

# **AFTER THE FOUNDER: FIXING THE SUCCESSION GAP IN FAMILY FIRMS**

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Founder-led family firms often thrive on speed, stakeholder trust and concentration of authority – until scale, business complexity and/or succession challenges turn those strengths into weaknesses. This article looks at the “succession gap” and offers a practical route from founder-centric governance to institutionalised oversight and control – aligning family governance arrangements with corporate governance requirements, professionalising the board and management, and preserving the business’s mission and long-term direction without the family having to surrender ownership and control.



## INTRODUCTION

Family-owned businesses are major drivers of growth and employment. Family capital is often a key source of early-stage funding, and about 35 per cent of Fortune 500 companies are family-controlled. However, sustaining this success across generations is often difficult, even if the pervasive “three-generation rule” has been challenged by more recent evidence.<sup>1</sup> In that context, founder-led family firms present a familiar puzzle: the same governance characteristics that support their success – concentrated authority and personality-based control – can become vulnerabilities as the enterprise grows in scale and complexity, particularly as succession approaches. This article analyses that vulnerability – the “succession gap” – and proposes a phased framework for the transition from founder-centric governance to an institutionalised model, helping family firms to professionalise governance without losing control or requiring the founder to be personally involved in every aspect of the business. It does not provide a perfect model – no such model exists – but proposes a practical sequence of steps to help family firms adapt to their particular context.

## THE SUCCESSION GAP: WHY THE FOUNDER-CENTRIC MODEL CAN BREAK

The governance architecture of the founder-led firm is, characteristically, an extension of the founder’s own judgement and authority and is not inherently flawed. It is rational – a single decision-maker can compensate for lack of talent, immature systems, lack of speed and flexibility in decision-making, and uncertain markets. Decisions are fast, accountability feels direct, and stakeholders (including employees, suppliers and lenders) know exactly who is in charge.

Yet, this system contains clear dependencies: strategic decisions are made by one person; there is reliance on informal controls and personality-driven oversight; and institutional knowledge is held by one individual rather than being distributed and transferable. While delegation may exist in some form, responsibility tends to rest with individuals rather than formal structures. Managers and family members may be capable, but the founder remains the key figure who handles the most crucial decisions, relationships and conflicts.

The founder-centric model works until it does not. Decision-making that was once quick starts to become overloaded as scale increases, paradoxically leading to delays, as all decisions depend on a single individual with a finite capacity to adjudicate on all matters. Because controls are informal, approvals, limits and checks are often driven by personal trust rather than documented processes. Oversight is also personalised – performance is assessed

<sup>1</sup> The “three-generation rule” refers to the widely cited view that family businesses often struggle to remain under family ownership or control beyond the founder’s grandchildren – a phenomenon sometimes described as “shirtsleeves to shirtsleeves in three generations”. This term is used here to capture the governance and succession challenges that can emerge across generations, rather than to suggest that such outcomes are inevitable. See Baron and Lachenauer (2021).

through closeness to the founder or the family and through intuition, and not against agreed objectives that are subject to independent scrutiny. Critical stakeholder relationships – with banks and major customers or suppliers – continue to depend on the founder's standing. Finally, the mission, risk appetite and long-term ambition of the company may be implicitly understood within the family but not codified in a way that guides future leaders or non-family managers.

“The founder-centric model works until it does not.”

Founder-centric systems also tend to mask tensions within the owning family. As long as the founder remains the primary decision-maker and arbiter, disagreements can be deferred – but postponement is not resolution. Once the next generation enters the picture, unspoken expectations start to diverge as regards questions such as (i) who can or should work in the business, (ii) who sets remuneration, (iii) how performance is judged and (iv) who has a voice in determining strategy. Even if family relations are strong, the absence of explicit rules creates room for misunderstanding, and misunderstanding can lead to conflicts.

Certain factors and developments have the potential to bring the succession gap to the surface. Generational entry is the obvious one: new family members entering the business want clarity on roles and participation. Growth and complexity are another – in multi-company groups that are expanding into new territories or developing new product lines, informal decision-making is costly. External financing and investment add pressure too – lenders want predictability and controls, and institutional investors look for decision-making systems that do not depend on a single person and give investors a say over key strategic matters (see Box 1).



#### Box 1. Case study:

#### **How the EBRD, as an investor, helped a family business to formalise its governance structure**

After supporting a particular client – a large, diversified business group led by a strong founder in his 50s – through debt financing, the EBRD decided to strengthen that partnership through an equity investment. Although the group had been successful in consistently growing and expanding into new business lines in the past, its decision-making, particularly on important strategic matters, was still informal and revolved heavily around the founder. During project appraisal, it became clear that, given the size and the level of complexity that the group had reached, this lack of a formalised governance structure posed a significant risk to the group's operations. Consequently, the EBRD decided to use its entry as a minority shareholder as a catalyst for implementing deep and fundamental governance changes by proposing the adoption of a comprehensive corporate governance action plan that reflected the expectations of all shareholders.

Key elements of the plan, which was to be implemented gradually over a number of years, included: (i) the establishment of a supervisory board, together with the appointment of two external non-executive directors with a strong background in risk management and corporate governance; (ii) the establishment of an independent audit committee, overseeing improvements in financial and operational reporting; (iii) the creation of an “IPO (initial public offering) readiness” working group to prepare the company for listing on a reputable stock exchange, which had been identified as the desirable exit route for all parties; and (iv) the adoption of an ownership succession plan, a plan of succession for the chief executive officer and key management positions, and a family employment policy (as the founder's son was working for the business and had been identified as the prospective heir).

The corporate governance action plan was successfully implemented during the EBRD's holding period, which lasted several years. Although the preferred IPO exit did not materialise due to volatile market conditions, and the EBRD's stake was bought back by the founder, the governance improvements that were introduced during the investment period proved to be durable. The group retained those arrangements after the EBRD's exit, demonstrating that they had become embedded in the business, with those improved arrangements continuing to support the further expansion of the business and preparations for the eventual transfer of power to the next generation of the family.



#### Box 2. Case study:

#### **How IFC helped a family business to strengthen governance after an unexpected succession crisis**

An International Finance Corporation (IFC) client – a family-owned group operating across multiple businesses – was founded by a single family member, and that person was later joined by a second family member, who became central to day-to-day decision-making and growth. When IFC investment discussions were in the final stages, the key decision-maker died unexpectedly. The group had no effective governance structure: decision-making was highly centralised and informal, coordination across the various business units was weak, and policies were applied inconsistently. A family dispute arose over ownership and control, and the absence of a succession plan made alignment difficult.

IFC provided support, including a corporate governance assessment and improvement plan, followed by implementation support and capacity building. Measures included developing family governance policies (including a family employment policy), devising a succession plan, creating a holding structure to consolidate the operating businesses, appointing an independent director with financial expertise at the level of the holding structure, establishing a company secretary function to guide board work, and creating an internal audit function. The two second-generation successors were assigned to different business units based on their respective skillsets, which helped to reduce tensions and stabilise decision-making. This case study illustrates the value of putting governance arrangements in place at an early stage, rather than waiting until a trigger event/crisis occurs.

Finally, health scares and other unexpected events can force a transition when neither the family nor the business is ready (see Box 2).

Deferring succession planning tends to amplify these risks. Families that are focused on day-to-day operational management have strong incentives to treat governance reform as a future concern, especially when the business is operating successfully. The absence of a written plan leaves assumptions unchallenged and expectations misaligned across family members. The consequence is an accumulation of untested and unvoiced assumptions – about ownership expectations, management succession, dividends and the terms on which family members may enter the business – that remain unchallenged until a trigger event forces a rushed resolution under pressure and, frequently, amid interpersonal conflict.

As part of the solution, families need to distinguish between – while at the same time connecting – two concepts that are often confused: family governance and corporate governance. Family governance describes the mechanisms by which the owning family makes collective decisions: the allocation of voices among family members, the resolution of disagreement and the management of ownership across generations. Corporate governance is how the company is directed and controlled, through appropriate structures such as the board, management, internal controls and accountability mechanisms. In founder-led companies, the founder serves as the main family representative – both the owner and the executive manager – meaning that the two systems essentially overlap. As the family expands and the firm grows, formally separating the systems becomes a practical necessity, and each system must be reformed in alignment with the other.





### CONTROL VERSUS PROFESSIONALISATION: THE WRONG PERCEPTION

The biggest obstacle to governance reform in family firms is often the misconception that professionalising governance means handing over control. This concern is understandable, but it is based on an incorrect assumption, and it can lead families to run their businesses in a suboptimal manner and delay changes until they are forced to act under pressure. The issue often stems from confusion between two different means of control: control exercised through the founder's direct personal authority; and control exercised through a system of durable institutions.

Control does not require constant day-to-day interference. In a well-governed firm, the family keeps control through rights, rules and institutions – not by the founder personally approving every decision. Reserved matters mean that all major and critical decisions still require family consent. Shareholders' agreements set the rules governing ownership transfers and board appointments. A family council provides a forum for the family's voice and deliberation without that voice disrupting company processes.

What changes when governance is professionalised is the control mechanism. The family moves from personality-based oversight, where authority flows from the founder's presence, to system-based oversight, where authority is embedded in clearly defined governance structures. In practice, this means making the owner's principles and decisional processes explicit and capturing them in the form of policies, thresholds and decision-making rights that will remain in place when the founder steps back, so the business can continue to operate without the family's control and sense of direction being relinquished.

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Founders often believe that only they can ensure the long-term direction of their company. However, experience shows that proper governance structures can often protect that direction more reliably than a founder's veto. When the mission is embedded in governance documents and institutions – a family charter, a statement of purpose reviewed by the board, and reserved matters that protect against material changes to the stated mission – it becomes part of the organisation rather than something that depends on one person.

Investor confidence also improves when the family's decision-making system becomes clear and institutionalised. Sophisticated investors factor in "key-person risk", and reducing dependence on that person can improve valuations, reduce financing costs and support the retention of talent.

## A PHASED APPROACH TO INSTITUTIONALISATION

The transition from founder-centric governance to institutionalised governance is not a single step but a phased process. A phased approach allows the family and the company to gradually build capability and adjust as circumstances change.

### Phase 1: Formalise family governance

The initial foundational phase often involves formalising the owning family's own governance – that is to say, the way that the family makes collective decisions and manages its relationship with the firm. In theory, this work should happen at the outset and start as early as possible, because wider corporate governance reforms are much easier to design when the family's objectives and decision-making processes are clear. In practice, however, elements of family governance and corporate governance are frequently developed in parallel.

This first phase can begin with a facilitated family governance workshop – a structured process, often guided by an external party, to identify risks, align expectations on key strategic matters and decide what must be written down. At this point, many families discover that they do indeed have rules, but these are unwritten, inconsistently applied and sometimes contradictory. The goal is not to resolve every disagreement but to make disagreements visible and establish a process for working through them.

The outcome of these deliberations can be captured and codified in a few core instruments. The workshop typically facilitates the development of a "family constitution" – an umbrella document that sets out the family's purpose in owning the business, the core

values it wants to protect, the long-term vision for the business, and the principles that will guide future decisions. It can also define the family's governance bodies – for example, a family assembly (a wider family forum), a family council (a smaller decision-making body) and committees dealing with education, philanthropy or next-generation development.

Two other policies should be considered at this early stage. A family employment policy will reduce the risk of nepotism and unclear roles by establishing clear criteria for family members entering the business – what qualifications are expected, how their performance will be assessed, who makes hiring decisions, and so on. Similarly, a shareholding policy will clarify the rules around ownership and transfers by describing how shares are valued, whether they can be sold outside the family and how ownership will transition within the family or across generations.

### Phase 2: Build a corporate governance framework that can function without specific individuals

After clarifying the family's internal decision-making process, the next step involves strengthening the company's corporate governance framework so that it can function without any specific individual, including the founder.

The central element of this framework is a board of directors (or a supervisory board, depending on the jurisdiction) with a clear mandate regarding strategy and supervision, an appropriate composition – members should include independent directors and have a relevant mix of skills – and documented working procedures. If the founder is initially uneasy about sharing authority and establishing a formal board, an advisory board – a body that does not have formal authority – can be set up as an intermediate step. Advisory boards can provide valuable external perspectives on strategic and operational matters, leading to better decision-making, and may in time create a pipeline of candidates for appointment to the formal board.



The targeted governance structure should establish clear lines between ownership, oversight and day-to-day management. Family owners set the strategic direction – approving the mission, long-term priorities and risk appetite – and define the framework within which the company operates. The board governs within that framework – appointing and overseeing management, holding executives accountable, overseeing governance and making decisions on key matters delegated to the board. Management runs the business on a day-to-day basis within the boundaries set by the owners and the board, implementing the strategy.

This separation of tasks does not diminish the family's role. The family merely gives up its informal veto, meaning that the possibility of the founder or another family member unexpectedly overruling or blocking a decision that they dislike is removed. In effect, reserved matters ensure that important and transformational decisions – such as major acquisitions or changes to the

capital structure – continue to be under the family's control. Shareholders' agreements and voting arrangements can ensure that the family's position is respected and that its interests cannot be diluted without its consent. Where a family council exists, this provides a structured channel for the family to engage with the company and the board on matters that affect the family's interests.

### **Phase 3: Design succession as a governance system**

If Phases 1 and 2 reduce dependence on the founder through rules and institutions, succession is the test of those institutions. Ensuring continuity – that is to say, making sure that strategic capacity, decision-making authority and key relationships are embedded in the enterprise, rather than being the responsibility of one individual – is of paramount importance. It is helpful here to distinguish between planned succession and emergency succession (a sudden interim response to the unexpected) and to document

protocols in advance. An effective approach treats transition as a governance design problem, clarifying authority, incentives and accountability, so the company's operations can endure without day-to-day intervention by the founder.

This is not a purely conceptual concern. Recent evidence suggests that succession planning remains one of the most common governance challenges for family businesses. A 2025 family business survey conducted by Deloitte identified uncertainty over decision-making authority as the most widely cited governance challenge, reported by 37 per cent of respondents, followed closely by succession planning for leadership transitions, reported by 36 per cent.<sup>2</sup> The International Finance Corporation has had similar experiences with family companies: of the firms that IFC has worked with, only 46 per cent have had succession plans in place, based on in-depth assessment of corporate governance practices.

“Recent evidence suggests that succession planning remains one of the most common governance challenges for family businesses.”

Of the family businesses that IFC has worked with, only **46%** have had succession plans in place

In practical terms, succession spans two interrelated aspects. Leadership succession concerns the question of who will have executive authority in the company, how the board will exercise oversight and how those roles will continue to be carried out within a defined mandate. Ownership succession, meanwhile, concerns the question of how equity and voting power will be held, transferred and exercised over time, including which decisions are reserved for shareholders, how directors are appointed, and how family expectations (regarding control, liquidity and dividends) are managed through shareholder arrangements. In many family businesses, these arrangements include a family trust or holding vehicle to consolidate ownership, manage intergenerational transfers and reduce the fragmentation of voting power in relation to non-family shareholders.

Because succession inevitably reshapes authority inside both the family and the firm, it should be treated with the same discipline as any other material governance change. The objective is to achieve not just consensus but predictability – that is to say, shared

<sup>2</sup> See Deloitte Private (2025).



assumptions about future roles, participation and decision-making rights, and an agreed forum for resolving disagreements. Regular meetings of the family governance bodies set up in Phase 1 – separate from management and board meetings – help to establish expectations at an early stage and reduce the risk of unresolved family issues spilling over into corporate decision-making.

The selection of successors also sends a clear governance signal. Appointments that are not regarded as meritocratic can weaken credibility among non-family executives, lenders and investors, and can intensify intra-family dissension. The legitimacy of appointments can be strengthened by clear, merit-based criteria and transparent assessment – typically combining competence, leadership capability and experience, business judgement, alignment of values and the ability to manage conflict.

The next step is to build capability through structured development plans for identified succession candidates. Structured exposure to strategy, governance and progressively greater operating responsibilities helps to transfer

institutional knowledge from the founder to the identified heir (often a chosen family member) or the future leadership team. This reduces key-person dependency by introducing redundancy and gives the organisation time to adjust to new decision-making patterns.

Finally, the founder's own transition must be carefully designed. Handovers of control fail when informal vetoes persist after formal authority has been delegated. Defining the outgoing leader's post-transition role – for example, membership of a non-executive board or advisory responsibilities – can preserve continuity while protecting the successor's authority. The same discipline should apply on the ownership side: clear policies regarding decision-making, information and reporting, dividends and protection of minority shareholders' rights reduce the scope for arbitrariness and help to keep governance stable throughout the handover process.

During this transition, external perspectives can accelerate institutionalisation by helping to embed strategy, decision-making, oversight

and operational responsibilities in formal structures rather than individuals. An effective board and independent advisers can seize this moment to introduce further discipline, adopt better governance practices and help the family to separate general governance questions pertaining to the company from personal dynamics, particularly where decisions on roles and ownership will have long-term consequences.

Succession becomes resilient when it is made explicit and documented in the broader governance architecture of the company, including shareholders' agreements, reserved matters, board mandates and management delegation. If it takes that form, succession is not a one-off contingent event but an institutional capability – a repeatable way of renewing leadership and ownership without destabilising control, strategy or stakeholder trust.



## WHAT DEVELOPMENT FINANCE INSTITUTIONS AND OTHER INVESTORS LOOK FOR

For family businesses working with institutional investors – particularly development finance institutions such as the EBRD or IFC – governance reform goes beyond internal family concerns. It becomes a requirement for receiving investment from those investors and shapes the terms under which they can access future funding.

A key concern for investors is business continuity, and they will look for evidence that the enterprise's operational and strategic capacity is not materially dependent on any single individual. This goes beyond the examination of organisational charts and involves evaluating where decisions are actually made and looking at whether key relationships are maintained by the company rather than the founder or other key individuals. If material key-person dependency is identified, it is treated as a governance risk and can therefore influence valuation and investment conditions.

Investors also expect coherent and robust decision-making as the firm grows or transitions to the next generation, including a formalised approach to succession – not just a statement of intent but a plan covering the transition of both leadership and ownership, with defined timelines and oversight arrangements. They also expect a board with genuine authority and the right composition and skills.

Investors also prioritise transparency in the family's decision-making. When the family's governance is informal and unclear, investors cannot assess how strategic decisions will be made, how conflicts will be resolved and whether the founder's departure would trigger a crisis. They also expect adequate family governance arrangements to make the family's collective decision-making transparent and predictable, with mechanisms that prevent family disputes from paralysing the business. When the family's governance is documented and institutionalised, investors can underwrite risk with greater confidence – and often on better terms.

None of this means that investors expect families to give up control. Instead, they expect control to be exercised through structures that will endure, rather than through the presence of a single individual who will not be there forever.

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## CONCLUSION

For founder-led family firms, formalising and institutionalising governance is the route to sustainability. It is not about surrendering control; it is about exercising control in a more resilient way. The real choice is not between informal family control and institutional governance – it is between a form of personality-based control that becomes fragile as the firm grows and a system-based control that preserves the family's purpose across generations.

Addressing this succession gap means aligning family governance arrangements with corporate governance requirements, professionalising the board and management, and treating succession as a system – one that manages the transition of both leadership and ownership. Family businesses that do this at an early stage give themselves the best chance of preserving what matters most: the company's mission, its long-term direction and the ability to remain successful after the founder has left the scene.



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