Firm Performance, Entrenchment and Managerial Succession in Family Firms

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Abstract

This paper investigates the role of the family status of a company's top officer in managerial replacement decisions for a sample of 683 UK companies over the period 1992 to 1998. We report evidence that family firms are characterised by higher levels of board control, and weak internal governance in the form of independent company board structures. Consistent with a managerial entrenchment hypothesis, we find evidence that family CEOs are less likely to be removed from their position following poor performance than non-family CEOs. This relationship occurs even after controlling for the ownership of the company's top executive, suggesting that family status conveys additional power to the company's top officer in excess of that implied by their shareholding alone. Stock prices react favourably when companies announce that departure of a family CEO, but only when these directors are replaced by a non-family successor. We also report evidence of increases in operating performance following the departure of a family CEO, which are not witnessed following non-family CEO departures amongst our sample companies. Finally, we also find growth in company sales and employment following family CEO departures in excess of that witnessed following non-family CEO departures, indicating an untapped potential that family CEOs were unable to exploit prior to their departure. Overall, our results appear consistent with a managerial entrenchment hypothesis of the family status of a company's CEO, whereby the cash flows that shareholders expect to receive following their replacement are in excess of those anticipated under the family CEO.

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