

What happens to a family firm when its CEO-owner suddenly dies?

Selecting the most suitable successor after the family owner's sudden death

KIMBERLY A. EDDLESTON · PHILIPP SIEGER · FRANCESCO CHIRICO · MASSIMO BAÙ

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Succession is a defining moment for any business, but when a CEO-owner of a small or medium-sized enterprise (SME) suddenly dies, it creates a crisis that can threaten the firm's survival. Unlike structured corporations that have governance mechanisms in place, many SMEs do not plan for such an event, leading to chaos, uncertainty, and financial distress. The absence of a succession strategy means that the business must scramble to find a replacement leader while simultaneously navigating the emotional, operational, and financial turbulence caused by the sudden loss.

Using a perspective that focuses on the importance of social and professional connections, this study investigates the patterns of decline and recovery in SMEs following the CEO-owner's sudden death and explores how different types of successors impact the firm's financial health over time. The research highlights that while nonfamily successors may stabilize the company in the short term, family successors—if they have substantial prior experience in the firm—prove to be the most effective in ensuring long-term recovery.

WHAT WE STUDIED

The researchers analyzed a **longitudinal dataset of 416 privately held Swedish SMEs** that experienced the sudden death of their CEO-owner between 2000 and 2007. The study applied **social connection theory**, which considers how personal and organizational relationships shape successor effectiveness. By examining financial distress patterns, the researchers identified the role of **family ties** (whether the successor is a family member) and **company experience** (how

long the successor has worked in the firm) in SME recovery.

This approach integrates insights from **social embeddedness theory**, which suggests that business leaders derive power not only from their formal authority but also from their relationships within the firm. The study's findings show that both family and firm embeddedness influence a successor's ability to lead the company through crisis. While family successors often bring strong emotional commitment and motivation, they may lack the immediate skills needed to navigate a financial downturn unless they have prior experience in the firm.

KEY INSIGHTS

1. Financial Distress Follows an Inverted U-Shaped Pattern

One of the most striking findings of the study is that financial distress in an SME after the sudden death of a CEO-owner follows an **inverse U-shaped pattern**. In the immediate aftermath, financial distress gradually worsens as the company struggles to fill the leadership void, retain key business relationships, and maintain operations. This decline typically peaks **around three years post-event**, marking the most critical phase of instability.

After this turning point, however, firms begin to recover as new routines, resources, and leadership strategies take effect. The extent and speed of this recovery depend largely on the **type of successor** chosen and their ability to manage the transition effectively.

2. Family vs. Nonfamily Successors: Who Performs Better?

The study finds that **nonfamily successors** are generally better at minimizing financial distress in the short term. Their emotional detachment from the deceased CEO-owner allows them to make rational decisions, enforce necessary cost-cutting measures, and focus on stabilizing operations without the added weight of personal grief.

In contrast, **family successors** tend to struggle in the immediate aftermath due to emotional distress, lack of preparation, and potential resistance from employees or external stakeholders who question their qualifications. However, the study also reveals that **family successors eventually outperform nonfamily successors in the long run**. Once they overcome the initial crisis period, they are more likely to leverage personal motivation, emotional investment, and long-standing social connections to drive a successful recovery.

3. Successors with Deep Company Experience Perform Best

A key determinant of successor success is their **prior experience within the company**. Regardless of whether the successor is a family member or an external hire, those who have spent a significant amount of time working in the firm tend to **outperform those with little experience**. Their familiarity with internal processes, company culture, and key business relationships enables them to make more informed strategic decisions and reduces the disruption caused by the leadership transition.

The study underscores that prior **firm embeddedness** plays a more significant role than family ties in determining a successor's effectiveness. Even a nonfamily successor can lead a firm to recovery if they have been deeply involved in the company's operations before taking on the leadership role.

4. The Worst-Case Scenario: Family Successors with No Prior Company Experience

While family successors with deep company experience eventually drive better long-term recovery, the **worst possible scenario** occurs when a family successor with no prior company experience takes over. These individuals often lack the necessary strategic, operational, and financial expertise to run the business, leading to prolonged financial distress.

This finding challenges the traditional assumption that **family ownership alone ensures continuity and success**. The study emphasizes that, in SMEs, without familiarity with the company's day-to-day operations, a family successor that engage in the CEO role may struggle to gain credibility, make informed decisions, and effectively lead the organization through the crisis.

TAKEAWAYS FOR FAMILY BUSINESSES

1. Succession Planning Should Be a Priority

Many SMEs **do not have emergency plans** for sudden CEO-owner deaths, leaving the business vulnerable to instability. To prevent financial distress and organizational chaos, businesses should establish **clear succession plans** that identify and groom potential candidates long before a leadership crisis occurs. Documenting key operational processes and financial structures can also ensure a smoother transition.

2. Successor Selection Should Prioritize Company Experience

While family succession can be beneficial in the long run, **it is only effective when the successor has substantial experience within the firm**. A family member without prior involvement in the company may struggle to lead effectively, resulting in extended financial distress.

If no **experienced family member** is available, the study suggests that an **external candidate with a long tenure in the firm** may be a better choice than an inexperienced family successor. The best-performing businesses in the study were those that prioritized **leadership experience over family ties** when selecting a successor.

3. Financial Stability Requires a Long-Term View

SME stakeholders should anticipate a **worsening financial situation** in the first **three years** following a sudden leadership loss. This period represents the peak of financial distress, during which **external investors, creditors, and suppliers may lose confidence in the business**.

To mitigate these risks, firms should **secure financial buffers**, such as liquidity reserves, to withstand the inevitable instability that follows a sudden leadership change. These financial cushions can provide the new leader with time and resources to stabilize operations without making rushed or detrimental financial decisions.

4. External Support Can Help Mitigate the Crisis

The role of **advisory boards and external consultants** can be instrumental in guiding a business through a sudden CEO-owner transition. Bringing in **experienced advisors** can help the successor—whether family or nonfamily—navigate complex business challenges and avoid common pitfalls.

Additionally, **training potential successors in advance** can significantly ease the transition. By integrating family successors into the business early on and providing them with exposure to leadership responsibilities, SMEs can prepare them to take over effectively if and when the need arises.

IMPACT ON FAMILY BUSINESSES AND SME STABILITY

This study provides valuable insights into how family businesses can **strategically prepare for succession in crisis scenarios**. By prioritizing **prior company experience** and developing **structured transition plans**, SMEs can **mitigate financial distress** and enhance **long-term stability**.

The research also **challenges traditional assumptions** about family succession, demonstrating that while family ownership can be an asset, **it is not enough on its own**. What matters most is that the successor has a **strong foundation of company knowledge** and **strategic experience** before taking the reins.

RECOMMENDATIONS FOR BUSINESS OWNERS

1. **Develop Emergency Succession Plans** – SMEs should **proactively identify potential successors** and establish **clear transition plans** before a crisis occurs.
2. **Encourage Successor Company Experience** – Future leaders, especially family successors, should be **integrated into the business early** to **gain hands-on experience** before stepping into leadership.
3. **Balance Emotion with Strategy** – While family successors may feel **an emotional duty to take over**, businesses should prioritize **the best-qualified leader** for the situation.
4. **Secure Financial Reserves** – Ensuring **liquidity buffers** can help SMEs navigate the **financial instability** that follows a leadership crisis.

By implementing these strategies, SMEs can **enhance their resilience** and **safeguard their long-term success**, ensuring that when the unexpected happens, the company is **prepared to move forward, rather than falter**.

Recommendations for Family Business Advisors

1. **Promote Proactive Succession Planning** – Advisors should encourage SMEs to develop structured succession plans that clearly outline leadership transitions in the event of a crisis. By fostering discussions on leadership preparedness, advisors can help business owners identify and train potential successors before an emergency arises.
2. **Emphasize the Importance of Firm Experience** – Advisors should guide business owners in ensuring that family successors gain substantial company experience before assuming leadership roles. Encouraging mentorship, hands-on operational involvement, and exposure to strategic decision-making will help prepare successors for the complexities of running the business.
3. **Facilitate Leadership Contingency Strategies** – Advisors can support SMEs in establishing clear emergency protocols, including interim leadership solutions and governance structures, to ensure business continuity during unexpected transitions. By introducing advisory boards and external consultants, they can help stabilize operations and provide strategic guidance during succession.
4. **Encourage a Balance Between Legacy and Business Needs** – While maintaining family control is often a priority, advisors should help business owners make leadership decisions that prioritize competence over tradition. By facilitating objective successor evaluations and implementing structured transition plans, advisors can help families balance emotional considerations with sound business strategy.

By implementing these strategies, family business advisors can play a critical role in ensuring that SMEs are well-prepared for leadership transitions, minimizing financial distress, and fostering long-term stability even in times of crisis.

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CEFEO AUTHORS



Massimo Baù

Professor

Jönköping International Business School

massimo.bau@ju.se



Francesco Chirico

Professor

Jönköping International Business School

francesco.chirico@ju.se

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