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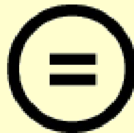

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경영학 석사 학위논문

Who will lead the family firm next?

An examination of moderating roles of the internal succession and CEO tenure on family firm's performance

누가 가족 기업을 이끌 것인가?

가족 기업의 성과에 대한 내부승계와 CEO 임기기간의 조절효과를 중심으로

2020년 8월

서울대학교 대학원

경영학과 경영학 전공

유 준 수

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ABSTRACT

Who will lead the family firm next?
An examination of moderating roles of the internal succession and CEO tenure on family firm's performance

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Prior research into family firms shows inconclusive and inconsistent findings related to the relationship between family-owned firms and financial performance. Since the effect of family ownership on performance is likely to differ across regions, it is necessary to investigate the family effect on firm performance in different contexts. Thus, in this study, I examine the impact of family ownership on a family firm's performance using a sample of companies listed in KOSPI from the year 2013 to 2016. Also, to reveal idiosyncratic challenges and problems of family-owned firms, I examine negative moderating the effects of inside succession and CEO tenure on the relationship between family-owned firms and financial performance. In sum, I attempt to resolve conflicting views on the effect family ownership on the financial performance in addition to examining the moderating effects of the succession process and CEO tenure. This study shows that family ownership is positively associated with financial performance. Also, this study depicts that inside succession and CEO tenure have negative moderating effects on the family firm's financial performance. The theory and evidence from a sample of 460 firms and 1,466 observations suggest that family firm type interacts with inside succession and CEO succession to negatively influence firm return on assets (ROA).

Keyword: family firm, financial performance, inside succession, CEO tenure

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INTRODUCTION

Who will lead a family firm next is a theoretically and empirically important question to be answered since family firms have strong desire to keep their business family-owned and managed over successive generations (Chua, Chrisman, & Sharma, 1999; Carnes & Ireland, 2013; Gomez-Mejia et al., 2017), maintain long-term survival (Goel & Jones, 2016; Werner Schroder, & Chlosta, 2018), and protect socioemotional wealth and family control (Gomez-Mejia et al., 2007; Gomez-Mejia et al., 2011). Family firms are considered to have inexperienced and ineffective management because family firms often appoint incompetent family members to positions in the company (Martinez, Stohr, and Quiroga, 2007). Thus, scholars and practitioners must pay attention to whether such desire is beneficial or detrimental for family firms' financial performance.

Family-owned firms (FFs) are the most dominant form of organization in the world (LaPorta, Lopez-de-Silanes, & Shleifer, 1999) and lead the business landscape as the primary drivers of entrepreneurial activities, corporate growth, and economic development (Rogoff, Kay, & Heck, 2003). Miller and Le Breton-Miller (2005) reported that family-controlled businesses make up 35 to 50 percent of the Fortune 500 and S&P 500 and account for over half the employment in the United States and 78 percent of the new jobs created. Comparable figures for Asia, Europe, and South America are significantly higher (Miller & Le Breton-Miller, 2005). According to the US Census Bureau, family firms now comprise 90 percent of all business enterprises in North America (Inc, 2019). Furthermore, family as a controlling shareholder has been found to demonstrate distinctive cognitive and behavioral patterns (e.g., Bertrand & Schoar, 2006; Gomez-Mejia et al., 2011).

Despite a large number of family firms and the increasing momentum of family firms as a research field, there is no consensus as to whether family control and performance are positively or negatively related (Pindado & Requejo, 2015). Since the effect of family control

on performance is likely to differ across regions due to the varying degrees of investor protection across countries (La Porta et al., 1998), it is necessary to investigate the family effect on firm performance in different contexts. Thus, in this study, I examine the impact of family ownership on a family firm's performance using a sample of companies listed in Korea Composite Stock Price Index(KOSPI) between the periods from 2013 to 2016. Furthermore, I center my attention on inside succession and CEO tenure as moderators that influence the relationship between family firms and financial performance. Empirical evidence demonstrates that succession is the most important issue that most family firms face and central to the firm's existence (Handler, 1994). Family firms are predicted to prefer inside succession over outside succession due to their desire to keep family control. Thus, it is imperative to examine the impact of inside succession on family firms' financial performance. As another moderator used in study, CEO tenure is related to a various form of organizational outcomes (Boling, Pieper, & Covin, 2016) including firm performance (Miller, 1991). Since family firms tend to be controlled by long-tenured leaders and executives, it is important to reveal the effects of CEO tenure, defined as the number of years that the CEO holds the current position in the firm, on family firms' financial performance. In sum, in this study, I attempt to examine the relationship between family ownership and financial performance and reveal the effects of two moderators including CEO tenure and inside succession that potentially determine the magnitude of the relationship between family ownership and financial performance.

I test hypotheses in the sample of firms listed in the Korea Composite Stock Price Index or KOSPI, which is the index of all common stocks traded on the Stock Market Division—previously, Korea Stock Exchange—of the Korea Exchange. KOSPI is the representative stock market index of South Korea, like the S&P 500 in the United States. KOSPI includes some of leading companies in South Korea such as Samsung Electronics, SK Hynix, Hyundai Motor, POSCO, Naver, and etc. Thus, it is a good representative of South Korean market. The empirical

findings suggest that family firms are positively related to financial performance, but significantly less so among long-tenured CEOs and inside successors. These results imply that family firms are better able to produce resources and capabilities that are hard to duplicate over long-term than non-family firms. However, long-tenured CEOs and inside succession can bring disadvantages regarding financial performance to family firms due to tunneling vision, organizational rigidity, and cultural inertia. Tunnel vision occurs when family firms create skewed judgment because of too much focus on the internal politics of a family firm at the expense of market perspective (Allio, 2004). Following prior literature, I define organizational rigidity as the cost of reformulating (or failing to reformulate) previously institutionalized routines and practices in legacy businesses (Leonard-Barton,1992; Kaplan & Henderson, 2005). Accoring to Mawhinney (1992 p.22), "to the extent that members have been conditions to respond to the environment traditional ways of the organizational culture, they can be expected to contribute to cultural inertia." Carrillo and Gromb (2007) argue that cultural inertia increases with age and increases with cultural uniformity.

This study is organized as follows. First, I introduce theory and develop hypotheses based on literature review and my predictions. Second, I describe my sample, key variables, and methodology used in this study. Third, in conclusion, I discuss theoretical and practical implications of this study. Lastly, I summarize some of the limitations of this study.

THEORY AND HYPOTHESES

Family Firms, Resource Based View (RBV), and Long-term Orientation (LTO)

Barney (1991) argued that firms can develop valuable, rare, imperfectly imitable, and not substitutable resources and capabilities to derive sustained competitive advantage. These resources and capabilities are the bundles of tangible and intangible assets such as a firm's management skills, its organizational processes and routines, and the information and knowledge it controls (Barney, Wright, & Ketchen, 2001). Barney's (1991) contribution to

family business began from the interaction between resource types and resource attributes proposed to exist in family firms (Chrisman et al., 2010). Barney's (1991) work provides a fundamental basis for understanding how family and non-family firms are different and why there are variations in the behavior and performance of family firms with different resource configurations (Chrisman et al., 2010). Habbershon and Williams (1999) and Habbershon et al. (2003) describe the interplay between the family and business that may lead to competitive advantages, whereas Sirmon and Hitt (2003) identify specific types of resources that family firms may uniquely have at their command. Cabrera-Suárez et al. (2001) apply the resource-based view (RBV) to the succession process to explain the opportunities and challenges family firms face in attempting to make their competitive advantages sustainable across generations. In study, I argue that compared to non-family firms, family firms are better able to develop resources and capabilities that derive competitive advantage, thus increasing their financial performance.

Time considerations influence many of the decisions organizations make; organizational actions are nearly always time-sensitive (Lumpkin & Brigham, 2011). A long-term orientation (LTO) values extended time horizons and assign greater importance to the future (Lumpkin & Brigham, 2011) and decision-makers with a LTO are mindful that the consequences of many of their choices will come into play only after an appreciable delay (Le Breton-Miller & Miller, 2006). While economic considerations often determine whether a family firm plans its decisions in short-term versus long-term criteria (Lumpkin & Brigham, 2011), noneconomic goals are also likely to influence temporally related decision making (Lumpkin & Brigham, 2011). Relative to nonfamily businesses, family firms are known to prioritize socioemotional goals, many of which are noneconomic and require a long-term perspective to be implemented (e.g., Gómez-Mejía et al., 2007). For example, because of concerns for the prospects of their business, family businesses exhibit stewardship tendencies

such as investing in local communities and making long-term commitments to customers and employees (Miller, Le Breton-Miller, & Scholnick, 2008). As such, the short-term attractiveness of a business opportunity may be less important to a family firm if it jeopardizes the firm's long-standing image or ability to generate or maintain goodwill. Therefore, because of the extent to which family businesses prioritize noneconomic goals, many of which require long-range planning, family firms are more likely to have a LTO, which is defined as the tendency to prioritize the long-range implications and impact of decisions and actions that require an extended time to be realized (Le BretonMiller & Miller, 2006; Lumpkin et al., 2010).

Together with resource-based view, the long-term orientation and continuity facet of family influence (Miller & Le Breton-Miller, 2005) can create hard-to-duplicate resources (Zahra et al., 2004) and a climate of trust and shared goals (Dibrell & Moeller, 2011) that derive sustained competitive advantage increasing family-owned firm's financial performance. Social capital developed within the family-owned firm have positive influence on innovation, focusing on moral structure, family norms, information channels and collaborative dialogues (Andrade et al., 2011). Family firms are long-term oriented and thus, have longer investment horizons (Chrisman & Patel, 2012; Le Breton-Miller & Miller, 2006; Prencipe et al., 2008, 2011). As shown in previous research, longer decision horizons are negatively associated with agency costs and positively affect a firm's market valuation (Antia et al., 2010). The convergence between ownership and management also contributes to reducing agency costs (Ang et al., 2000). Reputational concerns characterize family businesses (Chen et al., 2010; Wang, 2006), which may promote the family-based brand identity to improve firm competitiveness and performance (Craig et al., 2008). Long-term orientation of family firms allows them to develop and sustain hard-to-duplicate resources and capabilities that increase their financial performance. Together, valuable, rare, imperfectly imitable, and not substitutable resources and capabilities developed over long-term period lead family firms to gain superior financial

performance compared to non-family firms. Thus, I hypothesize that family firms are positively associated with firm performance

Hypothesis 1: Family firms are positively associated with firm performance

The Succession of Family Firm

Researchers in the field of family business agree that succession is the most important issue that most family firms face (Handler, 1994). Succession is central to the firm's existence (Handler, 1994). For example, Ward (1987) defines family firms in terms of the potential for succession by stating that "a family business is one that will be passed on for the family's next generation to manage and control" (p.252). Researchers also agree that the continuity of businesses from one generation to the next depends on succession planning (Christensen, 1953, Dyer, 1986; Handler, 1989; Lansberg, 1988; Rosenblatt, de Mik, Anderson, and Johnson, 1985; Tashakori, 1977; Ward, 1987). The successful succession of CEOs is a crucial purpose for family firms because the firm cannot survive as a family firm without the next generation's leadership and direct management (Barach & Ganitsky, 1995). When owner-managers retire, more than two-thirds of family firms cease or pass to new owners, and less than one-third are continued by the next generation (Beckhard & Dyer, 1983; Emshwiller, 1989; Lansberg, 1988). The succession is an imperative strategic issue for family firms because the owners of the firm want it to remain under family ownership and direction (Barach & Ganisky, 1995). To maintain family control, family firms ensure a better transfer of idiosyncratic knowledge across generations (Castanias & Helfat, 1991, 1992). Long-tenured family owners and managers reinforce a commitment to the status quo (Gomez-Mejia et al., 2001). Previous studies highlight family firms' resistance to professionalize the organization and to delegate responsibility to outsiders (e.g., Gersick, Davis, Hampton, &Lansberg, 1997; Jones, Makri, & Gomez-Mejia, 2008; Kepner, 1983; Kets de Vries, 1993; Schulze, Lubatkin, & Dino, 2003).

Family firms' desire to continue family firms' legacy and control lead family firms to prefer inside succession to outside succession. After all, inside succession is an outcome of selection of a successor CEO among internal candidates who follow family tradition and values whereas outside succession involves a selection of external candidate who are lacking understanding of familiness and family firms' values, social connections, and resources and capabilities. Despite the family firms' desire to continue family firms' legacy and control, there are disadvantages associated with inside succession. For example, family firms are considered to be poor in financial resources and have inexperienced and ineffective management because family firms often appoint incompetent family members to positions in the company (Martinez, Stohr, and Quiroga, 2007). In study, I provide several rationales for why inside succession has a negatively moderating effect on the relationship between family ownership and firm performance. First, the continuity facet of family influence (Miller & Le Breton-Miller, 2005) and cultural inertia (Tushman & O'Reilly, 1996) create leeway for organizational members to engage in grounded, nonformalized screening and the exploration of a broad set of new opportunities even if those opportunities involve variability and risk (Konig & Enders, 2013). Due to this reason, family firms may suffer from an innovator's dilemma (Christensen, 1997) even though they have strong incentives for exploration for the long-term future of their organizations. Christensen (1997) argues that outstanding companies often lose their market leadership as new, unexpected competitors emerge and take over the market. Family firms' tendency to favor exploitative activities over explorative activities can hider family firms from seeking new opportunities. In the end, this can force family firms' to suffer from the innovator's dilemma and can create disadvantages for family firms. Second, strong emotional ties of family firms make family firms less able to fully embrace exploration activities that require managers to substantially reconfigure resources, divest assets, reorchestrate organizational architectures (Adner, 2012; Christensen, 1997; Teece, 2006). In large family business groups, family

members may become entrenched in management positions, and controlling families may engage in tunneling activities (Bae *et al.*, 2002; Bertrand *et al.*, 2002, 2008; Douma *et al.*, 2006). Also, the predominance of this type of group can lead to slower economic growth, because families avoid investing in new technologies that render obsolete the technologies that they already own (Morck *et al.*, 2005). The high degree of family ownership that characterizes most economies may also limit the ability of a country to take advantage of financial globalization (Stulz, 2005).

Again, inside succession implies that family's influence is continued from predecessors to successor. Therefore, inside succession allows family firms to choose an insider who is willing to continue family firm's legacy based on his or her experiences and functional expertise developed within the family firm. Family firms choose an inside successor in the hope that the insider successor deploys more effective managerial practices and continue family's legacy and identity. However, a successor CEO chosen internally is likely to suffer from innovator's dilemma and tunneling vision mentioned above. Thus, I hypothesize that inside succession has a negatively moderating effect on the relationship between family ownership and firm performance.

Hypothesis 2a: Inside succession negatively moderates the positively predicted relationship between family firms and firm performance

CEO Tenure and Family Firms

Research has shown that CEO tenure is related to a various form of organizational outcomes (Boling, Pieper, & Covin, 2016) including firm performance (Miller, 1991), firm value (Brookman & Thistle, 2009), strategic change (Zhang & Rajagopalan, 2010), commitment to the status quo (Musteen, Barker & Baeten, 2006) and innovation (Wu, Levitas, & Priem, 2005). Chief executive officer (CEO) tenure, or the time a person has held the CEO

position, is a theoretically meaningful (Boling et al., 2016) since it can determine the desire and/or ability to choose and engage in bold, novel strategic actions (Finkelstein & Hambrick, 1996; Simsek et al., 2010). In this study, I propose that CEO tenure may deteriorate the effects of family firm ownership on financial performance. In other words, long CEO tenure can have negative moderating effects on the relationship predicted in the hypothesis 1 for the following reasons.

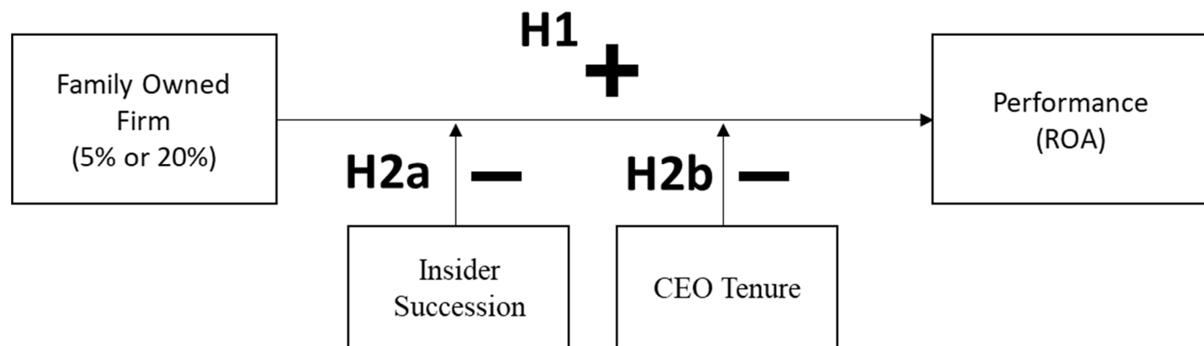
First, since long-tenured CEOs have less remaining years of employment compared to newly appointed CEOs, they are more likely to become less motivated or able to work effectively and efficiently. Hambrick and Fukutomi (1991) argued that CEOs possess cognitive paradigms that form the bases for their actions and that throughout a CEO's tenure, these paradigms will likely change. In the early stages of their tenures, CEOs are often willing to adopt risky, innovation-embracing, entrepreneurial strategic postures, but their abilities to enact such postures may be constrained due to limited firm knowledge and inadequate social capital (Hambrick & Fukutomi, 1991). As their tenures increase, CEOs often gain knowledge and power which can facilitate the pursuit of risk-taking behaviors and innovation. However, at some point in the CEO's tenure, the escalation of risk-taking may begin to diminish and eventually decrease. Miller (1991) argued that over time CEOs lose touch with their environments and fail to recognize the need for innovation and strategic change. Likewise, Simsek (2007) observed that long-tenured CEOs become risk-averse. Thus, a CEO in the later stages of his or her tenure may avoid the pursuit of entrepreneurial initiatives that involve high levels of risk and innovation (Boling, Pieper, & Covin, 2016), negatively influencing financial performance of their firm.

Second, in general, long CEO tenure has been found to be directly related to decreases in the fit between firm strategy, structure, and environmental demands (Miller, 1991) and top management's commitment to the status quo (Hambrick, Geletkanycz, & Fredrickson, 1993).

Shen and Cannella (2002) found that departing CEO tenure importantly affects subsequent firm performance through its impact on organizational inertia and the disruption surrounding a succession event. In the case of family-owned firms, even in the early stages of their tenure, family owners and managers exhibit a less willingness to take risks than those of nonfamily owned firms because of their desire to keep family control. Furthermore, even after family owners and managers possess firm-specific knowledge and capabilities as well as social capital developed within the firm, their opportunities to carry out risk-taking behaviors and new opportunities may be constrained due to cultural inertia and pressure to keep family control. Long tenures of family owners and managers reinforce their risk-averse strategic choices. Long tenures of family owners and managers create a form of tunnel vision that reinforces a commitment to the status quo (Gomez-Mejia et al., 2001). In addition to the tunnel vision, rigid mental models of family firms (Konig et al., 2013) can avoid family firms from successfully searching for appropriate new opportunities. Driven by a desire to maintain socioemotional wealth, family firms may even refuse to adopt a business system innovation (Carnes & Ireland, 2013). Block, Miller, Jaskiewicz, and Spiegel (2013) argued that family-owned firms tend to pursue incremental rather than risky innovation projects because family owners might choose projects that do not interrupt the flow of dividends, afford stable return and are unlikely to provoke criticism from shareholders. In sum, based on the above-mentioned rationales, I hypothesize that CEO tenure has a negatively moderating effect on the relationship between family ownership and firm performance

Hypothesis 2b: CEO tenure negatively moderates the positively predicted relationship between family ownership and firm performance.

Figure 1. Research Model



DATA AND METHODS

Sample: South Korean Firms listed in KOSPI

In this study, I develop theory and hypotheses in the context of family firms in South Korea during the period between 2013 and 2016. The specific selection criteria are as follows. First, among KOSPI listed companies, I chose companies that are settled in December. Second, I excluded companies included in the financial industry. Lastly, I excluded companies that do not have accounting information and CEO related data. Based on the above criteria, out of the total 779 companies listed in KOSPI, 460 companies were selected. In total, the sample size includes 1,466 observations.

Dependent Variable

Firm performance. According to Shen and Cannella (2002), firm performance is a multidimensional phenomenon that has been measured with both accounting- and market-based indicators in previous research (e.g., Daily, Certo, & Dalton, 2000; Finkelstein & Hambrick, 1990; Ocasio, 1994; Zajac, 1990). Following Shen and Cannella (2002), I choose to use accounting measure reflecting the current operational performance of a firm (Daily et al., 2000)

for the following reasons. First, operational performance is more under management control (Grossman & Hoskisson, 1998; Hambrick & Finkelstein, 1995) rather than being determined by market valuation. Second, management has incentives to focus on operational performance (Shen & Cannella, 2002) since accounting measures are often convenient targets for management to reach (Joskow, Rose, & Shepard, 1993) and baseline for CEO compensation (Hambrick & Finkelstein, 1995; Jensen & Murphy, 1990). Since this study attempts to understand the impact of family firms on a firm's actual operational performance, accounting measures are best available choice.

Among various accounting measures of operational performance, I choose ROA to measure firm performance since it is the most effective, broadly available financial measure to assess company performance (Hagel et al., 2013). ROA captures the fundamentals of business performance in a holistic way, looking at both income statement performance and the assets required to run a business (Hagel et al., 2013). ROA is less vulnerable to the kind of short-term gaming that can occur on income statements since many assets, such as property, plant, and equipment, and intangibles, involve long-term asset decisions that are more difficult to tamper with in the short term (Hagel et al., 2013), which means good fit with family firm. In this study, ROA was extracted from TS-2000 database, from which financial statements and comments in general and internal transactions were extracted of the Korea Listed Company Association.

Independent Variable

Family firm. Ownership should be measured by voting power, as it is a better indicator of family business behavior and structure than relative economic interest (Ward & Dolan, 1998). However, there is no specific delineation of how much ownership is necessary to qualify the firm as a family business (Chua, Chrisman, & Sharman, 1999) and there is a lack of consensus regarding how much ownership is necessary to qualify a firm as a family business (Carlson,

Upton, & Seaman, 2006). Berrone, Cruz, Gomez-Mejia, and Larraza-Kintana (2010) classified an organization as a family firm if family members owned or controlled at least 5 percent of the voting stock (Allen and Panian, 1982; Villalonga and Amit, 2006). The 5-percent benchmark is consistent with the governance research on ownership structure reviewed earlier (e.g., McEachern, 1975, 1976; Salancik & Pfeffer, 1974; Dyl, 1988, 1989; Tosi and Gomez-Mejia, 1989; Werner, Tosi, & Gomez-Mejia, 2005) and has been widely used in the family business literature (see review by Miller et al., 2007). Berrone et al. (2010) reran the analysis using thresholds of 10 percent and 15 percent and found no changes in the hypothesized effects. Following Berrone et al. (2010), I used 5 percent of the voting stock as a defining criterion of family firms and reran the analysis using the threshold of 20 percent.

Using 5 percent as the threshold, I selected 987 firms as the family firm, representing 67.3 percent of the sample. Using 20 percent as the threshold, I selected 862 firms as the family firm, representing 58.7 percent of the sample. Family firm is a dummy which equals to one for family firm and zero for non-family firm.

Moderating Variables

CEO tenure. I measured the number of years that the CEO holds the current position in the firm and used the year as a moderating variable. CEO tenure period was measured based on the time when the CEO was replaced in the DART (Data Analysis, Retrieval and Transfer System of companies in South Korea).

Inside succession. I dummy coded whether the CEO was a successor from the inside the company or not. Information of CEO employment history was collected from Naver.com and DART.

Control Variables

Previous research has suggested that many factors influence firm performance. For example, the impact of some factors, such as firm size, governance structure, and industry environment, may be particularly significant in the CEO succession context owing to their potential influence over managerial discretion (Finkelstein & Hambrick, 1996). To reduce influence of confounding factors, I included several control variables in analysis such as R&D expenditure, current ratio, non-current ratio, debt ratio, and company size. TS-2000 data were downloaded and data for the control variables were extracted.

In order to see how the growth potential of a company affects its performance, R&D expenditure is included and the logarithm of R&D expenditure is used. The current ratio is the ratio of current assets divided by current liabilities, and is an indicator of the company's ability to cover its short-term liabilities. The non-current ratio is the ratio of non-current assets in equity to non-current assets. Debt-to-equity ratio is the debt divided by equity and reflects the ability of shareholder equity to cover all outstanding debts in the event of a business downturn.

Analysis

I predicted that increasing the moderator (i.e., ceo tenure and inside succession) would decrease the effect of the predictor on the outcome. In order to confirm the third variables making moderation effect on the relationship between the two variables independent variable (i.e., family firm) and dependent variable (i.e., financial performance), I must show that the nature of this relationship changes as the values of the moderating variable change. This is in turn done by including an interaction effect in the model and checking to see if such an interaction is significant and helps explain the variation in the response variable better than before. Thus, a simple regression model analysis was used to test the hypotheses. Using STATA as the analytic tool, this study looked for significant interactions between the moderator and

independent variables. All variables were standardized to simplify interpretation and avoid multicollinearity. The correlation between variable suggest no significance in multicollinearity neither. Therefore, both moderator and independent variables were mean centered to reduce multicollinearity and readily interpret the results. Consequently, this study estimates the following regression equation.

$$ROA_i = \beta_1 + \beta_2 X_{2i} + \beta_5 X_{5i} + \beta_6 X_{6i} + \beta_7 X_{7i} + \beta_8 X_{8i} + \beta_9 X_{9i} + \varepsilon_i, \quad \text{--------------------- (1)}$$

$$ROA_i = \beta_1 + \beta_2 X_{2i} + \beta_3 (X_{2i} X_{3i}) + \beta_5 X_{5i} + \beta_6 X_{6i} + \beta_7 X_{7i} + \beta_8 X_{8i} + \beta_9 X_{9i} + \varepsilon_i, \quad \text{----- (2)}$$

$$ROA_i = \beta_1 + \beta_2 X_{2i} + \beta_4 (X_{2i} X_{4i}) + \beta_5 X_{5i} + \beta_6 X_{6i} + \beta_7 X_{7i} + \beta_8 X_{8i} + \beta_9 X_{9i} + \varepsilon_i, \quad \text{----- (3)}$$

Since the dataset includes some relapsing information on control and dependent variables, autocorrelation is suspected. To handle this potential obstacle, we conducted Wooldridge test and the results appears not to reject the null hypothesis meaning there is no serial autocorrelation in variables.

Results

Table 1 summarizes the descriptive statistics of all variables in this study including the mean, standard deviation, minimum, and maximum. Table 2 displays correlations between variables.

Table1. Descriptive Statistics

Variables	N	Mean	Std.error	Min.	Max.
ROA	1466	0.022525	0.117772	-2.1022	1.832332
Family Firm(5%)	1466	0.672814	0.469346	0	1
Family Firm(20%)	1466	0.587432	0.492465	0	1
Inside succession	1466	0.661662	0.473381	0	1
CEO Tenure	1466	9.752036	9.680028	0.5	45
R&D Expenditure	1466	15.36867	2.46047	5.746203	23.45278

Liquidity ratio	1466	179.8461	166.7511	18.88	1759.18
Non-liquidity ratio	1466	80.8102	1410.26	0	53916.29
Debt ratio	1466	0.405874	0.214052	0.000747	0.988874
Size	1466	20.27665	1.629978	16.11603	25.88692

Table 2 displays correlation coefficients between variables. Most of the correlations between variables were smaller than 0.75 and were within acceptable limits.

Table 2. Correlation Coefficient

	ROA	Family Firm(5%)	Family Firm(20%)	CEO Tenure	Inside Succession	R&D Expenditure	Liquidity ratio	Non-liquidity ratio	Debt ratio	size
ROA	1									
Family Firm(5%)	0.0276	1								
Family Firm(20%)	0.0866*	0.8321*	1							
CEO Tenure	0.0850*	0.2514*	0.2784*	1						
Inside Succession	0.0693*	0.2000*	0.2082*	0.2117*	1					
R&D Expenditure	0.1415*	-0.1884*	-0.1391*	-0.1063*	0.0837*	1				
Liquidity ratio	0.0881*	0.0475	0.0702*	0.1169*	0.0938*	-0.0830*	1			
Non-liquidity ratio	-0.016	-0.0432	-0.0388	-0.1069*	-0.0322	-0.0071	-0.0288	1		
Debt ratio	-0.2126*	-0.1809*	-0.2080*	-0.1372*	-0.0883*	-0.0047	-0.5140*	0.0983*	1	
Size	0.1614*	-0.3200*	-0.2371*	-0.2143*	0.0243	0.6447*	-0.1884*	0.0355	0.1798*	1

Model 2 in Table 3 shows the regression results, which include the financial performance as a dependent variable, the family firm as an independent variable, and all the control variables.

Table 3. Regression analysis on family firm owned more than 5%

VARIABLES		Model (1) ROA	Model (2) ROA	Model (3) ROA	Model (4) ROA	Model (5) ROA
Independent Variables	Family Firm (5%)		0.0138**	0.00687	0.00219	0.0149*
			(0.00672)	(0.00790)	(0.00684)	(0.00883)
Moderating Variables	Inside succession			0.0178**		0.0165*
				(0.00828)		(0.00865)
	CEO Tenure				0.00158**	0.00146**
					(0.000632)	(0.000655)
Interaction	Family Firm (5%)* Inside succession			-0.0178*		-0.0223**
				(0.0101)		(0.0104)
	Family Firm (5%) * CEO tenure				-0.00114*	-0.000943
					(0.000677)	(0.000704)
Control Variables	R&D Expenditure	0.000617	0.000609	0.00163	0.00141	0.00204
		(0.00159)	(0.00159)	(0.00123)	(0.00117)	(0.00124)
	Liquidity ratio	-7.58e-07	3.11e-06	5.88e-06	-1.49e-05	3.67e-06
		(2.07e-05)	(2.08e-05)	(1.75e-05)	(1.77e-05)	(1.83e-05)
	Non-liquidity ratio	1.18e-07	1.99e-07	- 0.000176***	- 0.000195***	- 0.000182***
		(2.10e-06)	(2.10e-06)	(4.37e-05)	(4.42e-05)	(4.33e-05)
	Debt ratio	-0.137***	-0.131***	-0.0832***	-0.0939***	-0.0806***
		(0.0164)	(0.0166)	(0.0143)	(0.0139)	(0.0143)
	Size	0.0143***	0.0155***	0.00678***	0.00558***	0.00599***
		(0.00244)	(0.00252)	(0.00201)	(0.00195)	(0.00205)
Constant		-0.222***	-0.259***	-0.106***	-0.0666*	-0.105***
		(0.0391)	(0.0431)	(0.0350)	(0.0344)	(0.0359)
Observations		1,466	1,466	1466	1,466	1,466
R-squared		0.087	0.089	0.126	0.122	0.136

*** p<0.01, ** p<0.05, * p<0.1

Model 2 in Table 3 clearly shows that the family firm (5 percent threshold) and financial performance are positively related and statistically significant at 5 percent level. These results support hypothesis 1. Models 3 and 4 test the effects of the moderating variable. The independent variables CEO tenure and inside succession are mean-centered and the interaction term is calculated by multiplying the centered mean values of the variables minimizing the severity of the multicollinearity problem. Model 3 and 4 suggest that hypothesis 2a and hypothesis 2b are supported at 10 percent family-ownership threshold level. Table 4 shows the results of the analysis that I reran using the threshold of 20 percent. I found no changes in the hypothesized effects except for the hypothesis 2b.

Table 4. Regression analysis on family firm owned more than 20%

VARIABLES		Model (1) ROA	Model (2) ROA	Model (3) ROA	Model (4) ROA	Model (5) ROA
Independent Variables	Family Firm (20%)		0.0219***	0.0141*	0.00387	0.0122
			(0.00625)	(0.00776)	(0.00641)	(0.00856)
Moderating Variables	Inside succession			0.0144**		0.00870
				(0.00731)		(0.00760)
	CEO Tenure				0.00111**	0.00114**
					(0.000516)	(0.000544)
Interaction	Family Firm (20%)* Inside succession			-0.0172*		-0.0134
				(0.00970)		(0.00994)
	Family Firm (20%) * CEO tenure				-0.000695	-0.000663
					(0.000577)	(0.000611)
Control Variables	R&D Expenditure	0.000617	0.000676	0.00163	0.00134	0.00200
		(0.00159)	(0.00158)	(0.00123)	(0.00117)	(0.00125)
	Liquidity ratio	-7.58e-07	4.20e-06	9.93e-06	-1.16e-05	7.57e-06
		(2.07e-05)	(2.07e-05)	(1.74e-05)	(1.76e-05)	(1.83e-05)
	Non-liquidity ratio	1.18e-07	2.18e-07	-0.000176***	-0.000193***	-0.000180***
		(2.10e-06)	(2.09e-06)	(4.37e-05)	(4.42e-05)	(4.34e-05)
	Debt ratio	-0.137***	-0.126***	-0.0797***	-0.0929***	-0.0804***
		(0.0164)	(0.0166)	(0.0143)	(0.0140)	(0.0145)
	Size	0.0143***	0.0157***	0.00728***	0.00598***	0.00638***
		(0.00244)	(0.00247)	(0.00198)	(0.00192)	(0.00203)
Constant		-0.222***	-0.268***	-0.121***	-0.0749**	-0.110***
		(0.0391)	(0.0412)	(0.0337)	(0.0333)	(0.0346)
Observations		1,466	1,466	1,466	1466	1,466
R-squared		0.087	0.120	0.094	0.126	0.131

*** p<0.01, ** p<0.05, * p<0.1

CONCLUSION

This study stands in support of the positive relationship between family firms and financial performance in the context of South Korean market. The results imply that family firms tend to develop sustainable resources and capabilities over long-term to produce better financial performance than non-family firms. Furthermore, this study highlights the unique cognitive aspect of the family firm. The findings of this study suggest that family firms are likely to jeopardize their financial performance when the company is led by a long-tenured CEO and an inside successor. Therefore, it is imperative for family firms to consider negative aspects of cultural inertia, path dependency, and tunneling vision developed from their long-

term orientation and desire to continue their legacy as a family firm. This study highlights inherent weaknesses of family firms compared to non-family firms. That is, positive aspects such as long-term orientation and family culture that potentially strengthen family firm performance can paradoxically deteriorate family firms' financial performance when the family firm is led by CEOs that intensify conservative posture and organizational rigidity.

Based on the results of this study, family firms are recommended to consider negative impacts of long-tenured CEOs and inside succession on financial performance when making strategic choices and hiring decisions. The continuity facet of family influence can create cultural inertia and path-dependency. Family firms' desire to keep family control and familiness may lead their executives to suffer from tunneling vision. Family firms can reduce damage caused by cultural inertia and path dependency by incorporating external/outside perspectives and hiring experts with different background, experience, and knowledge. Diversity and flexibility in decision making process can help family firms to reduce disadvantages associated with path-dependency and tunneling vision. When it is not possible for family firms to hire a new CEO from outside the company because of their family culture and family norms, this study suggests that family firms expand their networks outside the company and seek consultants from nonfamily experts.

Limitations

Like any other study, this study is not without limitations. First, this study is based on a single-country data sample. Therefore, the results of this study may not be generalizable across other country settings. However, this study of a single-country data sample adds empirical evidence to resolve inconsistent findings about the relationship between family firm and financial performance in the context of South Korean market. Second, companies that contain missing data were excluded from the sample. Problems associated with this reduction in sample size can be resolved by collecting additional data in other periods in future studies.

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국문 초록

누가 가족 기업을 이끌 것인가?

가족 기업의 성과에 대한 내부승계와 CEO 임기기간의 조절효과를 중심으로

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가족 기업에 대한 이전의 연구는 가족 기업과 재무 성과의 관계에 대해 일관적이지 않은 결과를 보여준다. 가족 소유권이 성과에 미치는 영향은 나라마다 다를 수 있으므로 다른 배경에서 기업 성과에 대한 가족 기업의 영향을 조사해야 한다. 따라서 본 연구에서는 2013년부터 2016년까지 KOSPI에 상장된 회사 샘플을 사용하여 가족 소유권이 기업의 성과에 미치는 영향을 한국을 배경으로 조사하였으며, 가족 소유 기업의 특유의 과제와 문제점을 밝히기 위해 가족 소유 기업과 재무 성과의 관계에 대한 내부 승계와 CEO 임기기간의 조절효과를 검토하였다. 460개 기업의 데이터를 분석한 결과에 따르면 가족 소유가 재무 성과와 긍정적으로 관련되어 있으며, 이러한 관계에 대해 CEO의 내부 승계와 긴 임기기간이 부정적인 조절 효과를 일으키는 것으로 나타났다. 이러한 결과는 가족기업이 후임 CEO를 선택을 할 때 CEO의 내부 승계와 긴 임기기간에 대해 유의해야함을 의미한다.

주요어 : 가족 기업, 재무적 성과, 내부 승계, CEO 임기기간
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