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Should Former Leaders Stay Involved in the Family Firm?

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For many family business owners, thinking about succession can be challenging. It's a lengthy process, and filled with questions and activities that seem daunting initially. However, it is essential to remember that successfully navigating this process can strengthen family ties (Ahrens, 2018) and pave the way for long-term success in the family and the business (Ahrens, 2020).

For current leaders about to hand over the reins to the next generation, an important question is how to exit. Should they engage in a total exit that gives the next generation the freedom to make their own choices and mistakes, or should they stay involved in an advisory capacity to help the new generation?

This article shows that in certain instances, involving the current generation in an advisory role could bring significant benefits to the succession process, but under some circumstances it's not a good idea.

Nearly every multi-generational family firm has a story about this, and interestingly, these stories are not alike. Among them are war stories of harsh conflicts, and even instances when the predecessor even returns to the office to retake control (the empire strikes back!). Other families have enjoyed the family harmony and benefits that come from the experience of two generations working together on the same vision.

Ahrens et al. (2018) researched several hundred family firm succession cases, examining when and under which situations the predecessor's involvement is detrimental and when it is beneficial. Their findings can help anyone leading a family firm today, because sooner or later these mortal humans at the helm of the family's fortune will need to answer a simple question: Should I stay, or should I go?

The Predecessor's Role in the Transition Period

During the post-succession period, most predecessors may continue in various roles (Zybura et al. 2024), for instance via serving on the board or stepping up to the chairman role (Karlsson & Neilson, 2008). In fact, more than half of predecessors continue to have ownership and managerial responsibilities in the transition period (Zybrua et al. 2024) However, understanding the reasons for predecessor involvement is crucial, as it can yield both positive and negative outcomes for the organization. On the positive side, predecessors who are still involved can provide supportive advice and mentoring, nurturing strong personal relationships like family ties or enduring unity built on loyalty and trust. Additionally, it may help relieve the pressures faced by CEO successors, especially when they are still learning.

However, the predecessor can also personify the culture of the firm's past, which can prove detrimental in a changing and turbulent environment. Moreover, when the successor is highly skilled and prepared for a bigger role, and the organization has already experienced one or more successions, the rational reasons for predecessor involvement diminish. In this situation , the perception of the "old king still clinging to power" may prevail, posing a risk of inertia that could impact organizational effectiveness and renewal (Hambrick & Fukutomi, 1991; Hannan & Freeman, 1984; Miller, 1993). To exemplify this, consider the statement made by one CEO successor regarding the predecessor (see Ahrens et al., 2018):

"At first, I thought it was a great help, but it turned out to

be a great obstacle. […] If you change the things that he [the predecessor] introduced, it feels as if you are stepping on his toes."

When Predecessors Should Step Down

CEO successors with high CEO-related human capital (maturity, along with experience in leadership, the family firm itself, and the industry) are often able to understand and assess how the firm fits into its environment, and can design and execute corrective actions if necessary. This is important, because these capabilities often restore firm performance in the post-turnover period and thereby builds the right foundation for a new period of long-term management (Istipliler et al., 2023; Donaldson, 1987; Hambrick & Mason, 1984). CEO-related human capital serves as a bridge between the inherent need for renewal and the importance of stability in family firms (Miller et al., 2008).

When Predecessors Should Stay

Conversely, when a CEO successor lacks human capital, the predecessor's involvement can compensate for the shortage of managerial resources that ensure the firm's performance. Through mediation and mentoring the successor, the predecessor can transfer the skills and management techniques needed to run the business successfully. (Dyck et al., 2002; Krause & Semadeni, 2013; Le Breton-Miller et al., 2004; Royer, Simons, Boyd, & Rafferty, 2008). Consequently, research finds that predecessor involvement in these cases leads to a positive outcome.

The Impact of the Firm's Age and History

During the succession period, the firm undergoes crucial changes, and through such succession processes the organization learns how to handle succession better. For this reason, the family firm's age may influence succession planning, as this is a proxy of how often a firm went through succession. Younger firms especially need strong leadership because they have less experience with succession, and many ideas and processes are often still directly linked to the founder. In these cases, involving the previous leader is not just beneficial, but crucial, as it reassures the new leader by providing access to valuable resources and key information, and may generate synergies and new ideas (Krause, Semadeni, & Withers, 2016; Morck, Shleifer, & Vishny, 1988).

As the firm matures, decision-making typically becomes less centralized, and the organization can function without relying heavily on the founder. Indeed, after the succession period, such a firm can more easily develop the required leadership and governance structures. This suggests that involving the previous leader is more important in younger firms than in older ones, from a functional perspective, and leaving the emotional aspect aside.

Conclusion

Following this study, the current generation should reflect on whether to remain in the firms. The correct decisions could be made by answering two main questions: *Is the successor equipped with high human capital? Is this just one of the several succession processes that my organization has experienced*? If the answer to both questions is yes, it's time to pack up and pass the torch to the successor. On the other hand, when you're faced with an inexperienced CEO successor and your firm has not passed the torch before, strive to give them the mentoring and guidance they need to absorb your skills and institutional knowledge, then back off gradually.

Empower Successors and Manage Predecessor Influence

Family firms possess unique characteristics -- such as social capital, stability, and family culture -- that must be preserved to uphold the firm's identity during the succession phase. The right amount of predecessor involvement can alleviate pressure on successors, foster synergy, and enable the transfer of valuable insights and expertise to top management after succession. But if the predecessor hangs on to power like a shadow emperor, the new leadership can flounder and necessary organizational change won't happen. We suggest that families get the successor ready for leadership, potentially through a job outside the family firm, and engage independent family business consultants to assess whether the business and the potential successor are ready for the transition.

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