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Three Concepts Search Fund Entrepreneurs Can Learn from Family Businesses

Family businesses think and operate differently than ETA in many ways; the search fund crowd can adopt some key principles

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Search funds and entrepreneurship through acquisition (ETA) are becoming increasingly popular post-MBA opportunities. With the economic upside, the opportunity to learn as a CEO, and investors eagerly providing capital to young, first-time, and inexperienced entrepreneurs, search funds are a compelling career choice for the MBA set. ETA conferences regularly host 1,000 or more attendees who are curious about the model, search fund courses are the norm on MBA campuses, podcasts championing the framework are proliferating, and personal stories are spreading. Search funds are suddenly cool and having a moment.

According to the 2024 Stanford Graduate School of Business Search Fund Study, new U.S. search funds reached a zenith in 2023 at 94.³ We believe this data point dramatically underestimates total activity levels because it does not include accelerators and self-funded search projects. Although we cannot precisely cite the number of additional searches launched when accelerators and self-funded projects are included, we estimate it to be hundreds.

We are unabashed ETA enthusiasts and think the model offers participants many rewards; however, we harbor a dose of cynicism. We are not convinced that search funds are a panacea in their approach, and we believe that there are absolutely opportunities for improvement. While ETA is not explicitly private equity (PE), it closely hews to and mimics many of its principles. Despite PE having many ingredients that drive economic growth, we are not certain it is the best example for business ownership or operations. Yet search funds are often compared to and cling to PE tenets.

ETA CEOs would be well served to look beyond PE to another corner of the business world, often overlooked in elite MBA programs, for inspiration and valuable lessons: family businesses. This might surprise our readers, as family firms are frequently (and often unfairly) derided as nepotistic organizations that neither prioritize shareholders nor optimize for internal rates of return (IRRs), a far cry from the pure capitalism taught in academia and celebrated in popular media. However, family businesses, which are often quite resilient, have surprising longevity and provide unique personal rewards, offering many rich learning opportunities to the ETA crowd.

The genesis for this note was the authors' bantering about business models and ideas that might appeal to MBA students. One author, Nick, works with and advises family businesses. He has a backstage pass to all the good and bad in family firms. The other author, A. J., is a former entrepreneur who wishes he still had a company that he could potentially transform into a

family business, attracting his kids to the enterprise. After several conversations about family enterprises, the authors thought it would be worthwhile to present MBA students with a brief examination of some of the benefits of family companies, especially when considered in contrast to ETA. We hope that readers and MBA students will consider family business and some of its core tenets as an opportunity, at the very least, to evaluate what it can offer.

Traditional ETA is compelling and provides participants with numerous benefits. However, the model is oriented around quick IRRs, and this has many implications for the entrepreneur. Students pursuing the ETA path must understand the framework's implications and how it will affect the entrepreneur's pathway. One concept to consider is that ETA is a sprint, while family companies are a marathon. They both can be wonderful, but entrepreneurs need to know what game they are playing and why. Our discussion in this note is at least slightly philosophical and, we hope, somewhat provocative.

Correcting misperceptions about family businesses

Contrary to popular belief, family-owned businesses might be higher-performing enterprises than the ETA and MBA gangs give them credit for. According to a 2023 McKinsey & Company analysis, family-owned businesses outperformed non-family-owned companies in terms of shareholder return from 2020 to 2023.⁴ A Boston Consulting Group study reinforced this notion, concluding that, across business cycles from 1997 to 2009, family businesses based in the U.S., Canada, France, Spain, Portugal, Italy, and Mexico were more resilient and had average long-term financial performance that was higher than that of their non-family-owned peers.⁵

Perhaps family enterprises garner little reward or attention because they are presented and perceived as dysfunctional, unprofessional, or in a perpetual state of atrophy. Think HBO's television drama *Succession*. Reinforcing that belief is the following recurring axiom in family business circles: "shirtsleeves to shirtsleeves in three generations." This suggests that business and wealth are built and expanded in the first two generations but are squandered and destroyed in the third. This phenomenon is observed across multiple cultures. In Brazil, "Pai rico; filho nobre; neto pobre" (Rich father; noble son; poor grandson). In Mexico, "Padre bodeguero; hijo caballero; nieto pordiosero" (Father merchant; son gentleman; grandson beggar). In China, "From peasant shoes to peasant shoes in three generations" and "Fu bu guo san dai" (Wealth never survives three generations).

But we believe that pop culture is just a caricature and that the maxims lack perspective. Surviving three generations, which we conservatively estimate to last 60–75 years, is quite an accomplishment when you consider that, from 1950 to 2009, publicly traded companies, on average, lasted only 15 years (we acknowledge this might be an underestimate, as organizations that are acquired or taken private continue to exist in an adjacent structure).⁶ In addition, family firms clearly matter in the U.S. According to [Family Enterprise USA](#), a Washington, D.C.-based research and advocacy firm, family businesses account for 83.3 million jobs, or 59% of the private sector workforce. These multi-generational businesses contribute \$7.7 trillion to the GDP, accounting for 54% of private sector GDP, and 87% of firms in the U.S. are family-owned.⁷

Comparing the benefits of ETA and family business

Turning back to search funds, on further review, several flaws become apparent. For example, they are not exactly perpetuities. They feel more like miniature leveraged buyouts with a quick flip as the goal. Perhaps they are the inverse of management guru Jim Collins's book, *Built to Last*, in that they are bought to sell quickly at a profit, channeling the PE approach to business. Currently, most ETA is not about building and nurturing an organization, but about a rapid economic return. It is Aesop's hare to a family business tortoise.

From 2017 to 2020, the average holding period for exiting ETA companies was just 4.3 years.⁸ Additionally, holding periods are trending downward, indicating a speedy acquire-jettison strategy. In contrast, many privately held family businesses successfully persist beyond the three-generation trope and thrive. Consider, for example, Zildjian (founded in 1623), Kikkoman (1630), Hoares Bank (1672), and even Antinori, founded in 1385 and now in their 26th generation. Some family businesses consider themselves evergreen companies, aiming to operate indefinitely. Imagine a model where the exit plan is no exit plan—a heretical position for most search fund types.

Family businesses also offer many other benefits beyond longevity, including rewards for the family system. As we age, we become quite envious of our friends who operate or participate in family firms, despite some drawbacks. First and foremost, productive family companies provide a financial wellspring. Perhaps more importantly, a family business can be a magnet that draws people together geographically and serves as a bridge for precious intergenerational connections. It can also foster emotional connectivity to an organization that is deeply rooted and has a legacy that extends beyond oneself. The feeling of sitting in the same office as one's grandparents did two generations ago is unmatched and can be deeply meaningful.

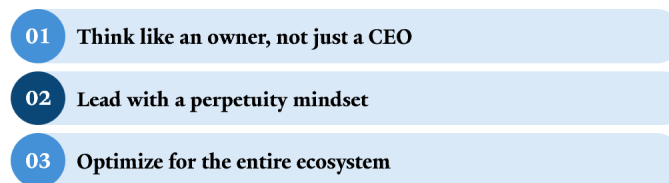
In addition, when we anecdotally look at various communities, mid-sized family businesses (those that have scaled and are institutionalized in some manner) create valuable social capital. They play essential roles in communities and serve as pillars of the city, supporting numerous social and commercial institutions. As Robert Pasin of the famous Radio Flyer business has said, "All these people who worked in the factory, all these suppliers, they told me stories about my grandfather. His word was his bond. One supplier told me that they'd never even had a signed contract, just a handshake agreement. I remember feeling proud and grateful that that kind of person had established this company."⁹ Decades of business and community investments clearly accrue to family members.

While search fund entrepreneurs might be polar opposites of the current form of many family enterprises, search fund entrepreneurs can enjoy some of the beneficial and enticing components of family firms by learning from them and emulating some aspects of their philosophy—even if doing so is in deep contrast to the PE features they tend to ape. There is plenty for MBA students and the ETA circle to learn from and draw upon in family firms. We aim to persuade readers and ETA CEOs to incorporate some principles of family business into the typical ETA model. Perhaps there is a spectrum between garden-variety ETA and family business that CEOs could navigate to find a point that integrates the best of both worlds. Furthermore, if ETA CEOs crave some of these family company dimensions, they can be the first generation of their own multi-generation enterprise. Someone needs to be the catalyst and plant the seeds for the next generation.

In this note, we will explore a trinity of foundational themes that the search fund crowd can learn from family companies (**Figure 1**). We acknowledge that this contradicts generally accepted ETA dogma in many ways. However, ETA is technically only a general framework that empowers young, inexperienced, first-time, aspiring entrepreneurs to propel themselves into a CEO role soon after business school. There is no single way to approach the odyssey, and the journey is ultimately about the entrepreneur architecting an extraordinary life, not just doing a deal. We believe the aspects discussed in this note can help MBA students and entrepreneurial aspirants build more holistic and exceptional lives, as well as optimize their search fund foray.

As we discuss family firms, we are not working off a single entity, but rather a composite of enterprises. Additionally, while we position family companies in a positive and aspirational context, we acknowledge that no family organization is perfect, just like non-family enterprises, and that every family business is unique and has opportunities for improvement.

Figure 1: A triad of themes we will explore in this note



01 Think like an owner, not just a CEO

Search fund entrepreneurs pine to be CEOs; that is the program's goal: to lead and build an operating organization. At least, that is what we hope motivates the curious. Being a CEO is a great experience, a rewarding challenge, and a ton of fun on the best day. We hope all our students experience the thrill at some point in their careers. However, in the ETA model, ascending to the CEO throne is fundamentally a management function that is distinct from an ownership role. In other words, it is possible for an owner not to be a CEO, and a CEO is not necessarily an owner. Additionally, young, first-time, and inexperienced CEOs can often get caught in the quicksand of management and neglect their ownership responsibilities. Furthermore, even if CEOs recognize both roles, being an owner does not automatically equate with *thinking* like an owner.

Search fund CEOs are certainly owners because they earn equity at various milestones during the trek. However, we are not convinced that they are thinking with complete and true ownership principles in the same vein as a family business. This might be because the CEO is a minority shareholder and must bend to the investors' desires. Perhaps searchers would feel different if they were the majority shareholders in their cap tables, as is the case with many self-funded searchers. We will discuss three ways ETA CEOs can better think like owners in a constructive family enterprise (**Figure 2**).

Figure 2: Three ways ETA CEOs can think like an owner

- A Bifurcate ownership and management responsibilities
- B Act like an owner, not an optionee
- C Embrace stewardship first

Bifurcate ownership and management responsibilities

Conflating ownership and management can be an entrepreneurial sin. Yes, these two crucial functions are intertwined in ETA projects, but CEOs will be well served to clearly understand who is wearing what hat and when. Abdicating either ownership or management responsibilities can impair the enterprise's health. When we think about management, we are contemplating the individual or team that leads and runs the business on a daily basis. They make the trains run on time and get to the right destination. Of course, they are involved in mapping out where the trains are going and what investments will be required to get the trains to the end point on time and safely; however, these are strategic management decisions. Ownership, on the other hand, is focused on relatively few essential choices. For example, how would owners make decisions if the company were to remain private in the current shareholders' stable or exit, and how would owners allocate their capital?

Successful family business owners recognize that ownership, management, governance, and family issues are distinct, and while all of these are essential to building a thriving organization, clear boundaries must be established. [BanyanGlobal](#), a Boston-based advisory firm concentrating on family enterprises, advocates for considering this dynamic using its Four-Room model.¹⁰ In this framework, management, directors, owners, and family members each occupy a distinct room with guidelines. For example, owners typically select board members, who in turn choose management, which serves the owners, who then engage with broader family members. In our ETA construct, owners are all the equity capital providers, board members are fiduciaries representing and serving the owners, and management is the entrepreneur-cum-CEO. We like to think of family members in the ETA context as including employees and customers, who are vital parts of the business's orbit. Even though CEOs (managers) and owners (investors) sit in different, demarcated boxes, CEOs hold some equity, and organizations would benefit if they acted more like owners (we recognize this is a big ask).

The most flourishing family businesses focus on ownership as much as, and separately from, running the business. They realize that their shareholder or operating agreement is one of the most important documents for long-term value creation, as it defines who is in the owners' room and their relationship to the business. They build their bylaws, governance, and policies to ensure that the right people are in the right rooms, focused on the right decisions, with the right decision rules. With governance in place, they devote their time to decisions that fundamentally address what it means to be an owner, who gets to be one, what success looks like, who will be investors, and what high-level guardrails will govern debt, partnerships, reinvestment, and dividends, among other matters. While most search fund entrepreneurs are focused on the operational grind, they would be wise not to overlook their ownership responsibilities. Similarly, ETA investors should respect delineations in their roles and resist the temptation to act like management periodically.

Act like an owner, not an optionee

Search funders are fundamentally optionees. They typically invest no money in the project and have an upside based on multiple factors, including closing a transaction, remaining in place as the CEO, and earning a final slice of equity contingent on performance. The searcher is providing labor and talent and is incurring the opportunity cost of not doing something else professionally, but they primarily enjoy the benefits of gains without suffering any of the detriments of a cash loss. Search fund CEOs work hard to maximize the option value, while investors care about the underlying value. This runs to how incentives and alignment are crafted. Currently in ETA land, CEOs are primarily incentivized to think and act like optionees.

This dynamic can stimulate some search CEOs toward excessive risk and a gambler's posture. For example, when there is no downside and only upside, excessive debt might be employed, and imprudently aggressive growth can be the game plan. Customers can become stepping stones to returns, rather than enduring partnerships. In theory, shareholders and the board set priorities and targets; while the board serves as the governing body, the CEO typically sets the pace and tone. This construct yields a fair share of crash-and-burn outcomes, which can be attributed to various causes, but at least some are due to embracing an optionee outlook.

According to the 2024 Stanford Graduate School of Business Search Fund Study, 10% of search fund entrepreneurs acquiring a target business have generated a total loss of equity, colloquially referred to as a zero.¹¹ Anecdotally, experienced ETA investors whisper that zero outcomes are on the rise. One investor recently shared a story about an entrepreneur who wiped out the investor capital in a zero outcome and, with no remorse, blithely offered, "It won't affect the investors; they are already rich, and I'll just go get a great job." We cannot think of a better example of the destructive optionee mindset in action.

Conversely, family businesses have financial and emotional skin in the game. They have established equity value and think as much about the downside as the upside; they ride the elevator up and down, enjoying the good and realizing the bona fide costs and penalties on the downside. In other words, genuine owners understand they are not optionees. Many successful family firms recognize this inherently and adopt a financially cautious stance, using debt conservatively with leverage ratios that are, on average, six percentage points lower than those of non-family organizations.¹² ETA folks would be well served to embrace this approach and eliminate the optionee orientation. After all, they are owners and organizational leaders with a fiduciary responsibility to shareholders and a moral responsibility to employees and customers. When searchers sign up to be CEO, they are committing to lead and serve and not just play their option card.

Embrace stewardship first

Building on the optionee hypothesis, we encourage ETA CEOs to think like stewards of the enterprises they purchase. Part of every search fund acquisition pitch is to honor and build on the seller's legacy. In arguing, "I am the kid you want to take over the business," searchers are, in some ways, peddling a family business generational transition in disguise. When they do so, they need to live up to that story by acting like stewards.

In some ways, family company CEOs do not view themselves as the company's owners; they are just the caretakers for a chapter, much like the famed Patek Philippe marketing slogan: "You never actually own

a Patek Philippe. You merely look after it for the next generation.” When we use the word caretaker, we are not implying that they are lackadaisically babysitting the asset; they are indeed trying to make it bigger and better, but it is not theirs in a traditional sense. The role is more akin to that of a university president, who builds upon and continues the legacy of those who have come before them. Put differently, no family business wants to be the generation that failed; they play defense first and then offense. They embrace the Hippocratic Oath in their stewardship role: “Do no harm.” This invokes prudence and may result in a missed upside, but it also avoids a truncated downside.

In contrast, many search fund CEOs tend to be all about the gas and less so about the brake. They channel swashbuckling entrepreneurs and not staid trustees. Unfortunately, ETA CEOs tend not to be authentic stewards because they are truly optionees. And despite what they might have smoothly sold the company’s legacy owner about caring for employees and customers and honoring the legacy, there might be a gap between the story and the reality. Stewards focus first on survival, then profit, and finally, growth.¹³ They align and embed their self-interest with the greater good and the company’s legacy.¹⁴ Yes, family businesses might underperform in good times and outperform in difficult times,¹⁵ but when employees, customers, and the very existence of the firm are at stake, that is an acceptable and even desirable outcome.

Family owners have long-term ties to the community and implicit promises made to various stakeholders. ETA CEOs have likely helicoptered in recently and operate through a different lens. Due to the previously mentioned incentive and alignment structure, ETA CEOs may inherently lack a stewardship orientation. We acknowledge that we are adopting a societal perspective in our argument here.

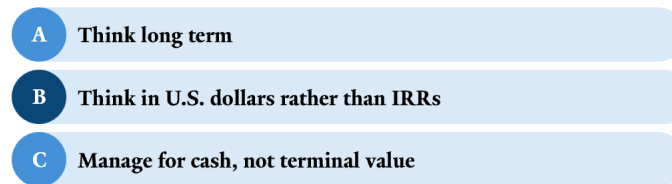
ETA CEOs might give up some upside by donning a stewardship cloak, but they could also avoid some calamitous outcomes. It is not just about the CEO’s option value or the equity providers’ returns; customers, employees, and communities are also non-financial stakeholders (we will discuss this in more depth shortly). They do not vote shares, but any CEO worth their salt must consider these constituents—at least, that is what enlightened family business stewards do. Embracing a stewardship orientation will help ETA CEOs consider a broader range of constituents in their ventures and prioritize the business over the CEO.

02 Lead with a perpetuity mindset

ETA projects typically begin with the end in mind—that is, the exit. It is commonly accepted that a search fund will eventually sell to generate a cash return for investors and the search funder. Furthermore, ETA CEOs appear to be eager to sell more quickly and then transition into an investor role. We often wonder if some searchers actually even wanted to be a CEO and build and lead an organization. In this paradigm, the exit permeates every conversation and decision in the search jungle. Board interactions often slip into discussions about who our buyers are, when we are selling, and forecasted returns. This drives a perpetual state of short-termism, where the CEO is always ready to exit. Unfortunately, this mindset has a profound impact on culture, customer relationships, employee dynamics, and business operations. If we plan to own the business for only four years, how much effort will we put into cultivating the culture? Or do we really need a fancy ERP if we are preparing to hire an investment banker?

Family businesses, on the other hand, *rarely* consider exiting; they are often viewed as perpetuities. This conviction and the patient capital that comes with it are a luxury in many ways, as they allow management, the board, and owners to always do what is best for the company, even when they will not immediately see the benefits. There is no quarterly mark to hit; only the long game matters. While it may be inevitable that ETA projects do exit, CEOs can still adopt a perpetuity mindset that will benefit the firm and potentially increase their exit value as well. Search funders can better design their cap tables to select investors who share their long-term vision, or even self-finance, and be willing to go smaller and slower while maintaining control to build a more evergreen organization. We will now discuss three ways ETA CEOs can lead with a perpetuity mindset (**Figure 3**).

Figure 3: A trio of vectors for search funders to lead with a perpetuity mindset



Think long term

Between 2017 and 2020, the average holding period for exiting search fund companies was just 4.3 years, down from 7.9 years between 2005 and 2008.¹⁶ Short-termism is a common approach employed by ETA entrepreneurs seeking liquidity and growing weary from the daily operational battles. Let's pause and think about what these truncated holding periods mean. It will likely take a new CEO in a new industry at least six months to a year to find their footing and begin understanding the business. Next, the CEO will seek to implement operational changes and improvements to stimulate growth and profitability, a commitment that will require several years. Finally, preparing for and executing a triumphant exit can easily require six to twelve months. Four years is barely a blip when the stretches spent on the learning curve and the off-ramp are subtracted. This hardly gives the CEO any time to fully find their groove and rhythm.

Relatively short holding periods (at least compared to multi-decade or generational family enterprises) force search fund CEOs to think in quarters and, at best, years. When the game plan is a handful of years, everything is urgent. This can lead to compromised decision-making that is focused exclusively on the exit and not oriented toward what is best for customers, employees, and the business as a whole. Partnerships then become aspirational, with no time for roots to take hold and benefits to blossom. Of course, investors and CEOs could collaborate to play a longer game and embrace some of the benefits present in family firms.

In contrast, family businesses think in terms of decades, generations, and even perpetuity. Many high-performing family firms attribute their success to embracing a long-term orientation.¹⁷ Sure, family businesses encounter the daily grind of operational headaches just like ETA firms, but their ownership mindset is oriented toward the long term. They focus on building an exceptional business without constantly thinking about and preparing for an exit. This enables them to make superior decisions that

often deliver significant competitive advantages, returns, and payback periods in the long term. In addition, longer holding periods allow family companies to become genuine domain experts and build customer and supplier partnerships that are more than transactional. Perhaps most importantly, a long-term orientation allows for perpetual capital compounding without incurring corrosive transactional costs, such as taxes and idle time. We discuss some of the financial benefits of long-term entrepreneurial ventures in our note [On the Nature of Long-term Holds: Why Entrepreneurs Should Embrace this Strategy](#).

ETA CEOs would benefit from thinking longer term, even if they are destined for a quicker exit. Making long-term decisions, or at least medium-term ones, will serve the business and could be rewarded by the next buyer. Better yet, extending holding periods can be a wise decision. Every additional year can bring greater financial and non-financial rewards, as well as the opportunity to improve business operations.

Think in U.S. dollars rather than IRRs

Search fund entrepreneurs have an ever-present ticking bomb—the IRR clock. Their equity is tied to IRR performance, which can drive premature exits, excessive risk-taking, and an exacerbated use of debt. All too often, ETA CEOs shut down the game with a premature exit, freezing the IRR clock, since maintaining IRRs that start with a three over long periods is a Herculean challenge. To hit the lofty IRR gold standards, some ETA entrepreneurs deploy debt aggressively in an attempt to goose equity returns. This is pitched as equity efficiency. However, debt structures at more than 5x EBITDA* might be equity efficient, but they are also quite aggressive. Beyond hold periods and debt, some search CEOs might also push hyper-growth schemes in an effort to manufacture IRR.

IRR is a great metric to brag about amongst the PE set, but as the famous saw goes, you cannot eat IRR. Yes, it does measure equity growth over time, but it has shortcomings and tilts toward compressed holding periods. Even modest, consistent IRRs over very extended time frames can create significant wealth. Put differently, IRR is for the money-raising game; after-tax U.S. dollars are for the living game.

Family businesses tend to focus on U.S. dollars (especially after-tax U.S. dollars) rather than IRRs. They keep an eye on IRRs because smart family firms evaluate an array of capital deployment projects and choices, and they adopt those with the most attractive risk-adjusted returns that generate the largest dollar returns, appreciating the old adage that cash is king. IRRs are not the exclusive success metric, like in search fund land; dollars and absolute returns are what rule the day.

Search fund CEOs should consider dollars in addition to IRRs when conducting their entrepreneurial expeditions. Avoiding the trap of focusing solely on IRRs is crucial, as varying the focus can drive longevity and provide meaningful absolute dollars to investors. Some search entrepreneurs may choose to go a step further and seek investors who align with this view, prioritizing cash over IRR metrics.

Manage for cash, not terminal value

* Earnings before interest, taxes, depreciation, and amortization.

Family businesses most often consider enterprise and equity values for tax planning, estate planning, and possibly debt structure. However, they manage for cash flow since there is no terminal value if they do not plan to sell. With that mindset, owners in the family system derive most economic rewards through periodic operating cash flows in the form of dividends and distributions. This is the exact antonym of most ETA strategies, where most, if not all, of the rewards are back-end and occur at exit. If the family orientation sounds Buffet-like—it is. We are not implying that family companies do not reinvest cash in the business with attractive anticipated returns; they certainly do. However, they might not be purely motivated as wealth optimizers because they have current lifestyle cash needs outside the company. Regardless, the business is worth the sum of its discounted cash flows and terminal value.

Search fund entrepreneurs, conversely, think about enterprise value and equity values every day because that is their primary barometer for their compensation and the explicit end game. This approach can occasionally lead to challenges, as businesses live and depend on cash flows rather than equity values. Search funders, with their back-end focus, can get lost in the working capital and capital expenditures mazes that gobble up cash even while potentially amplifying equity value. Regardless, payroll beckons and can only be met with cash, not equity value. While equity values can be elusive and change with external perceptions, interest rates, and economic conditions, cash is real and current. When a parade of cash continues to march in, waxing and waning equity values matter much less. Unfortunately, many search fund CEOs fail to appreciate this and must often scramble for an urgent equity infusion to cover cash deficits, even as unrealized equity values grow.

Additionally, since search entrepreneurs often anchor on terminal value, they are making an inherently risky bet. Prognosticating exit multiples in the future is a tricky sport, and it is easy to be wrong based on factors outside of one's control. When an outcome is completely sensitized to a single trade transaction, there might be more risk than harvesting operating cash flows along the way.

Family companies, however, are more likely to center on cash as the primary gauge for success and business health. They are not building to sell, and equity accumulation is derived more from dividends and distributions than a one-off pop at terminal value. Additionally, since family businesses are less sensitive to accounting measurements such as EBITDA due to their long-term focus, lower reliance on external financing, and non-financial goals, they are more acutely aware of cash and its current status.

ETA CEOs must always watch the till and never forget that cash matters. Equity value does not pay the bills and can evaporate quickly. Cash is real and current, while terminal values are hypothetical and are often years away.

03 Optimize for the entire ecosystem

Search fund entrepreneurs are keenly focused on generating returns for investors, which trickles down to economic rewards for themselves. They sprint for a handful of years in an effort to garner seven- or eight-figure paydays in an ends-justify-the-means posture. Customers and employees can be viewed as mere tools in the pursuit of profit. It is this transactional context that mirrors some of the prickliest aspects of PE. The heart of the strategy is shareholder supremacy, with other constituents being of lesser importance. However, optimizing exclusively for financial metrics that satisfy investors might not

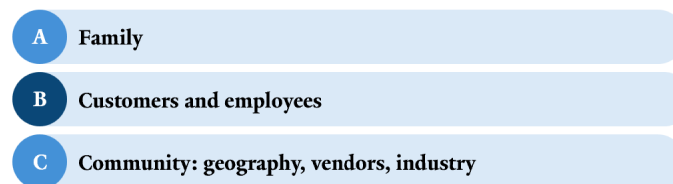
necessarily underpin the best possible life for all constituents who interact with the company over the long term—including investors and searchers themselves.

Family businesses, in contrast, tend to optimize for the entire ecosystem, including the family, employees, customers, vendors, and the communities in which the company operates, as well as the industry, alongside their own financial metrics. This is a starkly different approach that does not disregard shareholder needs, but also acknowledges other constituents that are critical parts of the company's ecosystem. According to the previously cited McKinsey & Company report, the highest performing family-owned businesses believe their company has a clear purpose beyond creating value for shareholders. This purpose might include focusing on legacy, supporting customers, or generating positive impact in their communities.¹⁸

We like to think that the three most important parties in any business venture are owners-family, customers, and employees. They all matter and are vital to an enterprise's success. To help understand the importance of balancing these various components of the ecosystem, envision a stool with three legs. When all three legs are similar in length, the stool is well-balanced and sturdy—healthy and durable. When one or two legs are out of joint, the stool quickly becomes wobbly and might eventually teeter and collapse. So it is with a business enterprise. Now, it is easy to favor one leg of the stool for a short period of time, but it is challenging to have a stool in equilibrium when one leg is endlessly prioritized over the others.

When CEOs are in the game for decades and generations, these concepts matter—a lot. Search funders who are more narrowly focused, with shorter time horizons, can afford to let specific dimensions fray since it will be the next owner's problem. But that may not optimize for the ecosystem.

Figure 4: A triad of constituents for ETA leaders to consider as part of the entire ecosystem



Family

ETA CEOs often put their entrepreneurial project at the center of their lives. The business quickly becomes the most crucial ball that they are juggling—in some ways, their favorite proverbial child. While we admire and appreciate their zeal, we also want to caution them not to over-index on the company. Building a thriving business requires enormous time and energy commitment, but it can be risky to let the business overrun every other part of the CEO's life. The CEO's family is forever, and because ETA companies eventually sell, the business is not. Furthermore, we caution ETA CEOs to understand that investors are business partners and might be crucial ones, but they do not supplant families. We explore some of these themes in more depth in our note [On the Nature of Work–Life Integration as a Search Fund CEO](#).

Family businesses often take a more symmetrical line when balancing the family and the company. They coddle the business and recognize that it is the continual strand that binds generations of family members together and literally sustains the family. Yet they also focus on nurturing the family as a whole and

developing individuals, not only because they might one day become owners and leaders in the family enterprise, but also because they have more time and space to invest in the family, as everything is not centered around a sprint to the exit finish line. Finally, they invest in themselves, finding their own communities outside of work that can provide fulfillment should they step away from formal leadership.

In contrast, some post-exit ETA CEOs discuss re-entering their families after selling the business as if they had been away on a battle tour of duty. We neither endorse nor envy this style. It might be healthy and helpful for the business, but it seems like a surefire way to result in disconnected families or, even worse, losing that family. And while filling the family gap with relationships with investors and business partners may feel good, it is challenging for those relationships to replace genuine family connections.

Perhaps a more productive course of action is for ETA CEOs to emulate high-functioning family businesses that strike the right balance between focusing on the business and prioritizing family. The lines might require more clarity and definition, as family members may also work in the company, and Thanksgiving could also serve as an owners' meeting. However, those are manageable issues. ETA CEOs who disregard or suppress their family's needs and importance will eventually pay the price with resentful spouses and indignant children.

Customers and employees

We cannot emphasize enough the importance of customers and employees in a company's lifecycle. Customers are the reason why a business exists. Businesses do not exist to make money. Instead, they exist to serve customers, and if they do that well, they make money. Earning profits is a derivative of customer service, not a function itself. Too often, we hear ETA leaders frame customers in terms of acquisition costs, attrition, lifetime value, and price maximization. In other words, they see customers not as partners or constituents to serve but as conduits for shareholder benefit.

Family businesses understand that customers are the sun around which the company orbits. According to a PricewaterhouseCoopers (PwC) whitepaper on family firms, 78% of U.S.-based family businesses say they believe it is essential for customers to trust their companies.¹⁹ And their beliefs manifest in the real world, too: The 2024 Edelman Trust Barometer shows that 70% of respondents trust family-owned businesses, a higher percentage than privately held businesses (62%) and publicly traded businesses (58%). Serving customers and treating them well leads to years and decades of prosperity. When the horizon is forever, there is less motivation to aggressively extract value from the customer for short-term gain when the real goal is to build the relationship over time.

In ETA projects, many employees get short shrift. They are not shareholders, and they are not a source of revenue like customers. They are at the bottom of the food chain, a necessary component and an expense to be managed. When a company is in its current ownership formation for just a handful of years, there is little incentive to invest in employees. The mantra is to get the work done and keep labor costs as low as possible.

Family businesses, however, see employees as the backbone of the organization. They are the customer-facing team members who represent the voice and face of the business. When employees can perform their jobs effectively without rework, operating costs decrease. Additionally, when employees feel appreciated and happy, costs associated with recruiting, onboarding, training, and separation are also

lower. Most family businesses view employees as a long-term asset to invest in and grow, rather than an expense to be cut. Today's customer service rep is tomorrow's manager and leader. When the family business looks to the future and knows it will still be operating the company in the years to come, that is important. The PwC report cites that 65% of respondents rate employees as a 4 or 5 on a 5-point scale when answering the question about the amount of focus, energy, and investment they are allotted.²⁰ Countless stories abound of family businesses tightening their belts to keep employees on board even during the worst business disruptions; many of these accounts are supported by research from KPMG, Western Michigan University, and Grand Valley State University, among others.²¹

We would *love* to see ETA CEOs reprioritize customers and employees, two of the ever-important stool legs. This tack will bode well for any business, even with a short-term exit, especially when potential acquirers can suss out disharmony among customers and employees, which can result in lower valuations. But in either case, happy customers and employees lead to happy shareholders. Even if CEOs have quick exits, they are incentivized to build organizations that are attractive to potential buyers and minimize customer and employee disharmony. This is true even if potential buyers are at a disadvantage due to asymmetric information during the diligence process.

Community: geography, vendors, industry

Family firms embrace the communities in which they operate, their industry, and their vendors. They see these areas as important and worth including in their overall optimization. Deeply connected and integral to their communities, family firms are often significant employers and supporters of local institutions, including hospitals, arts programs, and philanthropic organizations, among others. Their owners care about their community because they tend to live there, have deep roots, and know scores of the local population. In addition, their employees live there, and they aim for the community to be the best it can be. There is almost an obligation to support the community. According to the previously mentioned PwC paper, 81% of family companies report contributing to their local community and acting in a socially responsible manner.²²

Similarly, family businesses are concerned about their industry beyond their specific location. They want it to flourish because everybody wins when there is a rising tide. They learn from their industry peers and might even collaborate as well as compete. Since they plan to be in the industry for decades, they care about and invest in things like government regulation, public perception, and overall growth.

Finally, vendors are often regarded as key partners for family firms. They are a source of industry news, learning, and support, more often viewed not as adversaries who are targets of price reductions but as a critical resource to help improve the company. In this vein, family firms want vendors to operate profitably so they can be long-term associates.

Search fund CEOs can learn from family operators in how they engage with their community, their industry, and their vendors. They might benefit from a perspective that views these parties as long-term partners who provide opportunities to learn, contribute, and enjoy benefits in return.

Conclusion

Search fund entrepreneurs have much to learn from family businesses and should adopt and integrate some of their principles—such as thinking like a business owner, leading with a perpetuity mindset, and optimizing for their entire ecosystem—into ETA projects. Embracing some of the most vibrant family enterprise concepts will help ETA CEOs build even better and more thriving firms.

Thinking like an owner means separating ownership and management, shunning the optionee mentality, and embracing stewardship first. The most enviable part of a family business is its perpetuity orientation; they do not think about exits. They are in it for the long term; they manage for dollars, not IRRs; and they are focused on cash, not terminal values. Finally, family companies optimize for their families, customers, employees, communities, vendors, and their industry. They encompass all the elements in their ecosystem and understand that each contributes to their success.

Search fund entrepreneurs might agree with many of the compelling building blocks in a family business and then bemoan that they do not have one to glide into. We are sympathetic to that perception, but we have an easy answer: Build it. Every multi-generational family business begins with an intrepid pioneer who creates something, often with a vision that serves both the present and future generations. Somebody has to be what is referred to as Generation 1. If searchers want to have a financial pump for decades, something that will attract their children home, the opportunity to see their grandchildren weekly, social capital in their community, and a visceral emotional link with family members—they just might need to build it. It may not be easy, and the best benefits are decades away, but somebody needs to plant the acorns for the oak tree.

We encourage ETA CEOs to learn from family businesses, adopt some of their principles, and explore further what other virtues and benefits may be helpful. We believe this will result in building better, bigger, more resilient, and more valuable organizations that will be more satisfying to lead. We wish you luck and outrageous success in your odyssey and are rooting for you every step of the way!

Exhibit 1: Additional resources

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This case has been developed for pedagogical purposes. The case is not intended to furnish primary data, serve as an endorsement of the organization in question, or illustrate either effective or ineffective management techniques or strategies.

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Endnotes

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