

**Back to the future:
The effect of returning family successions on firm performance**

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Abstract

We analyze the globally common transition from professional manager back to family managers in a sample of large public trade Italian family firms. Estimating a difference-in-differences model we show that such – Type R – transitions are positively correlated with firm performance. To facilitate a causal interpretation, we confirm the absence of diverging performance trends before succession and instrument the transition decision with the gender of the firstborn child. Exploring heterogeneity, we document a weaker performance effect in R&D-intensive firms and turbulent industries. Furthermore incoming family manager affect firm policy through reducing labor costs and spur labor productivity. Our results are consistent with the hypothesis that family managers are value creating in situations where there are strong family assets and competent and motivated family leaders.

Keywords: Family Business; CEO Succession; Family Executives; Profitability

1. Introduction

A voluminous literature over the past two decades has demonstrated that family control is one of the most common forms of corporate ownership around the world (e.g. La Porta et al. 1999; Faccio & Lang 2002). Given such prevalence, scholars have sought to understand how family involvement in top executive positions affects corporate decisions and returns. Whereas family involvement may bring about advantages in terms of labor stability (Ellul et al. 2018) and long-term orientation (Miller & Le Breton-Miller, 2005; Mullins & Schoar 2016), and avid stewardship over and investment in the business (Ward 2006), family-led firms have also been associated with executive incompetence and entrenchment (Bertrand & Schoar 2006), inefficient attachment to corporate assets (Feldman et al. 2016), non-economic and family-centric priorities (Gomez-Mejia et al. 2007, 2011), poor managerial practices (Bloom & Van Reenen 2007) and, on aggregate, low factor productivity (Caselli & Gennaioli 2013).

A large stream of this research, has been concerned by the transfer of the CEO position over time, which is a broad question of key relevance for the strategy scholarship (Beatty & Zajac 1987; Zajac 1990). There is consensus among multiple studies that family firms underperform when the CEO position is transferred within the family, typically from a founder to a later-generation family member (Bennedsen et al. 2007; Calabrò et al. 2018; Chang & Shim 2015; Cucculelli & Micucci 2008; Perez-Gonzalez 2006). Interpretations for this negative result have been related to dysfunctional nepotism (Schulze et al. 2001; De Massis et al. 2008),

selection criteria based on kinship rather than merit (Bertrand & Schoar 2006; Gomez-Mejia et al. 2011), and selection from a small family talent pool versus the larger market for managerial talent (Mehrotra et al. 2013).

These findings of family successors doing poorly seem to contradict those who claim that many family firms thrive, even in the long run (Bennedsen 2015; Miller & Le Breton-Miller 2005; Mullins & Schoar 2016; Sraer & Thesmar 2007). This view suggests that family executives sometimes have particular merits in running their companies. First, they are less subject to principal-agent problems given their personal ownership and that of other family members to whom they are loyal (Anderson & Reeb 2003). Second, their typically long tenures allow them to acquire tacit knowledge and private contacts that they receive from mentoring by prior generations (Miller & Le Breton-Miller 2005). Third, their customs, values, family-based legitimacy, discretion and stability allow them to build social capital with stakeholders inside and outside the organization (Bach & Serrano Velarde 2015; Bennedsen et al. 2015; Sraer & Thesmar 2007).

Existing research in this field has exclusively focused on family-to-professional vs. adjacent family-to-family CEO successions. In this study, we explore a different type of successions entirely overlooked in the literature, i.e. successions in which a family member is appointed to lead the company after a period of non-family management. We call these “Type-R” successions to denote the *return* to family leadership after a period of a non-family leadership regime. R-type successions provide a new layer of heterogeneity to current debates on family leadership (Chand & Shim 2015; Miller et al. 2013) and are helpful to settle the above debate on the performance ability of family CEOs.

R-type successions are unique as they embody two distinct features. First, they follow the departure of a non-family leader, whose previous appointment establishes the importance of meritocracy and professionalism in formerly having sought a leader from outside the firm. Second, they affirm the return of a family member in the CEO position, which indicates the willingness of a motivated family member who enters the business by embracing “extended” socioemotional priorities who make him/her able to leverage on intangible family assets such as legacy values, stakeholder relationships, motivated and devoted leadership, and reputational concerns (Arregle et al. 2007; Bach & Serrano Velarde 2015; Bennedsen et al. 2015; Miller & Le Breton-Miller 2005, 2014). By capitalizing on those intangible family assets while avoiding the hazards of nepotism, Type-R successions will enjoying the best of both worlds – meritocracy and a motivated, competent family leadership.

We hypothesize that firms undertaking a Type-R succession will experience higher performance as compared to firms that experience a professional-to-professional succession. This positive effect is negatively moderated by the complexity of firms’ operations and the turbulence in the firm’s reference industry, which require a broader set of professional competences to succeed.

To test our hypotheses, we employ a sample of 535 family-owned Italian companies where the departing CEO had been a non-family member. Among them, 38% of the incoming CEOs were family members.¹ Using a difference-in-differences approach, we show that firms which appoint a family CEO *outperform* those that appoint a family-unrelated CEO. To validate the causal interpretation of this finding, we show the absence of pre-succession diverging trends in performance across the two succession types. Moreover, we show that our results are robust

¹ The corresponding percentage for publicly-traded Japanese family firms was 45% (Bennedsen et al. 2019).

to the use of an instrumental variable analysis based on the firstborn gender, which generates exogenous variations in the likelihood of appointing a family CEO (Bennedsen et al. 2007). In follow-up analyses, we show that Type-R successions drive a significant reduction in production costs and an increase in operating efficiency. They also enhance labor productivity – a result consistent with the documented ability of family leaders to commit to implicit contracting with their workforce (Bach & Serrano Velarde 2015; Sraer & Thesmar 2007).

2. Hypothesis development

2.1. Type-R successions

CEO succession has been the cornerstone of a large stream of research in management (e.g. Miller 1993; Shen & Cannella 1989). While CEO succession events have far-reaching events for all companies, the topic has received particular attention in the family business literature, which has often characterized CEO change as perhaps the most important event in the life-cycle of a family firm.

Several studies have thus been devoted to understand how CEO succession affects a variety of corporate outcomes spanning from accounting performance (Bennedsen et al. 2011; Perez-Gonzalez 2006; Cucculelli & Micucci 2008), survival rates (Wennberg et al. 2011), labor policies (Bach & Serrano Velarde 2015) and capital structure (Amore et al. 2011). Unfortunately, much of this literature has been focused on successions where the top corporate position is transferred from family (often the founder) to either another family member or to a professional.

Departing from this approach, our focus is on family firms where the leaving CEO is a professional member, and the family owners may decide whether to appoint another professional or transfer back the CEO position to the controlling family. As we will show, this succession

pattern is not rare. Before moving to the hypothesis development, we wish to provide some examples that highlight the main features of these returning – or Type-R – successions.

Toyota had been managed by three professional CEOs between 1995 and 2009 when, in the midst of a major auto safety recall crisis, the company decided to promote Akiro Toyoda as CEO. At the US congressional safety hearing Toyoda’s declaration suggested valuable qualities beyond the reach of most non-family CEOs: “Since last June, when I first took office, I have personally placed the highest priority on improving quality over quantity, and I have shared that direction with our stakeholders. As you well know, I am the grandson of the founder, and all the Toyota vehicles bear my name. For me, when the cars are damaged, it is as though I am as well”.² At the French luxury house Hermès, Patrick Thomas was for 12 years a very successful external CEO. However, after facing an uninvited takeover attempt, the Hermes family replaced him with family member Axel Dumas in a strategic effort to use the family name as a flag and a guardian for the luxury firm’s values, history and long-term strategic thinking.³ Finally, in 2016 Adil Kahn one of the two professional CEOs left Italian eyewear maker Luxottica, and family owner Leonardo del Vecchio assumed executive power. His clout and experience motivated him to “renew the entrepreneurial spirit of the company” and prioritize growth, efficiency and investment for the long run.⁴

2.2. The performance effects of Type-R successions

To investigate the performance implications of Type-R successions, we use a socioemotional-wealth lens. In particular, we argue that type-R successions are representative of families that

² See Bennedsen et al. (2015) for a broader discussion on family assets.

³ See “*Hermès counts on Axel Dumas to guard family business*”. *Financial Times*, March 4th 2014.

⁴ See “*Luxottica: lascia Kahn, uno dei due AD. Deleghe a Del Vecchio*”. *Il Sole 24 Ore*, January 30th 2016.

have temporally and socially “extended” versus “restricted” priorities for their firms (Gomez-Mejia et al. 2007, 2010; Gu et al. 2019; Miller & Le Breton-Miller 2014). The restricted view suggests that family firms prioritize current outcomes related to family welfare from the business. Restrictions may be characterized by nepotism, entrenchment of incompetent family executives, and prioritizing family socio-emotional over economic benefits (e.g. Feldman et al. 2016). The extended view, by contrast, is broader both socially and temporally – with a longer term orientation embracing the interests of stakeholders such as employees, owners, and the community. This view prioritizes meritocratic leadership, enduring economic success, and transgenerational and reputational advantages for the family (e.g. Berrone et al. 2010; Cennamo et al. 2012).

Due to the small family talent pool family CEOs may lack the administrative skills of an executive selected from among hundreds of managers. Moreover, they may embrace non-economic family priorities that conflict with economic business agendas (Bertrand & Schoar 2006; Bloom & Van Reenen 2007; Chang & Shim 2015; Gomez-Mejia et al., 2007; 2011). However, family CEOs may enjoy more positive relationships with the owning family and other stakeholder groups (Bennedsen et al. 2015), lower agency costs (Anderson & Reeb 2009), ample managerial discretion (Miller et al. 2014), and a unique ability to leverage on the family name, expertise, reputation and relationships to access resources such as financial, tacit knowledge and relational capital (Cabrera-Suarez et al. 2001; Gallucci et al. 2015; Miller & Le Breton-Miller 2005; Mullins & Schoar 2016).

In type R successions, a family will already have demonstrated a positive attitude towards selecting a competent non-family leader from a large talent pool (Mehrotra et al., 2013). There is, in other words, a backdrop of meritocracy to the appointment of leaders. This reduces the

possibilities of dysfunctional attitudes of nepotism and restricted family priorities. Moreover, in coming to their families' businesses, these executives are uniquely able to leverage the family name, reputation, and legacy relationships. Also, given their family membership, they may have considerable discretion to act from the board. Finally, in a multigenerational context in which they are taking over a prized family legacy, they are apt to embrace a long term orientation, investing generously in the business as good stewards of business resources and stakeholder relationships (Bennedsen, 2015; Miller & Le Breton-Miller, 2014). In short, they will favor social and temporally extended versus restricted family firm priorities.

Hypothesis 1: *In firms that have had a prior non-family leader, R type successions will demonstrate superior performance.*

2.3. Environmental contingencies and the performance of Type-R successions

A key prediction of the contingency theory is that the match between contextual and firm-specific characteristics is critical to performance. In our next hypotheses, we will argue that Type-R successors do better in contexts that exploit family assets while placing fewer demands on state-of-the-art administrative or technical expertise (Datta & Rajagopalan 1998; Karaevli 2007; Virany et al. 1992).

Certainly, family intangible legacy assets can be important drivers of a firm's success (Bennedsen 2015): a firm's reputation, its longer-term relationships with stakeholders, symbolic family capital can enhance the company's legitimacy and stability. However, these assets may lose their value in industry contexts that put a premium on novel and very different kinds of products, and where turbulent conditions may make longer-term orientations and relationships

less feasible. Today's offerings become more prized than legacy relationships that can lose relevance in rapidly changing markets.

Hypothesis 2: *The performance advantage of R-type successions will be negatively moderated by industry volatility.*

We now move to explore the firm-specific boundary conditions of our main effect in Hypothesis 1. In some companies, current technical and administrative talents and skill sets may become more important than the embodiment of family values, reputation and legacy, again making intangible family assets less relevant. This may be the case of firms where, prior to his/her departure, the professional CEO has significantly invested into knowledge-intensive projects (i.e. R&D). These projects are often characterized by high uncertainty and their benefits manifest in the long term. The ability of an incoming CEOs to discern which project to continue and which one to interrupt is crucial for the success of the firm. As compared to incoming family CEOs, incoming professional CEOs are likely to feature more similarity in skill-set and strategic direction with the departing professional CEO. These characteristics make them better placed to manage firms whose large amount of R&D projects in place demand idiosyncratic skills related to technical competences rather than family assets.

Hypothesis 3: *The performance advantage of R-type successions will be negatively moderated by the cumulated amount of R&D projects at the time of succession.*

3. Data and variables

3.1. Sources

Our sample covers 535 Italian family firms (corresponding to almost 2,500 observations) with revenues over 20 million Eur that experienced the departure of a professional CEO in any of the

years from 2000 to 2016. These cover instances which – by solely focusing on successions where the departing CEO is a family member – the literature has largely discarded. Data on owners, directors and executives is provided by the Italian Chamber of Commerce, while financial data are from AIDA (Bureau Van Dijk). The family firms in our sample are defined as those businesses in which a family owns at least 50% of the equity (25% for the few listed firms).

Our analyses indicate that departing professional CEOs (i.e. individuals without blood ties to the controlling family) were in most cases replaced by other professionals; however, in 38% of the cases the incoming CEO was a family member (*Type-R succession*). Our analysis will contrast firm profitability and other outcomes across these two modes of succession. The sample size is described in Table 1.

Insert Table 1 about here

2.2. CEO characteristics

Table 2 compares the demographic characteristics of leaving and incoming CEOs. As indicated, departing professional CEOs average 58 years old and are female in 9% of the cases. Incoming family CEOs at 55 years are significantly younger and more likely to be women. These figures suggest that family comebacks sometimes may be the result of a generational change whereby new family leaders take the lead after a period of professional management. Also the incoming professional CEOs at 57 years old (13 pct. women) are more alike the departing professional CEOs. About 12% of the incoming family CEOs were present in the company prior to the succession as one of the five largest shareholders (untabulated).

Insert Table 2 about here

On the bottom part of the table, we compare the tenure of the departing professional CEO depending on the incoming (family or professional) CEO. This analysis is useful to detect whether the professional CEOs leaving the company to a family replacement were temporary (e.g. bridge) appointments.⁵ As shown, there is only a minor difference (less than one year) in the tenure of the leaving CEOs across the two groups of incoming CEOs. Although this analysis does not reveal the motives for appointing professional or family CEOs, it is reassuring that the tenures of the leaving CEO were *not* different depending on the identity of the incoming CEO.

2.3. Firm characteristics

To measure firm performance, i.e. the dependent variable in our analysis, we employ the ratio of operating profits to total assets (*ROA*). *ROA* represents the favored measure of performance in the CEO succession literature (e.g. Bennedsen et al. 2007) and, more generally, in studies about the performance of privately-held firms (e.g. Miller et al. 2013; Belenzon et al. 2019). Industry-adjusted *ROA* is computed by subtracting from a firm's average *ROA* the mean *ROA* of its 2-digit industry and year.

Next, we compute a set of other variables used as controls in our regression analysis. We start by taking the logarithm of a firm's age (*Ln age*) to account for differences in the stage of development across firms. To control for a firm's size, we take the logarithm of a firm's total assets (*Ln size*). Capital structure differences are controlled by means of the ratio between total

⁵ Temporary (or interim) CEO appointments have received some attention in the literature. See e.g. Ballinger and Marcel (2010). If the departing professional CEO leaving to a family member was designed as temporary, we might have expected a shorter tenure but this does not appear to be the case.

debt and total assets (*Leverage*) and the ratio of cash and equivalent securities to total assets (*Cash holdings*).

For ownership and governance variables, we consider the share of equity in the hands of the controlling family (*Family ownership*), a dummy equal to one for boards with any non-family director and zero otherwise (*Presence of non-family directors*), the logarithm of the number of a firm's directors (*Ln board size*), the logarithm of the average age of board members (*Ln board age*), the ratio of female executives to all top executives (*Presence of female executives*) and the ratio of female directors to all directors (*Presence of female directors*). These variables are apt to capture differences in a firm's corporate governance characteristics which may correlate with both the likelihood of Type-R succession and firm performance.

Table 3 reports the summary statistics concerning these variables for the full sample.⁶

Insert Table 3 about here

4. Empirical results

4.1. The profitability effect of Type-R successions

Before moving to the regression analyses, we provide the basic difference-in-differences results before and after each of the two types of CEO succession considered in our analysis. These are reported in Table 4, employing industry-adjusted ROA as focal variable of interest and considering the years before and after succession to define the “pre” and “post” groups.

⁶ In untabulated tests we explored the differences of each of these variables for the two succession types at the time of succession. This analysis revealed only marginal differences across the two groups, and thus diminishes the concern that any post-succession differences in performance can be explained by differences already present at the time of succession.

Insert Table 4 about here

As the table shows, the pre-succession performance average does not differ across the Type-R and professional successions.⁷ This result mitigates concerns of diverging performance trends prior to CEO departure (an issue that we will address more extensively later). Moreover, focusing on the pre-post change for firms experiencing a Type-R succession (Column 1), we find a significant increase in industry-adjusted ROA. By contrast, firms experiencing a professional succession did not exhibit any significant change in performance (Column 2). Column (3) presents our univariate difference-in-differences result, suggesting that the change in performance for firms with incoming family CEOs minus the change in performance for firms with incoming non-family CEOs is positive and statistically different from zero.

Table 5 confirms this result using a regression analysis.⁸ Our key explanatory variable is the interaction between the Post dummy (equal to one for the years post-succession, and zero pre-succession) and Type-R succession dummy (equal to one for firms that appoint a family CEO following the departure of a professional CEO, and zero for firms that continue with professional CEOs). We control for firm fixed effects to remove unobserved heterogeneity at the firm level, as well as for year dummies to account for shocks common to all firms. Moreover, we sequentially include the time-varying firm controls described above. Standard errors are

⁷ Ballinger and Marcel (2010) find that performance during an interim CEO regime is lower than that of CEOs during stable appointments. The *lack* of differences in performance before succession across Type-R successions and professional successions further helps to rule out the concern that the leaving professionals that vacate the CEO seat to a family member were appointed as temporary CEOs.

⁸ In the regression analyses, we use unadjusted ROA as dependent variable following Gormley and Matsa (2014), who have warned against using dependent variables computed by subtracting group averages from the firm value. Instead, we account for industry trends by using interactions between 2-digit industry dummies and year dummies.

computed by clustering at the firm level, in order to account for both heteroskedasticity and serial correlation in the structure of residuals.

As shown, the coefficient of the interaction term is always positive and statistically different from zero. In other words, firms that appoint a family member following the departure of a professional CEO perform better than firms that replace the professional CEO with another professional CEO. The profitability gain, equal to 0.013 in the most restrictive specification of Column (5), amounts to a 14 pct. improvement over the average ROA (equal to 8.8). Collectively, these results provide support to Hypothesis 1 on the superior performance of Type-R successions.

Insert Table 5 about here

4.2. Assessing robustness and causality

A key challenge to the causal interpretation of our result so far arises from omitted factor concerns. In particular, although our analysis controls for a large set of variables as well as firm and time fixed effects, it is possible that our key explanatory variable (i.e. appointing a family member rather than a professional manager) correlates with unobserved variables in the error term, which in turn correlates with firm performance. In this instance, our results will be biased. To overcome this challenge, we employ an instrumental variable approach.

An appropriate instrument in our setting should satisfy two conditions: (1) it should correlate with the likelihood of having an incoming family CEO; (2) it should be exogenous to firm performance. Following Bennedsen et al. (2007), we employ the gender of the firstborn of the largest family owner as instrumental variable. While firstborn gender is plausibly exogenous

to firm characteristics, it also displays a significant correlation with the identity of the incoming CEO: the probability of family succession is significantly higher when the firstborn is male (Bennedsen et al. 2007).

We have firstborn gender data on 358 successions out of the 535 successions used in our main analyses. Firstborn gender data comes from various media sources such as newspapers and social media as well as corporate websites, biographies etc. Using this data, we estimate a 2-stage least square model in which the key endogenous variable is the interaction between Type-R successions and the post-succession dummy, and the key instrumental variable is the interaction between the male-firstborn dummy and the post-succession dummy. Moreover, the model sequentially includes the control variables used in our previous analyses. First-stage results are shown in the left panel of Table 6.⁹ As shown in Column (1), male firstborn gender is positively (and significantly) associated with the likelihood of Type-R successions. This effect is unaffected by the inclusion of the firm-level controls (Columns 2-4). The F-statistics in the full model of Column (4) is equal to 29, which is well above the conventional threshold used to identify weak-instrument problems. In the right panel of Table 6, we illustrate the second-stage results where we employ as key explanatory variable the predicted values of Post×Type-R succession from the first-stage. As shown in Columns (1)-(4), Type-R successions induce a significant improvement in firm performance. The coefficient in the full model, equal to 0.026 percentage points, appears slightly higher than the OLS results equal to 0.021.

Insert Table 6 about here

⁹ Following Bennedsen et al. (2007) the first-stage regression is estimated using a linear probability model even if the dependent variable is a dummy. This approach avoids consistency problems that may arise from the use of a non-linear model.

So far, we have employed ROA as main explanatory variable to measure firm performance. In Column (1) of Table 7, we show the robustness of our findings using the ratio of revenues to assets, which proxies for the ability of CEOs to efficiently use the corporate assets to generate revenues. In Column (2), we show the results obtained estimated using a Pooled OLS regression, whereas in Column (3) we replace firm fixed effects with random effects. Results are robust to both of these alternative specifications.

Insert Table 7 about here

Our results established a performance increase from Type-R successions comparing the entire post-succession period with the pre-succession period. In Table 8, we provide a more fine-grained estimation by using a set of dummies corresponding to each of the years before and after succession (from minus 4 or earlier, to plus 4 or later). The succession year is used as baseline category. The table shows two important results. First, it confirms that firms in the two groups do not show any discernible difference in ROA prior to the succession; the coefficients from $t = -4$ to $t = -1$ are economically and statistically negligible. This set of findings confirm the parallel trend assumption needed for the validity of our difference-in-differences approach. Second, the table shows how the dynamics of the performance change unfold after the succession. After a Type-R succession, ROA increases gradually from the first to the third year after succession, and then stabilizes.

Insert Table 8 about here

4.3. Moderating effects

In Hypothesis 2, we have submitted that the beneficial effect of Type-R successions should be lower in complex organizations, which demand a more professional skill-set and attitudes more aligned with that provided by non-family CEOs. We test this hypothesis by means of a triple interaction between the Type-R succession dummy, the post-succession dummy, and the level of cumulated R&D in the pre-succession period. As the analysis in Column (1) of Table 9 shows, the coefficient of Post×Type-R succession remains positive and significant; however, consistent with our hypothesis, the coefficient of the triple interaction is negative and significant.

In Column (2), we move to testing Hypothesis 3, which assumes that Type-R successions should generate a weaker financial result in turbulent industries. Similar to the previous test, we employ a triple interaction between the Type-R succession dummy, the post-succession dummy, and the volatility of industry profits. The evidence reported provides statistical support to our hypothesis that Type-R successions perform worse in unstable industry contexts.

Insert Table 9 about here

4.4. Other corporate outcomes

To probe into the mechanisms behind our previous results, we adopt a number of dependent variables related to efficiency and investment. We start by adopting the logarithm of production costs in Column (1) of Table 10. As shown, Type-R successions have a negative effect, although the p-value is only 0.11. Focusing on labor costs, as we do in Column (2), makes us able to estimate a negative effect more precisely: Type-R successions are associated with a reduction in

labor costs as well as, as shown in Column (3) an increase in labor productivity, computed as value added by employees, exhibit a marginally significant increase. Finally, we show that Type-R successions are not associated with a significant change in investment, as suggested by the insignificant effect on asset growth (Column 4) and likelihood of acquisitions (Column 5).

Insert Table 10 about here

5. Discussion

Rigorous research has documented that appointing a family CEO can hurt firm performance (e.g. Bennedsen et al. 2017; Cucculelli & Micucci 2008; Perez-Gonzalez 2006). Such studies, however, have exclusively focused on the appointment of a family member or a professional manager following the departure of a family CEO. We argue that, for mature and professionalized family firms that have already been led by non-family managers, the opposite may well be true, given the superior ability of family CEOs to leverage on family assets. Returning family CEO after a period of professional management represent an unexplored layer of heterogeneity in the vast debate about the strategic implications of different leadership arrangements in family firms (e.g. Miller et al. 2013; Chang & Shim 2015; Calabrò et al. 2018).

Theoretically, we have drawn on recent developments in the socioemotional-wealth literature, which has argued that socioemotional priorities may have a different connotation and bear different implications for firm performance (Miller and Le-Breton Miller 2014; Gu et al. 2019). We have thus hypothesized that R-type successions will enjoying the best of both worlds – meritocracy and a motivated, competent family leader which embraces an “extended” socioemotional wealth perspective free of wasteful nepotism and better able to avert trade-offs

between financial goals and family welfare considerations. Delving into the context of CEO successions, we have then argued that a higher R&D intensity and industry volatility will attenuate the performance effect of Type-R successions. In these contexts, family assets such as traditions, legacy relationships and values may be less apt to come into play and there are stronger demands on state-of-the-art technical and administrative expertise.

Our results, estimated on a panel dataset of family businesses experiencing the departure of a professional CEO, confirm that appointing a family member vs. a new professional CEO significantly improves firm performance. This result, however, is weaker among firms that operate in knowledge-intensive and turbulent contexts. Exploring the drivers leading to higher operating performance, we found some evidence that Type-R successions enhance cost efficiency and labor productivity, which is in line with existing insights on the implicit contracting advantage of family management (Bach & Serrano-Velarde 2015; Sraer & Thesmar 2007).

In short, our study suggests that cycles of professional and family management may be healthy for the family business. We urge others to explore further the underlying sources and generality of our findings.

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Table 1. Overview of the sample

| | Full sample | Type-R succession | Non-family succession |
|--------------|-------------|-------------------|-----------------------|
| | (1) | (2) | (3) |
| Observations | 2,425 | 1,074 (44.3%) | 1,351 (55.7%) |
| Unique firms | 459 | 196 (42.7%) | 263 (57.3%) |

Table 2. CEO characteristics*Panel A. Demographic characteristics of leaving and incoming CEOs*

| | Leaving CEO | Incoming family CEO | Incoming non-family CEO | Difference (2)-(1) | Difference (3)-(1) |
|--------|-------------|---------------------|-------------------------|--------------------|--------------------|
| | (1) | (2) | (3) | (4) | (5) |
| Age | 58.365 | 55.321 | 56.5 | -3.044 (0.058) | -1.865 (0.231) |
| Female | 0.088 | 0.184 | 0.125 | 0.094 (0.015) | 0.037 (0.295) |

Panel B. Tenure of leaving CEO by succession type

| | Type-R succession | Non-family succession | Difference (2)-(1) |
|-----------------------|-------------------|-----------------------|--------------------|
| | (1) | (2) | (3) |
| Tenure of leaving CEO | 7.125 | 6.300 | -0.825 (0.175) |

p-values in parentheses

Table 3. Summary statistics

| | Observations | Average | Median | Standard deviation |
|----------------------------------|--------------|---------|--------|--------------------|
| ROA | 2,425 | 0.087 | 0.078 | 0.066 |
| Ln age | 2,425 | 3.053 | 3.258 | 0.850 |
| Ln size | 2,425 | 11.376 | 11.373 | 1.413 |
| Leverage | 2,425 | 0.649 | 0.683 | 0.202 |
| Cash holdings | 2,425 | 0.062 | 0.036 | 0.075 |
| Family ownership | 2,425 | 0.901 | 1 | 0.169 |
| Presence of non-family directors | 2,425 | 0.103 | 0 | 0.304 |
| Ln board size | 2,425 | 1.541 | 1.609 | 0.433 |
| Ln board age | 2,425 | 3.983 | 3.989 | 0.141 |
| Presence of female executives | 2,425 | 0.077 | 0 | 0.210 |
| Presence of female directors | 2,425 | 0.127 | 0 | 0.163 |

Table 4. Performance changes around the succession

| | Type-R succession | Non-family succession | Difference (1)-(2) |
|--------------------|-------------------|-----------------------|--------------------|
| | (1) | (2) | (3) |
| Pre (1) | -0.006 | 0.003 | -0.009 (0.149) |
| Post (2) | 0.005 | -0.001 | 0.006 (0.327) |
| Difference (2)-(1) | 0.011 (0.031) | -0.004 (0.466) | 0.015 (0.040) |

p-values in parentheses

Table 5. Main results

| Dependent variable: ROA | | | | | |
|----------------------------------|-------------------|--------------------|--------------------|--------------------|--------------------|
| | (1) | (2) | (3) | (4) | (5) |
| Post×Type-R succession | 0.0239 (0.000) | 0.0234 (0.000) | 0.0233 (0.000) | 0.0243 (0.000) | 0.0210 (0.003) |
| Ln age | | -0.0042 (0.641) | -0.0050 (0.575) | -0.0046 (0.609) | 0.0003 (0.974) |
| Ln size | | 0.0056 (0.010) | 0.0065 (0.004) | 0.0064 (0.005) | 0.0081 (0.001) |
| Leverage | | | -0.0430 (0.080) | -0.0454 (0.067) | -0.0578 (0.029) |
| Cash holdings | | | 0.0923 (0.001) | 0.0916 (0.001) | 0.0888 (0.004) |
| Family ownership | | | | 0.0138 (0.505) | 0.0024 (0.915) |
| Ln board size | | | | -0.0124 (0.071) | -0.0173 (0.031) |
| Ln board age | | | | -0.0077 (0.311) | -0.0006 (0.939) |
| Presence of non-family directors | | | | 0.0077 (0.652) | -0.0072 (0.707) |
| Presence of female executives | | | | 0.0062 (0.440) | 0.0053 (0.582) |
| Presence of female directors | | | | -0.0146 (0.419) | -0.0165 (0.330) |
| Firm fixed effects | Yes | Yes | Yes | Yes | Yes |
| Year fixed effects | Yes | Yes | Yes | Yes | Yes |
| Year×Industry fixed effects | | | | | Yes |
| Observations | 2,425 | 2,425 | 2,425 | 2,425 | 2,425 |

p-values in parentheses

Table 6. 2SLS results

| <i>Panel A. First-stage regressions</i> | | | | | <i>Panel B. Second-stage regressions</i> | | | | |
|--|-------------------|-------------------|--------------------|--------------------|--|-------------------|--------------------|--------------------|--------------------|
| Dependent variable: Post×Type-R succession | | | | | Dependent variable: ROA | | | | |
| | (1) | (2) | (3) | (4) | | (1) | (2) | (3) | (4) |
| Post×Male firstborn | 0.0710 (0.037) | 0.0760 (0.023) | 0.0776 (0.021) | 0.0819 (0.015) | Post×Type-R succession | 0.0227 (0.092) | 0.0265 (0.041) | 0.0267 (0.041) | 0.0259 (0.064) |
| Ln age | | 0.2999 (0.000) | 0.3097 (0.000) | 0.3141 (0.000) | Ln age | | 0.0121 (0.286) | 0.0118 (0.302) | 0.0131 (0.253) |
| Ln size | | 0.0332 (0.022) | 0.0291 (0.049) | 0.0319 (0.030) | Ln size | | 0.0135 (0.000) | 0.0136 (0.000) | 0.0141 (0.000) |
| Leverage | | | 0.0525 (0.556) | 0.0527 (0.553) | Leverage | | -0.0475 (0.164) | -0.0489 (0.152) | -0.0505 (0.145) |
| Cash holdings | | | -0.2705 (0.066) | -0.2387 (0.104) | Cash holdings | | 0.0758 (0.040) | 0.0830 (0.026) | 0.0805 (0.029) |

*Continued in the next page**Continue from the previous page*

| | | | | | | | | | |
|----------------------------------|-------|-------|-------|---------|----------------------------------|-------|-------|-------|---------|
| Family ownership | | | | 0.0754 | Family ownership | | | | -0.0076 |
| | | | | (0.523) | | | | | (0.798) |
| Presence of non-family directors | | | | 0.1106 | Presence of non-family directors | | | | -0.0043 |
| | | | | (0.004) | | | | | (0.676) |
| Ln board size | | | | -0.0782 | Ln board size | | | | -0.0168 |
| | | | | (0.062) | | | | | (0.075) |
| Ln board age | | | | 0.2026 | Ln board age | | | | 0.0016 |
| | | | | (0.104) | | | | | (0.954) |
| Presence of female executives | | | | -0.0099 | Presence of female executives | | | | -0.0032 |
| | | | | (0.851) | | | | | (0.793) |
| Presence of female directors | | | | 0.3214 | Presence of female directors | | | | 0.0191 |
| | | | | (0.002) | | | | | (0.358) |
| Firm fixed effects | Yes | Yes | Yes | Yes | Firm fixed effects | Yes | Yes | Yes | Yes |
| Year×Industry fixed effects | Yes | Yes | Yes | Yes | Year×Industry fixed effects | Yes | Yes | Yes | Yes |
| Observations | 1,564 | 1,564 | 1,564 | 1,564 | Observations | 1,564 | 1,564 | 1,564 | 1,564 |

p-values in parentheses

Table 7. Additional robustness checks

| Dependent variable: | Profit margin | ROA | ROA |
|-----------------------------|-------------------|-------------------|-------------------|
| | (1) | (2) | (3) |
| Post×Type-R succession | 0.0185 (0.004) | 0.0206 (0.005) | 0.0129 (0.083) |
| Firm fixed effects | Yes | No | Yes |
| Year×Industry fixed effects | Yes | Yes | Yes |
| Observations | 2,425 | 2,425 | 2,425 |

p-values in parentheses

Table 8. Dynamic effect of family successions on performance

| Dependent variable: ROA | | |
|----------------------------------|--------------------|--------------------|
| | (1) | (2) |
| Post $t=-4$ ×Type-R succession | 0.0077 (0.581) | 0.0072 (0.601) |
| Post $t=-3$ ×Type-R succession | 0.0167 (0.148) | 0.0172 (0.137) |
| Post $t=-2$ ×Type-R succession | 0.0119 (0.173) | 0.0129 (0.141) |
| Post $t=-1$ ×Type-R succession | 0.0069 (0.252) | 0.0082 (0.182) |
| Post $t=1$ ×Type-R succession | 0.0189 (0.011) | 0.0186 (0.012) |
| Post $t=2$ ×Type-R succession | 0.0298 (0.000) | 0.0298 (0.000) |
| Post $t=3$ ×Type-R succession | 0.0261 (0.003) | 0.0268 (0.002) |
| Post $t=4$ ×Type-R succession | 0.0290 (0.001) | 0.0297 (0.001) |
| Ln age | -0.0018 (0.851) | -0.0005 (0.958) |
| Ln size | 0.0244 (0.000) | 0.0251 (0.000) |
| Leverage | -0.1100 (0.000) | -0.1155 (0.000) |
| Cash holdings | 0.0843 (0.002) | 0.0865 (0.002) |
| Family ownership | | -0.0023 (0.917) |
| Ln board size | | -0.0030 (0.673) |
| Ln board age | | -0.0196 (0.017) |
| Presence of non-family directors | | -0.0244 (0.191) |
| Presence of female executives | | 0.0089 (0.376) |
| Presence of female directors | | -0.0107 (0.527) |
| Firm fixed effects | Yes | Yes |
| Year×Industry fixed effects | Yes | Yes |
| Observations | 2,425 | 2,425 |

p-values in parentheses

Table 9. Moderating effects

| Dependent variable: ROA | | | |
|--|--------------------|--------------------|--------------------|
| | (1) | (2) | (3) |
| Post×Type-R succession | 0.1481 (0.007) | 0.0221 (0.001) | 0.0221 (0.001) |
| Post×Type-R succession×Industry volatility | -0.0103 (0.019) | | |
| Post×Type-R succession×R&D investment | | -0.0034 (0.000) | |
| Post×Type-R succession×Age incoming CEO | | | -0.0034 (0.000) |
| Post×Industry volatility | 0.0003 (0.920) | | |
| Post×R&D investment | | -0.0000 (0.872) | -0.0000 (0.872) |
| Post×Age incoming CEO | | -0.0000 (0.872) | -0.0000 (0.872) |
| Ln age | -0.0027 (0.788) | -0.0056 (0.599) | -0.0056 (0.599) |
| Ln size | 0.0267 (0.000) | 0.0238 (0.000) | 0.0238 (0.000) |
| Leverage | -0.1092 (0.000) | -0.0949 (0.000) | -0.0949 (0.000) |
| Cash holdings | 0.0759 (0.007) | 0.0731 (0.018) | 0.0731 (0.018) |
| Family ownership | 0.0036 (0.870) | 0.0101 (0.693) | 0.0101 (0.693) |
| Ln board size | 0.0002 (0.975) | 0.0016 (0.836) | 0.0016 (0.836) |
| Ln board age | -0.0215 (0.007) | -0.0235 (0.009) | -0.0235 (0.009) |
| Presence of non-family directors | -0.0091 (0.633) | -0.0100 (0.634) | -0.0100 (0.634) |
| Presence of female executives | 0.0002 (0.981) | -0.0026 (0.808) | -0.0026 (0.808) |
| Presence of female directors | -0.0126 (0.439) | -0.0111 (0.516) | -0.0111 (0.516) |
| Firm fixed effects | Yes | Yes | Yes |
| Year×Industry fixed effects | Yes | Yes | Yes |
| Observations | 2,424 | 2,022 | 2,022 |

Table 10. Other corporate outcomes

| Dependent variable: | Production costs | Labor costs | Labor productivity | Asset growth | Acquisitions |
|------------------------|--------------------|--------------------|--------------------|-------------------|-------------------|
| | (1) | (2) | (3) | (4) | (5) |
| Post×Type-R succession | -0.0378 (0.121) | -0.1202 (0.063) | 0.0687 (0.084) | 0.0157 (0.673) | 0.0297 (0.114) |
| Controls | Yes | Yes | Yes | Yes | Yes |
| Firm FE | Yes | Yes | Yes | Yes | Yes |
| Year×Industry FE | Yes | Yes | Yes | Yes | Yes |
| Observations | 2,424 | 2,355 | 2,108 | 1,910 | 2,369 |

p-values in parentheses