

THE STONEWOOD PERSPECTIVE

A STONEWOOD GROUP INC. BULLETIN

StoneWood Interview Series

Where are all of the Successful Serial CEOs?

It is a lament heard across the Canadian technology sector: Where are the successful serial CEOs and why do they appear so much more plentiful in the U.S. than in Canada?

A quick scan of the U.S. tech community readily surfaces a class of executives for whom success only eggs them on to pursue even bigger challenges. They are serial CEOs hooked on the game of tech and driven by the goals of mastery and excellence of play. They move from one successful start-up or turnaround to the next adding one experiential notch after the next to their expanding belts and wallets. And they appear everywhere, sprinkled liberally across venture capital rosters as executives/entrepreneurs in residence, and at the helms of countless tech companies.

A similar glance at the Canadian tech landscape does not yield such a class of CEOs. Boards regularly struggle to find proven executives to navigate their firms through the next stage of growth. CEOs of successful firms appear to disappear altogether from the field of play. One could easily draw the conclusion that CEOs who have been successful in one Canadian venture tend not to surface in a second. By extension, the number of serial tech sector executives who have been successful twice and pursue a third venture are almost non-existent.

The question at hand is whether this casual observation is fact or parlor game myth? Perhaps it is a simple function of a population ten times greater south of the border. Or maybe Canadians promote their successes less readily or loudly than their American counterparts and it only appears that there are fewer of them. On the other hand, what if it is true? What if the U.S. leadership DNA is somehow more robust than the Canadian strand? Or what if there are structural, government policy, funding, or even geographical forces at play which somehow interact to affect the behaviors and decisions of these individuals?

The issue is important for though the tech sector likes to bask in an aura of youthful innocence and innovation, the fingerprints of experienced hands can almost always be found on the most successful companies. Youth may well create, but it is usually experience that executes.

And while experience in winning and losing are both formative, it is experience in winning that is most coveted. Winning implies that the executive is either skilled in the game of tech leadership, or minimally, lucky in the one successful game that they played. Experience in winning cannot easily be dismissed, for if nothing else, it stands in stark contrast to the many more corporate helmsmen who have yet to demonstrate either skill or luck.

Experience in winning is also perceived to mitigate risk for stakeholders in subsequent ventures and thus, despite there being no assurances that the executives can be successful again, one time winners are sought out and given the benefit of the doubt a second time around. Serial winners are another level of coveted altogether and therein lies the problem. As headhunters tasked with finding them, we can speak with some authority that they are an elusive species in Canada.

So why does successful U.S. tech leadership become habitual? And where do the Canadian leaders go?

Though the answers are not easily forthcoming, they likely incorporate some of the following thoughts:

1. The Height of the Bar

First, in a land of such global giants as Steve Jobs, Larry Ellison, and Bill Gates, it could be argued that success in the U.S. is a very relative notion. It is possible that a successful venture or two south of the border are mere table stakes in a big-league game played by many highly skilled players. A Canadian who now resides in Silicon Valley once expressed this sentiment to me when I congratulated him on what was a very successful exit by Canadian standards. As he said, ‘Sure I made some money but that is nothing down here. I am just starting’. Though he is now the CEO of his fourth company, all successful to various degrees, he remains a minor blip on the U.S. tech map. Determined to make his mark, he continues to ply his trade.

Though Canada has its share of tech sector giants, perhaps the competitive bar is slightly lower in Canada, and for some executives, the serenity and peace of accomplishment can be acquired at a lower, one-time cost. For these executives, rather than heading to another organizational challenge they head for the beach.

2. The lack of Critical Mass

It is altogether possible that critical mass, or more accurately the lack of it in the Canadian tech sector, limits growth opportunities for its most successful members. Canada boasts a wide array of small and startup organizations but far fewer mid-sized organizations. Thus, an individual seeking to leverage a success venture by pursuing a larger or more complex leadership opportunity is invariably challenged by the selection of such companies in Canada.

The limited number of mid-sized Canadian technology companies is not due to a national inability to nurture young startups beyond infancy. Rather, it is the tendency to sell these firms when they reach a certain marketable size that is to blame. Once sold, some of these firms remain standalone business units but many more are relegated to engineering labs. For the pool of successful CEOs looking to grow, the pyramid of opportunity narrows all too fast.

Due to this, many executives head south of the border. Once there, these individuals rarely come back unless compelled by family or quality of life issues back in the Great White North.

3. Nascent Regional Clusters

Executives exiting a business in a given technology market have greatest currency in that market. This is where their knowledge lies, their relationships are strongest, and in many instances, their passion most intense. But many cities in Canada lack the clustering of inter-related businesses to afford opportunities to stay in those markets. Where, for example, do Ottawa-based Cognos executives go if they elect to leave their new IBM masters? Where were Alias or ATI executives to go in Toronto?

This is not to say that Canada lacks clusters altogether. Telecom professionals in Ottawa have a range of choices available to them as do enterprise

software executives in Toronto and Waterloo where a rich tapestry of related companies can be found. And while NRC and others work to foster various regional clusters across the country, for many executives, there remains a lack the critical mass of companies to keep them in those areas.

Robust regional clusters, or the lack thereof, is also a factor in several other ways. Executives are attracted to clusters not only because they provide choices of employment, but also because they provide access to talent that spans all stages of growth. An executive once told me that he had set up his security software company in Ottawa specifically because the city boasts a broad ecosystem of large, mid-sized and small firms in that sector as well as a pool of seasoned executives cutting across all sizes of firm. Access to such talent was a decided factor in successfully raising funds for that company. Clusters have become a regional advantage for Silicon Valley and selected other geographical hubs acting as a magnet in attracting and retaining a wealth of high powered talent.

Finally, clusters are a broader talent management issue as they provide the infrastructure for executive movement. As has been proven many times in Canada, it is very difficult for executives from firms such as Nortel or Celestica to step directly down to work for small or early-staged companies. The reverse is equally true. The experiential gap is too large, leadership demands too different, and the learning curve too steep. Failure is frequently the result of such attempted leaps and individuals along with their careers get lost in the chasm. While it is easy to question the judgment of those making such attempts, in the absence of viable transitional alternatives, executives often have little choice. This is where clusters play an important role by providing the infrastructure of intermediary companies which serve as bridges in the efficient movement of talent. They leverage experience, mitigate risk and provide career stability for all involved.

While efforts continue to nurture clusters in Canada, their relative scarcity combined with the

tendency to sell so many of our firms robs many executives of the opportunity to stay in the game.

4. The Pull of Capital

It has been argued that access to investment capital influences the behavior of CEOs and other leaders.

Firms looking for growth capital, especially those requiring what would be considered round B or C or even later round funding, invariably find greater choice in the U.S. than in Canada. With those dollars come gravitational forces which often pull the company and/or its leader south. A U.S. 'face' is put on the company where it can be closer to markets, partners, acquirers, and if the truth be told, the investors themselves. Once executives make the move across the border they are seduced by the promise of even more money, more opportunity, and in some instances more agreeable taxes and climate. Over time, they build networks of relationships that they come to value and it becomes harder and harder to return home.

5. Our Approach to Leadership Development

The supply of serial CEOs in Canada is also affected by the approach to developing talent in this country. Outside of the very largest organizations there has been precious little support for developing talent. Tech firms are 'sink or swim' games of skill and chance in which employees are the sole proprietors of their development. Boards worship at the altar of speed and have little patience or time for the error component in 'trial and error' learning. It is 'keep-up or get out'.

Not surprisingly there are a large number of leadership casualties. Some resurface and are given second chances while others are labeled 'lacking' or pigeonholed for selected tasks, business contexts, or stages of growth. Despite the potential to become much more, many high potential tech sector leaders are marginalized to the scrapheap of 'wannabes' or

'has-beens'. Many drop out of the game altogether thus affecting the upstream supply of tomorrow's potential winners.

6. *Opting Out for New Possibilities*

Finally, the shortage of serial CEOs in Canada is in some part due to an increase in the number of individuals who are voluntarily removing themselves from the field of play in favor of other pursuits.

Over the past few years a growing number of executives have indicated to us that while they have been schooled in the venture-capital model of wealth creation, it no longer interests them. Instead, they are seeking new types of opportunities with different levers of control and equity participation. It is as though they are re-pricing the opportunity cost of each of the options available to them and the numbers are taking them in new directions.

Some individuals are tapping into demographic trends and acquiring owner-managed firms. Others are moving to the private equity world while yet others are making changes out of tech altogether. It is a migration to the edges and it is taking place among the population most coveted in the marketplace...the proven winners.

Conclusion

So back to those elusive serial CEOs.....where exactly are they? The good news is that they haven't disappeared, they have just spread out. They are blazing paths in the U.S., they are buying their own companies, they are changing sectors and they are right here waiting for their next gig while sitting on boards, consulting, or serving as angel investors.

The key is that they have choices, lots of choices, which are expanding as the global market for this class of talent grows. Keeping and repatriating them is a worthwhile pursuit though one rife with challenges. Overcoming these begins with a better understanding of how structural, political, geographical, psychological and market forces interact to guide the decisions they make.