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What Makes Banks Approve Loans for Family Business Succession?

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A study of 95 loan officers reveals four factors that make lenders more willing to finance family business ownership transfers.

Every year, many family businesses change hands, affecting millions of employees. But not all of those transfers succeed, putting numerous jobs at risk. Behind many of these failures lies a problem that gets far less attention than family conflict or successor readiness: money. When a son or daughter buys out a parent's shares at a fair price, they usually can't fund it on their own. They go to a bank. And whether that bank says “yes” can play an important role in whether the business survives into the next generation.

Through our research, we set out to understand what actually drives that decision. Instead of asking families what they did, we went to the other side of the table: the bank loan officers who approve or reject succession loans.

The blind spot in succession planning

Most succession advice focuses inward: pick the right successor, encourage the incumbent to let go, keep the family aligned. All essential. But a transfer that requires outside financing introduces another stakeholder: the lender. And lenders see the family from the outside, with limited information, especially in a small or medium-sized enterprise (SME) setting. Every lender has to judge things it cannot directly observe: e.g., whether the borrower will be able to repay over the long term, and whether the borrower's interests are truly aligned with those of the bank. In a family firm, that gap is wider. Lenders also have to read family dynamics, such as how well the generations get along and whether the incumbent will really step back, as well as non-financial priorities, such as keeping control in the family, that may not always line up with repaying the bank.

That information gap is the heart of the problem. A founder often has a years-long relationship with their banker. A successor starts largely from scratch, at exactly the moment uncertainty is highest. Lenders, therefore, reasonably worry about whether the next generation can run the business and repay the debt. In academic terms, succession creates information asymmetry, and that makes lenders cautious.

The good news is that families can take action and send signals that close that gap. The question is which signals actually work. That is what our study set out to answer.

How we tested it

We conducted a conjoint experiment with 95 experienced bank loan officers across six major Belgian banks. All are professionals who regularly assess succession loans for small and mid-sized firms. Each officer evaluated a series of realistic loan scenarios, producing 1,520 individual lending assessments in total.

Every scenario described the same underlying transaction: a founder who is retiring and selling his shares to his daughter, who needs a €5 million loan to finance the buyout. The firm's financials were held constant and deliberately ambiguous (neither obviously approvable nor obviously rejectable) so the loan officer couldn't rely on the numbers alone. What changed from scenario to scenario were five "professionalization"

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signals:

- Whether the successor's prior experience was inside or outside the family firm
- Whether the incumbent stayed involved after the transfer
- Whether the board included non-family directors
- Whether the family held regular family meetings
- Whether the family used an external advisor for the emotional and relational side of succession

By varying these systematically, we could isolate how much each one actually influenced the lending decision, and see what really drives loan officers' judgment when they have to put the bank's money on the line.

What moved the needle... and what didn't

Keep in mind that the financials were identical in every scenario. The effects below therefore come on top of the numbers, not instead of them. Four of the five signals made loan officers more willing to support the loan. Ranked by strength of effect:

An external advisor guiding the emotional and relational side of the transition. This was the strongest signal. A family that brings in a professional to manage the human dynamics of succession seems to reassure the lenders in our sample that conflict is being handled before it can threaten the business and, with it, loan repayment.

Non-family directors on the board. Independent voices in the boardroom signal genuine oversight of the controlling family, and the lenders in our experiment likely read that as lower risk.

The incumbent staying involved. Theory suggests this signal might go two ways: a retiring owner who won't let go can signal tensions that put the firm at risk, but one who stays close can signal continuity and stability. In our scenarios, "staying involved" meant the father had given up his operational role but kept an office and planned to come in weekly. The loan officers treated that light-touch presence as reassuring rather than as a red flag. That doesn't mean every form of staying on helps. An incumbent who still makes key decisions or attends every meeting could well be read the other way.

Regular family meetings. Structured family communication tells lenders that disputes are less likely to erupt and derail the business.

And the one that didn't matter: **where the successor gained her prior work experience.** Whether the daughter built her career inside the family firm or elsewhere, it made no significant difference to the lending decision. This runs against the common assumption that outside experience is a badge of credibility. To the loan officers in our study, it didn't seem to be a decisive factor.

The pattern that matters most

The two strongest signals (advisors and external directors) both involve outsiders. The weaker, though still significant, signals (incumbent involvement and family meetings) are internal to the family.

In other words, bank loan officers place more weight on professionalization that brings external expertise and objectivity into the business than on efforts confined to the family itself.

Why? Put yourself in the lender's seat. As an outsider, it can be difficult to judge what happens inside a family. You can't easily verify whether family meetings are productive or whether an incumbent's ongoing presence helps or hinders the successor. But an independent director or a professional advisor is a visible, credible, third-party check: something a lender can actually see and trust. External signals are likely just easier for an outsider to read.

What this means for you

If you're a business family preparing a transfer: A sound financial case remains the foundation; the right signals can tip the balance when the numbers alone are inconclusive. Start signaling early, and prioritize the signals that lenders can verify. Engaging a family business advisor and adding non-family directors to your board aren't just good governance; our evidence suggests they can also improve your access to succession financing. If the outgoing generation stays on, make the role visible and clearly non-operational: present, but no longer in charge.

If you're an advisor or banker: For advisors, your role may have financial value beyond the family dynamics you help manage: You can help families secure the capital that makes transfers possible. For bankers, it's worth examining whether your institution's

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credit criteria line up with what your own loan officers actually reward. Our data suggests that when the financials are inconclusive, soft signals could tip the balance.

A note on the evidence, and its limits

Two caveats are worth stating. First, this study looked at Belgian loan officers; lending norms and legal environments differ across countries, so the specific weights may not transfer everywhere, even if the underlying logic likely does. Second, in every scenario, ownership and leadership passed simultaneously to a single successor (a daughter), and the financials were held constant. Real transactions involve far more information, and transfers in which ownership and management change hands at different moments, or are split among several children, may raise different concerns for lenders. Still, findings from in-depth interviews with loan officers in our follow-up study point the same way: in succession financing, professionalization pays off. For a family whose legacy depends on a successful transfer, that's a signal worth sending.

Explore the Research

Vekemans, L., Michiels, A., Steijvers, T., & Molly, V. (2026). The financial burden of passing on the legacy: Exploring ownership succession financing in family firms. (https://www.tandfonline.com/doi/full/10.1080/00472778.2026.2663561) *Journal of Small Business Management.*

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