting these characteristics together, outsiders who lead family-owned businesses have a unique ability to combine a sense of urgency with a deliberate and collaborative style that appeals to family members who are deeply steeped in the history of the business. These CEOs move forward pragmatically, with acute attention to real and potential risks and a willingness to shift gears as necessary. This stands in contrast to the typical public-company CEO, who is more likely to set a longer list of goals and be more single-minded in pursuing them. While both leadership styles can be effective, this data validates the idea that outside CEOs at family companies need specific characteristics to succeed.

As much as they have in common, the leaders of family-owned businesses exhibit some different tendencies in different circumstances. Americas-based CEOs, for example, tend to be more analytic than European ones. They are more likely to be critical thinkers, and to spend time exploring concepts in depth. In Europe, family-owned business CEOs distinguish themselves via their leadership style. They are more outgoing in their relationships, especially in regards to proactively engaging with family members.

Industry plays a part, too. Family-owned business CEOs tend to be more independent-minded in the consumer sector than in industrial and natural resource firms, for example – though neither group stands out for being unusually controversial in their thinking.

We also compared outside CEOs of family-owned businesses to CEOs who are part of the companies' founding families. While our sample size was small, the data suggests that family member CEOs enjoy a greater degree of latitude than outsiders. They demonstrate a strong sense of independent mindedness, and are less likely than non-family CEOs to solicit and use input from multiple parties in their planning efforts. Other research has identified additional differences between family CEOs and non-family CEOs, including that non-family CEOs work longer hours than family-CEOs.[2] One of the ways non-family CEOs may be spending these additional hours is in their interactions with family members, and managing their various views and desires.

Now that we understand what sets successful outside CEOs of family-owned businesses apart from their peers, how do family members and board directors of their businesses ensure they have the right candidates in mind when the CEO role becomes vacant?

A Succession Planning Roadmap for Family-Owned Businesses

Just 23% of family businesses have a formal succession plan in place, according to PricewaterhouseCoopers' latest family business survey.[3] That number is low by any standard, but even more so in the context of a family business, in which the need to align family members can add significant time to the planning process. When an executive unexpectedly departs one of these businesses, it means there is confusion, an absence of leadership in critical roles, and a scramble to quickly identify, assess, and recruit key talent to lead the organization.

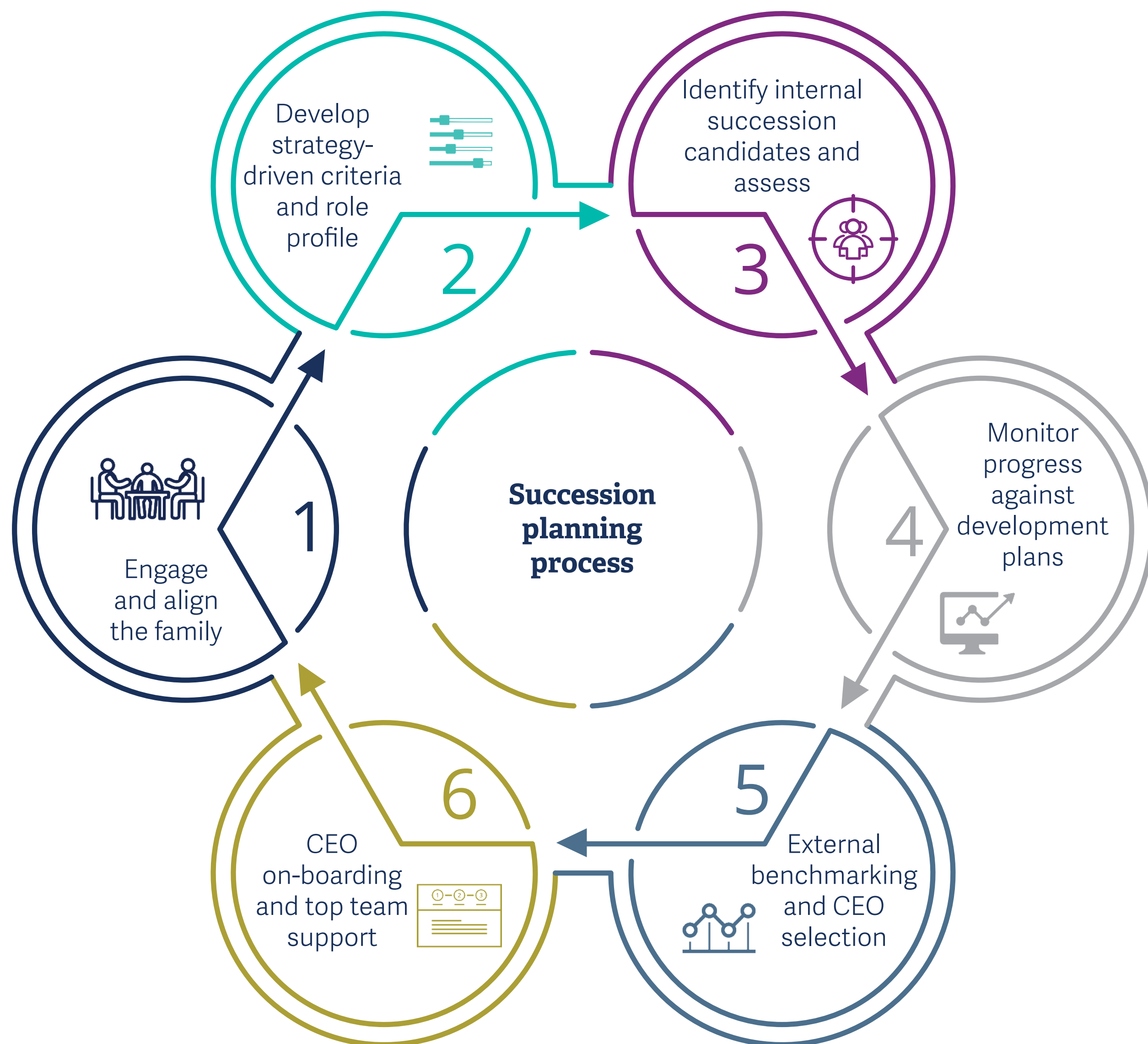
Just one in three family-owned businesses successfully pass from one generation to another, only 12 percent last long enough to pass to the third generation, and only three percent live long enough to pass to the fourth generation, according to research conducted by the Family Business Institute.[4] Strong leadership is often the difference between overwhelming success and sub-optimal performance.

(Ironically, Ted Rogers, founder of Rogers Communications, was a strong proponent of succession planning. He viewed his planning efforts, which began in his 30s and continued until his death at 75, as a way to ensure his legacy would outlast him, saying shortly before his death, "You can't rule from the grave, but you can try.")[5]

[2] http://blogs.lse.ac.uk/businessreview/2015/09/14/in-family-owned-businesses-professional-ceos-work-longer-hours-than-owner-ceos/.
[3] http://www.pwc.com/us/en/private-company-services/publications/assets/pwc-family-business-survey-us-2017.pdf.
[4] https://www.bloomberg.com/news/articles/2016-04-21/family-business-succession-planning-can-improve-odds-of-survival.
[5] https://www.theglobeandmail.com/report-on-business/rob-magazine/robmaghow-ceo-guy-laurence-fought-the-rogers-familyand-lost/article35063144/.

Picking the right CEO for a family-owned business is important, but it is not a single, one-time activity. Family-owned businesses, just like any other enterprises, need to continuously invest in sourcing future leaders.

What can the board or family members do? To begin with, they can put in place a six-part succession planning process, starting years before they anticipate a leadership transition occurring:



1

Engage and Align the Family: While all succession planning requires alignment among decision-makers, creating a common vision among family members is the primary task in a family business. The family will ultimately need to reach consensus on some key questions: Who will play what role in the succession process? How important is it to keep the business in the family and how open are they to selecting an outside leader? How will decision-makers reach their conclusions, and how will they keep other key stakeholders informed and engaged?

2

Develop Strategy-Driven Criteria and Role Profile: The individuals involved in the succession planning process must then review the corporate strategy and its talent implications. What is the company planning to do over the short-, medium-, and long-term? What experiences and leadership skills will be critical for success? The answers to these questions are the basis for the profile of experiential and leadership criteria necessary for the role. This profile will become a crucial benchmark to assess candidates against - and more importantly, to use for developing potential internal successors. The strategy, plans, and criteria should be reviewed and updated annually to ensure they are never outdated.

Once the plan is in place, the team should then identify all viable internal candidates, regardless of their current role in the company. Often, strong candidates emerge from unexpected places in the business.

3

Identify Internal Succession Candidates and Assess: Once the internal candidate pool has been identified, it's time for the team to launch an assessment process that is specifically designed for a family business. In many cases, it starts with an emphasis on employee development. How can the company help each candidate grow so they could possibly succeed the incumbent CEO?

The team should assess all internal candidates against the previously-developed experiential and leadership criteria, and consider conducting psychological assessments in order to compare the results against known predictive indicators, including measures of deliberateness, flexibility and ability to collaborate. For each internal candidate, the team should then create an individual development plan to help the leader continue to broaden his or her experience and abilities.

It's also important to look for overarching patterns in the assessment results. Does the company have an overabundance of experience in an established business area, but lack experience in an emerging one? Are all the executives located in one geographic location, when an emerging market will be the key to future growth? This analysis is helpful for rebalancing internal talent to meet strategic goals, and is also useful for external talent scans. If the company plans to move in an entirely new direction, but has no experience in that market or geography, current leaders may need to bring in external individuals with that experience at some point.

4

Monitor Progress Against Development Plans: Succession planning is an ongoing process. The team should review each internal candidate's progress against their development plans at least twice a year. The review and subsequent feedback should focus on providing meaningful development roles and assignments for candidates so they can continue to grow. If the development plans last longer than two years, then the assessments should be conducted again and development plans updated.

5

External Benchmarking and CEO Selection: Regardless of how well internal candidates are progressing in their development, the succession planning team should also conduct an external talent scan to understand which outsiders could be viable CEO candidates. It's essential to assess external candidates with the same psychometric tools and criteria as internal ones, including measures of deliberateness, flexibility and ability to collaborate. These outside assessments also create new benchmarks for internal candidates. Like the other steps in the process, this step is an opportunity to share information with family members and get their buy-in along the way.

All of this background work gives the family-owned business a solid baseline when the time for a leadership transition arrives. Even if the need for a transition occurs unexpectedly, the team can feel confident that they have already done the hard work of aligning the family and assessing the available talent relative to the needs of the company. Those facts alone increase the odds of a successful transition significantly.

6

CEO On-Boarding and Top Team Support: While the succession planning team will rightly feel a sense of accomplishment at this point, their work isn't over. They will need to partner with the new CEO to develop a detailed transition plan, and do their best to enable knowledge transfer between the incoming and outgoing CEOs.

Even experienced CEOs may struggle when transitioning to a family-owned business for the first time. In addition to the challenges related to coming up to speed in a new organization and with a new team, there are unique issues that arise when needing to build ties to family members. This is especially true with regard to family members who have deep knowledge and understanding of the business, especially those who may not have a formal role in the organization.

This is also the right time to ensure the entire senior leadership team is clear on their respective roles and the overall strategic direction for the business, and to monitor team dynamics and relationships as the new CEO gets settled and takes charge.

At this point, the process begins again.

Conclusion

With the right team and a thoughtful approach, any family-controlled enterprise can successfully plan for and navigate a leadership transition. More importantly, with a clear understanding of the psychology of successful family-owned business CEOs, succession planning teams can make hiring decisions that will position their company to not only make a great hire, but to set up the business for long-term success.

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