Should family members be in charge of family businesses? We analyzed 175 studies to understand how a family CEO pays off

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From Hermes to Smuckers to the fictional Waystar Royco of HBO's "Succession," family businesses often choose their CEOs from the ranks of kin. But is this a good business decision? As researchers who study entrepreneurship and management, we wanted to know whether keeping leadership in the family pays off for businesses. So we reviewed 175 studies on the topic to see whether family CEOs really are the best choice for family businesses. We found that the answer is yes—sometimes.

Our analysis, which looked at nearly 40 years of research, confirmed that family CEOs tend to prioritize a noneconomic goal: keeping the business in the family. This suggests that nonfamily CEOs—leaders brought in from the wider business community, selected based on characteristics such as past performance—may be more interested in prioritizing purely economic goals, such as boosting stock prices.

We also found that companies led by family CEOs tend to have more concern with corporate social responsibility but invest less in innovation and international growth. They also have more debt on average. All of these things could have important business implications. For example, investing less in research and development could lead to worse economic outcomes.

Does that mean that family CEOs are bad for business? Not at all. When looking directly at economic outcomes, we found mixed results—some studies showed that family CEOs had positive effects, and others showed negative ones. Based on our understanding of the literature, my colleagues and I think it all depends on the goals that family companies themselves pursue.

Why it matters

While researchers don't always agree on what counts as a family company, we define them as businesses that are governed or managed by one or more families, that pursue goals set by a dominant leadership coalition, and whose leaders want to pass the enterprise on to future generations. By any definition, family businesses are extremely common: The majority of businesses around the world are owned or operated by families.

Nearly 90% of U.S. businesses are considered family operated, according to the U.S. Census Bureau, as are about 1 in every 3 Fortune 500 companies. Some of the most famous businesses in the world are family companies, such as Nike, Dell Technologies and LVMH. The leadership decisions at these businesses have ripple effects across the entire economy.

From an individual company's perspective, the decision to appoint a family CEO—or not—is rarely easy. On the one hand, family companies often want to stay in business—and under family control—for generations. On the other hand, they often need to satisfy investors who expect strong economic outcomes over the shorter term.

We believe that one of the most important things a family company can do is to understand its own goals and priorities. While that's easier said than done, if a business has ill-defined goals, that can set a new CEO up for failure—whether they're in the family or not. That's because they're likely to pursue strategies that the family, the company or the company's shareholders don't really want.

What still isn't known

The evidence on whether family CEOs are good for family companies' bottom line is mixed, which suggests they're sometimes effective and sometimes not. Researchers need to study how the combination of the characteristics such as age, education, political ideology and personality operate to influence family CEO performance in their family businesses.

Our team plans to conduct more research on family CEOs and their characteristics to understand when they're good for business—and when family companies should opt for someone from outside.

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