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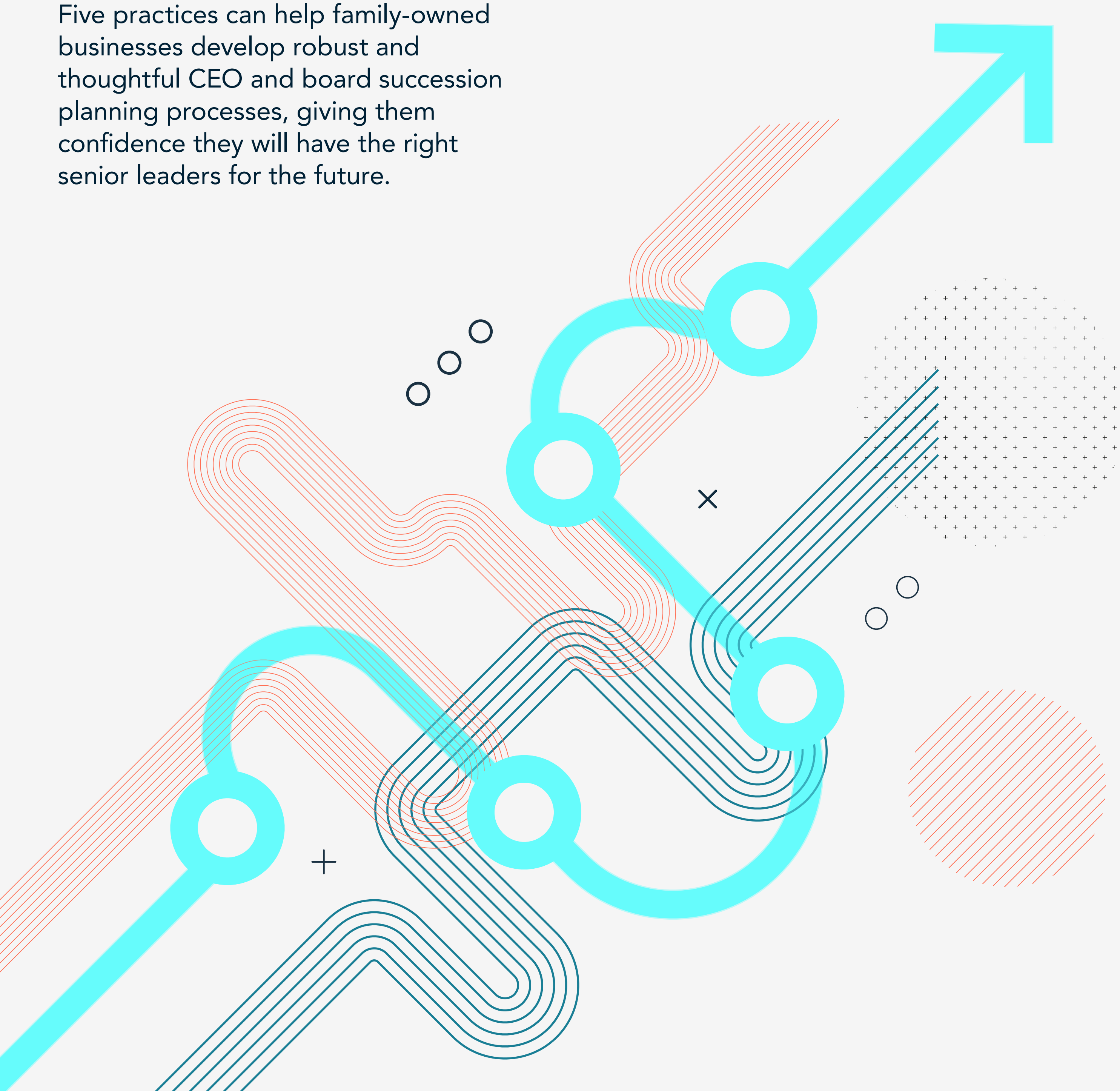
Board effectiveness focus: Best practices for family business succession planning

Five practices can help family-owned businesses develop robust and thoughtful CEO and board succession planning processes, giving them confidence they will have the right senior leaders for the future.



CEO and board succession planning are rarely straightforward for any type of company. Recent surveys that Heidrick & Struggles has conducted of CEOs and board members around the world, at companies with all types of ownership, found that 56% had relatively little confidence that their CEO succession planning process was positioning the organization well for the future. Furthermore, 51% said the same about the board succession process. Notably, looking only at leaders of family-owned companies, a slightly smaller share, 51%, lack confidence in their CEO succession planning—but two-thirds lack confidence in their board refreshment planning.[1]

Succession planning can be especially complicated for family-owned businesses, given the emotions and relationships involved—not to mention the complexities of governing these organizations. In a first-generation transition, founders have to overcome the emotional hurdle of potentially no longer being the right leader for the business they started, and, often, the political hurdle of having to choose among their children or other family members. Two additional complexities are the need for younger companies to evolve typically informal governance practices, and the need for older companies to manage the expectations of large numbers of family members. In addition, in some industries and regions, regulatory bodies are increasingly influencing how family businesses approach succession planning. As one leader recently said, "Boards are under pressure to meet regulatory standards around board independence, women directors, and ESG, which is pushing family-owned firms to professionalize fast. Dynasty- and legacy-driven succession planning models will get challenged by compliance requirements."

Interviews with a number of leaders of these businesses and our own experience point to five best practices the boards of family-owned companies can apply to improve their confidence in their leadership planning for future generations.

Challenges of managing board and executive succession planning in family businesses

In younger family businesses, where the founder is still active, we often see that he or she takes an active role in almost everything, which also often means that other executives are, in a sense, acting one level down. The chair is also acting as the CEO, the CEO is acting as the CFO or COO, and so on. Too often, this means that accountabilities get blurred. For example, if the chair is acting as CEO, then who can the rest of the board hold to account when things go wrong? As companies last over generations, this is less of a problem, but very often informal and overlapping responsibilities and governance practices persist. Succession planning for both the CEO role and board seats is one crucial topic that tends to fall through the cracks, particularly given other complexities.

The first of those complexities is the range of emotional and family-political hurdles we noted above. Succession planning, by its nature, puts families in a position of having to discuss sensitive topics such as whether a leader is becoming cognitively or physically too frail to lead, or still has the appetite to adapt to the constantly changing business landscape. Families may choose to delay conversations rather than face discomfort.[2] For example, our survey data shows that a majority don't regularly replace directors who are not contributing sufficiently.[3] This can be particularly complicated during periods of generational transition. At one company, for example, a chair named three friends of his as directors. The chair was then

1 Additional analysis of proprietary Heidrick & Struggles survey data reported in *Route to the Top 2025 | The Ascent Redefined: Charting More Effective Routes to the Summit*, Heidrick & Struggles, July 23, 2025, heidrick.com; and *Board Monitor 2025 | The Quiet Power of Continuous Board Refreshment: Why High-Performing Companies Treat It As a Strategic Discipline*, Heidrick & Struggles, forthcoming on heidrick.com.

2 For insight into how independent board members can help spur and guide difficult conversations on the boards of family-owned companies, see Tonny Loh, "Board effectiveness focus: The role of independent directors on family-owned business boards in Southeast Asia," Heidrick & Struggles, forthcoming on heidrick.com.

3 That said, companies with other types of ownership face the same problem, though for other reasons, given the different dynamics on those boards.

succeeded by his son, and the son is now having a hard time replacing his father's friends with directors who have more current knowledge of the topics the company is facing. On the whole, family-owned businesses, especially in the early generations, tend to have organizational cultures that one leader described as "kitchen table" dynamics, in which a mutual commitment to success for the company can sometimes force a tough discussion—but these cultures can also prolong informal governance models that, in the long term, can hinder growth, prevent the addition of external expertise, and, increasingly, not meet regulatory standards.

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A second challenge for succession planning is that some family-owned companies suffer from a lack of diversity of views, expertise, or backgrounds, and independence in terms of actual and potential board members or executives, depending on how heavily they rely on family members throughout the business and how they develop people for leadership roles. Beyond being a challenge in the day-to-day running of the company, this can make it even harder than it is for companies that start with a wider pool of potential leaders when the time comes to find the right people with the right capabilities, experience, knowledge, and networks for board and executive roles.

Finally, as in most organizations, urgency often overtakes importance for boards at family-owned companies. That is, operational or financial emergencies can distract boards from paying attention to longer term plans and goals. Leaders at family-owned companies indicate that this is a particular problem for their board refreshment planning, though less often for CEO succession planning.

Best practices for ensuring the right people are prepared for the right roles

Successful succession planning means that the board is assured of a robust, comprehensive succession plan in place that is being actively monitored and adjusted as conditions change. Though the details of this plan will look different for every business, five principles can usefully guide the approach.

Start early, update often

Many family businesses don't start thinking about board and CEO succession early enough or approach it as a continuous process. Our experience suggests this process should begin at least three years out. This gives sufficient time for potential family or other internal leaders to be assessed and developed as needed, and time to map the external market. According to one leader, "We should have a pipeline of people for different roles identifying next-generation leaders in the systems. It should be a continuous process, not a reactive one." Among the family leaders who said their board sees CEO succession as a priority and treats it as such, 64% say they approach CEO succession planning on a continuous basis, and 61% say the same about board refreshment.[4]

Have honest and structured conversations about who should be considered and when

Family-business leaders, like all others, know that the future of the business depends on high-quality leadership, but that knowledge doesn't always make having the necessary conversations about succession any easier. This can be particularly true when the company needs people with expertise, capabilities, or networks that family members lack. For example, among the family leaders who said refreshing their boards was a top priority and treated it that way, 70% said it was important for the board to meet stakeholder expectations about

4 We see three years as the minimum time needed. In general, our advice to companies of all kinds is to make both CEO succession planning and board refreshment continuous processes. For more, see *Route to the Top 2025 | The Ascent Redefined: Charting More Effective Routes to the Summit*, Heidrick & Struggles, July 23, 2025, heidrick.com; and *Board Monitor 2025 | The Quiet Power of Continuous Board Refreshment: Why High-Performing Companies Treat It As a Strategic Discipline*, Heidrick & Struggles, forthcoming on heidrick.com.

including directors with a range of backgrounds that reflect the organization. As companies grow and expectations change, reflecting the organization will often mean that families need to find a new balance between their own aspirations and the leadership and management support the company needs. This will differ from business to business; we discuss the role of professional executives below.

When the goal is for future leaders to come from the family, the family needs to have an open and honest dialogue about who might be best placed to take on an executive role or board seat and when. Informal governance practices can make this situation particularly difficult. In younger family companies, taking a board seat is often an accepted step in developing family members' expertise, and it's often expected that all the founder's children will be involved. But this can roll into a sense of entitlement that makes the right balance harder to achieve.

On the other hand, some older companies, such as one we know of, go through phases in which no family members are directly involved in day-to-day leadership. The leader of one fifth-generation business with whom we spoke noted that they relied mostly on volunteers among family members to take on roles, and that they feel a need for a more structured process. Another leader noted that, "For independent directors, it is a selection process between many candidates, whereas for family members, we filter through criteria like education, experience, seniority, leadership, and, most important, commitment to the business." Often, as companies last and families grow, board seats are allocated to different branches of the family; this approach creates the possibility for each part of the family to align on the pace of its succession and designate someone early enough that they can get appropriate experience, whether within the business itself or elsewhere.

Constructive discussions are even harder when families are misaligned on what matters, which we see frequently, particularly in times of generational change: What has made the business successful so far? What future does the family see for the business? Will that require leaders with different capabilities than those any family members have? What does that mean for leadership development? Answers to questions like these inform who the right leader will be to take the business where they want it to go—and whether this leader should come from the family or from outside it.

Establishing good governance

Family businesses take varying approaches to governance, and it can be more complex for them than for other businesses because they typically have to evolve from very informal structures. There's no one right way, but most agree that more structure and professionalization are necessary to maintain growth.

As they grow, many families establish a family council of some kind that is separate from the formal board of the company. This can be a formal holding company, in which board roles are all held by family members, while the boards of individual companies in the larger structure consist mostly of professionals.

One business divides responsibilities so that the family council handles big picture capital allocation and the board focuses on capital deployment and business operations. "The family sets the framework without micromanaging the day-to-day business," their leader said.

Another company has an Owners Council that engages family members up to the fifth generation and encourages them to be deeply familiar with the business. No family members currently sit on the board, but the board and the Owners Council are working together to ready family members for future executive roles, with the requirement that they will bring relevant external experience and capabilities. In the long run, the current leaders have a joint goal of having a family board chair.

One leader notes that governance certification should be integrated into board succession planning to train family members and prepare them for a board role.

Whatever the specific governance approach, it's critical to establish trust. As another leader said, "More than a structured process, what is of abiding importance in securing good governance is two-way trust and transparency between the family and independent directors, without which processes are prone to failure."

Provide structured development to future family leaders

If an individual, or individuals, within the family are identified as potential successors for the CEO role or a board seat, current leaders must have candid conversations with them about their vision and aspirations. "One area where the process could be improved is having discussions with the family member about the outlook they have for the business, their commitment to the business, and what they will take away from this journey or tenure of serving on the board," one leader explained.

Families must also offer these future leaders structured support and professional development opportunities—through education, mentoring, and coaching—and set clear expectations about the experience they should bring to a role in the business. One family business requires 10 to 15 years of relevant professional experience for family members to take on management roles.

Another company takes a variety of approaches to integrate the family early on, well before any decisions about future roles are made: younger family members go on company visits, while older ones may receive career coaching, be supported in finding relevant external work experiences, or join dinners with executives and nonexecutives. This company also offers to fund advanced education, such as MBA programs, for interested next-generation family members. However, on the whole, the family members involved were those interested in business, and this family has faced the challenge that some experienced family members can earn more elsewhere. They are exploring ways to add more structure into their development.

In other companies, as another leader put it, "The structure is there but not the people." At this leader's company, the professional executive team is working alongside the second generation, preparing them to take over the strategic direction. "The next generation is gearing up and eager to learn. They need to cultivate vision, strategic thinking, and a risk appetite."

Several family business leaders mentioned the need to develop female family members, in particular, for board roles.

Consider the balance between outside professionals and family members

One trend is evident in family business succession planning today: top management, including the CEO and CFO, are often professionals. Each family will have a different sense of the right balance, as we noted above. One founder of a family business said that adding nonfamily executives "enhances the value of the company." Another leader we spoke with said his company has a strict rule that the executive management is professional, with no family involvement. When family members do take on executive roles, all the leaders we talked with agreed that there must be a clear process and rationale for doing so.

Some leaders focused more on the board, with one suggesting that companies should limit the number of family seats to allow for more independence on the board. "The independent directors bring a diverse set of perspectives and business and board role expertise, helping the business grow, and they mentor the young generation of family members with their broader perspectives and experiences. We can balance this by making a skills matrix for the board to intentionally bring in skills like ESG and digital." Most other leaders also endorse the value of independent directors, no matter how many generations of family members are also available.

Whatever the ratio of independent directors to family members on the board, businesses should ensure board dynamics give them a voice. "There is a dominant group of older family members because of the shareholding and ownership of the business," said one leader. "They aren't large in number when compared with independent directors, but they have a stronger voice. This is effective for a mid sized, family-owned business, but if a business has grown considerably, then independent directors' voices should be valued equally."[5]

Make the nominating and remuneration committee accountable

The board is the governing body and the ultimate authority on succession plans, but it can delegate the day-to-day progress to the nominating and remuneration committee (NRC)—and it should do so, overtly, so there is no lack of clarity about responsibility. Not all family companies, such as one we spoke with, have such a committee, but in the long term we see these committees as adding a valuable forum for regular discussion that can help diffuse complicated dynamics and formalize planning. This committee should review the succession plan in an ongoing way—at least twice a year, if not quarterly.

"Our process is determined through family council or family voting and typically it is approved by the board NRC," said one leader. "The succession plan should be a key agenda item in NRC meetings. It should be a formalized, transparent, continuous process rather than an ad hoc process."

Family businesses must always weigh the question of who they know versus who will bring the right expertise when it comes to CEO and board succession planning. By establishing a robust process that leaves plenty of time to have difficult conversations and develop future leaders in and outside the family, companies can align the right leaders to the right roles at the right times.

5 For more, see Tonny Loh, "Board effectiveness focus: The role of independent directors on family-owned business boards in Southeast Asia," Heidrick & Struggles, forthcoming on heidrick.com.

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