

What drives non-family CEO turnover in family firms?

Emotional bonds across family generations predict CEO retention more than financial performance or governance

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Family firms increasingly recruit non-family CEOs to bring professional expertise into leadership. But a hire is not a retention. Non-family CEOs lead organizations where ownership, emotion, and legacy are tightly bound—and where their tenure depends on relationships more intricate than standard leadership research anticipates.

This conceptual paper examines why non-family CEOs stay—or leave—family firms. The authors argue that retention cannot be explained by compensation, performance metrics, or formal governance alone. It depends on the quality of a **triadic relationship** involving the CEO, the current generation of the owning family, and the next generation. When emotional bonds across this triad are balanced, CEOs develop affective attachment and remain committed. When they are imbalanced, detachment sets in and turnover follows.

WHAT WE STUDIED

The theoretical framework builds on the *affect theory of social exchange* (Lawler, 2001), which explains how emotions emerge from different types of interaction between people in organizational settings. The authors apply this theory to family firms by replacing the standard CEO-board dyad with a triad that reflects the reality of many family businesses: the non-family CEO works not only with current owners but also with next-generation family members who hold increasing influence as succession approaches.

The analysis identifies four types of social exchange that operate between triad members—**generalized** (indirect support with no expectation of immediate return), **productive** (joint effort toward shared goals),

reciprocal (direct give-and-take), and **negotiated** (explicit contractual agreements)—and examines how each shapes the emotional climate around the CEO. The paper does not test hypotheses with data. It builds a theoretical model that future empirical work can operationalize.

KEY INSIGHTS

The CEO-family relationship is a triad, not a dyad

Most leadership research treats the CEO-owner relationship as a two-way interaction. In family firms, this misses a crucial actor: the next generation. Next-generation members often hold informal influence long before they take on formal roles. They talk with the current generation about the CEO's performance, shape family opinion, and bring their own expectations about how the firm should be run. A CEO who manages the current generation well but alienates the next generation faces a slow-motion retention problem that standard governance structures cannot detect.

Emotional attachment is built through specific forms of exchange

Not all interactions produce the same emotional outcome. Generalized exchange—mentoring, unsolicited support, acts of trust without expectation of return—tends to build the strongest affective bonds. Productive exchange—working together on shared goals—builds pride and group identity when outcomes are positive. Reciprocal and negotiated exchanges are more transactional and produce weaker emotional attachment. The implication is that family firms cannot simply professionalize their CEO relationships into contracts and KPIs and expect loyalty to follow.

Emotional commitment requires exchanges that go beyond what any contract specifies.

Balance in the triad determines retention

The central theoretical contribution is that CEO retention depends on balance across the three relationships in the triad. When one actor dominates—whether the current generation clings to control, the next generation undermines authority, or the CEO is excluded from family strategic dialogue—emotional frustration accumulates and detachment follows. Different types of imbalance produce different problems. An overly dominant current generation crowds out the CEO's strategic agency. An underprepared next generation creates frustration when the CEO has to compensate for their gaps. A CEO who feels like an outsider never develops the emotional attachment that sustains long tenure.

Emotional bonds outweigh formal governance

Even in firms with sophisticated board structures and clear contracts, the authors argue that emotional quality drives long-term commitment more powerfully than formal governance. Non-family CEOs who feel genuine group identity with the family forgive occasional conflicts and remain through difficult periods. Those who experience emotional distance—even with strong financial incentives—eventually leave. This is not a finding that dismisses governance. It is a finding that governance alone is insufficient.

TAKEAWAYS

Diagnose the triad before the crisis

Family firms that wait until a CEO threatens to leave have waited too long. Periodic stakeholder mapping—assessing role clarity, perceived fairness, and emotional support across the triad—can surface imbalances while they are still manageable. Simple questions work: Does the CEO feel included in family strategic dialogue? Does the next generation have a working relationship with the CEO independent of their parents? Does the current generation recognize the CEO's authority in operational matters?

Choose the exchange type for the moment

Different phases of CEO tenure call for different exchange strategies. Early in the relationship, negotiated exchanges that establish clear expectations prevent misunderstanding. As trust develops, productive and reciprocal exchanges deepen commitment. During succession transitions, generalized exchanges—mentoring the next

generation, providing unsolicited support—build the strongest emotional bonds.

Assess cultural and emotional fit in hiring

A CEO with impeccable professional credentials may fail if they cannot operate in a relational environment. Hiring processes should assess whether candidates understand the family's values, communication style, and legacy—and whether they are willing to invest in building relationships across generations rather than focusing only on the formal reporting line.

IMPACT

This paper reframes CEO turnover in family firms as a relational and emotional phenomenon, not merely a performance or governance issue. The triadic model provides a practical diagnostic tool and a vocabulary for family firms, advisors, and researchers to discuss retention in more precise terms than "fit" or "culture." The theoretical contribution is a bridge between social exchange theory and family business research, opening a line of empirical work that can test which exchange configurations most reliably sustain non-family CEO tenure. The lasting message for practitioners: hiring a professional CEO does not transfer responsibility for the relationship. The family still manages the triad, and the quality of that management determines whether the hire succeeds.

RECOMMENDATIONS

1. **Map the triad before a crisis.** Regularly assess the emotional balance between the CEO, current generation, and next generation. Identify imbalances early, while they are still manageable.
2. **Design the exchange for the phase.** Match exchange strategies to the stage of the relationship: negotiated exchanges for onboarding, productive and reciprocal exchanges for building trust, generalized exchanges for succession transitions.
3. **Integrate the CEO into family strategic dialogue.** Exclusion from the conversations that shape the firm's direction is the fastest path to emotional detachment. Meaningful inclusion is the strongest retention lever family firms control.
4. **Prepare the next generation for the CEO relationship.** Structured mentoring between the CEO and next-generation members builds mutual investment and prevents the silent erosion that comes from indirect, parent-mediated communication.

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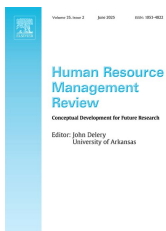
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