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Family Business Succession: What the Evidence Says

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Why family succession matters for deal sourcing

A large share of privately held companies will change hands when their owners stop working, and many of those owners run family businesses. In the Census Bureau's newest Annual Business Survey owner table (reference year 2023, collected as the 2024 ABS), 51.3% of the 4,208,231 owners of respondent employer firms who reported an age were 55 or older: 28.2% were 55 to 64 and 23.1% were 65 or over (Census Bureau, table AB2300CSCBO; the 55+ share is our sum of the two published bands). The figure counts owners (up to four per firm), not companies; it covers employer businesses that answered the survey, most of them far smaller than a PE fund would buy. It is still the clearest public signal that ownership transitions are a structural feature of the market rather than an occasional event. Our page on the Census Annual Business Survey explains what the survey covers.

What happens at those transitions is where folklore takes over. Industry decks routinely state that "only 30% of family businesses survive to the second generation." This article looks at where that statistic comes from, what the academic evidence says about family successions, and what a sourcing team can reasonably infer from public signals. It is an evidence review, not a forecast for any owner.

The "30% / 13%" statistic: where it comes from

The usual version says roughly 30% of family businesses reach the second generation and 13% (sometimes 12%) reach the third. A 2016 *Family Business Magazine* article calls this claim "widely accepted as fact" and says it "actually is wrong" as usually stated (Family Business Magazine, "A critical look at 'survival' statistics").

According to that article, written by Robert Holton of Cleary Gull, the figures trace to John Ward of Northwestern University's Kellogg School, published in his 1987 book *Keeping the Family Business Healthy*. We have not read the book, which is not available online; what follows is the magazine's summary of it. The underlying study followed 200 randomly selected Illinois manufacturers that appeared in annual publications from 1924 to 1984. Ward's own sentence was: "Only 13% of successful family businesses last *through* three generations." The article notes that "many people who cite these findings misquote the highlighted word

'through' as 'to,'" which "reduces the life expectancy of the firm by at least 30 years," and that the research indicates "nearly 13% of the companies in the study lasted as independent firms with the same name for at least 90 years."

Element	What the source says	How it is usually restated	Status
Sample	200 Illinois manufacturers existing in 1924, tracked to 1984	"Family businesses" in general	Narrow, old sample; generalization unsupported
Outcome measured	Survival as an independent firm with the same name	"Stayed in the family" or "succeeded"	Different outcome
Key wording	"Last *through* three generations"	"Survive *to* the third generation"	Misquoted
Number	Nearly 13% lasted at least 90 years	"13% (or 12%) reach the third generation"	Restated with changed meaning
Non-survival	Not distinguished in the restatement: closure, sale and merger all end "survival"	Treated as failure	Misleading: a sale is not a failure

Two points matter for deal teams. First, the statistic is about one cohort of Midwestern manufacturers from the early twentieth century, so it says little about a 2026 services business. Second, the outcome is survival of an independent firm under the same name. A company sold to a strategic buyer, or merged, stops "surviving" by that definition. Some of the "failures" in folklore statistics are exactly the transactions PE firms make.

The practical rule: do not repeat the number. If a thesis memo needs a statement about succession risk, use one of the sources below and state its sample.

Does inherited control hurt performance?

Two well-known studies examine what happens when a family member takes over as CEO.

United States, public companies. Francisco Pérez-González used CEO successions to study inherited control. His abstract reports that "firms where incoming CEOs are related to the departing CEO, to a founder, or to a large shareholder by either blood or marriage underperform in terms of operating profitability and market-to-book ratios, relative to firms that promote unrelated CEOs." The underperformance is "prominent in firms that appoint family CEOs who did not attend 'selective' undergraduate institutions," which he interprets as evidence that "nepotism hurts performance by limiting the scope of labor market competition" (Pérez-González, *American Economic Review*, 2006).

Denmark, a broad sample including private firms. Morten Bennedsen, Kasper Nielsen, Francisco Pérez-González and Daniel Wolfenzon used Danish data and an instrument: the gender of the departing CEO's firstborn child, which affects whether a family member takes over but should not otherwise affect performance. They find that "family successions have a large negative causal impact on firm performance: operating profitability on assets falls by at least four percentage points around CEO transitions," with the largest effects "in fast-growing industries, industries with highly skilled labor force and relatively large firms" (Bennedsen et al., NBER Working Paper 12356).

Limits to keep in view:

- The U.S. study covers publicly traded firms. The Danish study covers a country with its own data and legal environment. Neither is a sample of small U.S. private businesses.
- Both measure performance after a family CEO succession relative to an outside or unrelated CEO, not whether family firms are worse businesses in general.
- An average effect says nothing about a particular heir.

The counter-evidence: founding-family firms in public markets

The picture is not one-sided.

Ronald Anderson and David Reeb studied the S&P 500 and report that "families are present in one-third of the S&P 500 and account for 18 percent of outstanding equity." Contrary to their own conjecture, "family firms perform better than nonfamily firms," the relation with family holdings is nonlinear, and "when family members serve as CEO, performance is better than with outside CEOs" (Anderson and Reeb, *Journal of Finance*, 2003).

Belén Villalonga and Raphael Amit reconcile part of the tension by separating ownership, control and management. In the abstract of the working-paper version, using Fortune 500 firms from 1994 to 2000, they report that "family ownership creates value only when the founder serves as the CEO of the family firm or as its Chairman with a hired CEO," and that "when descendants serve as CEOs, firm value is destroyed" (Villalonga and Amit, SSRN working paper, 2004; published in the *Journal of Financial Economics*, 2006, doi.org/10.1016/j.jfineco.2004.12.005).

Read together, the large-company literature suggests that founder involvement and descendant management are different things. A founder-led family firm and a third-generation family firm run by a descendant can sit on opposite sides of the averages. Again, these are large public companies; the extension to small private firms is an inference, not a finding.

Why a sale to outsiders happens

Theory helps explain why some founders hand the company to an heir, some hire professional managers, and some sell. Mike Burkart, Fausto Panunzi and Andrei Shleifer model a founder who "decides between hiring a professional manager or leaving management to his heir," assuming "a professional is a better manager than the heir." In their model, where the law limits expropriation of minority shareholders, "the widely held professionally managed corporation emerges"; with intermediate protection, management goes to a professional while the family remains a large shareholder; and with the weakest protection, the heir manages and ownership stays in the family (Burkart, Panunzi and Shleifer, NBER Working Paper 8776).

This is a theory about legal regimes across countries, not U.S. small-business data. But the underlying trade-off (keep control in the family versus bring in better management or outside owners) is the one family owners describe.

Illustrative example (fictional): decision points in a family succession

The Marlow family owns a fictional regional industrial distributor founded in 1979.

Year	Event	Decision point
Year 0	Founder, 67, starts thinking about stepping back	Is there a willing heir?
Year 1	Eldest child works in the business but has no interest in running it; younger child works elsewhere	Heir willing but not ready, or not willing?
Year 2	Long-serving operations manager is capable but cannot fund a buyout	Management buyout requires outside capital
Year 3	Siblings disagree: one wants to keep the company, one wants liquidity	Need to treat heirs fairly with unequal involvement
Year 4	Founder's health event forces a decision	Sale to an outside buyer, recapitalization with management, or family continuity with a hired CEO

The paths that end in a sale usually involve one of the problems in the middle column: no willing heir, an heir without the skills the business needs, or siblings who need liquidity. None of these are visible from outside until late.

The exits available at a family transition

When the family does not continue, the business does not simply "fail." Each of the following ends family control in a different way, and each implies a different counterparty:

Path	What changes	Typical counterparty	What the family keeps
Sale to a strategic buyer	Ownership and usually the brand's independence	Competitor, supplier or customer	Cash; sometimes an earn-out or consulting role
Sale to a financial sponsor	Ownership; management often retained	PE fund, independent sponsor, search fund	Cash; often rollover equity
Management buyout	Ownership moves to existing managers	Managers backed by lenders or a sponsor	Cash; often a seller note
Employee ownership	Ownership moves to a trust for employees	ESOP or similar trust	Cash and/or notes
Partial sale or recapitalization	Part of the equity; family may keep control	Minority or majority investor	Remaining stake
Family continuity with a hired CEO	Management only	Professional executive	Ownership and board control
Closure or liquidation	Business ends	Asset buyers	Proceeds from assets

The last row is the only one that matches the folklore meaning of "not surviving." In the Ward-based statistic, several of the other rows would also be counted as non-survival. For a sourcing team, the useful question is not "will this family business survive?" but "which of these paths is the family most likely to choose, and when?"

What the evidence does not tell us

An honest summary of the gaps:

- **No clean U.S. small-business sample.** The rigorous studies use public companies or Danish data. The widely cited survival figure comes from 200 Illinois manufacturers that were in business in 1924.
- **Survival, sale and closure are mixed together.** A firm that is sold is often counted as "not surviving," which is the opposite of failure from the owner's perspective.
- **Selection.** Family firms that go public, or that appear in surveys, are not a random sample of family firms.
- **Timing.** Owner age tells you a transition is likely at some point, not when, or in which form.
- **Average effects.** Even the best-identified effect (the Danish four-percentage-point decline) is an average across many successions.

Implications for target outreach and research

The evidence supports a few practical habits for origination teams:

1. **Treat succession as a hypothesis, recorded with evidence.** Observable signals include long owner tenure in state registry filings, the same principal named for decades on licences and permits, a second-generation family member appearing in officer lists, or a founder publicly describing plans to step back. Each is a signal, recorded with its source and date, not a conclusion that the owner will sell.
2. **Do not stereotype family owners.** The research shows both underperformance after some family successions and outperformance of some founding-family firms. Outreach that assumes the family business is struggling or that heirs are incompetent is both unsupported and likely to end the conversation.
3. **Separate founder, family and descendant situations.** A founder-run company, a company where a second generation is already in management, and a company owned by several heirs with none in management present different transaction types (sale, recapitalization, buyout of some siblings).
4. **Ask, then record what was said.** Owner intent is learned in conversation. Record it as an owner statement with a date, separate from verified facts.

The ownership and succession overview and the founder succession transitions thesis cover the market context in more detail.

Reading succession signals in public records

Most of what a sourcing team can observe before a conversation comes from public filings. Each signal suggests something and proves less than it seems:

Signal	Where it appears	What it may suggest	What it does not show
Same principal named for decades	State registry annual reports	Long founder tenure	Age, health or intent

Signal	Where it appears	What it may suggest	What it does not show
Officer list adds a family surname	Registry filings, licences	Next generation in management	Ownership, or willingness to lead
Registered agent or address moves to a home address	Registry filings	Owner stepping back from daily operations	A sale decision
New trust or holding company appears as owner or officer	Registry filings, UCC filings	Estate planning	Timing of any transaction
Key licence transferred to a non-family employee	Licensing board records	Operational succession	Equity succession
Founder interview about "what comes next"	Local press, trade press	Owner thinking about transition	Price expectations or preferred buyer

Record every signal with its date and source, and resist adding them up into a score that looks more certain than the evidence. Two weak signals that point the same way are still two weak signals.

A succession-evidence worksheet

For each target, a short worksheet keeps known facts, sources and unknowns apart. The example below is fictional.

Question	What is known	Source	Evidence status
Who owns the company?	Founder and spouse named as officers	State registry annual report, 2026	Verified (officers, not necessarily owners)
How long has the founder run it?	Incorporated 1984; founder named as president in every filing since	Registry filing history	Verified
Is a family member in management?	Daughter listed as vice president since 2019	Registry filing; company website "About" page	Verified (title only)
Does the family intend to keep the business?	Unknown	None	Open
Has the founder discussed retirement publicly?	Quoted in a 2025 local news piece saying "no plans to slow down"	Local newspaper article	Owner statement (dated)
Are there other family shareholders?	Unknown	None	Open
Recent ownership changes?	None visible	Registry filings, UCC search	No evidence found (not proof of absence)

The value is in the last column. "Open" and "no evidence found" are legitimate answers and should stay visible; they are the questions a first conversation should answer. Our evidence standards page sets out the statuses we use.

Docket's agents fill a worksheet like this with typed answers, each tied to a quoted source page, and leave unknowns visibly open.

Sources

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Source links

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Our research library covers market mapping, screening criteria, private-company data, succession and ownership, source evaluation and evidence standards. These resources explain the methods and limitations behind origination research. Findings support a team's judgment; they do not establish that a company is for sale or guarantee a transaction or investment outcome.

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Public examples are illustrative unless explicitly identified otherwise. Research preparation and authorized outreach are separate activities; confidential target lists and customer outcomes should never be inferred from an educational example.

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