ARTICLE IN PRESS

Journal of Family Business Strategy xxx (xxxx) xxx–xxx

Contents lists available at ScienceDirect

Journal of Family Business Strategy

journal homepage: www.elsevier.com/locate/jfbs

"Shadow emperor" or "loyal paladin"? – The Janus face of previous owner involvement in family firm successions☆

Jan-Philipp Ahrens[a,*], Lorraine Uhlaner[b], Michael Woywode[a], Jan Zybura[c]

[a] University of Mannheim, School of Business Studies and Economics, Department of Business Studies, L9 1-2, D-68161 Mannheim, Germany
[b] EDHEC, Business School, Management and Strategy Department, 24, avenue Gustave Delory, CS 50411, 59057 Roubaix Cedex 1, France
[c] University of Mannheim, Institute for SME-Research, L9 1-2, D-68161 Mannheim, Germany

A R T I C L E I N F O

Keywords:
Family firms
Succession
Agency and stewardship theory
Ownership
Performance

A B S T R A C T

Early research on succession in owner-led family firms described succession as a process of mutual role adjustment. This means the parallel lessening of the previous owner's involvement (POI) while a new generation family member gradually takes office as new CEO and owner. In this article, we analyze the performance impact of the frequent phenomenon of POI in the post-succession phase in owner-led family firms. Drawing on upper echelon theory and agency theory, we argue that POI is a two-sided strategy. We posit and test a comprehensive framework that integrates both positive and negative aspects of POI. Moreover, we show that whether POI radiates more salubrious than noxious effects to the family firm is highly context specific. Using 2SLS-IV regressions with multiple instruments to address a potential endogeneity of POI, we find that POI is positively related to performance when the successor's CEO-related human capital (i.e. CEO-related experience and education) is still limited, but turns negative with increased CEO-related human capital of the successor. Furthermore, we show that the performance effect of POI is linked to corporate age: it is positively associated with performance in younger firms, while this positive relation vanishes with increasing corporate age. We observe that both effects are amplified by the previous owner's discretion (i.e. the latitude of actions to shape organizational results) post-succession.

"All looked upon the throne, and heard and saw
Nothing but Jemshíd, he alone was king,[…]
Then proudly to his nobles he spoke,[…]:
"I am unequalled,[…] the universal voice
declares the splendor of my government,[…]
And me the only monarch of the world."
Soon as these words had parted from his lips,[…]
his early grandeur faded:[…] The day of Jemshíd
Passed into gloom, his brightness all obscured."

The Sháh Námeh (the book of kings), 997-1010 A.D., Firdausí[1]

1. Introduction

Family firms, i.e. firms that are both family owned and managed (Fiegener, Brown, Prince, & File, 1994), center around and are reflections of their owner-leaders because they are the gravitational center of power (Bertrand & Schoar, 2003; Hambrick & Mason, 1984; Kesner & Sebora, 1994; Miller & Dröge, 1986). In successions, i.e. when a new CEO *and* owner takes office, the old stronghold of power vanishes and is re-built around the new owner-leader, making a succession a defining event (Bigley & Wiersema, 2002; Miller, 1993). Recent succession research highlights the growing phenomenon that departed leaders often do not leave the scene, but may prolong activity within the firm in various roles (Brickley, Linck, & Coles, 1999; Dyck, Mauws, Starke, &

☆ Many thanks to Stefanie Ahrens, Robert Brownell, Andrea Calabrò, Andreas Landmann, and Alessandro Minichilli for helpful comments. Prior versions of this research were presented at the Annual Meeting of the Econometric Society and the European Economic Association, the Academy of Management Annual Meeting, the European Academy of Management Annual Conference, the Family Enterprise Research Conference, the International Family Enterprise Research Academy, and the International Family Business Research Forum and they hold best article awards from the Family Enterprise Research Conference and the International Family Business Research Forum. Financial support from the Konrad-Adenauer-Stiftung e.V., the German Academic Exchange Service e.V., and the German Universities Excellence Initiative of the German federal and state governments is gratefully acknowledged.

* Corresponding author.
E-mail addresses: jahrens@staff.mail.uni-mannheim.de (J.-P. Ahrens), lorraine.uhlaner@edhec.edu (L. Uhlaner), mwoywode@staff.mail.uni-mannheim.de (M. Woywode), zybura@ifm.uni-mannheim.de (J. Zybura).

[1] Persian epicist, translated by Atkinson (1832).

https://doi.org/10.1016/j.jfbs.2017.11.003
Received 13 February 2017; Received in revised form 17 October 2017; Accepted 14 November 2017
1877-8585/ © 2017 Elsevier Ltd. All rights reserved.

Please cite this article as: Ahrens, J.-P., Journal of Family Business Strategy (2017), https://doi.org/10.1016/j.jfbs.2017.11.003

Mischke, 2002; Karlsson & Neilson, 2009). Indeed, early family firm literature coined this "owner's role adjustment" (Handler, 1990) describing the parallel lessening of previous owner involvement while the next generation family successor gradually takes office as new CEO and owner. Astonishingly, while previous owner involvement (POI, defined as involvement of the previous owner inside the firm post-succession, e.g. as consultant, continued (partial) owner, board member, co-leader, or even as co-owner-leader *and* board member, etc.) is a reality, family firm research has largely omitted exploring its performance implications. This is particularly the case for owner-led family firms, where a unity of ownership and control (i.e.: a blockholder or majority owner is also CEO) makes the parting patriarch an ultimate decision-making authority that can choose its own retirement style (Eisenhardt & Schoonhoven, 1990; Miller, Kets De Vries, & Toulouse, 1982).

Seen from an agency theoretical view (Fama & Jensen, 1983), parting principal involvement can be connected to pursuing private benefits instead of maximizing firm profits, and hence creating type II agency costs for minority owners (Villalonga & Amit, 2006). In particular, family firm patriarchs occasionally have difficulty giving up what they have shaped and grown, and derive utility from maintaining influence (Sonnenfeld & Spence, 1989). Entrenched as shadow emperors, e.g. as a continued powerful co-owner-leader, they may cling to outmoded strategies and structures which they formerly endorsed (Hambrick, Geletkanycz, & Fredrickson, 1993), while decelerating or even dragooning re-alignment usually initiated by successors to break inertia and boost performance (Hambrick & Fukutomi, 1991; Hannan & Freeman, 1984; Miller, 1993). Moreover, resistance to change, undue mistrust in the successor's managerial capability, and curbed successor discretion (Hambrick & Finkelstein, 1987; Virany, Tushman, & Romanelli, 1992) can lead to conflicts affecting the smoothness and performance of the transition.

Conversely, from a stewardship perspective that applies to many family firm owners (Albanese, Dacin, & Harris, 1997; Donaldson, 1990; Le Breton-Miller & Miller, 2015), it may prove beneficial if previous owners prolong their stay on board rather than enjoying their sunset years. Deriving utility from firm success (Davis, Schoorman, & Donaldson, 1997), POI by a family firm steward fosters prosperity by freeing the successor from executive job demands allowing them to be more effective (Hambrick, Finkelstein, & Mooney, 2005) and by shielding the upper echelon from power struggles following succession (Ocasio, 1994; Shen & Cannella, 2002). Moreover, quite often the successor enters office at a disadvantage with regard to firm- and task-specific knowledge (Hambrick & Fukutomi, 1991) and some family successors are installed despite mediocre ability (Dawson, 2011). Under the aegis of apprenticeship and mentoring, a steward's protectorate can guard firm performance from transitory successor inferiority, while crucial knowledge is relayed until the successor and firm are self-reliant (Zhang & Rajagopalan, 2004). In particular, in younger firms POI might be a valuable resource that generates synergies and fosters ventilation of ideas within top management or board (Krause, Semadeni, & Withers, 2016; Morck, Shleifer, & Vishny, 1988).

Both the void of research and these rival theoretical views outline the merit of researching the post succession performance impact of previous owner involvement in owner-led family firms. By adapting the concept of managerial "fit" – i.e. the aptitude for leading a firm through its *current* challenges – to the family firm context (Finkelstein, Hambrick, & Cannella, 2009), we develop an integrated theoretical framework of POI that allows for positive *and* negative aspects by bringing the contextual dimension into play. We posit that which aspect dominates is subject to contingency and depends on three testable premises: (1) the lower the successor's CEO-related human capital (e.g. CEO-related experience and education), the greater the positive performance impact of POI; (2) the younger an organization, the greater the positive impact of POI on performance; (3) these relations are amplified by the strength of the previous owner's discretion post-succession. We do not claim to cover all contextualities affecting the performance impact of POI. But in conjunction, our choice of moderating factors cover several of the most important conceptual aspects family firm succession researchers have identified: (1) Succession as a process, instead of a point in time; (2) the importance of successor attributes, especially human capital; (3) the concept of learning in and from successions; (4) the idea of a "succession dance" in which the parting owner's discretion must be gradually and mutually adjusted as the successor increasingly gains relevant skills and experiences (e.g. Carroll, 1984; Chrisman, Chua, & Sharma, 1998; Handler, 1990; Le Breton-Miller, Miller, & Steier, 2004).

On the basis of data from 804 successions in German medium-sized owner-led family firms, we find considerable support for our hypotheses. We observe POI in 63.4% of the successions, in 45.6% as co-owner-leadership and in 12.6% as a co-owner-leader *and* board position, evidence that is in line with Handler's (1990) work. To test our hypotheses, we employ a difference-in-difference approach by comparing mid-run post-succession developments in industry- and performance-adjusted profit margins (Barber & Lyon, 1996) of firms with and without POI. We employ OLS and 2SLS-IV regressions with multiple instruments to control for endogeneity and including a comprehensive array of control variables. Additionally, we carry out 22 qualitative in-depth interviews with successors to capture a practitioner's point of view of the phenomenon to complement quantitative results.

Our primary contribution is to offer a comprehensive and contingency-based theorem on POI that incorporates its negative and its positive aspects for firm performance as well as moderating contingencies. We posit and show that previous owner involvement in family firms is a Janus-faced strategy. Second, we contribute to agency and governance theory (Boeker, 1992) by highlighting that a departure of a previous owner is not *per se* vital for performance, especially in family firms. Our results show it may even be detrimental to firm performance if old stewards are unwisely kept away from the firm. This raises the question of whether a general cooling-off phase or "blackout" period before a new role is assumed (to avoid potential collusion by a "nexus of informed parties" (Tirole, 1986) at the expense of minority-owners or successor discretion) is really advisable for family firms. Indeed, we show that an artificial dichotomy between "blackout" or POI is an oversimplification: the consequence of the POI is highly context specific (Carroll, 1984). The question is not *whether*, but *under which circumstances* it entails more costs than merits. Further, due to high managerial discretion in owner-led family firms (Villalonga & Amit, 2006), the governance and agency issue is rather: does the departing principal (i.e. the previous owner) strike the appropriate balance to find the optimal degree of influence? Indeed, a transitional POI of a powerful steward may in specific circumstances shelter the firm from turbulence. This adds color to succession planning (Davidson, Worrell, & Nemec, 1998), highlighting that in family firms potential agency costs created by POI may be excelled by costs due to losses in managerial resources from a steward's exit (Krause et al., 2016). Third, we contribute to upper-echelons theory (UET) by proposing to view POI as a bounded resource, whose value to a firm (Henderson, Miller, & Hambrick, 2006) crucially depends on the replacing successor's own bounded human capital as well as the firm's maturity (Miller & Shamsie, 2001). This contextual dimension in fact determines the weight of agency and stewardship aspects. In particular, we show that the performance implication of POI can be understood using the UET concepts managerial fit (Finkelstein et al., 2009) and managerial discretion (Hambrick & Finkelstein, 1987). We find that the "mirrored pair" (Chen & Hambrick, 2012) successor fit/previous owner fit is material for post-succession performance. Moreover, we observe that managerial discretion attached to POI curtails the performance link of POI (Hambrick & Finkelstein, 1987). The article is structured as follows: 2.1 introduces the family firm context; 2.2 and 2.3 theorize on positive and negative aspects of POI; and 2.4 hypothesizes that successor fit and previous owner fit & discretion influence the strength of positive and negative aspects of POI, thus the performance effect of POI. Sections

Download English Version:

https://daneshyari.com/en/article/7426315

Download Persian Version:

https://daneshyari.com/article/7426315

Daneshyari.com