

## Can having more family member advisors help or hurt your business?

*An inverted U-shaped relationship reveals the risks of too many family voices in advisory roles*

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**F**amily firms routinely draw on relatives who are not formally employed in the business for advice. A sibling with legal expertise, a retired parent who still knows the industry, a cousin with financial acumen—these informal advisors are a distinctive resource of family enterprises. But how many is too many? And does the answer change as the business passes from one generation to the next?

This study examines the relationship between the **number of family member advisors**—relatives not employed in the firm but providing formal or informal guidance—and firm performance, measured by return on assets. Using data from **128 small and medium-sized manufacturing family firms in Sweden**, the authors find that the relationship is not linear. It follows an inverted U-shape: performance improves as family advisors increase up to a point, then declines as additional advisors introduce complexity, conflict, and coordination costs.

### WHAT WE STUDIED

The theoretical framework integrates stewardship theory (which predicts that family advisors act as dedicated guardians of the firm's long-term interests) with agency theory (which warns that family involvement can introduce self-interest, favoritism, and resource extraction). The study tests which logic dominates at different levels of advisor involvement, and whether the firm's generational stage—first-generation versus later-generation leadership—moderates the relationship.

Performance data came from financial records. Family advisor counts and generational information came from survey responses. The sample was restricted to manufacturing firms to control for industry effects,

and the analysis included controls for firm size, age, and ownership concentration.

### KEY INSIGHTS

#### ***The sweet spot is small: one or two advisors***

Performance peaks when the firm has approximately two family member advisors. At that level, the benefits of stewardship—trusted counsel, alignment with family values, willingness to share sensitive information—outweigh the costs. Beyond two, the marginal advisor adds more noise than signal. Additional family voices introduce competing agendas, dilute accountability, and create coordination overhead. The inverted U-shape means that going from zero to two advisors is beneficial, but going from two to four is harmful. Families that assume more involvement is always better are making a measurable strategic error.

#### ***Generational stage determines sensitivity***

In first-generation firms, the number of family advisors has little effect on performance. Founders tend to dominate decision-making regardless of how many relatives offer input. Their authority is personal and unchallenged, which means advisory input—whether from one relative or five—rarely changes the strategic outcome. In later-generation firms, the picture is different. The inverted U-shape is pronounced. A couple of advisors provide genuine value by helping navigate the increased complexity of multigenerational governance. But additional advisors amplify the agency problems that later-generation firms are already prone to: power struggles between family branches, resistance to professionalization, and prioritization of family employment over firm performance.

### ***Role clarity determines advisor effectiveness***

The research finds that trust, alignment with the firm's goals, and clarity of roles are critical to whether family advisors contribute positively. Without defined expectations about what advisors should and should not weigh in on, their involvement easily becomes diffuse. An advisor who understands their mandate—succession planning, for instance, or financial oversight—adds focused value. One who operates without boundaries risks duplicating the work of paid professionals, undermining non-family managers, or introducing family politics into operational decisions.

### **TAKEAWAYS**

#### ***Limit advisory involvement deliberately***

The evidence supports a small, focused advisory circle rather than an open door. Restricting family advisory roles to one or two individuals with clear mandates preserves the benefits of family input while avoiding the costs of overinvolvement.

#### ***Reassess the structure at each generational transition***

What works for a founder-led firm will not work for a third-generation enterprise with multiple family branches. Later-generation firms should be especially cautious about expanding advisory involvement, because the governance complexity they already face makes additional family voices more likely to create friction than clarity.

#### ***Complement family advisors with external professionals***

Family advisors bring trust and alignment but may lack objectivity. Pairing them with independent external advisors—whether through a formal advisory board or professional consultants—creates a more balanced governance input that tempers emotional bias with professional detachment.

### **IMPACT**

This study provides the first empirical evidence of a non-linear relationship between family member advisors and firm performance. By integrating stewardship and agency perspectives, it shows that family advice is neither unconditionally beneficial nor inherently problematic—it depends on dosage and context. The generational moderation finding adds practical precision: first-generation firms can absorb family advisory involvement without performance effects, while later-generation firms face a narrower window in which advisory involvement is productive.

### **RECOMMENDATIONS**

1. **Audit your advisory structure.** Count how many family members currently provide formal or informal advice. If the number exceeds two, evaluate whether each advisor's contribution justifies the coordination cost.
2. **Define advisory mandates.** Specify what each family advisor is responsible for—and what falls outside their scope. Written expectations reduce ambiguity and prevent advisory creep.
3. **Revisit at generational transitions.** When leadership passes to a new generation, reassess whether the current advisory configuration still fits. Later-generation firms need tighter governance, not looser.
4. **Blend family and professional input.** Maintain the trust advantage of family advisors while introducing the objectivity of independent professionals. The strongest advisory structures combine both.

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