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CEOs Who've Been Mentored Achieve Better Financial Results

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Family firms where the departing CEO has mentored the successor enjoyed stronger return on assets.

EDITOR'S NOTE: This article was produced in partnership with Strategic Entrepreneurship Journal, a leading academic journal, as part of our effort to highlight actionable cutting-edge research on entrepreneurship. Click here (https://familybusiness.org/content/bringing-research-based-insights-to-a-wider-audience-our-partner) to read other insights from SEJ.

Many scholars and consultants have focused on the key ingredients for a smooth succession at family businesses. But few researchers have studied the specific effect of family CEO mentoring, defined as the departing family CEOs' mentoring of incoming family CEOs. We wanted to explore this topic to see if family CEO mentoring had an impact on whether firms are more likely to achieve high performance following a leadership transition.

After looking at the succession activities and the financials of more than 1,700 family firms, we saw that firms where the outgoing CEO mentored his or her successor enjoyed stronger return on assets than those where mentoring didn't take place. We also saw that having a board of directors that included outsiders magnified this beneficial impact, and that being in an industry with highly volatile revenues muted it.

Interestingly, family CEO mentoring, which may initially be viewed as a potential source of emotional interference, can play a key role in enhancing post-succession firm performance. Contrary to the belief that family leaders might negatively impact financial wealth, our findings indicate that their mentoring is crucial for a successful transition.

What We Studied

We initially looked at more than 2,600 Italian family firms with revenues exceeding €50 million. For each family firm, we went back in time to track information on CEOs, ownership, and board characteristics, starting from 2003 (using data from official public filings held by the Italian Chamber of Commerce). This approach allowed us to check whether any of these firms experienced a CEO succession in the period 2003-2016.

Financial information was obtained from AIDA (Italian Digital Database of Companies) for the period 2000–2018, to have data for at least three years before and after a CEO succession. We were able to get complete data on 1,787 family firms, which amount to 16,693 observations.

We analyzed data for these 1,787 firms to see which family firms had a succession involving family mentoring. We zeroed in on those firms where the family's outgoing senior CEO and the younger CEO stay jointly in office as co-CEOs for at least one year; where their age difference is at least 25 years, suggesting that they are from different generations; and where the younger CEO remains the only CEO once the senior family CEO steps down. We also looked at family mentoring cases involving the family chairperson, (who was the former CEO) and the new CEO. We saw that 128 family firms of the 1,787 experienced a family mentoring succession (7.1% of total successions). As a control group, we looked at all cases of individual successions in which the CEO in charge steps down and is replaced by a new one who hasn't been mentored.

We also looked at how the presence of nonfamily members on the board and the industry volatility affected the performance benefit of CEO mentoring: whether the presence of nonfamily directors magnified it or industry turbulence muted it.

What We Found

Our results showed that CEO mentoring in family firms led to a stronger return on assets. We also saw that in these firms, having nonfamily members on the board of directors helped improve return on assets even more, but being in an industry with highly volatile revenues diminished mentoring's benefits.

Our results underscore the strategic value of maintaining a senior family CEO to guide the next successor, because these leaders possess intangible assets that are difficult to imitate. Through family CEO mentoring, incoming CEOs may gain access to firm-specific knowledge and learn family-centered goals and practices that are deeply embedded in the firm's identity, which is positively related to post-succession effectiveness. Family CEOs often have a long-term perspective given the strong emotional attachment to the corporation, which might boost a commitment to sustained success. Thus, successors mentored by family CEOs may be better positioned to align with the company's long-term goals, contributing to a high post-succession performance.

In addition, family firms have unique organizational goals (economic and non-economic goals), making board dynamics particularly distinctive in this type of business. Having nonfamily directors in the boardroom can strengthen the family firm's governance structure and foster the effectiveness of family CEO mentoring by bringing, for example, fresh ideas to the succession.

However, in highly volatile industries, family CEO mentoring might not have as great an impact. Operating in these sectors may require new skills and knowledge that go beyond traditional family-based knowledge, thereby weakening the value of inherited firm-specific resources and capabilities of family CEO mentors. In these cases, families should consider leaning on nonfamily board members and outside advisors to provide these skills and knowledge.

Overall, our study highlights the importance of family CEO mentoring in driving post-succession success, particularly under an adequate composition of the members of the board and stable industry conditions. By recognizing the strategic interplay between CEO mentoring, internal governance, and environmental dynamics, firms can better navigate leadership transitions to ensure a good post-success performance.

Takeaways

Our results show that having a senior family CEO as a mentor may be useful for achieving a good post-succession firm performance. Family CEOs possess human capital with deep levels of tacit knowledge, and this provides the incoming CEO with certain intangible resources that are not available externally, with the subsequent positive influence of family CEO mentoring to improve post-succession performance.

Family CEOs (who, in many cases, have grown up in the family firm) learn practices involving a set of core values that are unique to the firm. Moreover, firms with family CEO mentoring may embrace a longer-term orientation, given the desire of family CEOs to pass a healthy business to subsequent generations and ensure the family dynasty and legacy. Guided by this desire for continuity, family CEO mentors will share specialized knowledge, resources, and capabilities with their mentee, enhancing post-succession performance. This transgenerational purpose may lead family CEO mentors to act generously for the firm, and in doing so, the new CEO will benefit.

Additionally, firms can potentially increase the benefits of family CEO mentoring on post-succession firm performance by having nonfamily directors on the board. Nonfamily directors bring fresh perspectives and might ensure financial goals are met. Thus, they may facilitate the size of the resource bundle to achieve a successful succession and pursue broader goals, increasing the positive impact of family CEO mentoring on business outcomes.

Nevertheless, industry volatility may limit the beneficial effect of family CEO mentoring on post-succession

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performance. When the external environment is volatile, new skills or external knowledge (beyond family assets) can better align family CEO mentoring with industry characteristics. In turn, industry volatility may reduce the relevance of family CEOs as a source of firm value, weakening the positive link between family CEO mentoring and post-succession success.

Conclusion

CEO succession should be approached as a strategic process. Family business owners and leaders must recognize the benefits of mentoring from outgoing CEOs. Instead of treating CEO mentoring as an informal activity, businesses should formalize this process to ensure the effective transfer of firm-specific knowledge, emotional attachment, and leadership style to the incoming CEO.

Explore the Research

Family CEO mentoring and post-CEO succession performance (https://sms.onlinelibrary.wiley.com/doi/full/10.1002/sej.1539) , *Strategic Entrepreneurship Journal*, April 2025.

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