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When a Family Business Faces a Crisis, Should the Founder Step Aside?

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Founders may react too aggressively when their businesses are threatened. New research reveals when the next generation may be better equipped to lead a turnaround.

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Typically, when a firm gets into trouble, it's natural to think of the founder as the best person to bring the company back into profitability. After all, who knows the company better than the person who founded it? Many academic studies do show a performance premium when founders are involved in their firms – in normal times (Anderson & Reeb, 2003; Adams et al., 2009). But what about not-so-normal times?

Many family businesses have faced a crisis serious enough to need a turnaround. During these existential crises, boards and business families may have to decide: Is the founder is still the right person to at the helm or should the next generation handle it?

That question is at the heart of a recent study (Ahrens et al. 2025) that looked at 190 publicly listed U.S. companies from the S&P 1500 that underwent a turnaround between 1996 and 2012. It compared the firm performance of founder-led firms (founder involvement) with firms in which the next-gens were actively involved (founding family involvement) during crisis and recovery. Nonfamily firms were used as a baseline performance comparison group.

The results challenged a common assumption about family businesses in crisis. Often founder involvement is seen as an advantage because founders have deep knowledge of the business and a strong commitment to its survival. But surprisingly, the study found that next-generation family entrepreneurs pursued specific crisis strategies that helped their firms perform better during crises than founder-led family firms or nonfamily firms.

This finding fits with earlier research suggesting that a founder's overly close involvement may become a burden when a firm needs to make substantial changes to survive (Ahrens et al., 2018). But the most recent Ahrens et al. study painted a more nuanced picture: The effects of leadership may depend on the severity of the crisis, the way the business is governed, and the leadership profile guiding the company through the turnaround.

Together, these results are valuable practical insight to the mystery of crisis management. Every family business eventually faces a crisis, and they usually come without advanced notice. Economic downturns, market disruptions, family dynamics (Ahrens et al. 2026), and other unexpected events can be beyond their control. What can be controlled is how the business is governed, who leads it, and the actions taken during

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crisis. Understanding these factors can be a valuable advantage when a crisis hits.

For family business owners and leaders, the key practical insight of the study is this: The characteristics that make a founder successful in building and growing a business may not always be the ones needed to lead it through a crisis. Next-generation leaders, on the other hand, may bring exactly the skills a business needs to adapt, make difficult decisions in a way that keeps employee relationships and key social capital intact, and recover from major disruption.

Recognizing and managing these differences can help family businesses make better use of the leadership and governance configurations already within their reach, and potentially turn them into an advantage when the stakes are highest. Let's look into the details of this research.

The Founder and Entrepreneurial Identity

Why would founders struggle in a crisis? The study points to identity as a deeper root. Founders may see their company as an extension of themselves. Having built and grown it from scratch, they often view its success and survival as a testament to their entrepreneurial capabilities. So when the firm's survival is at stake, a central part of the founder's identity is under threat, too.

In crises, founders tend to respond by reinforcing that identity: They set out to prove they are still entrepreneurs. The result is a bold , wide-ranging crisis response. To save the company and thereby reinforce their identity as an entrepreneur, the founder might make broad operative, personnel and structural changes, or pursue ambitious – and risky -- strategic initiatives.

In a crisis so severe that minor changes are not enough, such a determined response can be helpful or even the only chance the company has. Decisiveness, strategic change, and boldness can then be just the reaction needed to keep the firm afloat. Indeed, Ahrens' et al. (2025) findings reveal that such an "entrepreneurial response" becomes valuable once a crisis is extremely severe.

However, in a more typical moderate crisis, such an aggressive strategy may be unnecessary and even counterproductive. Excessive restructuring, broader layoffs, or risky strategic initiatives may be far more than what the situation requires. Rather than helping the business recover, radical change may increase costs, evoke additional uncertainty, and make employees question whether the changes are appropriate for the situation. This can be particularly problematic in family businesses, where longtime employees may have strong ties to the existing ways of working and may resist changes they perceive as excessive or unnecessary (Ford et al., 2008). Ahrens et al. (2025) show that, under these circumstances, an overly entrepreneurial response to a crisis can undermine firm performance.

The company age matters too. In older family firms, such bold actions of a founder can likewise undermine a fine ecosystem of stakeholder relations, especially with those that have worked for the firm for decades and have formed expectations of reciprocity and mutual commitment during a crisis. Hence, in older organizations and less severe crises, a founder's entrepreneurial response may be disproportionate to the circumstances and more counterproductive than letting a later generation handle it.

Familial Identity: Your Ace in the Hand During a Crisis

Strategic approaches can also change significantly when a family business passes to the next generation. Having grown up around the business, next generation leaders inherit not only ownership, but also a network of longstanding relationships with employees, customers, suppliers, and the local community (Suwala et al., 2024; Istipliler et al., 2024). As a result, they may see themselves less as founders building something new and more as custodians of a family legacy, responsible for protecting the business, its reputation, its relationships, and its wealth for future generations (Riefolo et al., 2024; Istipliler et al., 2025; Riefolo et al., 2026). Adding to this "familial identity," next-generation leaders often feel a strong personal connection to the family business as well. A crisis therefore threatens more than the firm's finances; it can also threaten an important part of the familial leader's identity.

The identity research Jennifer Petriglieri (2011) suggests that people whose identity is under threat often resort to the hallmarks of their identity to reinforce its meaning and overcome the threat. Therefore, this

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sense of "familial identity" can shape how next generation leaders respond to family firm crisis.

Unlike a founder, who may be more willing to make bold changes to protect or rebuild the business, a next-generation leader may place greater value on preserving the relationships and resources that have been built over decades. This does not necessarily mean avoiding change. Rather, it may mean approaching change in a way that protects the business's long-term relationships and the family legacy. This a response, in line with their "familial identity."

Ahrens et al. (2025) found that next-generation family leaders pursue a responsible restructuring approach during crises. Rather than turning to layoffs and radical changes, they look for shared efforts and solutions that contribute to weathering the storm together. The strategy can be described as a responsible crisis approach and relies on support and goodwill from employees and the greater system of stakeholders, which may include suppliers, customers, and lenders, despite difficult circumstances (see also Cascio, 2002). The central point is that this strategy builds on the system's social capital accumulated over years – which may, during a crisis, be one of the firm's biggest advantages:

Two major points make next-generation family leaders perform better than founder-led firms during crises: The next-generation family leader advantage becomes stronger when the crisis is more severe and when the social capital around the firm has evolved, as is typically the case for older firms.

When the shared history is considerable, and a strong network of trust, shared norms, and mutual expectations between the firm and its stakeholders exists, then the crisis strategy of a familial leader becomes particularly strong, as the social capital needed for this strategy and the cornerstones of coherence and togetherness are abundant (Pecot et al., 2022). Similarly, when cohesive systems are under heavy pressure, such as during a severe crisis, the resources they jointly mobilize as a unit are at their largest.

In a nutshell, we found that family firms, led by a leader with a familial identity (next-generation family firms), outperform founder-influenced firms (and nonfamily firms) especially when the crisis is strong and the firm is mature.

Takeaways: Finding the Right Crisis Response

In a turnaround, the key question is how to turn losers into winners – how to rescue a troubled firm, often with only one shot, or set of decisions left (Bibeault, 1982; Cater & Schwab, 2008). We now better understand how founders and next-generation leaders typically respond, and what this means for firm performance implications:

Founder's bolder crises responses can undermine crisis performance as compared to next generation or nonfamily leaders. The responsible crises strategies of next-generation leader are especially strong in older family firms and when the crises are severe, and they out-perform founders and nonfamily firms.

This allows owners, boards, and advisors to make more informed governance decisions, when such decisions particularly matter during crises. Our study suggests that family firms often need a more balanced crisis response, one that takes into account both the family's role in the company and the social capital the strategy depends on.

Two lessons stand out. One, founders often overreact during crises. Second, a responsible crisis strategy (often carried out by next-generation family members) is often a source of superior performance of family firms during crisis. However, as founders and later-generation family leaders often react according to their identity, it becomes important to tame founders who react so boldly that it makes the crisis worse. If a turnaround is needed, it may be wise to give the baton to a successor (Ahrens et al., 2024; Riefolo et al., 2024; Ahrens et al., 2026) -- instead of an overconfident incumbent wishing to prove themselves as an entrepreneur once more (Kowalzick et al., 2024; Riefolo et al., 2024b; Zybura et al., 2024).

Finally, the social capital around the firm is a critical factor during crises (Pajunen, 2006). An overreaction may undermine it and even breed resentment among stakeholders. On the contrary, actively building on it as part of a responsible crisis strategy may unlock additional reserves and commitment from stakeholders, which translates into superior performance. In fact, stakeholders' trust and ties with local communities, built painstakingly over time, can pay off when the firm's survival is at stake.

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Explore the Research

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