

Risking it all for the family?

CEOs tend to grow more risk-averse as they near retirement, focused on preserving wealth. But different motivations make family firms the exception.



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"Middle age is when your broad mind and narrow waist begin to change place," E. Joseph Cossman famously said, and it's not news to say that people tend to grow more conservative as they age. But while for most of us this extra conservatism might just be a quirk, what

implications does it have for CEOs approaching retirement and for the companies they lead?

Previous research seems to confirm that many companies' CEOs become more risk-averse as their retirements approach. With shorter career horizons, quick wins start to be favored over strategic opportunities for the long run.

Yet this may not be the case for an important subset of CEOs: those running family businesses. IESE's [Pascual Berrone](#) works with co-authors Vanessa M. Strike, Stephen G. Sapp and Lorenzo Congiu to examine the case of near-retirement CEOs in family businesses, where factors such as legacy and reputation appear to be more important than they are at more profit-focused firms.

Guiding the family ship

To find out if the CEOs of family businesses are exceptions to the growing-conservatism-at-retirement rule, the co-authors turn to hard data. Specifically, they observe international acquisitions (a proxy for risk-taking) at 264 of the large, public companies that make up the S&P 500 index in the United States. In a total of 3,432 observations of the 264 companies over 12 years (1997 to 2009), the co-authors analyze how apt CEOs at varying stages of their careers are to make international acquisitions that involve varying degrees of risk.

The co-authors chose international acquisitions as a proxy for risk-taking because they typically involve a significant short-term cost and can take years before benefits hit the bottom line. Of these acquisitions, the co-authors also looked at the size of the acquisition and the cultural-proximity to get a fuller picture of risk.

Family firms were defined as those where family members occupied at least two top roles (as directors or officers) and owned more than 5 percent of shares. Approximately 20 percent of the S&P 500 were family firms by this definition. The CEOs' career horizons were determined by their ages, with 65 marking retirement age in the United States and age 70 capturing five additional years' service on the board. As a result, a 55-year-old CEO was considered to have a career horizon of 15 years.

Controlling for certain factors and then analyzing the data on acquisitions, career horizon and family-firm status confirms that, on the whole, CEOs typically become risk-averse as they near retirement, but that family businesses buck the general trend (see Figure A). Even as retirement snapped at their heels, family CEOs were more likely to engage in acquisitions, irrespective of short-term personal risk.

The details of these circumstances were even more telling: findings indicated that it was not enough just to be family owned, the company needed to be family managed as well to display this long-term behavior. The least conservative outgoing CEO was the one who would be replaced by another family member.

The paper quotes the retired CEO of DeKuyper Royal Distilleries, Bob de Kuyper: "As I neared retirement the company began to expand the business in China. A colleague asked why I would do this as it would be 20 years and I would be long retired before we would see any return. '20 years,' I replied. 'We are a 315-year-old family firm; 20 years is short-term for us.'"

Expanding horizons

The nature of the acquisitions — i.e., the size and cultural proximity — provided additional insights. Late career CEOs of family businesses were more likely to make acquisitions of large target firms in culturally-similar countries. This two-pronged strategy allows acquiring companies to achieve greater scale, while also controlling the type of risk involved.

Why are family CEOs thinking longer term than their non-family cohorts? They may have more to build for, for a start. Family firms can spread out with more members in each generation, requiring the generation of more and more wealth. Also, they may have a more vested interest in the future success of the business. Non-family CEOs, whose time is drawing to a close, tend to suffer from narrowed visions of the future.

Family CEOs had no such reduced horizons — except, interestingly, the second generation. While first generation family CEOs were found to think long-term even as their careers were ending, and third- and subsequent-generation CEOs did the same, second-generation family CEOs behaved in precisely the same way as their non-family-business counterparts.

Perhaps this is a form of adolescent rebellion in the boardroom.

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