

How do generational shifts impact the performance of family businesses?

From tradition to transformation: how family generations shape business success

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Family businesses often aim for long-term survival, spanning multiple generations. However, generational transitions bring unique challenges and opportunities that can significantly affect performance. This article delves into how time, in the form of generational shifts, influences family firm performance. The study offers a nuanced understanding of family firm dynamics by analyzing the different approaches to socio-emotional wealth and financial wealth across generations. It also explores how distributing control among multiple family members can help enhance performance, particularly during generational transitions.

WHAT WE STUDIED

This study draws on the behavioral agency model, focusing on the mixed-gamble logic that balances socio-emotional wealth and financial wealth in family firms. SEW refers to the non-financial goals that cater to a family's emotional and identity needs, such as maintaining control of the business. By examining data from 199 family firms in Switzerland, the study tests how family generation in control and family control dispersion affect firm performance. It also considers variables like firm age, size, and industry, controlling for factors that might bias the results.

KEY INSIGHTS

1. Generational Shifts and Performance

Family firms tend to perform differently depending on which generation is in control. Earlier generations, particularly founders, are more likely to prioritize SEW, focusing on preserving the family's identity and emotional ties to the business. This often leads to conservative strategies that protect non-financial

wealth but may result in lower financial performance. In contrast, later generations (starting from the fourth generation) tend to shift focus towards maximizing prospective financial wealth, leading to higher performance.

2. The Role of Family Control Dispersion

Dispersion of control, where power is shared among multiple family members rather than concentrated in one or two individuals, can play a pivotal role in performance. Higher control dispersion fosters collaboration and creativity, allowing for more participative decision-making, which can counteract the conservative tendencies of earlier generations. However, too much dispersion, particularly in later generations, can lead to conflicts and inefficiencies, negatively impacting performance.

3. U-Shaped Performance Trajectory

The research identifies a U-shaped relationship between family generation in control and firm performance. Performance tends to decline from the first to the third generation, as these generations often prioritize SEW over financial outcomes. However, starting from the fourth generation, performance improves as the focus shifts towards financial wealth maximization. Control dispersion further amplifies this U-shaped curve, enhancing performance in firms with distributed control in earlier generations, but potentially hindering later-generation firms if over-dispersed.

TAKEAWAYS

1. For Family Business Owners

Family firms should be mindful of how generational transitions impact their goals and strategies. Owners in earlier generations must balance their focus on socio-

emotional wealth with the need to ensure long-term financial success. Encouraging a more participative management style through control dispersion can help improve performance.

2. For Later Generations

As family firms move into later generations, maintaining a focus on financial growth becomes essential. While preserving family values is important, these firms need to adopt more business-driven strategies to enhance performance.

3. For Advisors and Consultants

Advising family firms during transitions requires a deep understanding of both family dynamics and business goals. Encouraging families to distribute control and incorporate diverse perspectives can help mitigate the conservative tendencies that hinder growth in earlier generations.

IMPACT

This research offers valuable insights into the complex relationship between family generations, control dispersion, and performance in family firms. It highlights the importance of balancing socio-emotional wealth with financial wealth, particularly during generational transitions. By focusing on how family firms evolve over time, the study provides practical guidance for family business leaders, advisors, and researchers.

RECOMMENDATIONS

Family firms should explore governance structures that allow for shared control and collaboration among family members. Early-generation firms should actively engage in strategic planning to balance SEW with financial goals, while later-generation firms need to be mindful of the potential downsides of excessive control dispersion.

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