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When Is a Family Business Leader Too Old?

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Recent events in the US Presidential race have focused people around the world on the topic of leadership and age. When is a leader, whether of a country or a business, too old to do the job? When should this aging leader recognize that he or she must make way for a like-minded and competent younger person -- as outgoing President Joe Biden did when he dropped out of the race for re-election and anointed his younger vice president, Kamala Harris, in his place?

As a family business professor, working in Italy but internationally oriented, I've seen family firms grappling with this question too. I always noticed that in my own country CEOs looks particularly old. The latest report of the AUB observatory, the Italian official family business monitor by the Association of Italian Family Firms (AIDAF), Unicredit and Bocconi, confirms that 27% of Italian family businesses are led by people over 70.

You may think, as I have thought, that people should retire by age 70. However, if so many companies are led by relatively old people, there must be good reasons. And indeed, there are many advantages related to having an older leader.

Advantages of Older Leaders

An older leader often has a lot of experience accumulated over the years, which can be valuable in decision-making and managing complex situations. Older leaders can be seen by the organization as stable and reliable figures, especially in these times of turbulence or uncertainty. Over the years, these leaders may have developed a vast network of contacts and external relationships that can be useful for the success of the company they lead. They also tend to carry on family tradition and company heritage, ensuring the continuity of practices that may be important for preserving the company's identity and reputation. And finally, they enjoy enduring and close ties with family and non-family members involved in the company, which could foster trust-building and cohesion in the business environment.

The Disadvantages

But it's easy to see a number of drawbacks too. Older leaders can be characterized by rigidity, i.e. an excessive firmness in their beliefs, a disadvantage for today's businesses that must evolve or perish. They may have difficulties adapting to new technologies, especially digital ones, thus limiting the organization's ability to foster innovation. They may exhibit a certain distance from younger generations, struggling to fully understand the needs and perspectives of those who make up the majority of the workforce and often the customer base. Over time, a family leader becomes increasingly entrenched in family dynamics, thus increasing the possibility that these dynamics may interfere in business decisions in ways that do not always favor the company's interests, leading to compromises or suboptimal decisions.

Finally, while no one likes to admit it, health risks increase with age. At some point, energy and mental clarity decrease, while the likelihood of encountering more or less serious ailments increases, which may require that the leader step away from steering the company for some time.

Given that aging brings both advantages and disadvantages, do these cancel out each other? Or does one category prevail over the other?

The AUB observatory itself reveals that over the last 10 years of observation (from 2012 to 2022), regardless of company size, age and industry, the leader's age has had a negative impact on both revenue growth and profitability. The best-performing companies are those led by individuals under 50, while the worst-performing ones are led by those over 70. Furthermore, in dynamic terms, companies that replaced a leader over 70 with a younger one saw improvements in their performances.

The facts tell us that generally speaking, an old leader seems not to be a gold leader.

Strategies for Families

How can family firms address the issue of age, then? I believe they can do five things.

- Adopt rules that set age limits for accessing leadership positions. For example, it could be established in the bylaws that beyond 70 years it is not possible to lead a company.
- Evaluate the advantages and disadvantages of the age of the current leader.
- Plan ahead and plan early. Before the leader turns 60, start identifying successors and preparing them for leadership through a gradual handover. Long-term generic plans and specific short-term programs can be established, but planning the transition in some way is crucial.
- In the last years of leadership by the incumbent leader, a period of co-leadership with the incoming leader is advisable (and the latest AUB observatory data indicates that, in these post-COVID times, firms with co-leaders have been performing better than firms with single leaders).
- Foster an inclusive work environment that values the diverse perspectives and skills of the different generations involved in the company. This can be achieved through mentoring programs for younger employees, as well as through systems, like shadow committees, through which seniors can get suggestions from junior talents.

From Leadership to Ownership

The issue of age can obviously be extended from the leadership to the ownership level. Ownership and leadership of companies are separate yet interconnected. Typically ownership is transferred after a succession in leadership or at the same time. This means that ownership transfer often occurs when the owner dies or is very old. It happens through a sale, a donation, or a testamentary succession. Sometimes these transfers occur too late, when the risks of the shadows of old age are tangible.

Therefore, it’s a responsible act to plan the transfer not only of leadership but also of ownership when the owner is younger and in good health. Ownership can be transferred to heirs if they are motivated and capable of running the business. Otherwise, it is equally responsible to plan the transfer of ownership to outside the family, either through continuity solutions (i.e., to non-family managers or minority shareholders) or discontinuity solutions (i.e., to other companies or private equity funds).

These are tough things to think about, especially when the aging leader is respected and loved. However, having a well-thought-out and timely plan helps the family maintain its cohesion and harmony (the socio-emotional wealth), as well as preserve the company's economic value (the financial wealth). It is also a the responsible thing to do for other stakeholders: when a company is well governed, it may create value for all stakeholders. In short, think ahead about a graceful handoff of leadership and ownership.

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