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Family Firms: Building Resilience Across Generations

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Building on three specific attributes -- long-term orientation, social capital, and values-driven governance -- helps families build strengths for generations to come.

Family businesses are often portrayed as fragile and destined to fail by the third generation. Headlines often highlight bitter succession battles, bankruptcies, and a lack of innovation. Across the globe, the "three generation rule" is one of the most cited family business topics (Baron & Lachenauer, 2021), with prophecies commonly shared like: “shirtsleeves to shirtsleeves in three generations,” “rags to riches to rags,” and “rich father, noble son, poor grandson.” These expressions capture a common narrative: the first generation builds, the second benefits, and the third squanders. It is a story so pervasive that it shapes both public perception and family owners' fears.

But the evidence paints a more nuanced and frequently more encouraging picture. Research reveals that, on average, family firms demonstrate distinctive forms of resilience tied to long-term orientation, social capital, and values-driven governance - capabilities that help them absorb shocks and adapt across generations (Yilmaz et al., 2024). In fact, most of the oldest businesses in the world are family-owned, suggesting that families offer businesses unique resources that support firm resilience (Jaffe, 2020).

What contributes to their resilience? Studies suggest it's their (1) long-term investment approach, (2) strong social capital, and (3) stability of leadership and values (Calabrò et al., 2021; Gresse, 2025). By sharpening these attributes, family businesses can prepare for the next crisis and emerge with even greater resilience, building strengths that endure for generations.

Long-Term Investment Approach

One reason family firms endure is their conservative approach to finance and investment. Resilience, in this context, means the ability to recover from shocks, restore critical functions, and adapt to new realities (BCG, 2022). Despite often facing tighter resource constraints than nonfamily firms, family firms consistently display greater financial resilience (Khatua, 2023). They do so by maintaining liquidity, preserving reserve savings, and minimizing dependence on outside financing (Nordqvist & Jack, n.d.).

For instance, a McKinsey study found that family-owned businesses pay out lower dividends and reinvest more profits than nonfamily-owned firms, reinforcing their long-term orientation and contributing to their success (Asaf et al., 2023). Additionally, family firms tend to be more financially conservative, with leverage ratios that are, on average, six percentage points lower than those of non-family-owned businesses. These financial habits allow family businesses to weather significant economic shocks.

The survival advantage is striking. Family firms boast higher long-term survival rates and notably lower bankruptcy rates than non-family businesses, especially when the family retains both ownership and managerial control. Research at NYU Stern shows that while family businesses make up the majority of U.S. firms, they account for only 41.9% of bankruptcy filings — and when narrowed to those with strong family ownership and management, the rate drops to just 17.6% (Vaknin, 2010). Similarly, a Norwegian study analyzing the 2008 financial crisis found that family businesses were 20% more likely to survive 20 years than non-family firms (Bryson et al., 2016).

One vivid example of this financial strength is Forman's Smokehouse in London, the oldest surviving London smokehouse (De Massis, 2025). Over four major crises

- factory fire, flooding, forced relocation, and the COVID-19 pandemic - the business demonstrated remarkable resilience. After a devastating fire at their factory, the family and employees worked overnight to salvage the machinery, ensuring deliveries could continue the next day. Their ability to reinvest, pivot into new business models like home delivery, and draw on long-term reserves enabled them not only to survive but also to emerge stronger. This ethos of stability through conservative reinvestment reflects a wider truth: family firms' long-term orientation equips them to endure where others falter.

Strong Social Capital

Another pillar of resilience is social capital — the trust, goodwill, and networks that family firms build through deep community engagement (Calabrò et al., 2021; Yilmaz et al., 2024). Research suggests that, unlike nonfamily firms, family firms' strong social capital leads to greater support from the government, banks, and other families during crises (Mahto et al., 2022). This added help can be pivotal in times of dire need and is a unique strength of family businesses.

Social capital not only strengthens external relationships but also facilitates intergenerational knowledge transfer and organizational flexibility. Stories and shared histories from customers, suppliers, and employees provide younger family members with legitimacy and practical insights before they formally assume leadership roles (Alonso & Kok, 2020). Equally important is the family's internal social capital, which fosters trust and collaboration in decision-making. This trust enables family firms to act with greater speed and flexibility in crises compared to non-family firms, where bureaucratic layers often slow responses (Brewton et al., 2010; Asaf et al., 2023). In fact, research shows that social capital can be the single most important factor determining survival during crises (Amaral & Da Rocha, 2023).

For example, Schupan & Sons, a Michigan-based family-owned waste management business, demonstrated strong resilience during the COVID-19 pandemic by leveraging its social capital (Gonzalez, 2021). When its largest division shut down, the company kept employees on payroll through federal relief. At the same time, leadership held daily check-ins and connected customers with each other to solve supply shortages. They used the crisis as an opportunity to increase customer relations, stating, "If our customers do not do well, neither do we." By building this community of support, Schupan & Sons illustrates how family firms can leverage social capital to thrive in times of crisis.

Another example is the Ferrero Group in Italy (makers of Nutella), which has long invested in community initiatives, from supporting cocoa farmers and empowering women in sourcing regions to running education and health programs for children. Its *Kinder Joy of Moving* initiative alone has reached millions of children across more than 30 countries. These programs, documented in Ferrero's sustainability and social responsibility reports, build trust and goodwill with employees, suppliers, and consumers. Such investments in community ties create a reservoir of credibility and loyalty that family firms can draw on when navigating turbulent times.

Stability of Leadership and Values

Family businesses are often a beacon of stability for the economy, in large part because executive positions are typically held for much longer periods than in non-family firms. Research shows that the average tenure of family business leaders is nearly three times that of non-family executives (17.6 years versus 6.43 years, respectively) (McConaughy, 2000). A recent PwC survey similarly found that among public family businesses, 50% of CEOs expect to remain in their role for more than five years, compared to just 26% across all CEOs (PwC, 2025). In privately held firms, the contrast is even starker: the average family business CEO tenure spans 25–28 years (Steen, 2017). Such extended leadership provides continuity of vision, the ability to implement long-term initiatives, and steadiness during turbulent times.

These initiatives often include investments with 10- or 20-year horizons rather than focusing on short-term personal gains (Kachaner et al., 2012). Family business leaders tend to emphasize risk protection and sustained growth, whereas non-family CEOs often prioritize short-term performance to distinguish themselves. This patience and prudence reinforce resilience, turning leadership stability into a strategic advantage during crises.

The benefits of stability extend beyond the leadership team to the company as a whole. According to Harvard Business Review, family-run firms report lower annual turnover rates than non-family businesses (9% versus

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11%) (Kachaner et al., 2012). This retention advantage stems from a culture of commitment fostered by enduring leadership. Family businesses also tend to avoid layoffs during downturns, prioritize internal promotions, and consistently invest in employee development, building deep bonds of loyalty. As a result, a majority of people (54%) would rather work for a family business than a non-family business, underscoring the reputation these firms have for stability, trust, and long-term security —qualities that become especially valuable during times of crisis (Edelman, 2017).

An example of stability in family businesses is the German appliance maker Miele, founded by Carl Miele and Reinhard Zinkann in 1899. Miele remains fully owned and governed by their descendants, now in the fourth generation of family leadership. Their guiding principle, *"Immer besser"* ("always better"), continues to shape the company's culture of quality, innovation, and long term investment. This enduring commitment illustrates how leadership stability and consistent values can translate into organizational resilience and employee loyalty.

Actionable Insights

Long-Term Investment Approach

Putting a long-term investment mindset into practice is what creates lasting resilience. Businesses are generally advised to maintain cash reserves covering three to six months of operating expenses (Fraraccio, 2023). Yet, a JPMorgan Chase report found that the average small business has only about 27 days of reserves (JPMorgan Chase Institute, 2016). Additionally, to strengthen resilience, family firms can adopt rule-based reinvestment policies, such as allocating 10–15% of annual profits to debt reduction, infrastructure upgrades, or innovation. Formalizing these practices in written policies, reviewed regularly by both family and non-family executives, helps embed resilience strategies into financial routines and ensures they are carried forward across generations.

Strong Social Capital

Building strong social capital is equally critical when family businesses face crises. Research shows that family firms' community engagement is a major contributor to resilience (Lumpkin & Bacq, 2022). This engagement can take many forms—supporting local charities, sponsoring events, encouraging employee volunteerism, or joining hands-on community projects (Hannon, 2018). Social capital grows through **time + trust**: sharing values, professional networks, and culture across generations to foster lasting bonds. For instance, introducing next-generation leaders to suppliers and partners early builds relationships that endure for decades. Family firms also benefit from a trust premium, with 75% of global consumers saying they trust family businesses more than non family firms (Edelman, 2017). Preserving this reputation requires adherence to high professional and ethical standards (Rondi et al., 2023). Together, these practices strengthen ties with both internal and external stakeholders and enhance resilience.

Stability of Leadership and Values

Family firms emphasize continuity and legacy, which can be one of their greatest strengths when balanced with innovation and leadership renewal (Frick, 2014). Leaders should periodically reflect on whether their tenure continues to advance company goals and involve the next generation early in succession planning (Rüsen, Growth, & von Schlippe, 2021). Smooth transitions protect innovation and prevent discouragement among rising talent.

Leadership stability also benefits employees. Family firms often retain staff at higher rates than non-family firms because of the culture they create. Loyalty and resilience grow from trust, shared purpose, and a demonstrated commitment to people. During downturns, family firms are more likely to avoid layoffs and promote from within. They also invest, on average, 2.6 times more in training than non-family firms, developing employee skills and fostering long-term retention (Kachaner et al., 2012). By investing in people and nurturing a culture of purpose, family businesses can secure both loyalty and stability across generations.

Building Resilience for the Future

Family businesses demonstrate that resilience is not a matter of chance but the result of deliberate practices rooted in (1) long term vision, (2) strong social capital, and (3) stable leadership and values. By maintaining conservative financial policies, building community ties, and engaging in thoughtful succession planning, family firms are better equipped to withstand shocks that can devastate non-family competitors. The lesson is clear: resilience is an advantage that can be sharpened. As crises remain an inevitable part of the business cycle, family firms that invest in these attributes will not only

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survive disruption but also emerge stronger, more trusted, and better prepared to secure their legacy for decades to come.

To help put these insights into practice, the following checklist offers a practical tool for family businesses to assess and strengthen their resilience.

Resilience Checklist

Long-Term Investment Approach

- We maintain at least 3–6 months of cash reserves to cover operating expenses.
- We reinvest 10–15% of annual profits into debt reduction, infrastructure, or innovation.
- We regularly review financial policies with both family and non-family executives.
- We keep debt levels below industry averages to preserve financial flexibility.

Strong Social Capital

- We actively engage with our community through charitable initiatives, sponsorships, or volunteer programs.
- We introduce next-generation family members to key stakeholders well before succession.
- We maintain long-term relationships with banks and advisors to ensure support in downturns.
- We gather employee feedback and communicate transparently during crises.
- We actively protect our reputation and trustworthiness, both locally and in our industry.

Stability of Leadership and Values

- We document succession plans with clearly defined roles for the next generation.
- We balance leadership continuity with renewal, ensuring stability alongside fresh ideas.
- We invest in employee training annually, with measurable outcomes (e.g., certifications, skills programs).
- We maintain employee turnover rates below industry benchmarks, reflecting loyalty and culture.
- We prioritize retention strategies (redeployment, reduced hours) over layoffs during downturns.

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