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CLAUDIA FRISENNA

The Effectiveness of Board Monitoring in

Listed Family Firms

PHD THESIS

SUPERVISORS: Prof. Vincenzo Pisano Prof. Davide Rizzotti

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INTRODUCTION

In the wake of financial scandals (e.g., Enron, Tyco International, Parmalat), a priority for governance reformers all over the world was to strengthen the monitoring role of board of directors (Aguilera, 2005).

Among the board role theories, the monitoring role of the board of directors is mostly emphasized in the agency theory. According to the agency perspective, the board of directors constitutes the main internal control device aimed at ensuring the pursuit of firm's interests (Jensen & Meckling, 1976). In particular, board of directors is responsible for monitoring managers' actions in order to avoid that the prevailing agency conflicts might affect corporate decisions, undermining firm's performance.

For several reasons, including economic and ideological preconceptions, the governance literature has mainly focused on the large widely-held corporations typical of the Anglo-Saxon context, providing prescriptions aimed at preventing the opportunism of powerful managers and protecting investors' rights (Schulze & Gedajlovic, 2010). Particularly, literature stresses on the contribution provided by independent directors in preventing managerial opportunism to safeguard the interests of shareholders (Faccio et al., 2001; Yeh & Woidtke, 2005; Dahya et al., 2008; Arosa et al., 2010).

Yet, the last decade has represented a period of renaissance for governance research on family firms. Scholars have pointed out that the concentration of ownership in the hands of a family gives rise to peculiar governance dynamics.

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Indeed, family owners tend to consider the firms as a private asset to transfer to future generations (Anderson & Reeb, 2003; Gomez-Mejia et al., 2011; Berrone et al., 2012). The desire to maintain corporate control for a long term leads the family to entrench family members or affiliate managers in executive positions, who respond directly to the interest of family owners (Morck & Yeung, 2003; Young, 2008; Gomez-Mejia et al., 2011; Prencipe et al., 2008).

Therefore, family firms are characterized by a close relationship between owners and managers (Morck & Yeung, 2003; Prencipe et al., 2008; Prencipe et al., 2014). A relevant implication of this feature is that managers have less job market-related incentives. Instead, they have strong incentives to build, preserve and signal their loyalty towards the family to keep their position for a long time (Prencipe et al., 2014). The alignment between family owners and managers gives rise to potential risks of expropriation of minority shareholders' wealth, since managers have incentives to act with the aim to maximize family's wealth, at the expense of small investors (e.g., Morck & Yeung, 2003). For instance, literature provides evidence that family owners are likely to extract private benefits through special dividends, compensation schemes, and related-party transactions (Faccio et al., 2001; Wang & Xiao, 2011).

From the agency perspective, board of directors in family firms should be able to prevent family opportunism by exerting an effective monitoring over family-affiliated managers (Shulze et al., 2001; Anderson & Reeb, 2004; Gabrielsson & Huse, 2005).

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Yet, the effectiveness of board monitoring may be compromised by the presence of family directors, or even by risks of collusion between family owners and independent directors (Patelli & Prencipe, 2007). Because of the high influence of the controlling family, board of directors in family firms is mostly view as the body called to formally ratify decisions taken by family owners and carried out by affiliated managers (Mace, 1971; Gabrielsson & Huse, 2005).

Despite the field has gathered momentum in the last years, the body of knowledge regarding the effectiveness of board monitoring in listed family firms is still limited.

This thesis aims at providing empirical evidence on the effectiveness of board monitoring in family firms. In particular, the thesis investigates how family ownership concentration affects corporate decisions, and whether board monitoring is effective in preventing family opportunism.

For this purpose, the thesis is composed of three studies, which address complementary governance issues in family firms. Each study aims to fill specific gap and provides contributions to extend the field of knowledge on the governance of listed family firms.

1. The first chapter, entitled "Family Ownership and CEO Turnover Decisions. The Role of Family Ties and Trust", focuses on CEO turnover decisions in family firms.

In particular, the study examines two potential internal and external factors that may compromise the prompt replacement of an underperforming executive. At firm-level, the study examines whether the CEO turnover-performance sensitivity is weakened by the existence of family ties between family owners and CEOs. At country-level, the study investigates whether the CEO turnover-performance sensitivity for professional CEO is weakened by the cultural propensity to distrust a stranger.

Findings reveal that the turnover-performance sensitivity is weaker when the CEO is a family member rather than a professional manager. Yet, findings show that, in environments characterized by the cultural propensity to distrust a stranger, the turnover-performance sensitivity for professional CEOs is significantly weaker.

Overall, findings suggest that family owners may lack the ability to replace a family member CEO and/or the incentives to replace a closely-related professional CEO, even in case of poor performance.

Table 1 provides an overview of the chapter one.

Two interesting insights emerge from the results of this study, which will be examined in the second and third chapter. First, an effective board monitoring, able to prevent family's influence on corporate decisions, is needed in order to protect small shareholders' interests. Second, while family CEOs may enjoy greater discretion over corporate decisions, professional CEOs may feel stronger incentives to make decisions in the family interest, in order to keep their position for a long time.

TABLE 1

Chapter 1 - Overview

| Title | Family Ownership and CEO Turnover. The Role of Family Ties and Trust |
|--------------------------|---|
| Purpose | To explore CEO turnover decisions in family firms, examining two potential locus that may compromise the prompt replacement of an underperforming CEO |
| Theoretical Framework | Agency Theory |
| Research Question | Is the CEO turnover-performance sensitivity weaker when the CEO is a family member? Is the professional CEO turnover-performance sensitivity weaker in contexts with low propensity to trust a stranger? |
| Method | Empirical. Logit regression model. |
| Sample | 521 Italian and French listed firms over the period 2004-2012, corresponding to 4,689 firm-year observations. |
| Findings | At firm-level, CEO turnover-performance sensitivity is lower when the CEO is a family member rather than a professional CEO. At country-level, CEO turnover-performance sensitivity for professional CEOs is lower in Italy than in France. |
| Main Contribution | While prior studies focused on the difference between family and non-family firms, this study provides evidence that within family firms CEO turnover decisions are likely to be affected by family opportunism. Family owners may lack ability or incentives to replace an underperforming CEO. |
| Limitations | This study does not investigate whether internal control devices shape CEO turnover-performance sensitivity within family firms. This study does not examine the closeness of the family owner-professional CEO relationships at firm-level. This study does not examine succession mechanisms post turnover. |

2. The second chapter, entitled "*Family Entrenchment, Board Independence, and CEO Turnover*", focuses on the effectiveness of the board monitoring and the role of independent directors in mitigating family opportunism. In particular, the study investigates whether board composition shapes the sensitivity of the CEO turnover-performance relationship in family firms.

Board of directors constitutes the primary minority shareholders' device against family opportunism. Since CEO turnover decisions in family firms are likely to be affected by family opportunism, board of directors should ensure a prompt replacement of an underperforming CEO. However, the effectiveness of the board may be weakened by the presence of family directors. Therefore, the monitoring role is mainly entrusted to independent directors. Yet, an increasing number of scholars question that board independence would be little more than "window dressing", since family owners can appoint not truly-independent directors (e.g., Gutiérrez & Sáez, 2013).

Nevertheless, independent directors have high reputational incentives, which may be particularly strong in the case of family firms, since the market is aware of the potential risk of collusion when independent directors are appointed by the family shareholder (Fama & Jensen 1983; Patelli & Prencipe, 2007).

Findings reveal that the CEO turnover-performance sensitivity is significantly lower as the level of family representation in the board increases. However, findings show that independent-dominated boards are able to ensure a prompt dismissal of a poorly-performing CEO. Overall, the study provides evidence refuting the alleged risks of collusion, and suggests that a high representation of independent directors may increase the effectiveness of board monitoring.

Table 2 provides an overview of the chapter two.

TABLE 2

| Title | Family Entrenchment, Board Independence, and CEO Turnover |
|--------------------------|--|
| Purpose | To investigate whether board of directors in family firms is able to exert an effective monitoring over CEO turnover decisions. |
| Theoretical Framework | Agency Theory |
| Research Question | Does family entrenchment in the board shape CEO turnover-performance sensitivity? Does board independence shape CEO turnover-performance sensitivity? |
| Method | Empirical. Logit regression model. |
| Sample | 83 Italian listed family firms over the period 2006-2014, corresponding to 581 firm-year observations. |
| Findings | CEO turnover-performance sensitivity is lower when the level of family entrenchment in the boars is higher. CEO turnover-performance sensitivity is higher in independent boards. |
| Main Contribution | This study provides evidence that, within family firms, CEO turnover decisions largely depend on board composition. Independent boards are more likely to ensure a prompt replacement of an underperforming CEO. |
| Limitations | CEO turnover decision may be particularly subject to the external parties' scrutiny. Family firms which <i>a priori</i> face lower agency problems may have incentives to install independent boards. |

Chapter 2 – Overview

3. The third chapter, entitled "Family Ownership and Investment Decisions. The Role of Board Monitoring and CEO Emotional Attachment", focuses on investment decisions of family firms, which are generally affected by family opportunism. Actually, prior studies show that, because of risk aversion and financial constraints, family firms invest less than non-family firms (e.g., Lins et al., 2013). The study aims at investigating whether board monitoring and CEO's emotional attachment might incite investment spending within family firms.

First, an effective board monitoring may reduce family opportunism and underinvestment problems by weakening managerial entrenchment and by relaxing financial constraints. Indeed, the oversight of independent directors may enhance managers' incentives to act in the firm's interest rather than in the controlling family's interest. Moreover, capital providers enjoy benefits deriving from the monitoring of independent directors over corporate decisions, which is reflected in a lower cost of debt. The oversight of independent directors may thus facilitate the access to financial funds.

Second, a high degree of CEO's emotional attachment may incite the propensity to invest, mitigating risk aversion and financial constraints (Miller & Le Breton-Miller, 2006). The degree of emotional attachment is typically higher for family CEO than for professional CEO. Indeed, professional CEOs may have incentives to signal their loyalty towards the family in order to keep their position for a long time, favoring investment decisions according to the family's risk aversion, rather than market-based criteria. Conversely, family executives enjoy greater discretion on investment choices, and are likely to feel a higher commitment towards firm's growth and continuity (James, 1999; Le Breton-Miller et al., 2011).

Findings show that family-controlled firms invest less than non-family firms. However, findings show that, within family firms, board independence and the presence of a family CEO have a positive impact on the level of capital expenditures. The study suggests that both an effective board monitoring and a strong CEO's emotional commitment are able to mitigate agency conflicts and to incite investment spending in family firms.

Table 3 provides an overview of the chapter three.

TABLE 3

Chapter 3 – Overview

| Title | Family Ownership and Investment Decisions. The Role of Board Monitoring and CEO Emotional Attachment |
|--------------------------|---|
| Purpose | To investigate whether board monitoring and CEO emotional attachment towards the firms might incite investment spending within family firms. |
| Theoretical Framework | Agency Theory and Stewardship Theory |
| Research Question | What is the impact of board independence on the level of capital expenditures in family firms? What is the impact of family vis-à-vis professional management on the level of capital expenditures in family firms? |
| Method | Empirical. Linear regression model. |
| Sample | 121 Italian listed firms over the period 2006-2014, corresponding to 946 firm- year observations. |
| Findings | Family firms invest less than non-family firms. Within family firms, board independence is positively related to the level of capital expenditures. Within family firms, the presence of a family CEO is positively related to the level of capital expenditures. |
| Main Contribution | This study provides evidence that the effective oversight of independent directors may encourage executives to act in the firm interest rather than in the family interest. |
| Limitations | The study does not examine the investment efficiency. The study does not provide evidence on whether the positive impact of board independence is primary due to the monitoring effect or a signaling effect |

In sum, this thesis adds new insights on how the family's influence may shape corporate decisions and provides empirical evidence on the effectiveness of the board in preventing self-serving behavior of the dominant family owner.

Extending knowledge on the effectiveness of board monitoring in listed family firms is important, for at least two reasons. First, family firm constitutes the oldest and most prevalent form of organizational structure all over the world. As highlighted by La Porta et al. (1999) family-controlled firms dominate the economic landscape worldwide. The presence of family-owned firms is significant both in US and in Europe. For instance, researchers show that about 35% of the S&P 500 are family firms (Anderson & Reeb, 2003). In Europe, the percentage of family firms is around 70-80% (Prencipe et al., 2014). Second, in the very last years, regulatory efforts aimed at improving the effectiveness of board of directors in listed firms are increased considerably. All over the world, codes of good governance, invoking independent-dominated boards and board accountability, have suddenly spread. Yet, literature provides little evidence on whether board of directors of family listed firms is able to safeguard the interests of small investors.

After exposing the purpose of the thesis, a clarification on the definitional issue of family firms is needed. Definitely, the appropriate definition of family firm is the main critical issue in family business research, and the debate on how to define a family firm is from been conclusive (Chrisman et al., 2003; Klein et al., 2005; Mroczkowski & Tanewski, 2007).

Conceptually, scholars agree that family firms are those in which the family owner exerts influence on firm's behavior (Gomez-Mejia et al., 2011). Clearly, such a broad definition creates challenges in achieving homogeneous operational definitions. Essentially, it is possible to identify two distinct operational approaches, aimed not only at distinguishing family firms from non-family firms, but also at capturing the heterogeneity existing within family firms, namely the "involvement approach" and the "essence approach".

The involvement approach focuses on the power of the family to influence corporate decisions, assuming that it depends on the degree of family involvement in the ownership, or/and in the management of the firm (Gomez-Mejia et al., 2011; Prencipe et al., 2014).

The essence approach recognizes the family involvement as a necessary but not sufficient condition to detect the essence of the family dimension and its several facets. According to this approach, the essence of family firms depends on whether the family's identity and the firm's identity are embedded in each other, and it varies according to the way in which core firm values and culture overlap with those of the family (e.g., Astrachan et al., 2002).

Undoubtedly, the essence approach generates more than a few issues for empiricists who rely on large archival data.

As a consequence, the involvement approach is mostly used in quantitative research (Prencipe et al., 2014). The indicators generally used to operationalize family's influence are the percentage of family ownership and/or the presence of

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family members in managerial or governance positions. According to the definition employed, scholars identify family firms as "family owned", "family controlled", "family owned and managed", thereby trying to detect the heterogeneity of family firms (Gomez-Mejia et al., 2011).

However, concerns arise with respect to the different criteria adopted to separate family firms from non-family counterparts, especially with respect to the minimum threshold of family ownership, which appears to be highly context-specific. For instance, in the US context a threshold of 5% may be considered sufficient to identify family firms, while in the European context, in which stock ownership is highly concentrated, the minimum threshold to detect the family dimension should be at least 25% (Gomez-Mejia et al., 2011). In Italy, for example, family owners averagely hold more than 50% of corporate stock ownership (Prencipe et al., 2011).

In sum, it seems that a standard operational definition of family firms is far from being identified, and it would probably also be unsuitable. Therefore, the choice of the operational definition should be contingent on the research's objects and setting (Gomez-Mejia et al., 2011).

The object of investigation of this dissertation regards large listed family firms. This dissertation relies on the agency constructs to empirically investigate governance issues emerging from the concentration of ownership in the hands of a family. The choice to focus on listed family firms originates from the aim to investigate whether and how the family dimension shapes those governance dynamics and control devices, typically examined in widely held firms. For the purpose of this thesis, the definition of family firms follows the involvement approach. Two main reasons motivate its adoption. First, the involvement approach is particularly suitable in studies that build on agency constructs, which focus on potential risks of expropriation rising from the concentration of ownership in the hands of a dominant family (Prencipe et al., 2014). Second, the adoption of the involvement approach allows empirical researchers to exploit the large number of publicly available data on stock ownership and board composition (Prencipe et al., 2014).

In conclusion, this dissertation defines a firm as family-owned (familycontrolled) if the person who established or acquired the firm, or their families, or descendants holds at least 25% (50%) of the decision-making rights mandated by their share capital.

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CHAPTER 1

Family Ownership and CEO Turnover. The Role of Family Ties and Trust⁺

ABSTRACT: This study investigates the impact of family ownership on the CEO turnover-performance sensitivity, examining two potential internal and external factors that may compromise the prompt replacement of an underperforming executive. First, at firm-level, I examine whether the CEO turnover-performance sensitivity is weakened by the existence of family ties between family owners and CEOs. Second, at country-level, I investigate whether the CEO turnover-performance sensitivity for professional CEO is weakened by the cultural propensity to distrust a stranger. Findings reveal that, within family firms, the likelihood of CEO turnover after poor performance is lower when the CEO is a family member rather than a professional Manager. Findings also show that the likelihood of dismissal of a poorly-performing professional CEO is lower in environments characterized by the cultural propensity to distrust a stranger.

Keywords: CEO turnover, Family firms, Trust on strangers, Professional CEO

^{*}A revised version of this study has been already published in *Journal of Management & Governance*, 2017, 21(3), 599-621.

1. INTRODUCTION

Over the last two decades, the issue of CEO turnover has become a central topic in corporate governance debate. Indeed, keeping or failing to promptly replace a manager after poor performance has strong implications on the future firm prospects, in terms of investments, financing, and strategic choices (Huson et al., 2001). The prompt dismissal of an underperforming CEO is, therefore, a crucial outcome of the internal monitoring effort (Huson et al., 2001). Pioneering studies on CEO turnover revealed the existence of a negative relationship between the likelihood of CEO turnover and prior firm performance, interpreting this finding as the result of an effective monitoring exerted by the internal disciplining forces (Coughlan & Schmidt, 1985; Warner et al., 1988).

Afterwards, scholars began to focus on the sensitivity of the CEO turnoverperformance relationship, finding that the presence of concentrated ownership is associated with higher CEO turnover-performance sensitivity (Kaplan & Minton, 1994; Kang & Shivdasani, 1995; Denis and Serrano, 1996; Denis et al., 1997), which is consistent with the agency assumption that the monitoring of large shareholders reduces managerial opportunism (Shleifer & Vishny, 1986; Shleifer & Vishy, 1997).

Despite the issue of CEO turnover has been widely investigated, literature offers limited insights on the impact of family ownership on CEO turnover-performance sensitivity. Yet, family firms are widespread all around the world and play an important role in the global economy, generating 70-90% of global GDP annually (Steier et al., 2004; Family Firm Institute, 2008).

Moreover, scholars recognize that the concentration of ownership in the hands of a family may significantly affect corporate decisions. In particular, family firms are characterized by close owners-managers relationships (Miller & Le Breton-Miller, 2006; Prencipe et al., 2008; Prencipe et al., 2014), which may shape the incentives of family owners in exercising an effective monitoring over executives (Schulze et al. 2003).

This study aims to fill this gap, examining the impact of family ownership on CEO turnover-performance sensitivity. To the best of my knowledge, there is only one related study (Chen et al., 2013), which examines how family ownership affects CEO turnover-performance sensitivity. Yet, recently scholars point out that family firms do not behave homogeneously, stressing the need to take into account the potential causes of heterogeneity in the family firms' behavior (Chua et al. 2012). Moving from Chen et al. (2013), and recognizing the heterogeneity of family firms (Chua et al. 2012), this study provides a deeper analysis of the CEO turnover decisions in family firms. In particular, this study investigates two potential internal and external factors that might compromise the prompt replacement of an underperforming CEO, namely the level of family involvement, and the cultural and societal norms that characterize the environment in which the firm operates.

For the first purpose, I examine the impact of family ownership on the CEO turnover-performance sensitivity, distinguishing the case in which the CEO is a family member or a professional manager. Indeed, as Schulze et al. (2001; 2003) argue, in family firms in which the CEO is a family member, the lack of self-discipline and the myopic decisions incited by parental altruism (Bammens et al., 2011) could reduce the ability of the family to objectively evaluate the performance of a family member executive. Conversely, the absence of family ties may lead to a more objective evaluation of the professional CEO's performance. Therefore, compared to the case in which the CEO is a family member, the likelihood of dismissal of an underperforming CEO might be greater when the CEO is professional manager.

As regards the second point, I investigate whether the family owners' incentives to replace a professional poorly-performing CEO are affected by cultural features that characterize the environment in which the firm operates. In particular, cultural factors related to interpersonal relationships, such as the propensity to trust a stranger (Putnam, 1993; La Porta et al., 1997; Uslaner, 2002), could shape family owners' incentives to replace a professional CEO. Actually, the level of trust in a society influences the organizational behavior (Fukuyama, 1995; La Porta et al., 1997; Gambetta, 1988; Rempel et al., 1985). Particularly, the cultural attitude to trust or distrust a stranger determines different approaches in the management selection, promotion and dismissal decisions (Mayer et al., 1995). Indeed, in contexts in which there is a widespread propensity to trust the stranger, all strangers are considered

equally trustworthy. As a consequence, it is more likely that a professional manager is hired for his/her capabilities and skills, rather than personal knowledge. In such a context, a *performance* model could be prevalent (Prat et al., 2010), in which managers are hired through formal channels, assessed regularly and rewarded, promoted and dismissed on the basis of the assessment results. Conversely, in contexts in which there is a widespread feeling to distrust the stranger, a *fidelity model* could be prevalent (Prat et al., 2010), in which the family owners hire faithful managers among the set of friendly relationships, in order to implement faithfully their wishes. In such a context, the loyalty of the CEO towards the family constitutes a fundamental requirement for the family to decide who should run the firm. Therefore, the need to keep on a faithful CEO may reduce family's incentives to replace her/him, even after poor performance.

Consequently, in contexts in which there is a common propensity to distrust a stranger, the threat of turnover could be ineffective, not only when the CEO is a family member, but also when the CEO is a professional manager.

Using a sample of 521 European firms, with 4,689 firm-year observations over the period 2004-2012, I find that the CEO turnover-performance sensitivity is generally lower when the CEO is a family member, rather than a professional manager. Moreover, I also find that the turnover-performance sensitivity for professional CEOs is lower in contexts characterized by a higher attitude to distrust a stranger.

This study contributes to the literature in three ways.

First, this study shows that CEO turnover decisions in family firms are affected by the level of family involvement. In particular, findings show that family owners seem to be unable to guarantee the prompt replacement of the family member CEO, even at the expenses of the firm's profitability, at least in the short run.

Second, this study shows that CEO turnover decisions in family firms are also affected by societal norms, particularly by the cultural propensity to trust or distrust a stranger, stressing the importance of society's ethical norms as the pillars of the effectiveness of any governance mechanism.

Third, unlike previous studies, which have mainly focused on Anglo-Saxon countries, this study adds empirical evidence, investigating the European context. Analyzing the CEO turnover decisions of family firms in Europe is particularly helpful, since the majority of European publicly traded firms are family controlled (e.g., La Porta et al., 1999; Faccio & Lang, 2002). Specifically, in Europe, family-owned businesses represent one trillion Euros in sales (60% of all European companies) and they account for 9% of the European Union's GDP (Prencipe et al., 2014).

The structure of the paper is as follows. Section 2 provides literature review and hypotheses development. Section 3 illustrates the research design. Section 4 reports the empirical results. Section 5 provides a discussion. Finally, section 6 concludes.

2. THEORETICAL BACKGROUND AND HYPOTHESES

The theoretical framework for analyzing the relationship between firm performance and CEO turnover arises from the line of research on executive compensation through the Agency Theory perspective. Agency Theory suggests that, when ownership and control are separated, agency costs arise because of the need to monitor and mitigate managerial opportunism (Jensen & Meckling, 1976). Actually, managers may act opportunistically, pursuing their own self-interest at the expense of the shareholders. For instance, managers may invest firm resources in unprofitable projects, moved by the aim to build large empires (Jensen, 1986; Jensen, 1993), or, conversely, the desire to conduct a quiet life may induce them to invest less effort in managing firm resources (Bertrand & Mullainathan, 2003). Accordingly, managerial opportunism leads to poor firm performance and severe consequences for the firm's value. Therefore, failing to promptly replace a manager after poor performance may represent the costliest manifestation of agency problems (Jensen & Ruback, 1983).

Previous studies have examined the effectiveness of the internal disciplining forces, focusing on the monitoring role played by large shareholders (Shleifer & Vishny, 1986), providing evidence that concentrated ownership is associated with a higher likelihood of CEO dismissal after poor performance. For instance, Kaplan & Minton (1994), and Kang & Shivdasani (1995) document that the likelihood to replace underperforming managers is higher in firms with large shareholders. Moreover, Denis & Serrano (1996) and Denis et al. (1997) find that when ownership is concentrated in the hands of a blockholder, the likelihood of poorly-performing CEO turnover is higher, consistent with a more effective role of a powerful shareholder in monitoring managers. Overall, literature suggests that concentrated ownership mitigates agency problems (Shleifer & Vishny, 1986; Demsetz & Lehn, 1985; Pergola & Verreault, 2009).

Yet, scholars recognize that the concentration of ownership in the hands of a family may significantly affect corporate decisions (Chrisman et al., 2005; Chua et al., 1999). In particular, family owners have strong economic and non-economic incentives to protect their controlling position (Anderson & Reeb, 2003; Anderson et al., 2003; Berrone et al., 2012). The desire to maintain the corporate control for a long term leads the family to entrench family members or affiliate managers in managerial positions, who respond directly to the interest of family owners (Morck & Yeung, 2003; Young, 2008; Gomez-Mejia et al., 2011). Therefore, firms are characterized by close owners-managers relationships (Miller & Le Breton-Miller, 2006; Prencipe et al., 2004).

The owners-managers relationship is particularly strong when the CEO is a member of the controlling family (Brunello et al., 2003).

Traditionally, agency theorists suggest that, when ownership and control are in the hands of the family, family firms constitute a sort of governance panacea, because of the lack of owners-management conflict (Jensen & Meckling, 1976; Fama & Jensen, 1983). Accordingly, in family-owned and -managed firms, family members' behavior is not expected to be driven by opportunism, but rather by altruistic reasons (Stewart, 2003). However, even if altruism can mitigate some agency conflicts (Wu, 2001), it could lead to other agency problems (Chrisman et al., 2004). For instance, Schulze et al. (2001; 2003) recognize that altruism leads to agency threats, such as adverse selection. Actually, if the CEO is selected because of family ties instead of managerial capabilities and skills, he/she could be unable to manage the firm. For instance, Miralles-Marcelo et al. (2014) argue that professional CEOs available on the market should be more efficient than family CEOs in managing family firms because their capabilities and knowledge are higher. Similarly, Audretsch et al. (2013: p.122) argue that "the most talented potential top managers in the family are unlikely to be better than the most talented potential top managers in the population". Since altruism exposes family agents to myopic behavior (Schulze et al., 2003), family owners may lack both the incentives and the ability to ensure the prompt replacement of the underperforming CEO.

Unlike family CEOs, professional CEOs may be subject to a more objective monitoring of their actions and performance, at least to the extent to which the relationship between family owners and professional executives are less tight. According to these considerations, the following hypothesis is proposed:

H1: The negative relationship between firm performance and the likelihood of *CEO* turnover is weaker for family firms with a family member *CEO* than for family firms with a professional *CEO*.

The Altruism theory proposed by Schulze et al. (2003) suggests that adverse selection problems arise when the CEO is hired for his/her family status, and his/her lack of ability is not disciplined by the family owners, who are myopic in evaluating other family members. However, family owners may also lack sufficient incentives to replace a professional CEO, even in the case of poor performance. Indeed, if family owners-professional managers relationship is close, adverse selection problems similar to those caused by altruism may arise. The closeness of the relationship between the family and the CEO may be affected by cultural factors related to interpersonal relationships, such as the propensity to trust a stranger (Putnam, 1993; La Porta et al., 1997; Uslaner, 2002). In particular, the cultural propensity to trust or distrust a stranger shapes interpersonal relationships within organizations, influencing their governance effectiveness and performance (Fukuyama, 1995; La Porta et al., 1988; Rempel et al., 1985).

Essentially, the society's propensity to trust a stranger, defined as the willingness of a party (*trustor*) to be vulnerable to the actions of another party (*trustee*), determines competing approaches in the selection and the development of firm management (Mayer et al., 1995). Generally, the decision to hire a professional CEO requires the evaluation of the manager's trustworthiness, relying on the manager's ability, benevolence and integrity (Mayer et al., 1995). Thus, it involves both confidence in the CEO's skills and competencies, and faith in the CEO's good intentions (Huff & Kelley, 2003). While managerial ability is objectively assessed on the basis of the manager's reputation, the evaluation of manager's benevolence and integrity is affected by the *trustor*'s propensity to trust, which is strongly affected by the common sense of trust inherent in a society (Fukuyama, 1995; Huff & Kelley, 2003).

In cultural environment in which there is a common propensity to trust the stranger, management selection is primarily based on the manager's skills and technical capabilities, since there will be a widespread confidence on managers' good intentions. In such a case, a *performance* model could be prevalent (Prat et al., 2010) in which managers are hired through formal channels, assessed regularly and rewarded, promoted and dismissed on the basis of the assessment results.

Conversely, in cultural contexts in which there is a widespread feeling to distrust towards the stranger, faithfulness and personal knowledge are fundamental requirements for management selection, potentially more than skills and capabilities. In this scenario, the family's ability to discipline an underperforming CEO could be compromised by the need to keep on the faithful CEO. As a consequence, in such a context, a *fidelity model* could be prevalent, in which family owners tend to hire faithful managers on the basis of personal ties, rather than managerial knowledge and capabilities (Prat et al., 2010). When family and managers are connected by fidelity ties, families hire professional managers in order to implement faithfully their wishes.

The decision to replace him/her could be less performance-based, and rather it may likely depend on conflicts between the family and the CEO. Therefore, a low propensity to trust a stranger reduces family owners' incentives to replace a professional CEO, emphasizing the need to keep on a faithful CEO. According to these considerations, the following hypothesis is proposed:

H2: The impact of family ownership on the professional CEO turnoverperformance sensitivity is weaker in contexts with lower propensity to trust a stranger, than in contexts with higher propensity to trust a stranger.

3. RESEARCH METHOD

Research setting

The initial sample consists of 1,057 Italian and French listed companies in September 2014. I exclude 156 financial and insurance companies (NACE REV 2 Code), because regulation, taxation, and the nature of their assets are significantly different from those of other firms. Moreover, I remove 380 firms with missing or incomplete data. Table 1 summarizes the sampling process.

TABLE 1

| | Full Sample | Italy | France |
|-------------------------------|-------------|-------|--------|
| Original Sample | 1,057 | 256 | 801 |
| Financial and Insurance firms | -156 | -23 | -133 |
| Firms with missing data | -380 | -104 | -276 |
| Final Sample | 521 | 129 | 392 |

Sample Selection Process

The final sample consists of 4,689 firm-year observations of 521 non-financial listed companies, including 129 Italian and 392 French firms, during the period 2004-2012. The choice of the period of analysis is motivated by the aim to maximize the number of firm-year observation, taking into account the 10 year restriction in the data extraction process, imposed by Amadeus database.

The countries selection is driven by the following criteria. First, Italy and France are two countries of continental Europe, and, among all the European countries, Italy and France are the two largest economies with the same Latin origin, and similar political history. Second, France and Italy are two civil-law countries with comparable legal and institutional environment (La Porta et al., 1999). These two countries do not share only actual legal rules, but also the origin of the commercial

The initial sample consists of 1,057 Italian and French listed companies. I exclude 156 financial and insurance companies (NACE REV 2 Code), and 380 firms with missing or incomplete data. The final sample consists of 4,689 firm-year observations of 521 non-financial listed companies, including 129 Italian and 392 French firms, during the period 2004-2012.

law, both dating back to the French Commercial Code. Third, Italian and French financial markets are characterized by highly concentrated ownership and weak protection of minority shareholders (La Porta et al., 1999; Enriques & Volpin, 2007). These countries constitute a suitable setting for the investigation of family businesses behavior, since familial dimension is the prevailing form of ownership, counting for 73% in Italy, and 83% in France (Prencipe et al., 2014). Finally, Italy and France have similar financial and governance structures, because of corporate law reforms, enacted in the European Union with the aim to institute a common regulatory framework (Ferran, 2004). These similarities allow us to rule out that any differences in the CEO turnover-performance sensitivity between Italy and France are driven by legal environment and financial and governance structure.

However, Italy and France are different in terms of the antecedents of the trust propensity formation. As Putnam (1983) and La Porta et al. (1997) argue, the main force that encourages the formation of trust in a country is the prevailing religion. Particularly, Putnam (1983) argues that strong hierarchical religion discourages horizontal ties between people, and thereby the development of a common sense of trust. Accordingly, La Porta et al. (1997), and Inglehart (1999) find a strong negative association between trust and the dominance of a hierarchical religion in a country, most notably Catholicism. More specifically, Arruñada (2010) finds that Catholics are less prone to trust strangers. From this perspective, Italy and France constitute two different cultural contexts in terms of common attitude to trust the stranger, given the strong difference in terms of dominance of Catholic religion. In fact, recent data show that the percentage of people who profess the Catholic faith is of 89.81% in Italy, and only of 45.87% in France (Arruñada, 2010).

Moreover, Italy and France also have a different propensity for meritocracy, which is closely related to the common propensity to trust or distrust a stranger. Indeed, while the propensity to trust encourages business relationships based on skills and competences, the propensity to distrust an outsider does not allow the development of business relationships beyond the circle of family members and friends (Putnam, 1993; Cingano & Pinotti, 2016). According to a cross-country comparison study on the level of meritocracy conducted by the Catholic University of Milan in partnership with the association "Meritocracy Forum" (The Merit Index 2015), France and Italy are in the first and the last place, respectively, among civillaw countries, with regard to meritocracy¹. Moreover, Prat et al. (2010) find that, among Italian family firms a *fidelity model* system is well established in which the family owners select managers on the basis of personal knowledge, rather than talent and meritocracy.

Model and variables

Adopting the definition proposed by the European Commission for listed companies, I classify a firm as family-owned firm "if the person who established or acquired the firm (share capital) or their families or descendants possess 25% of the

¹ The Merit Index is based on seven pillars: freedom, equal opportunities, quality education, talent attractiveness, rules, transparency, and social mobility. Each pillar is measured by one or more quantitative indicators derived from the main official statistics (http://www.forumdellameritocrazia.it/campagne/The-Merit-Index-Meritometro-/10025).

decision-making rights mandated by their share capital². Then, in order to classify family-owned firms into those managed by a family member and those managed by a professional manager, I verify the identity of the CEO. In particular, I focus on CEO's last name, and if it differs from that of the family, I carry out further research to identify kinship relations between the CEO and the family, if any.

Furthermore, in order to identify CEO turnover, I use information in firms' annual reports. As first step, I classify all cases in which the CEO name at the end of year t is different from that at the end of year t - 1, as potential CEO turnover. Then, in order to ensure to capture only cases of forced turnover, I classify as voluntary turnover all cases that involve mergers, spinoffs, CEO deaths, and retirements. The remaining cases of turnover are classified as forced turnover if the financial press reports that the CEO is fired, forced out, or resigns due to policy differences or pressure. This careful classification is required since the CEOs are rarely openly fired from their positions (Jenter & Kanaan, 2015). Finally, I measure firm performance with the Return on Assets (ROA) of the year before the CEO dismissal. Moving from prior studies (e.g. Parrino, 1997), I test the hypotheses with the following logit regression model:

² http://www.europeanfamilybusinesses.eu/family-businesses/definition.

$$Pr (Turnover_{t} = 1) = \beta_{0} + \beta_{1}Performance_{t-1} + \beta_{2} FF_{F}FamilyCEO_{t-1} + \beta_{3} FF_{P}rofCEO_{t-1} + \beta_{4} Perf * FF_{F}FamilyCEO_{t-1} + \beta_{5} Perf * FF_{P}rofCEO_{t-1} + \beta_{6} Tenure_{t-1} + \beta_{7} Duality_{t-1} + \beta_{8} CEO_{O}wn_{t-1} + \beta_{9} Country + \lambda \eta_{i} + \alpha \mu_{i}$$
(1)

where: *Turnover* is equal to 1 for firm-years with CEO forced turnover in the year *t*; *Performance* is value of the firm's Return on Assets; *FF_FamilyCEO* is a dummy variable equal to 1 if the firm is a family-owned firm with a family member CEO and 0 otherwise; *FF_ProfCEO* is a dummy variable equal to 1 if the firm is a family-owned firm with a professional CEO and 0 otherwise; *Perf*FF_FamilyCEO* measures performance of family-owned firms with a family member CEO. *Perf*FF_ProfCEO* measures performance of family-owned firms with a professional CEO.

The set of control variables in Equation (1) includes: CEO tenure (*Tenure*), CEO duality (*Duality*), CEO ownership (*CEO_Own*), and country fixed effects (*Country*). Moreover, I control for fixed effects at industry and year level.

Tenure is the number of years the CEO has been at the current position. I control for CEO tenure because prior studies show that tenure is negatively associated with the likelihood of CEO turnover (e.g., Parrino, 1997).

Duality is a dummy variable equal to 1 if the CEO is also the Chairman of the board, and 0 otherwise. I include CEO duality in order to control for the CEO's
power, since prior findings suggest a negative relationship between the power of the CEO and the turnover decisions (e.g., Weisbach, 1988).

CEO_Own is the percentage of outstanding shares owned by the CEO. I control for the CEO ownership because Denis et al. (1997) show that the higher the CEO ownership, the lower the probability of CEO turnover.

I control for industry fixed effects because DeFond and Park (1999) and Parrino (1997) show that the likelihood of CEO turnover is affected by the industry features, such as the industry competition.

Finally, I include year dummy variables, for two reasons. First, by adding year dummies, I control for economic cycle, and especially the economic crisis of 2008. Second, Jenter & Kanaan (2015) find that exogenous market shocks affect CEO turnover, even if bad firm performance are caused by factors beyond the control of the CEOs.

All independent variables are measured in the year before the CEO turnover. In order to reduce the impact of extreme values, I winsorize all independent variables at the 1st and the 99th percentiles, except for dummy variables.

Financial accounting data are collected from Amadeus, the European database from Bureau Van Dijk, while corporate governance, ownership, and CEO turnover information are hand-collected via annual reports, firms' websites and press releases.

In order to test H1, I run Equation (1) for the full sample. Perf*FF_FamilyCEO and Perf*FF_ProfCEO are the variables of interest. If the negative relationship between firm performance and the likelihood of CEO turnover is higher for familyowned firms with a professional CEO than for family-owned firms with a family member CEO, I would expect a higher negative value for β_5 than for β_4 .

In order to test H2, I re-run the regression of Equation (1) in each country, dropping the control variable *Country*. If the impact of family ownership on professional CEO turnover sensitivity is weaker in contexts with a lower propensity to trust a stranger, I would expect β_5 to be lower, in absolute value, in Italy than in France.

4. RESULTS

Descriptive Statistics

Table 2 reports summary statistics of the key metrics. Specifically, Panel A reports descriptive statistics for the full sample, while Panel B and Panel C report summary statistics for the Italian and French samples, respectively.

The full sample consists of 4,689 observations, of which 1,951 refer to familyowned and -managed firms, 891 refer to family-owned firms with a professional CEO, and 1,847 are gathered from non-family firms. On average, 6.2% of the sample experiences CEO turnover. The proportion of firms experiencing CEO turnover is lower in family-owned firms with a family member CEO (2.3%) than in familyowned firms with a professional CEO and non-family firms (9.7% and 8.6%, respectively). *Performance* is quite similar for family-owned firms (2.06% for family-owned firms with a professional CEO, and 2.61% for family-owned and managed firms), but they are higher compared to non-family firms (-0.73%). *Tenure* is lower for professional CEO family-owned firms and non-family firms (5.63 and 6.97 years, respectively) than for family-owned firms with a family member CEO (13.11 years). *Duality* is lower in professional CEO family-owned firms (36.7%) than in non-family firms (64.4%) and family member CEO firms (80%). Not surprisingly, *CEO_Ownership* is significantly higher for family member CEOs (15.61%), than for professional CEOs in family-owned firms (0.59%), and in non-family firms (2.38%).

Italian and French Samples

Panel B in Table 2 reports the descriptive statistics of 129 Italian listed firms. The Italian sample consists of 1,161 observations, of which 470 refer to familyowned firms with a family member CEO, 282 refer to family-owned firms with a professional CEO, and 409 are gathered from non-family firms. Panel C in Table 2 reports the descriptive statistics of 392 French listed firms. The French sample consists of 3,528 observations, of which 1,481 refer to family-owned firms with a family member CEO, 609 refer to family-owned firms with a professional CEO, and 1,438 are gathered from non-family firms. The comparison of the two samples shows that, in general, the replacement of CEOs is less frequent in France than in Italy, reasonably because French firms report higher performance than Italian firms. Moreover, in France CEO tenure is longer than Italy and both CEO duality and CEO ownership are higher for French firms than for their counterparts.

As regard to family-owned firms, the data show that the proportion of familyowned firms experiencing CEO turnover is lower in France than in Italy, both for those with family member CEOs (1.7% and 4.3%, respectively), and for those with professional CEOs (8.5% and 12.1%, respectively). Coherently, performance is higher for French family-owned firms than for Italian ones (3.1% and 1.1%, respectively for those with a family member CEO; 2.2% and 1.8%, respectively for those with a professional CEO). The difference in terms of firm's performance may be related, at least partially, to my expectation that the cultural propensity to trust or distrust a stranger may lead to a different degree of economic development and governance efficiency, as theorized by Fukuyama (1995) and La Porta et al. (1997).

Interestingly, data show that CEO tenure is longer for French firms than for the Italian ones, except for family-owned firms with professional CEOs (5.8 in France and 5.3 in Italy).

This result is consistent with the expectation that in a cultural context in which there is a widespread feeling to distrust towards the stranger, the relationships between the family owners and the professional managers are usually based on faithfulness and personal knowledge, rather than technical skills and capabilities.

TABLE 2

Descriptive Statistics

| Panel | A : | Total | samp | le |
|-------|------------|-------|------|----|
|-------|------------|-------|------|----|

| | | | | Family-Owned Firms | | | | | | Non Family Firms | | | |
|-------------|--------------------------------|--------|------------------------|--------------------|----------------------------|--------|-------|-------------|---------|------------------|--------|---------|--|
| | Full Sample (N = 4,689) | | Family CEO (N = 1,951) | | Professional CEO (N = 891) | | | (N = 1,847) | | | | | |
| | Mean | Std. | Median | Mean | Std. | Median | Mean | Std | Median. | Mean | Std | Median. | |
| Turnover | 0.062 | 0.241 | 0.000 | 0.023 | 0.150 | 0.000 | 0.097 | 0.295 | 0.000 | 0.086 | 0.281 | 0.000 | |
| Performance | 1.192 | 10.675 | 2.852 | 2.613 | 8.534 | 3.289 | 2.060 | 8.826 | 3.363 | -0.727 | 12.990 | 2.098 | |
| Tenure | 9.271 | 7.958 | 7.000 | 13.112 | 8.411 | 12.000 | 5.632 | 5.738 | 4.000 | 6.970 | 6.552 | 5.000 | |
| Duality | 0.656 | 0.475 | 1.000 | 0.800 | 0.400 | 1.000 | 0.367 | 0.482 | 0.000 | 0.644 | 0.479 | 1.000 | |
| CEO_Own | 7.541 | 14.041 | 0.200 | 15.606 | 18.264 | 10.500 | 0.586 | 3.208 | 0.000 | 2.378 | 4.961 | 0.060 | |

The variables are defined as follows: *Turnover* is a dummy variable equal to 1 for firm-years with CEO forced turnover; *Performance* is measured as the percentage of net income divided by total assets; *Tenure* is the number of years the CEO has been at the current position; *Duality* is a dummy variable equal to 1 if the CEO is also the Chairman of the board, and 0 otherwise; *CEO_Own* is the percentage of outstanding shares owned by the CEO.

TABLE 2 (continued)

Panel B: Italian sample

| | | | | Family-Owned Firms | | | | | | Non Family Firms | | | |
|-------------|-------------------------|--------|------------------------|--------------------|----------------------------|--------|-------|-----------|---------|------------------|--------|---------|--|
| | Full Sample (N = 1,161) | | Family CEO $(N = 470)$ | | Professional CEO (N = 282) | | | (N = 409) | | | | | |
| | Mean | Std. | Median | Mean | Std. | Median | Mean | Std | Median. | Mean | Std | Median. | |
| Turnover | 0.089 | 0.286 | 0.000 | 0.043 | 0.202 | 0.000 | 0.121 | 0.326 | 0.000 | 0.122 | 0.328 | 0.000 | |
| Performance | 0.018 | 9.887 | 1.955 | 1.138 | 7.359 | 1.965 | 1.846 | 8.024 | 3.019 | -2.528 | 12.691 | 1.105 | |
| Tenure | 7.578 | 7.001 | 5.000 | 10.932 | 7.889 | 9.000 | 5.316 | 5.431 | 4.000 | 5.284 | 5.072 | 4.000 | |
| Duality | 0.303 | 0.460 | 0.000 | 0.513 | 0.500 | 1.000 | 0.089 | 0.285 | 0.000 | 0.210 | 0.408 | 0.000 | |
| CEO_Own | 5.643 | 11.569 | 0.090 | 12.556 | 15.319 | 8.860 | 0.603 | 2.853 | 0.000 | 1.174 | 3.541 | 0.000 | |

The variables are defined as follows: *Turnover* is a dummy variable equal to 1 for firm-years with CEO forced turnover; *Performance* is measured as the percentage of net income divided by total assets; *Tenure* is the number of years the CEO has been at the current position; *Duality* is a dummy variable equal to 1 if the CEO is also the Chairman of the board, and 0 otherwise; *CEO_Own* is the percentage of outstanding shares owned by the CEO.

TABLE 2 (continued)

Panel C: French sample

| | | | | Family-Owned Firms | | | | | | Non Family Firms | | | |
|-------------|--------------------------------|--------|-------------------------------|--------------------|----------------------------|--------|-------|--------------|---------|------------------|--------|---------|--|
| | Full Sample (N = 3,528) | | Family CEO (N = 1,481) | | Professional CEO (N = 609) | | | (N = 1, 438) | | | | | |
| | Mean | Std. | Median | Mean | Std. | Median | Mean | Std | Median. | Mean | Std | Median. | |
| Turnover | 0.053 | 0.223 | 0.000 | 0.017 | 0.123 | 0.000 | 0.085 | 0.280 | 0.000 | 0.076 | 0.265 | 0.000 | |
| Performance | 1.578 | 10.896 | 3.194 | 3.081 | 8.826 | 3.686 | 2.159 | 9.178 | 3.477 | -0.215 | 13.033 | 2.486 | |
| Tenure | 9.828 | 8.173 | 8.000 | 13.804 | 8.456 | 13.000 | 5.778 | 5.873 | 4.000 | 7.449 | 6.841 | 6.000 | |
| Duality | 0.773 | 0.419 | 1.000 | 0.891 | 0.311 | 1.000 | 0.496 | 0.500 | 0.000 | 0.768 | 0.422 | 1.000 | |
| CEO_Own | 8.166 | 14.712 | 0.225 | 16.574 | 19.006 | 10.700 | 0.578 | 3.361 | 0.000 | 2.720 | 5.246 | 0.100 | |

The variables are defined as follows: *Turnover* is a dummy variable equal to 1 for firm-years with CEO forced turnover; *Performance* is measured as the percentage of net income divided by total assets; *Tenure* is the number of years the CEO has been at the current position; *Duality* is a dummy variable equal to 1 if the CEO is also the Chairman of the board, and 0 otherwise; *CEO_Own* is the percentage of outstanding shares owned by the CEO.

Empirical results

Table 3 reports correlations among the main variables, which summarily confirms the predictions. Actually, I find a strong negative correlation between firms performance and the likelihood of CEO dismissal. Particularly, among family-owned firms, the likelihood of CEO turnover seems to be less frequent in those managed by a family member, than in those with a professional CEO. Consistent with the first hypothesis, the negative correlation between the probability of CEO turnover and firms performance is higher for family-owned firms with a professional CEO, than for family-owned firms with a family member CEO.

Moreover, CEO turnover is negatively correlated with CEO tenure, CEO duality and CEO ownership, consistent with the assumption that powerful CEOs are less likely to be dismissed. Not surprisingly, I find that, in family-owned firms, CEO tenure, CEO duality, and CEO ownership are higher when the CEO is a family member than when the CEO is a professional manager.

TABLE 3Correlation Matrix

| | Turnover | Performance | FF_FamilyCEO | FF_ProfCEO | Tenure | Duality | CEO_Own |
|--------------|----------|-------------|--------------|------------|--------|---------|---------|
| Turnover | 1 | | | | | | |
| Performance | -0.083* | 1 | | | | | |
| FF_FamilyCEO | -0.136* | 0.099* | 1 | | | | |
| FF_ProfCEO | 0.070* | 0.047* | -0.409* | 1 | | | |
| Tenure | -0.083* | 0.076* | 0.418* | -0.236* | 1 | | |
| Duality | -0.101* | 0.059* | 0.255* | -0.295* | 0.332* | 1 | |
| CEO_Own | -0.118* | 0.024 | 0.540* | -0.341* | 0.424* | 0.310* | 1 |

Table 3 presents Spearman correlation for the variables in Equation (1). *Turnover* is a dummy variable equal to 1 for firm-years with CEO forced turnover; *Performance* is the firm's ROA, measured as the percentage of net income divided by total assets; $FF_FamilyCEO$ is a dummy variable equal to 1 if the firm is a family-owned firm with a family member CEO; $FF_ProfCEO$ is a dummy variable equal to 1 if the firm is a family-owned firm with a family member CEO; $FF_ProfCEO$ is a dummy variable equal to 1 if the firm is a family-owned firm with a professional CEO. *Tenure* is the number of years the CEO has been at the current position; *Duality* is equal to 1 if the CEO is also the Chairman of the board, and 0 otherwise. *CEO_Own* is the percentage of outstanding shares owned by the CEO. All independent variables are measured in the year prior the CEO turnover. The symbol * denotes significance at 5%.

Table 4 reports the empirical results concerning the test of H1. I find that firm performance has a significantly negative impact on the likelihood of CEO turnover (β = -0.020; *p-value*= 0.001). The likelihood of CEO dismissal is lower for familyowned firms with a family member CEO (β = -1.174; *p-value*= 0.000), than for those managed by a professional CEO (β = 0.019; *p-value*= 0.902). Regarding the first prediction, evidence confirms that the negative relationship between CEO turnover and firms performance is stronger for family-owned firms with a professional CEO (β = -0.032; *p-value*= 0.005), than for family-owned firms with a family member CEO (β = -0.018; *p-value*= 0.200)³. In order to test the equality of the coefficients, I run the Wald test which rejects the null hypothesis H0: (β_4 Perf * FF_FamilyCEO = β_5 Perf * FF_ProfCEO).

Moreover, findings suggest that the likelihood of CEO turnover decreases when the CEO is the Chairman of the board ($\beta = -0.376$; *p-value* = 0.014). Conversely, I do not find relationship between CEO turnover and CEO tenure, or CEO ownership.

 $^{^{3}}$ I run the VIF analysis in order to face concerns arising from correlation between some predictors. The VIF values show that the analysis is not affected by multicollinearity problem (VIF of the predictors are all lower than 5.0).

| Pr(Turnover)=1 | Coeff | icients | p-value | Marginal Effect (%) | VIF |
|--------------------------------|---------|---------|---------|------------------------|------|
| Intercept | -15.898 | | 0.985 | | |
| Performance | -0.020 | *** | 0.001 | -0.080 | 1.80 |
| FF_FamilyCEO | -1.174 | *** | 0.000 | -4.610 | 2.96 |
| FF_ProfCEO | 0.019 | | 0.902 | 0.079 | 1.67 |
| Perf*FF_FamilyCEO | -0.018 | | 0.200 | -0.074 | 1.62 |
| Perf*FF_ProfCEO | -0.032 | *** | 0.005 | -0.130 | 1.30 |
| Tenure | 0.006 | | 0.535 | 0.020 | 3.22 |
| Duality | -0.376 | ** | 0.014 | -1.642 | 4.30 |
| CEO_Own | -0.013 | | 0.145 | -0.050 | 1.78 |
| Country (Italy=1; France=0) | 0.372 | ** | 0.014 | 1.677 | 1.70 |
| Year Fixed Effects | Y | es | | | |
| Industry fixed effects | Y | es | | | |
| Obs.# 4,689 | | | | | |
| Pseudo R2 9.34% (p-value 0.000 |)) | | | | |
| VIF-mean 2.31 | | | | | |

Logit Regression of Turnover Probability on Performance: Full Sample

TABLE 4

Turnover is a dummy variable equal to 1 for firm-years with CEO forced turnover; *Performance* is the firm's ROA, measured as the percentage of net income divided by total assets; *FF_FamilyCEO* is a dummy variable equal to 1 if the firm is a family-owned firm with a family member CEO; *FF_ProfCEO* is a dummy variable equal to 1 if the firm is a family-owned firm with a professional CEO. *Tenure* is the number of years the CEO has been at the current position; *Duality* is equal to 1 if the CEO is also the Chairman of the board, and 0 otherwise. *CEO_Own* is the percentage of outstanding shares owned by the CEO. *Country* is a binary variable equal to 1 if the firm is operating in Italy and 0 otherwise. All independent variables are measured in the year prior the CEO turnover. The symbols *, **, ***, denote significance at 10%, 5%, 1% respectively.

Table 5 reports empirical results regarding the test of H2. Evidence shows a significantly negative relationship between firm performance and the likelihood of CEO turnover, both in Italy ($\beta = -0.032$; *p-value*= 0.008), and in France ($\beta = -0.016$; *p-value*= 0.032). As regards the second hypothesis, I find that, while for French family-owned firms managed by a professional CEO there is a negative relationship between performance and CEO turnover ($\beta = -0.038$; *p-value*= 0.004), in Italy this relationship does not exist ($\beta = -0.007$; *p-value*= 0.785). In order to test the equality of the coefficients, I run the Seemingly Unrelated Estimation test which rejects the null hypothesis H0: $\beta_{5 ITALY} = \beta_{5 FRANCE}$.

With respect to the control variables I find that in both countries the likelihood of CEO dismissal is lower for family-owned firms managed by a family member CEO ($\beta = -0.703$; *p-value*= 0.037 in Italy, and $\beta = -1.456$; *p-value*= 0.000 in France), than for family-owned firms with a professional CEO ($\beta = 0.068$; *p-value*= 0.802 in Italy, and $\beta = 0.026$; *p-value*= 0.891 in France). Moreover, findings suggest the existence of a negative impact of CEO duality on the likelihood of CEO turnover, but only for French firms ($\beta = -0.469$; *p-value*= 0.009 in France, and $\beta = -0.331$; *p-value*= 0.289 in Italy).

TABLE 5

Logit Regression of Turnover Probability on Performance: Italy and France samples

| | Italy | | | France | | | | | |
|--------------------------------------|--------------|-------------|---------------------------|---|--------------|---------|---------------------------|--|--|
| Pr(Turnover)=1 | Coefficients | p- value | Marginal Effect (%) | Pr(Turnover)=1 | Coefficients | p-value | Marginal Effect (%) | | |
| Intercept | -14.371 | 0.979 | | Intercept | -3.066 | 0.000 | | | |
| Performance | -0.032 *** | 0.008 | -0.170 | Performance | -0.016 ** | 0.032 | -0.050 | | |
| FF_FamilyCEO | -0.703 ** | 0.037 | -3.612 | FF_FamilyCEO | -1.456 *** | 0.000 | -5.010 | | |
| FF_ProfCEO | 0.068 | 0.802 | 0.369 | FF_ProfCEO | 0.026 | 0.891 | 0.095 | | |
| Perf*FF_FamilyCEO | -0.041 * | 0.085 | -0.217 | Perf*FF_FamilyCEO | -0.002 | 0.938 | -0.005 | | |
| Perf*FF_ProfCEO | -0.007 | 0.785 | -0.035 | Perf*FF_ProfCEO | -0.038 *** | 0.004 | -0.136 | | |
| Tenure | -0.016 | 0.470 | -0.088 | Tenure | 0.018 | 0.135 | 0.062 | | |
| Duality | -0.331 | 0.289 | -1.680 | Duality | -0.469 *** | 0.009 | -1.903 | | |
| CEO_Own | -0.031 | 0.142 | -0.168 | CEO_Own | -0.006 | 0.560 | -0.021 | | |
| Year Fixed Effects | Yes | | | Year Fixed Effects | Yes | | | | |
| Industry Fixed Effects | Yes | | | Industry Fixed Effects | Yes | | | | |
| Obs.# 1,161 | | | | Obs.# 3,528 | | | | | |
| Pseudo R ² 11.20% (p-valu | ıe 0.000) | | | Pseudo R ² 9.1% (<i>p-value</i>) | 0.000) | | | | |

Turnover is a dummy variable equal to 1 for firm-years with CEO forced turnover; *Performance* is the firm's ROA, measured as the percentage of net income divided by total assets; $FF_FamilyCEO$ is a dummy variable equal to 1 if the firm is a family-owned firm with a family member CEO; $FF_ProfCEO$ is a dummy variable equal to 1 if the firm is a family-owned firm with a professional CEO. *Tenure* is the number of years the CEO has been at the current position; *Duality* is equal to 1 if the CEO is also the Chairman of the board, and 0 otherwise. *CEO_Own* is the percentage of outstanding shares owned by the CEO. All independent variables are measured in the year prior the CEO turnover. The symbols *, **, ***, denote significance at 10%, 5%, 1% respectively.

5. DISCUSSION

The purpose of this study is to investigate CEO turnover decisions in family firms. The concentration of ownership in the hands of the family gives rise to two opposite effects in terms of agency conflicts. On one hand, it reduces potential conflicts between family owners and managers (Fama & Jensen, 1983; Jensen & Meckling, 1976), since the desire to maintain the corporate control for a long term leads the family to entrench family members or affiliate managers in managerial positions, who respond directly to the interest of family owners (Morck & Yeung, 2003; Young, 2008; Gomez-Mejia et al., 2011; Prencipe et al., 2008). On the other hand, it increases conflicts of interests between family owners and small investors (Ali et al., 2007; Villalonga & Amit, 2006). Because of managerial entrenchment, family has, indeed, the power to affect corporate decisions, in order to maximize family's wealth, at the expense of minority shareholders.

Therefore, CEO turnover decisions in family firms may be affected by family opportunism.

The research question of this study may be re-written as: "Under what conditions have family owners incentives to dismiss a CEO after poor performance?"

Findings suggest that these incentives highly depend on the closeness of the ties between the family and the CEO. When the CEO is a family member, family owners may lack not only incentives but also the ability to objectively evaluate and to replace the underperforming CEO. When the CEO is a professional manager, the ability to appropriately evaluate the CEO should not be compromised, but family owners may feel stronger incentives to keep on a faithful CEO, rather than replace her/him.

Overall, these findings have two implications.

First, professional CEOs may have high incentives to develop and signal the trust towards the family in order to keep their position for a long time, making decisions that satisfy the family's interest (Brunello et al., 2003). Conversely, family CEOs may enjoy higher discretion over corporate decisions. Focusing on corporate decisions that may be affected by family opportunism, future studies may add to our knowledge, investigating potential heterogeneity in the behavior of family-managed firms and their counterparts.

Second, these findings reveal the need of an effective board monitoring, able to prevent family opportunism, thereby ensuring the safeguard of small investors' interests. However, family may undermine the effectiveness of the board's oversight, by appointing affiliate directors. Future studies may provide evidence on this point, investigating whether board composition shapes the CEO-turnover performance sensitivity in family firms.

6. CONCLUSION

Even though there is clear evidence that large shareholders play a monitoring role over poorly-performing CEOs, the role of family owners is yet quite unexplored. This study investigates the impact of family ownership on the CEO turnoverperformance sensitivity, examining whether the existence of family ties and the propensity to distrust a stranger compromise the prompt replacement of an underperforming executive.

Findings reveal that, within family firms, the likelihood of CEO turnover after poor performance is lower when the CEO is a family member rather than a professional manager. Findings also show that the likelihood of dismissal of a poorlyperforming professional CEO is lower in environments characterized by the cultural propensity to distrust a stranger.

These findings stress the importance to foster an entrepreneurial ethical culture in order to train new generation of responsible business owners, able to give priority to merit and competences, rather than kinship or personal knowledge.

The study is subject to at least three limitations.

First, this study does not investigate whether internal control devices shape CEO turnover-performance sensitivity within family firms. Future studies may extend our knowledge, by examining the moderator effects of internal governance mechanisms, such as board of directors, institutional ownership, and debt. For instance, future works can examine whether CEO turnover-performance sensitivity is stronger in family firms with outside-dominated boards.

Second, this study examines the closeness of the family owner-professional CEO relationship at a country-level, through the cultural propensity to trust a stranger. Future research could go deeper, investigating the presence of fidelity ties at firm-

level, and the consequences on the effectiveness of governance and monitoring forces.

Third, in this study I have focused on the CEO turnover decision, without analyzing the succession mechanisms post turnover. Future works can add to this study, contributing to the debate on the heterogeneity in family owners' behavior, by examining under what circumstances family owners are able to replace a poorly-performing family member CEO with a professional manager. For instance, one might consider whether market mechanisms, such as an aggressive competition or a financial shock, could lead to higher effectiveness of family ownership over the turnover and succession decisions. In this perspective, future studies can also investigate whether cultural or anthropological factors affect the prevalence of merit-based criteria over the willingness of dynastic succession (De Lima, 2000). Actually, while it is widely recognized that there is a strong connection of kinship with the culture's normative order, anthropological foundations as explanation for the behavior of family owners and executives still deserves to be explored (Stewart 2003).

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CHAPTER 2

Family Entrenchment, Board Independence, and CEO Turnover

ABSTRACT: In family firms, risks of minority's wealth expropriation arise. Board of director should mitigate risks of expropriation for minority shareholders. However, family owners may weaken the effectiveness of board monitoring, by entrenching family members or not truly independent directors in the board. This study investigates the effect of board composition on the CEO turnover-performance sensitivity in family firms. Moving from agency theory, I hypothesize and find that the CEO turnover-performance sensitivity is lower as the level of family entrenchment increases, but it is higher in firms with independent boards.

Keywords: Board Independence, Family Firms, CEO Turnover, Board Monitoring, Large Shareholder

1. INTRODUCTION

In the wake of the well-known financial scandals, the interest of scholars and regulators on the effectiveness of corporate governance mechanisms has increased considerably (Huson et al., 2001; Aguilera, 2005; Zattoni & Cuomo, 2010).

One of the most important governance mechanisms is the board of director, which plays a crucial role in monitoring managers, acting on the behalf of the firm's shareholders (Fama & Jensen, 1983; Blair, 1995). However, the effectiveness of the board as a control device largely depends on its composition (Hermalin & Weisbach, 2003; Osma, & Noguer, 2007; Hsu & Wu, 2014).

The agency framework suggests that the effectiveness of the board's monitoring can be compromised if the board is composed by the executives of the firm. For this reason, agency theorists emphasize the role of independent directors, considered a key feature to ensure board effectiveness and firm's accountability, because of the lower risk of collusion with the top management (Fama & Jensen, 1983; Dalton et al., 1998; Daily et al., 2003). Building on the agency constructs, all over the world codes of good governance invoking independent-dominated boards have suddenly spread.

Most of prior studies provide evidence that board independence is actually able to mitigate owners-managers conflicts (e.g., Weisbach, 1988; Peasnell et al., 2005; Chen et al., 2015).

However, although the issue of board independence has been widely investigated, literature provides limited insights on the effectiveness of board independence in mitigating agency problems in family firms (Chen & Hsu, 2009; Prencipe & Bar-Yosef, 2011).

Nevertheless, family ownership is pervasive in economic organization worldwide (La Porta et al., 1999; Faccio & Lang, 2002), generating a 70-90% of global GDP annually (Family Firm Institute 2008). In addition to their economic relevance, family firms have peculiar traits which may affect the effectiveness of their governance systems.

The concentration of ownership in the hands of the family determines two opposite effects in terms of agency conflicts. On one hand, it reduces potential conflicts between family owners and managers (Fama & Jensen, 1983; Jensen & Meckling, 1976). On the other hand family firms face severe type II agency problems, resulting from the conflict of interests between family owners and minority shareholders (Ali et al., 2007; Villalonga & Amit, 2006).

Independent directors should mitigate risks of expropriation for minority shareholders, acting as primary mechanism of defense against the abuses of the majority shareholders (Shleifer & Vishny, 1986; Anderson & Reeb, 2004).

However, family owners are adverse to lose their control and their decisionmaking power (e.g., Berrone et al, 2012). As a consequence, they are likely to exert their influence in the selection of the board members (Johannisson & Huse, 2000). In particular, family owners can defend their control by entrenching family members or their affiliates in the board of directors (Morck & Yeung, 2003; Gomez-Mejia et al., 2011; Gomez-Mejia et al., 2014). In such a case, the effectiveness of the board's monitoring and the safeguard of minority shareholders would be compromised because of both family entrenchment and the risk of collusion between independent directors and family shareholders.

For this reason, some scholars have begun to question the effectiveness of board independence, especially when they are appointed by a controlling shareholder (e.g., Gutiérrez & Sáez, 2013).

However, most of prior studies suggest that board independence is able to mitigate agency problems, even in the case of family firms (e.g., Anderson & Reeb, 2004; Chen & Hsu, 2009). Yet, other studies suggest the opposite. For instance, Prencipe & Bar-Yosef (2011) hypothesize and find that the effectiveness of board independence in preventing earnings manipulation is significantly lower in family firms.

Therefore, understanding the effectiveness of the board's monitoring and role of independent directors in mitigating agency conflicts in family firms is still an open and important question.

This study aims to fill this gap, investigating the effects of board composition on the CEO turnover-performance sensitivity in family firms.

I focus on CEO turnover decisions for three reasons. First, CEO turnoverperformance sensitivity reflects the severity of agency conflicts within the firm (Weisbach, 1988; Huson et al., 2001; Chen et al., 2013). Second, the prompt replacement of an underperforming CEO is a crucial task of the board of director, since the retention of a poorly performing CEO has strong implications on the future firm prospects, in terms of investment, financing, and strategic choices (Huson et al., 2001). Third, CEO turnover decisions in family firms are potentially affected by family opportunism. Actually, in family firms, the CEO turnover is likely to be ineffective, because family owners are reluctant to replace family members or family affiliated CEOs (Morck & Yeung, 2003). In such a case, the board of director should safeguard the interests of minority shareholders, ensuring an effective CEO turnover. However, family owners may exert their power to affect board composition, by entrenching family directors or not truly independent directors.

Moving from agency theory, I hypothesize that the effectiveness of the board's monitoring is lower when family members are entrenched in the board and higher when the board is dominated by independent directors. Consistently, I find that the CEO turnover-performance sensitivity is lower as the level of family entrenchment increases, but it is higher in independent-dominated boards.

The analysis is based on a sample of 581 firm-years observations from 83 Italian listed family firms covering the period 2006-2014. Italy constitutes a suitable setting because of the high presence of firms with family-concentrated ownership, the weak protection of minority shareholders' rights and the rising interest of governance reformers to enforce the effectiveness of board, by increasing the representation of independent directors.

This study contributes to the literature in following ways.

First, this study contributes to the literature on board independence. Actually, although the issue of board independence has been widely investigated, literature

provides little evidence on the effectiveness of board independence in family firms (Chen & Hsu, 2009; Prencipe & Bar-Yosef, 2011). Moreover, because of the high risks of collusion between family owners and independent directors, some studies have questioned the validity of board independence as a useful governance device (e.g., Prencipe & Bar-Yosef, 2011). This study provides evidence that board independence could be an effective control mechanism, also in family firms.

Second, this study contributes to the literature on CEO turnover. Unlike previous studies, which focused on widely-held firms, this study investigates the relationship between board independence and CEO turnover in family firms.

Third, this study adds to the stream of research on CEO turnover in family firms. Actually, prior studies have mainly examined the differences between family and non-family firms, providing evidence that the CEO turnover-performance sensitivity is higher in the former. This study highlights that the CEO turnover-performance sensitivity within family firms largely depends on the board composition.

Finally, this study provides interesting evidence for regulators. The main concern for governance reformers is to increase the representation of independent directors on corporate boards (Duchin et al., 2010; Zattoni & Cuomo, 2010). These reforms, however, encounter the skepticism of some scholars, who argue that any regulatory effort aimed at the power-balancing within the firm would be mere "window dressing", since insiders can appoint outsiders (e.g., Gutiérrez & Sáez, 2013). This study provides evidence that independent-dominated boards are able to counterbalance the influence of family owners. While I acknowledge that increasing independent representation does not implies *per se* increasing corporate accountability, setting higher numerical target for independent directors could enhance board's effectiveness.

The structure of the paper is as follows. Section 2 provides theoretical background and hypotheses development. Section 3 illustrates the research design. Section 4 reports the empirical results. Finally, section 5 concludes.

2. THEORETICAL BACKGROUND AND HYPOTHESES

CEO turnover in family firms

Agency theory suggests that, when ownership and management are separated, agency costs arise because of the need to monitor and mitigate managerial opportunism (Jensen & Meckling, 1976). Because of information asymmetries and interests' misalignment between managers and shareholders, managers have both the incentives and the power to act opportunistically, pursuing their private interests at the expense of the shareholders. For instance, managers may invest firm's wealth in unprofitable projects, moved by the aim to build large empires (Jensen, 1986; Jensen, 1993), or, conversely, the desire to conduct a quiet life may induce them to invest less effort in managing firm resources (Bertrand & Mullainathan, 2003). As a consequence, managerial opportunism leads to poor firm performance and to a reduction of shareholders' wealth.

The board of directors constitutes the main shareholders' control device against opportunistic managers (Weisbach, 1988). Directors are delegated by shareholders to

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exert an effective monitoring over the executives, acting in defense of their interests (Jensen & Meckling, 1976).

Therefore, one of the most important tasks of the board of directors is the evaluation of CEO's performance, and the prompt removal of an underperforming CEO (Warner et al., 1988; Weisbach, 1988). If the board exerts an effective monitoring over the management, then a negative relationship between the likelihood of CEO turnover and firm performance should exist (Coughlan & Schmidt 1985; Warner et al. 1988).

Prior studies on the CEO turnover performance sensitivity find that this relationship is stronger when the firm is the hands of a large shareholder (Kaplan & Minton 1994; Kang & Shivdasani 1995; Denis & Serrano 1996; Denis et al. 1997).

The blockholder has indeed both the incentive to monitor the executives and the power to affect board composition, by choosing affiliate directors who, acting in the blockholder's behalf, will exert a strong monitoring over the management actions (Shleifer & Vishny 1986; Shleifer & Vishy 1997). Therefore, the presence of a large shareholder is generally associated with a higher effectiveness of the board of directors in monitoring, evaluating, and dismissing an underperforming CEO (Denis et al., 1997).

Accordingly, prior studies show that, when compared with widely held firms, family firms report a higher CEO turnover-performance sensitivity (Chen et al., 2013).

Yet, literature provides evidence that the family involvement in the firm's management and control shapes CEO turnover decisions within family firms, because of specific agency conflicts that may affect the effectiveness of the governance systems (Chen et al., 2013).

For instance, prior studies show that altruism in family relationships exposes family members to a myopic evaluation of the family executives, resulting in an ineffective turnover in the case of poor performance (Handler & Kram, 1988; Schulze et al., 2001; Schulze et al., 2003).

Moreover, family owners tend to consider the firm as a private asset, to pass to future family generations (Zellweger & Astrachan, 2008; Zellweger et al., 2011; Berrone et al., 2010). The desire to maintain the control of the firm for a long time may lead family owners' decisions more than financial performance (Jones et al., 2008).

A way through which family shareholders can exert a direct control over the firm is by entrenching family members or their affiliates in executive positions (Morck & Yeung, 2003; Gomez-Mejia et al., 2011; Gomez-Mejia et al., 2014). The affiliated managers answer directly to the family shareholders (Young et al., 2008). As a consequence, in case of poor performance, family owners may be willing to sacrifice firm value and to keep on the faithful CEO (Morck & Yeung, 2003).

Therefore, while on one hand the family influence in the firm's management reduces owners-managers conflicts (Fama & Jensen, 1983; Jensen & Meckling,

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1976), on the other hand, it allows family owners to pursue their interests at the expense of minority shareholders (Ali et al., 2007; Villalonga & Amit, 2006).

In such a case, the board of director should provide an effective monitoring mitigating the risks of expropriation for minority shareholders (Fama & Jensen, 1983; Dalton et al., 1998).

However, another way through which family shareholders can exert their influence over the firm is by entrenching family members into the board of director (Gomez-Mejia et al., 2001; Muskataillo et al., 2002; Villalonga & Amit, 2006).

Since family directors are likely to ensure the family interests, family entrenchment into the board of director may weaken the effectiveness of the board's monitoring role (Gomez-Mejia et al., 2011), leading to an ineffective replacement of poorly performing CEOs.

According to these considerations, the following hypothesis is proposed:

H1: The higher the level of family entrenchment the lower the CEO turnoverperformance sensitivity.

Board independence and CEO turnover

Agency theory recognizes board independence as a crucial feature to ensure board effectiveness and corporate accountability, because of a lower risk of collusion between independent directors and executives (Fama & Jensen, 1983; Dalton et al., 1998; Daily et al., 2003). Indeed, in the traditional agency framework, the effectiveness of board monitoring depends on the lack of ties between managers and board directors. Therefore, independent directors constitute the main shareholders' control device to exercise an effective monitoring over opportunistic managers (Fama, 1980).

Prior studies largely support the agency assumption, providing evidence that board independence is able to mitigate owners-managers conflicts (e.g., Brickley & James, 1987; Weisbach, 1988; Kosnik, 1990; Lee et al., 1992; Beasley, 1996; Dahya et al., 2002; Peasnell et al., 2005; Chen et al., 2015). With regard to the CEO turnover, for instance, Weisbach (1988) found that firms with outsider-dominated boards are more likely to remove an underperforming CEO than firms with insiderdominated boards. Dahya et al. (2002) found that in UK the negative relationship between the likelihood of CEO turnover and corporate performance was significantly higher after the adoption of the Cadbury Code.

However, in family firms, owners-managers conflicts are lower and the major agency conflict arises from the misalignment of interests between family owners and minority shareholders. Actually, family owners have both the incentives and the power to expropriate minority shareholders' wealth (e.g., Morck et al., 2000; Faccio & Lang, 2002; Morck & Yeung, 2003).

When risks of expropriation arise, the safeguard of minority investors' rights is mainly entrusted to independent directors, who should act to prevent family abuses on the behalf of minority shareholders (e.g. Shleifer & Vishny, 1986, 1997; Anderson & Reeb, 2004; Park & Shin, 2004). Independent directors are widely believed to play a crucial role in ensuring the respect of legality and in mitigating agency problems in family firms, because of the lack of ties with both the executives and the family shareholders (Anderson & Reeb, 2004).

For instance, Faccio et al. (2001) stress the importance of an effective board monitoring in family firms, providing evidence that, without an effective oversight, family owners are able to expropriate minority shareholders' wealth.

Anderson & Reeb (2004) emphasize the monitoring role of independent directors in family firms, highlighting that they constitute the primary line of minority's defense against the influence and the power of family shareholders.

Most of prior studies provide evidence that, also in family firms, board independence constitutes a key control device and is able to mitigate agency conflicts.

For instance, Miller & LeBreton-Miller (2006) point out that the inclusion of independent directors protects minority shareholders rights, preventing wealth expropriation by family affiliated managers.

Hillman & Dalziel (2003) highlight that independent-dominated boards have greater incentives to safeguard firm's accountability, ensuring the interests of shareholders.

Anderson & Reeb (2004) show that independent-dominated boards prevent from the risk of expropriation and reduce family opportunism, leading to higher firm performance. Chen & Hsu (2009) show that a high presence of independent directors is positively associated with R&D investment.

Board independence may reduce agency problems both directly and indirectly, by improving the effectiveness of other control devices able to protect minority's interests. For instance, Patelli & Prencipe (2007) find that board independence is positively associated with voluntary disclosure. These two control mechanisms reinforce each other, helping to improve the safeguard of small shareholders.

Yet, it should be noted that the aversion of family owners to lose control over firm's decisions may lead to risks of collusion with formally-independent directors. Indeed, family shareholders have the power to appoint directors whom, even if formally independent, actually respond to the family's interests.

In this regards, some recent studies have questioned the effectiveness of board independence in family firms (Dahya et al., 2008; Prencipe & Bar-Yosef, 2011; Gutiérrez & Sáez, 2013). For instance, Dahya et al. (2008) suggest that large shareholders interested in consuming perquisites are likely to appoint weak directors in order to enhance their influence over the firm's decisions. Prencipe & Bar-Yosef (2011) hypothesize that family owners use their power to influence the board compositions, by appointing directors whom lack independence in substance. Consistently, they find that the impact of board independence on earnings management is weaker in family firms than non-family firms.

While it is hard to deny that family ownership concentration may involve potential risks of collusion, according to the agency framework the risk of collusion

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between family owners and independent directors is counterbalanced by the reputational incentives. Indeed, the value of the human capital of independent directors depends primarily on their performance in the corporate decisions control (Fama & Jensen 1983). Therefore, independent directors have strong incentives to develop and signal their reputation as experts in the firm control (Fama, 1980; Fama & Jensen 1983; Kaplan & Reishus, 1990). This is the reason why codes of good governance, all over the world, recommend appointing outside directors according to reputational and expertise criteria.

The reputational effect may be particularly strong in the case of family firms (Patelli & Prencipe, 2007). Indeed, market is aware of the potential risk of collusion when independent directors are appointed by the family shareholders. Therefore, the risk of collusion is likely to be reflected in the market value of stock performance. This reinforces the reputational incentives both for family shareholders the independent directors. On one hand, family owners may have incentives to appoint renowned professionals with high reputation in the financial community. On the other hand, independent directors have incentives to effectively fulfill their duties, in order to signal to the market their expertise and ethics and to defend their imagine and reputation in the academic or business community.

However, it should also be noted that the inclusion of truly-independent directors may not directly lead to consequences in terms of board's monitoring outcomes. Indeed, independent directors must also have the power to affect board decisions, especially in the case of particularly important decisions, such as the replacement of top executives (e.g., Fama & Jensen 1983; Dahya et al., 2008).

If independent directors are in the minority, they have not the power to affect board decisions, and maybe the only way through which s/he can signal reputation is by resigning from the board. In such a case, there would be no consequences in terms of monitoring outcomes. Conversely, if independent directors constitute the majority of the board, they could be able to impose an independent board judgment.

According to these considerations, the following hypothesis is proposed:

H2: *The CEO turnover-performance sensitivity is higher in firms with independent-dominated board.*

3. RESEARCH METHOD

Institutional setting

The Italian context constitutes an ideal setting to address the effectiveness of board independence in family firms, for the following reasons. First, Italian financial market is characterized by a significantly predominance of family ownership, with 73% of family listed firms (Bianchi & Enriques, 1999; Prencipe et al., 2014, Volpin, 2002).

Second, Italian family owners tend to hold the firm's majority stake and to keep the control of their firms for a long term (Brunello et al., 2003; Prencipe et al., 2008). The high involvement of the family in the firm may have two opposite effects on the corporate governance structure and effectiveness. On one hand, it may encourage a greater attitude to build a positive firm's reputation and imagine (Sharma & Manikutty, 2005; Westhead et al., 2001). However, on the other hand, it may enhance the risk of expropriation and collusion, since family can significantly affect the board of director's composition, *de facto* weakening the Italian commercial law requirement on the adoption of the slate voting system⁴.

Third, despite regulatory efforts aimed at enhancing the protection of small investors, such as the Draghi reform⁵ in force since 1998, the Italian governance system is characterized by a weak protection of minority shareholders' rights (La Porta et al., 2000). In particular, the diffusion of pyramidal structures, the ineffectiveness of the market for corporate control and rare hostile takeovers, and a limited activism of institutional investors characterize the Italian financial market (Melis, 2000; Volpin, 2002; Brunello et al., 2003).

Fourth, compared with the US and UK context, where most of prior studies were conducted, the evolution of corporate governance of Italian listed firms is still in the early stages. Actually, in response to the high need for minority protection, Italian governance reformers have enacted a code of good governance, the *Codice di Autodisciplina*, which constitutes a set of best practices aimed at improving the effectiveness of the corporate governance systems of listed firms. Since the first version, which dates back to 1999, the Code stressed the monitoring role of the board

⁴ Law 262/2005

⁵ Legislative Decree 58/1998.

of directors, mainly entrusted to the independent directors. The revised versions of 2006 and 2011 have further emphasized the role of independent directors, recommending, in particular, an effective monitoring in cases of potential conflict of interests between controlling and minority shareholders, such as, for instance, the maintaining of a family-affiliated underperforming CEO.

According to the version of 2006, essentially unchanged in the later versions, independent directors are defined as outside directors who: (i) have no relevant business relationships with the firm, its subsidiaries, and other relevant subjects, such as managers, directors and controlling shareholders; (ii) do not own a percentage of shares which can give them the power to exert a dominant influence over the firm, also considering any agreements with other shareholders which could give them the power to control the firm; and (iii) are not family members of executive directors or of other persons who are in the situations referred to in points (i) and (ii). As well as the formal compliance with these requirement, the 2006 and 2011 revised versions stress the need for the board independence to be, and appear outside, evaluated in its substance and constantly for the entire mandate.

Unlike the US and UK context, where it is required that at least half of the board of directors is composed of independent members, until 2011 the Italian Code did not require a specified number of independent director, simply recommending the inclusion of a number of independent members adequate to provide an objective and independent judgment. The 2011 version requires, instead, the inclusion of at least two independent directors and a proportion of board independence equal to one third for the firms belonging to FTSE-Mib index.

Finally, the Italian context has an important peculiarity that affects the actual implementation of code recommendations (Alvaro et al., 2013). The law 262/2005 entrusts to the Audit Committee the task of monitoring on the concrete implementation of the Code recommendations to which the firm declares to comply. Moreover, the Consob has a sanctioning power towards the Audit Committee in the case of non-fulfillment of his duties. These further monitoring may thus strengthen the effectiveness of board independence, by reducing the risk of collusion.

Sample

The empirical analysis is based on a sample of Italian listed family firms. The initial sample consists of 206 Italian firms listed in December 2015. I exclude 53 financial and insurance firms (NACE REV 2 Code), because the regulation and the nature of their assets differ from those of other firms. Moreover, I remove 3 cross-listed firms in order to avoid noises due to different governance regulation. I also drop 28 firms with missing governance data. Finally, I exclude 39 non-family and state-owned firms, since these firms are characterized by the prevalence of other than type II agency conflicts, which can affect CEO turnover decisions in different ways. Adopting the definition proposed by the European Commission for listed companies, I classify a firm as family firm "if the person who established or acquired the firm

(share capital) or their families or descendants possess 25% of the decision-making rights mandated by their share capital"⁶.

Table 1 summarizes the sampling process.

The final sample consists of 581 firm-years observations from 83 Italian listed family firms covering the period 2006-2014. I choose to start data collection in 2006 as it constitutes the first year of application of the revised version of the "*Codice di Autodisciplina*", which strengths the figure and the role of independent directors (Alvaro et al., 2013). Note that the data referred to the end of 2006 are processed and made public by the firms between the first and the second quarter of 2007, and therefore they are for the most in line with the recommendation of the 2006 version of the Code. However, for robustness I also run the empirical analysis excluding 2006, obtaining similar results.

⁶ http://www.europeanfamilybusinesses.eu/family-businesses/definition.

TABLE 1

Sample Selection Process

| Italian listed firms | 206 |
|----------------------------------|-----|
| Financial and Insurance firms | -53 |
| Cross-listed firms firms | -3 |
| Firms with missing data | -28 |
| Non-family and state-owned firms | -39 |
| Final Sample | 83 |
| | |

The initial sample consists of 206 Italian listed firms. I exclude 53 financial and insurance companies (NACE REV 2 Code), 3 cross-listed firms, 28 firms with missing governance data, and 39 non-family and state-owned firms. The final sample consists of 581 firm-year observations of 83 family firms, during the period 2006-2014.

Variables

Dependent Variable: the dependent variable in the analysis is the likelihood of CEO turnover. In order to identify CEO turnover, I use information in firms' annual corporate governance reports. As first step, I classify all cases in which the CEO name at the end of year t is different from that at the end of year t - 1, as potential CEO turnover. Then, in order to ensure to capture only cases of forced turnover, I classify as voluntary turnover all cases that involve mergers, spinoffs, CEO deaths, and retirements. The remaining cases of turnover are classified as forced turnover if the financial press reports that the CEO is fired, forced out, or resigns due to policy

differences or pressure. This classification is necessary since the CEOs are rarely openly dismissed from their positions (Jenter & Kanaan, 2015).

Independent Variables: the main independent variable in the analysis is firm performance (*Performance*). Consistent with prior studies, I expect a negative relationship between the likelihood of CEO turnover and firm performance (Warner et al., 1988; Chen et al., 2013). I measure firm performance with the Return on Assets (ROA) of the year before the CEO dismissal. I choose to focus on accounting performance rather than market performance for two reasons. First, prior studies show that compared to market-oriented contexts, in bank-oriented context, such as Italy, accounting-based measures of performance are better predictors of the likelihood of CEO turnover (e.g., Brunello et al., 2003). Second, the use of market-based measure, such as stock prices, could not be appropriate in time of economic crisis.

In order to address CEO turnover-performance sensitivity, two moderators were included in the analysis.

Firstly, in order to test the first hypothesis, I include a measure of family entrenchment into the board of director (*FamEntrenchment*), which is the ratio of the number of family member directors over the total size of the board. To check for the director's family membership, I verify her/his identity through the firm's annual corporate governance report. In particular, I focus on the director's last name, and if it differs from that of the family, I carry out further research to identify potential kinship relationships. The first variable of interest is the interaction variable *FamEntrenchment* **Performance*. Being negative the relationship between CEO turnover and firm performance, a significantly positive coefficient of this variable signals a lower CEO turnover- performance sensitivity.

Secondly, in order to test the second hypothesis, I include in the model a binary variable (*IndepBoard*), which is a dummy variable equal to 1 if at least half of the board of directors is independent⁷. In order to identify independent directors I use information from the annual corporate governance reports, as Italian listed firms are required to specify both the number and the names of independent directors, on the basis of the definition provided by the Corporate Governance Code .

The second variable of interest is the interaction variable *IndepBoard* **Performance*. Being negative the relationship between CEO turnover and firm performance, a significantly negative coefficient of this variable signals a higher CEO turnover- performance sensitivity.

Control Variables: moving from prior studies, I control for a number of factors that may affect the likelihood of CEO turnover. The set of control variables includes CEO duality (*Duality*), CEO ownership (*CEO_Own*), CEO tenure (*Tenure*), the presence of other large shareholders (*OtherBlock*) and industry competition (*H_Index*). I also control for fixed effects at year level.

⁷ For robustness, I also captured board independence including a dummy variable equal to 1 if in the board sit more than two independent directors. Untabulated analysis provides similar results.

Duality is a dummy variable equal to 1 if the CEO is also the Chairman of the board, and 0 otherwise. I include CEO duality in order to control for the CEO's power, since prior findings suggest a negative relationship between the power of the CEO and the turnover decisions (e.g. Weisbach, 1988).

CEO_Own is the percentage of outstanding shares owned by the CEO. I control for the CEO ownership because Denis et al. (1997) show that the higher the CEO ownership, the lower the probability of CEO turnover.

Tenure is the number of years the CEO has been at the current position. I control for CEO tenure because prior studies show that tenure is negatively associated with the likelihood of CEO turnover (e.g. Parrino, 1997).

OtherBlock is a dummy variable equal to 1 if the sum of shares held by the second and the third largest shareholders is higher than 10%, and 0 otherwise. I control for the presence of other large shareholders because prior research finds that the monitoring of other large shareholders can mitigate the risk of expropriation (Shleifer & Vishny, 1986; Maury & Pajuste, 2005). I choose the threshold of 10% because prior studies show that in Italy family ownership is highly concentrated and in most cases the second large shareholder hold on average 8-10% (e.g., Brunello et al., 2003; Prencipe et al., 2008). I do not treat institutional ownership separately because Italian financial institutions are rarely large active shareholders (Brunello et al., 2003).

 H_Index is the Herfindahl index, measured as the sum of the squared market share of all firms in the same industry. I control for industry competition because prior research finds that it can affect the probability of CEO turnover (DeFond and Park, 1999).

Finally, I include year dummy variables, for two reasons. First, by adding year dummies, I control for the economic cycle, and especially the economic crisis of 2008. Second, Jenter & Kanaan (2015) find that exogenous market shocks affect CEO turnover, even if bad firm performance are caused by factors beyond the control of the CEOs.

All independent variables are measured in the year before the CEO turnover.

Financial accounting data are collected from Amadeus, the European database from Bureau Van Dijk, while corporate governance and CEO turnover information are hand-collected via annual corporate governance reports.

Models

I test the first hypothesis with the logit regression model in Equation (1), and the second hypothesis with the logit regression model in Equation (2).

 $Pr(Turnover_t = 1) = \beta_0 + \beta_1 Performance_{t-1} + \beta_{t-1} Performance_{t-1} Perform$

 β_2 FamEntrenchment_{t-1} + β_3 FamEntrenchment * Performance_{t-1} + β_4 Duality_{t-1} + β_5 CEO_Own_{t-1} + β_6 Tenure_{t-1} + β_7 OtherBlock_{t-1} + β_8 H_Index_{t-1} + D_Year (1) $Pr (Turnover_{t} = 1) = \beta_{0} + \beta_{1}Performance_{t-1} + \beta_{2} IndepBoard_{t-1} + \beta_{3} IndepBoard * Performance_{t-1} + \beta_{4} Duality_{t-1} + \beta_{5} CEO_{0}wn_{t-1} + \beta_{6} Tenure_{t-1} + \beta_{7} OtherBlock_{t-1} + \beta_{8} H_{1}Index_{t-1} + D_{2}Year$ (2)

4. **RESULTS**

Descriptive statistics

Table 2 reports summary statistics of the key metrics. On average, 8.6% of the sample experiences CEO turnover. The average value of firm performance is 3.1%.

As regards the ownership structure, the sample seems to well represent the population of Italian family firms. Actually, family ownership is quite highly concentrated in the hands of the controlling family. However, 41% of firms in the sample have other large shareholders. In particular, family owners hold on average 57% of shares, while the second and the third large shareholders hold 10.22%, and institutional owner hold 5.84%.

As regards the boards' composition, data shows an average size of 9 directors. On average, the boards of directors of family firms in the sample are composed by 28% of family directors, and by 36.4% of independent directors. Moreover, 18% of firms in the sample have independent-dominated boards.

On average, 36% of the CEOs are also the chair of the board. Not surprisingly, data shows a quite high CEO ownership and CEO tenure. While, on average, CEOs

of family firms in the sample hold 10.70% of shares, the maximum value of CEO ownership reach 89.95%, presumably referable to the presence of the firm's founder, or, more generally, to the presence of a family CEO. Similar consideration may apply for the high CEO tenure. Actually, the average CEO tenure is 10 years, and the maximum value is 43 years.

Finally, the Herfindahl index moves from 1% to 11%, with an average value of 3.3%, which ensures a sufficient level of variability.

TABLE 2

Descriptive Statistics

| - | Min | 1th Percentile | Mean | Median | 99th Percentile | Max | Std. |
|---------------------------|--------|-------------------|--------|--------|--------------------|--------|--------|
| Turnover | 0.000 | 0.000 | 0.086 | 0.000 | 1.000 | 1.000 | 0.281 |
| Performance | -0.480 | -0.323 | 0.031 | 0.033 | 0.257 | 0.329 | 0.095 |
| Family Ownership | 26.290 | 26.290 | 57.010 | 57.390 | 84.010 | 89.760 | 11.645 |
| N.Family Directors | 0.000 | 0.000 | 2.389 | 2.000 | 5.000 | 8.000 | 1.133 |
| Family Entrenchment | 0.000 | 0.000 | 0.280 | 0.273 | 0.714 | 0.800 | 0.140 |
| N. Independent Directors | 0.000 | 0.000 | 3.315 | 3.000 | 8.000 | 11.000 | 1.647 |
| Board Independence | 0.000 | 0.000 | 0.364 | 0.333 | 0.750 | 0.923 | 0.139 |
| IndepBoard | 0.000 | 0.000 | 0.176 | 0.000 | 1.000 | 1.000 | 0.381 |
| Board Size | 4.000 | 4.000 | 8.944 | 9.000 | 15.000 | 15.000 | 2.433 |
| Duality | 0.000 | 0.000 | 0.360 | 0.000 | 1.000 | 1.000 | 0.480 |
| CEO_Own | 0.000 | 0.000 | 10.696 | 0.000 | 68.260 | 89.950 | 20.192 |
| Tenure | 1.000 | 1.000 | 10.145 | 7.000 | 39.000 | 43.000 | 9.086 |
| OtherBlock | 0.000 | 0.000 | 0.411 | 0.000 | 1.000 | 1.000 | 0.493 |
| 2nd-3rd Blockholders | 0.000 | 0.000 | 10.216 | 8.240 | 39.490 | 42.420 | 9.508 |
| Institutional Own | 0.000 | 0.000 | 5.839 | 4.500 | 29.920 | 41.180 | 6.612 |
| H_Index | 0.011 | 0.011 | 0.033 | 0.026 | 0.108 | 0.108 | 0.022 |

The variables are defined as follows: *Turnover* is a dummy variable equal to 1 for firm-years with CEO forced turnover; *Performance* is measured as the percentage of net income divided by total assets; *Family Ownership* is the percentage of shares held by the controlling family; *N.Family Directors* is the number of family members directors; *Family Entrenchment* is the ratio of the number of family directors over the total number of board members; *N.Independent Directors* is the number of independent directors; *Board Independence* is the ratio of the independent directors over the number of board members; *N.Independent Directors* is the number of board members; *IndepBoard* is equal to 1 if at least a half of directors are independent; *Board Size* is the total number of board members; *Duality* is a dummy variable equal to 1 if the CEO is also the Chairman of the board, and 0 otherwise; *CEO_Own* is the percentage of outstanding shares owned by the CEO; *Tenure* is the number of years the CEO has been at the current position; *OtherBlock* is equal to 1 if the sum of shares held by the second and the third largest shareholders is higher than 10%, and 0 otherwise; *2nd-3rd Blockholders* is the sum of shares held by the second and the third largest shareholders; *H_Index* is the sum of the squared market share of all firms in the same industry.

Empirical results

Table 3 reports correlations among the main variables, which summarily confirms the predictions. Actually, I find a strong negative correlation between firms' performance and the likelihood of CEO turnover.

Consistently with the first hypothesis, I find a negative correlation between the probability of CEO turnover and the level of family entrenchment.

Consistently with the second hypothesis, I find that the likelihood of CEO turnover is higher in firms with independent boards.

Moreover, CEO turnover is negatively correlated with CEO duality.

The correlation analysis shows the existence of significant correlations between some of the predictors. In order to face concerns of multicollinearity, I run the VIF analysis. The VIF values show that the analysis is not affected by multicollinearity problem (VIF of the predictors are all lower than 5.0).

TABLE 3

Correlation Matrix

| | Turnover | Performance | Fam Entrenchment | IndepBoard | Duality | Ceo_Own | Tenure | OtherBlock | H_Index |
|-----------------|----------|-------------|---------------------|------------|---------|---------|---------|------------|---------|
| Turnover | 1 | | | | | | | | |
| Performance | -0.096* | 1 | | | | | | | |
| FamEntrenchment | -0.092* | -0.066 | 1 | | | | | | |
| IndepBoard | 0.083* | -0.119* | -0.168* | 1 | | | | | |
| Duality | -0.096* | -0.074 | 0.216* | -0.140* | 1 | | | | |
| CEO_Own | -0.079 | -0.123* | 0.155* | 0.002 | 0.358* | 1 | | | |
| Tenure | 0.019 | -0.056 | 0.171* | -0.067 | 0.349* | 0.211* | 1 | | |
| OtherBlock | -0.019 | 0.162* | -0.351* | -0.055 | -0.155* | -0.027 | -0.111* | 1 | |
| H_Index | -0.064 | -0.056 | -0.067 | 0.099* | -0.209* | 0.089* | 0.059 | 0.098* | 1 |

Table 3 presents Spearman correlation for the variables in the analysis. The variables are defined as follows: *Turnover* is a dummy variable equal to 1 for firm-years with CEO forced turnover; *Performance* is measured as the percentage of net income divided by total assets; *Family Entrenchment* is the ratio of the number of family directors over the total number of board members; *IndepBoard* is equal to 1 if at least a half of directors are independent; *Duality* is a dummy variable equal to 1 if the CEO is also the Chairman of the board, and 0 otherwise; *CEO_Own* is the percentage of outstanding shares owned by the CEO; *Tenure* is the number of years the CEO has been at the current position; *OtherBlock* is equal to 1 if the sum of shares held by the second and the third largest shareholders is higher than 10%, and 0 otherwise; *H_Index* is the sum of the squared market share of all firms in the same industry.

Table 4 reports the empirical results concerning the test of H1. Results show a negative association between the likelihood of CEO turnover and firm performance (*Performance*, $\beta = -11.762$; *p-value*= 0.008). The likelihood of CEO turnover decreases as the level of family entrenchment increases (*FamEntrenchment*, $\beta = -3.358$; *p-value*= 0.016). As regards the first prediction, evidence confirms that the higher the level of family entrenchment the lower the CEO turnover-performance sensitivity (*FamEntrenchment*Performance*, $\beta = 27.844$; *p-value*= 0.071). This result suggests that boards with a high presence of family members do not provide an effective monitoring in disciplining an underperforming CEO.

Moreover, findings show that, for the same level of performance, the likelihood of CEO turnover is lower when the CEO is the chairman of the board (*Duality*, $\beta = -0.976$; *p-value*= 0.024). Conversely, I find that the likelihood of CEO turnover increases as CEO tenure increases (*Tenure*, $\beta = 0.044$; *p-value*= 0.024). A possible explanation, consistent with the dynastic succession hypothesis (e.g., Berrone et al., 2012), is that often the founder leaves the CEO role to the descendants, while maintaining, formally or informally, key top positions.

TABLE 4

Family Entrenchment and CEO turnover-performance sensitivity

| Pr(Turnover)=1 | Exp.Sign | Coefficients | | p-value | Marginal Effects | Std. Err. |
|----------------------------------|----------|--------------|-----|---------|---------------------|-----------|
| Intercept | | -0.673 | | 0.324 | | 0.683 |
| Performance | - | -11.762 | *** | 0.008 | -0.661 | 4.466 |
| FamEntrenchment | - | -3.358 | ** | 0.016 | -0.189 | 1.394 |
| FamEntrenchment | | | | | | |
| *Performance | + | 27.844 | * | 0.071 | 1.564 | 15.915 |
| Duality | - | -0.976 | ** | 0.024 | -0.050 | 0.433 |
| CEO_Own | - | -0.013 | | 0.225 | -0.001 | 0.011 |
| Tenure | - | 0.044 | ** | 0.024 | 0.002 | 0.019 |
| OtherBlock | - | -0.280 | | 0.415 | -0.015 | 0.344 |
| H_Index | - | -14.453 | * | 0.090 | -0.812 | 8.526 |
| Year fixed effects | | Yes | | | | |
| Obs.# 581 | | | | | | |
| Pseudo R2 11,94% (p-value 0.000) | | | | | | |

The variables are defined as follows: *Turnover* is a dummy variable equal to 1 for firm-years with CEO forced turnover; *Performance* is measured as the percentage of net income divided by total assets; *FamEntrenchment* is the ratio of the number of family directors over the total number of board members; *Duality* is a dummy variable equal to 1 if the CEO is also the Chairman of the board, and 0 otherwise; *CEO_Own* is the percentage of outstanding shares owned by the CEO; *Tenure* is the number of years the CEO has been at the current position; *OtherBlock* is equal to 1 if the sum of shares held by the second and the third largest shareholders is higher than 10%, and 0 otherwise; *H_Index* is the sum of the squared market share of all firms in the same industry.

Table 5 reports the empirical results concerning the test of H2. Findings confirm a negative association between the likelihood of CEO turnover and firm performance (*Performance*, $\beta = -3.208$; *p-value*= 0.042). Interestingly, results show that, for the same level of performance, the likelihood of CEO turnover is higher in firms with independent-dominated boards than in firms with inside-dominated boards (*IndepBoard*, $\beta = 0.739$; *p-value*= 0.088). Moreover, evidence confirms that the higher the CEO turnover-performance sensitivity is higher when the majority of the board is independent (*IndepBoard*Performance*, $\beta = -10.588$; *p-value*= 0.048). This result suggests that outside-dominated boards provide a more effective monitoring in disciplining an underperforming CEO.

Moreover, findings show that the likelihood of CEO turnover decreases both when the CEO is the chairman of the board (*Duality*, $\beta = -0.874$; *p-value*= 0.044), and as CEO ownership increases (*CEO_Own*, $\beta = -0.023$; *p-value*= 0.066). Conversely, results shows that the likelihood of CEO turnover increases as CEO tenure increases (*Tenure*, $\beta = 0.044$; *p-value*= 0.024). Findings also show a negative association between the likelihood of CEO turnover and the level of industry concentration (*H_Index*, $\beta = -15.719$; *p-value*= 0.068).

TABLE 5

Board Independence and CEO turnover-performance sensitivity

| Pr(Turnover)=1 | Exp.Sign | Coefficients | | p-value | Marginal Effects | Std. Err. |
|----------------------------------|----------|--------------|-----|---------|---------------------|-----------|
| Intercept | | -1.547 | *** | 0.009 | | 0.593 |
| Performance | - | -3.208 | ** | 0.042 | -0.182 | 1.580 |
| IndepBoard | - | 0.739 | * | 0.088 | 0.054 | 0.433 |
| IndepBoard*Performance | - | -10.588 | ** | 0.048 | -0.601 | 5.365 |
| Duality | - | -0.874 | ** | 0.044 | -0.045 | 0.435 |
| CEO_Own | - | -0.023 | * | 0.066 | -0.001 | 0.012 |
| Tenure | - | 0.032 | * | 0.076 | 0.002 | 0.018 |
| OtherBlock | - | -0.115 | | 0.733 | -0.006 | 0.336 |
| H_Index | - | -15.719 | * | 0.068 | -0.892 | 8.608 |
| Year fixed effects | | Yes | | | | |
| Obs.# 581 | | | | | | |
| Pseudo R2 11,54% (p-value 0.000) | | | | | | |

The variables are defined as follows: *Turnover* is a dummy variable equal to 1 for firm-years with CEO forced turnover; *Performance* is measured as the percentage of net income divided by total assets; *IndepBoard* is equal to 1 if at least a half of directors are independent; *Duality* is a dummy variable equal to 1 if the CEO is also the Chairman of the board, and 0 otherwise; *CEO_Own* is the percentage of outstanding shares owned by the CEO; *Tenure* is the number of years the CEO has been at the current position; *OtherBlock* is equal to 1 if the sum of shares held by the second and the third largest shareholders is higher than 10%, and 0 otherwise; *H_Index* is the sum of the squared market share of all firms in the same industry.

5. CONCLUSION

In family firms, risks of expropriation of minority shareholders' wealth arise. Board of director should mitigate risks of expropriation for minority shareholders. In particular, the safeguard of small shareholders' interests is mainly entrusted to independent directors, who should act as effective custodian of the minority shareholders' interests (Shleifer & Vishny, 1986; Anderson & Reeb, 2004). However, family owners have the power to determine board composition, in order to defend their influence over corporate decisions. Therefore, the effectiveness of the board's monitoring may be weakened by both family entrenchment and risks of collusion between family and independent directors.

This study investigates the effect of board composition on the CEO turnoverperformance sensitivity in family firms. Moving from agency theory, I hypothesize and find that the CEO turnover-performance sensitivity is lower as the level of family entrenchment increases, but it is higher in firms with independent-dominated boards.

Empirical results show that the effectiveness of the board's monitoring in family firms largely depends on the board composition. The entrenchment of the family in the governance positions weakens the effectiveness of the board's monitoring. Conversely, independent-dominated boards are likely to exert a stronger monitoring, mitigating agency conflicts between family owners and minority shareholders.

These findings stress the need of a power balancing within the board of family firms and show that it can be achieved through the independence of the board of directors.

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This study has two main limitations.

First, I focus on CEO turnover decisions, which are subject to the external parties' scrutiny. This may enforces the reputational concerns of independent directors, and thus resulting in a higher effectiveness of board independence. Future studies can provide further evidence, investigating other mechanisms potentially able to expropriate minorities, such as related-party transactions.

Second, in this study I focus on the consequences in terms of agency conflicts of the board independence. The interpretation of the results moves from the basic agency construct that the higher the effectiveness of monitoring mechanisms (i.e., board independence) the lower the agency conflicts (i.e., higher CEO turnoverperformance sensitivity). Fundamental to the interpretation of findings is the assumption that, without an effective oversight, agency conflicts may exist also in family firms with independent-dominated board. Accepting this assumption as true, the findings imply that board independence is able to reduce agency conflicts in family firms.

Another possible explanation is that family firms which *a priori* face lower agency conflicts may have incentives to set independent boards, in order to signal to the market their willingness to not divert resources and to improve the market value of the firm (Dahya et al., 2008).

In both cases, however, results show that board independence is associated with lower agency conflicts, thus refuting the collusion hypothesis. This implies that, once the independent board is set, executives are subject to the monitoring of independent directors. Thus, when family owners set an independent board, they are willing to give up part of their influence over corporate decisions.

Future research may extend our knowledge, by investigating the reasons behind the choice to appoint an independent board, and whether there are differences between different kinds of family firms. For instance, there could be a different attitude toward reputational or control incentives, according to the generation of family owners involved.

Moreover, future studies can investigate whether board independence effectiveness is shaped by other factors, such as the directors' tenure, which may have both a positive and a negative moderating effect. Finally, future research can investigate independent directors' turnover in order to address whether it depends on factors that obstruct the exerting of an effective monitoring.

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CHAPTER 3

Family Ownership and Investment Decisions. The Role of Board Monitoring and CEO Emotional Attachment

ABSTRACT: Despite research provides wide evidence that family-controlled firms face underinvestment and low growth problems, literature provides limited insight on what factors are able to incite investment spending in family firms. Building on agency and stewardship constructs as complementary frameworks, this study investigates whether board monitoring and CEO emotional attachment might affect investment spending within family firms.

Empirical results show that family-controlled firms invest less than non-family firms. However, findings also show that, within family firms, board independence and the presence of a family CEO have a positive impact on the level of investments in family firms. These results suggest that both an effective board monitoring and a strong CEO's emotional commitment are able to mitigate agency conflicts and to incite investment spending in family firms.

Keywords: Family Firms, Agency Theory, Stewardship Theory, Board Independence, Family Management.

1. INTRODUCTION

Family control is pervasive all around the world and most of national workforce is employed in family businesses (Astrachan & Shanker, 2003). Despite their economic relevance had lead to a growing interest of scholars towards family firms' behavior, researchers diverge on whether family firms constitute a valuable business structure (Miller et al., 2008). In particular, a critical concern of family firms' behaviour is the low propensity to invest and growth. Indeed, because of the undiversified nature of their investments and the unwillingness to dilute corporate control, family owners have incentives to influence investment decisions, limiting investment spending on long-term projects (Anderson et al., 2012; Lins et al., 2013).

Most of prior studies suggest that investment decisions in family firms are affected by family opportunism. In particular, evidence show that family-controlled firms tend to be more conservative and to face severe financial constraints, which leads to underinvestment problems, low growth and stagnation (Anderson et al., 2012; Chrisman & Patel, 2012). While the relationship between family ownership and investment spending has been widely investigated, literature provides limited insight on what factors are able to mitigate family opportunism in investment decisions.

This gap constitutes not only an empirical issue, but mostly it constitutes a theoretical concern in family business studies. Actually, the two main theoretical frameworks to understand investment decisions in family firms lead to conflicting insights (Le Breton-Miller et al., 2011).

The agency theory underlines that, because of managerial entrenchment, family owners have the power to limit investment spending, since managers act with the aim to defend family's interests, thereby adopting investment spending rules based on family's risk preferences rather than market-based criteria (Anderson et al., 2012). Therefore, following the agency perspective, one could expect that an effective board monitoring should be able to weaken managerial entrenchment, thereby leading to higher investment spending.

The stewardship theory provides a different portrait of the family executives' behaviour, dulling the dark side of managerial entrenchment and emphasizing the bright side of non-economic incentives, rising from the emotional attachment with the firm (Davis et al., 1997; Miller & Le Breton-Miller, 2006). In particular, the stewardship framework suggests that because of the emotional involvement, managers' decisions are moved by higher-level needs, such as the willingness to ensure the continuity and the growth of the firm, even in spite of financial risks and personal sacrifices (Miller & Le Breton-Miller, 2006; Miller et al., 2008). Therefore, following the stewardship perspective, one could expect that the CEO's emotional involvement should be able to mitigate family opportunism, thereby leading to higher investment spending, apart from the board monitoring.

Building on agency and stewardship constructs as complementary frameworks, this study investigates whether board monitoring and CEO's emotional attachment

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might affect investment spending within family firms. In particular, I hypothesize that both board monitoring and the presence of an emotionally involved CEO may be positively associated with le level of investments in long-term projects.

Since the research question assumes that underinvestment problems in family firms exist, I first examine the relationship between family control and investment spending. Consistently with prior studies, I find that family-controlled firms invest less than non-family firms.

Then, focusing on family-controlled firms, I investigate whether board monitoring and CEO's emotional attachment are able to incite the level of investment expenditures.

In order to capture the effects of board monitoring, I focus on board independence, as in the agency perspective the monitoring role of the board and its effectiveness is mainly entrusted to independent directors. In order to capture the effects of CEO's emotional attachment, I focus on the presence of a family CEO, as stewardship theorists suggest that the degree of emotional involvement, self-identification, and commitment is higher when the person who runs the firms is a family member than an external professional manager (Miller & Le Breton-Miller, 2006).

The empirical analysis is based on a sample of 121 Italian listed firms, with 946 firm-year observations over the period 2006-2014. Italy constitutes a suitable setting because of the high presence of firms with ownership concentrated in the hands of a

family, which keeps corporate control through several generations (Brunello et al., 2003; Prencipe et al., 2008).

Empirical findings show a positive impact of board independence and family management on the level of investments in family firms. These results suggest that both an effective board monitoring and a strong CEO's emotional commitment are able to mitigate agency conflicts and to incite investment spending.

This study contributes to the literature in four ways.

First, this study adds to the debate on board independence in family firms. Actually, some family business scholars claim that the outside directors' oversight might be unnecessary or even detrimental in the context of family firms, since it may discourage attitude towards stewardship (e.g., Lee & O'Neill, 2003; Corbetta & Salvato, 2004; Jaskiewicz & Klein, 2007). While showing that the presence of a family CEO may mitigate agency conflicts with small investors, this study provides evidence that a greater power balance and a higher representation of independent directors may prevent family opportunism, encouraging executives to act in the firm's interest.

Second, this study enriches the recent debate on the heterogeneity of family firms' behavior (Chua et al., 2012; Chrisman et al., 2012). In particular, this study provides empirical evidence that the different degree of CEOs' emotional commitment may be a crucial determinant of the heterogeneity of family firms' behavior.

Third, this study contributes to the debate on professionalization in family firms (e.g., Stewart & Hitt, 2012), by warnings that the family dimension and its noneconomic features can have some bright sides, which deserve to be protected when models of professionalization are proposed.

Finally, this study provides a theoretical contribution, stressing that the adoption of agency and stewardship framework in a complementary way allows researchers to extend the body of knowledge of family businesses' behavior (Le Breton-Miller et al., 2011).

The structure of the paper is organized as follows. Section 2 provides literature review and hypotheses development. Section 3 illustrates the research design. Section 4 reports the empirical results. Section 5 concludes.

2. THEORETICAL BACKGROUND AND HYPOTHESES

Family ownership and investment decisions

According to the agency framework, in widely held firms, the separation between ownership and control leads to conflict of interests between managers and shareholders. Because of information asymmetries, managers are able to act opportunistically, pursuing their private interests at the expense of shareholders' wealth. For instance, managers may invest firm's wealth in unprofitable projects or in risky acquisitions strategies with the aim to build large empires and to gain prestige
for job market incentives (Jensen, 1986; Jensen, 1993). Therefore, the power to manage *other people's money* may expose the firm and their shareholders to high risks (Jensen & Meckling, 1976). Yet, investors are able to face such risks by diversifying their investments portfolio (Morck & Yeung, 2003).

Managerial discretion over investment decisions is reduced in the presence of a large shareholder, who has the power to monitor managerial actions and to influence investment decisions, according to his attitude toward risk. Mostly, large shareholders, such as banks or other financial institutions, are willing to finance multiple investment projects because of their diversified ownership position (Shleifer & Vishny, 1986).

Unlike other types of large shareholding, family control has peculiar features that are likely to influence investment decisions (Gómez-Mejía et al., 2011). In an agency perspective, there are two main reasons that lead family firms to face severe growth's threats, namely the willingness to protect the family control over corporate decisions, and the risk aversion due to the high financial involvement (La Porta et al., 1999).

First, the desire to defend their controlling position may lead to financial constraints and underinvestment problems. Indeed, family owners are reluctant to dilute family holding and they are likely to rely on internal-generated resources or private wealth (Sirmon & Hitt, 2003; Fernandez & Nieto, 2006; Andres, 2011). The unwillingness to accede to external funds impedes growth ambitions and leads to pass up investment opportunities, with consequences in terms of limited corporate

dimensions and stagnation (Morck & Yeung, 2003; Sirmon & Hitt, 2003; Allio, 2004).

Second, family owners are highly financially involved and most of the family's wealth is often invested in the single firm (Gómez-Mejía et al., 2007). The undiversified nature of family holding leads family owners to be risk averse and to prefer the preservation and stability of the family's wealth, at the expense of growth and expansion (Schulze et al., 2001; Graves & Thomas, 2006; Lee, 2006).

Therefore, because of both the desire to defend their controlling position and risk aversion, family owners have incentives to limit investment spending. Moreover, because of their controlling positions, family owners have also the power to affect investment decisions, exerting their influence to force the firm to pursue the family's interest, such as the prevention of investment spending, at the expense of minority's interests (Demsetz & Lehn, 1985; Anderson et al., 2003).

In the agency framework, the main way through which the controlling family may affect corporate decision is by entrenching family members or affiliate professional managers, who answer directly to the family's interest (Morck & Yeung, 2003; Yong et al., 2008).

Because of managerial entrenchment, conflicts between family owners and managers are low, but risks of minority's wealth expropriation arise, since managers' actions are moved by the aim to preserve family's interests, in spite of small shareholders' interests, thus favoring investment spending rules based on family's risk preferences rather than market-based criteria (Anderson et al., 2012).

Prior evidence mostly confirms the agency assumption. For instance, Anderson et al. (2012) find that, compared to non-family counterparts, family firms devote fewer resources to both R&D spending and capital expenditures.

According to the above discussion, the following hypothesis is proposed:

H1: Other things being equal, family control is negatively associated with the level of capital expenditures.

The role of board monitoring

According to the agency perspective, board of directors constitutes the main control device to mitigate conflict of interests between family owners and minority shareholders. To be effective, the board must be able to provide an independent judgment, not affected by the controlling family's influence. Therefore, the safeguard of minority investors' interests is mainly entrusted to independent directors, who should act to prevent family opportunism on the behalf of minority shareholders (e.g., Shleifer & Vishny, 1986, 1997; Anderson & Reeb, 2004; Park & Shin, 2004). Most of prior studies support the view that board independence is able to reduce agency conflicts. For instance, Miller & LeBreton-Miller (2006) point out that the inclusion of independent directors prevents minority's wealth expropriation. Similarly, Anderson & Reeb (2004) show that independent-dominated boards prevent from the risk of expropriation and reduce family opportunism, leading to higher firm performance. As regards investment decisions, the way in which independent directors may prevent family opportunism is by reducing risk aversion of family owners and financial constraints deriving from the unwillingness to dilute family control.

Clearly, independent directors cannot intervene directly on the risk preferences of the controlling family. However, independent directors may reduce the influence of the controlling family over investment decisions, by weakening managerial entrenchment in several ways. For instance, independent directors may affect the CEOs selection process, inducing the appointment of non-family-affiliated executives (Anderson & Reeb, 2004). Moreover, independent directors may provide an objective monitors over CEO performance, ensuring a prompt replacement of a poorlyperforming CEO (Weisbach, 1988⁸). The evaluation and monitoring of independent directors may induce top executives to act in the firm's interest rather than in the family's interest. For instance, managers may have higher incentives to undertake profitable projects, thus reducing underinvestment problems deriving from family's risk aversion.

Board independence may affect the level of investment spending in family firms also relaxing financial constraints. Indeed, independent directors are likely to be networked with financial institutions, and therefore they contribute to provide the relational capital able to facilitate the acquisition of financial resources (Stearns & Mizruchi, 1993; Clarysse et al., 2007). Moreover, capital providers enjoy benefits

⁸ Weisbach's (1988) study refers to widely-held firms. However, the second chapter of this thesis provides evidence that in family-owned firms, board independence is associated with higher CEO turnover-performance sensitivity.

deriving from the monitoring of independent directors over corporate decisions, which is reflected in a lower cost of debt. Accordingly, prior studies show that board independence is associated with lower cost of debt and higher credit rating (Anderson et al., 2004; Ashbaugh-Skaife et al., 2006).

Therefore, board independence may reduce family opportunism and underinvestment problems by weakening managerial entrenchment and by relaxing financial constraints.

According to the above discussion, the following hypothesis is proposed:

H2: Within family firms, board independence is positively associated with the level of capital expenditures.

The role of CEO emotional involvement

The main corporate decisions, such as the development and the implementation of investment strategies, are made by the Chief Executive Officer. Therefore, both the CEO skills and the level of CEO's commitment constitute key drivers of investment decisions and firm's future prospects (Adams & Ferreira, 2007; Song & Thakor, 2006; Malmendier & Tate, 2005).

While the agency framework suggests that because of family opportunism and managerial entrenchment, managers are likely to act opportunistically pursuing the family's interest at the expense of minority's interests, the stewardship perspective dulls the dark side of managerial entrenchment, emphasizing the non-economic and emotional incentives, which are supposed to drive family agents' behavior, even more than financial concerns (Davis et al., 1997; Davis et al., 2000; Miller & Le Breton-Miller, 2006).

According to the stewardship constructs, a high degree of emotional attachment may lead managers to act as stewards of their firms, making decisions on the basis of higher-level needs, which go beyond the economic private interest. In particular, stewards' decisions are moved by the aim to ensure the continuity and the growth of the firm, being also willing to accept financial risks and personal sacrifices (Miller & Le Breton- Miller, 2006; Miller et al., 2008).

Therefore, in the stewardship perspective, the emotionally involved CEO should act in the firm's interest, trying to assure growth and success for their businesses. In this perspective, the strong commitment towards growth should lead to longer investment horizon and lower risk aversion (Miller & Le Breton- Miller, 2006).

Yet, the degree of emotional attachment varies according to the strength of the bind between the CEO and the firm. In particular, the level of emotional attachment with the firm should be significantly higher for family member CEOs than for external professional managers (Miller & Le Breton-Miller, 2006).

In this latter case, the border line between agency and stewardship perspectives becomes much thinner. Actually, the controlling family usually appoints affiliated professional managers on the basis of personal relationships, in order to protect its interests (Morck & Yeung, 2003; Young et al., 2008; Prat et al., 2010). While, on one hand, the closer relationship between the family and the executives could lead to a higher commitment to the firm (Miller & Le Breton- Miller, 2006), on the other hand, executives have incentives to preserve the trust of the family owners, in order to keep their position for a long time (Volpin, 2002; Brunello et al., 2003). In such a case, the CEO loyalty is built towards the family, rather than towards the firm. Therefore, professional CEOs are likely to favor investment decisions according to the family's risk aversion, rather than market-based criteria (Morck & Yeung, 2003; Anderson et al., 2012).

Conversely, the emotional attachment and the sense of intimate belonging to the firm are particularly emphasized in family CEOs (Miller & Le Breton- Miller, 2006; Berrone et al., 2012; Gómez-Mejía et al., 2007). Since their name, identity and reputation are inextricably tied to the firm, they tend to develop a strong sense of personal identification and belonging to the firm, which creates incentives that go beyond the economic self-interest (Miller & Le Breton Miller, 2005; Berrone et al., 2012). In particular, they tend to act as farsighted stewards of their firms, and are more likely to feel a high commitment to firm's growth and continuity (Miller & Le Breton Miller, 2006). As a consequence of their emotional commitment to the firm's growth, family executives may be willing to accept risks and to undertake long-term investment projects, both on fixed assets and innovation (James, 1999; Le Breton-Miller et al., 2011). In addition to the prevention of risk aversion, the quest for firm's growth and continuity leads family CEOs to overcome financial constraints rising from the desire to keep the control in the hand of the family, by developing strong long-term relationships with lenders, which facilitate access to debt financing (Anderson et al., 2003; Miller & Le Breton-Miller, 2006b; Prencipe et al., 2008; Micelotta & Raynard, 2011).

While the high emotional involvement provides family CEOs the incentives to act as farsighted stewards of their firms, the longer tenure and kinship relationships with other family owners give them the ability and discretion to influence corporate decisions, overcoming potential conflicts with other family owners (Miller & Le Breton Miller, 2006).

According to the above discussion, the following hypothesis is proposed:

H3: Within family firms, the presence of a family CEO is positively associated with the level of capital expenditures.

3. RESEARCH METHOD

Institutional setting

The Italian context constitutes a suitable setting to address the role of the board independence and the CEO's emotional attachment on investment decisions of family firms, for the following reasons. First, Italian financial market is characterized by a significantly prevalence of family ownership, with 73% of family listed firms (Bianchi & Enriques, 1999; Prencipe et al., 2014, Volpin, 2002). Second, Italian family owners tend to hold the firm's majority stake and to keep the firm's control for

a long term (Brunello et al., 2003; Prencipe et al., 2008). The high financial involvement and the desire to preserve the control constitute the determinant of the risk aversion and financial constraints which in turn cause underinvestment problems and low growth. Third, the Italian governance system is characterized by a weak effectiveness of external governance devices, such as the market for corporate control and the activism of institutional investors (La Porta et al., 2000; Melis, 2000; Brunello et al., 2003). Therefore, the protection of minority shareholders highly depends on the monitoring of independent directors and on the CEO's commitment towards firm's sustainability. Fourth, Italian family firms are mostly characterized by close owners-managers relationships. In particular, Prat et al. (2010) find that, among Italian family firms, a fidelity model system is well established in which family owners usually appoints faithful managers among the set of friendly relationships, in order to protect family interests. Therefore, professional executives may have greater incentives to safeguard the trust of the family owners, in order to keep their position for a long time (Volpin, 2002; Brunello et al., 2003).

Finally, Italian Code of Good Governance is particularly concerned with the protection of small shareholders' rights, mainly entrusted to independent directors. Indeed, since the first version of 1999, the Code stressed the monitoring role of independent directors. The revised versions of 2006 and 2011 have further strengthened the role of independent directors recommending an effective monitoring, especially in cases of potential conflict of interests between majority shareholders and small investors.

The 2006 Code version, in essence unchanged in the later versions, provides the following criteria to define an non-executive director as independent: (i) lack of relevant business relationships with the firm and its subsidiaries, managers, executive directors and its controlling owners; (ii) lack of ownership of a portion of shares that could enable the director to exert a dominant influence over the firm, also considering any agreements with other shareholders which could give them the power to control the firm; and (iii) lack of kinship with corporate executive directors or other persons who are in the situations referred to in points (i) and (ii). As well as the formal compliance with these requirement, the 2006 and 2011 revised versions add the need for the board independence to be, and appear outside, evaluated in its substance and constantly for the entire mandate.

Unlike other countries, such as UK or US, where it is required that at least half of the board of directors is composed of independent members, until 2011 the Italian Code did not specify a number of independent director, simply recommending the participation of a number of independent members adequate to provide an objective judgment. Instead, the 2011 version requires the inclusion of at least two independent directors and a proportion of board independence equal to one third for the firms belonging to FTSE-Mib index.

Sample

The empirical analysis is based on a sample of Italian listed firms. The initial sample consists of 206 Italian firms listed in December 2015. I exclude 53 financial

and insurance firms (NACE REV 2 Code), because the regulation and the nature of their assets differ from those of other firms. Moreover, I remove 3 cross-listed firms in order to avoid noises due to different governance regulation. I also drop 29 firms with missing governance data. Table 1 summarizes the sampling process.

The final sample consists of 946 firm-years observations from 121 Italian listed firms covering the period 2006-2014.

TABLE 1

Sample Selection Process

| Italian listed firms | 206 |
|-------------------------------|-----|
| Financial and Insurance firms | -53 |
| Cross-listed firms firms | -3 |
| Firms with missing data | -29 |
| Final Sample | 121 |

The initial sample consists of 206 Italian listed companies. I exclude 53 financial and insurance companies, 3 cross-listed firms, and 29 firms with missing governance data. The final sample consists of 946 firm-year observations of 121 non-financial listed companies, during the period 2006-2014.

Variables

Dependent Variable. The dependent variable in the analysis is the fixed component of long-term investments, measured as the annual amount of capital expenditures scaled by total assets (*Capex*).

Independent Variables. The first variable of interest relates to the measure of family control. The definition of family firms constitutes an empirical challenge as there is not a unique measure of family influence over corporate decisions. Therefore, the definition of family firms needs to be contingent with the question that must be addressed (Prencipe et al., 2014). For the purpose of this study, which assumes that the high family's financial involvement and the unwillingness to dilute family control may lead to underinvestment problems, I adopt the involvement approach which focuses on the power of the family to affect strategic decisions. In particular, I define a firm as family-controlled firm if the family holds the majority of firm's shares. This definition is the most adopted operationalization of family businesses (Salvato & Moores, 2010), as it ensures that the family has the power and the incentives to affect corporate decisions, regardless of the presence of the family members in the governance structures. Therefore, in order to test the first hypothesis, I include a dummy variable equal to 1 if the family holds the majority of firm's shares (*Family*).

The second variable of interest is the measure of board independence, which is the ratio of the number of independent directors over the total number of board directors (*Independence*). In order to identify independent directors I use information from the annual corporate governance reports, as Italian listed firms are required to specify both the number and the names of independent directors, on the basis of the definition provided by the Corporate Governance Code.

The third variable of interest is the presence of a family CEO. Therefore, I include a dummy variable equal to 1 if the CEO is a member of the controlling family, and 0 otherwise (*FamCEO*). To check for the CEO's family membership, I verify her/his identity through the firm's annual corporate governance report. In particular, I focus on the CEO's last name, and if it differs from that of the controlling family, I carry out further research to identify any potential kinship relations.

Control Variables. Moving from prior studies, I control for a number of factors that may affect the level of capital expenditures. The set of control variables includes institutional ownership (*Institutional*), the solvency ratio (*Solvency*), firm cash flows (*CashFlow*), firm sales growth (*SGrowth*), and industry profitability (*IndustryPerf*). I also control for fixed effects at year and firm levels.

Institutional is the percentage of shares held by institutional investors. I control for the presence of institutional owners because prior research finds that the monitoring of institutional shareholders is associated with investment decisions (e.g., Zahra, 1996; David et al., 2001).

Solvency is the ratio of net income plus depreciation, deflated by total liabilities. I include the solvency ratio because prior studies show that the level of financial

solidity is positively associated with investment spending⁹ (Aivazian et al., 2005; Ahn et al., 2006; Firth et al., 2008).

CashFlow is the ratio of firms' generated cash flows to total assets. I control for firm cash flows because prior studies find that the availability of cash holding is positively associated with the level of investment spending (Lamont, 1997; Kadapakkam et al, 1998; Richardson, 2006).

SGrowth is the percentage of growth in firms' sales. I include sales growth in order to control for prior firm performance, as prior studies find that firm profitability is positively related to investment spending (Kaplan & Zingales, 1997; Chen & Hsu, 2009).

IndustryPerf is the average ROA of firms in the same industry. I control for industry profitability as prior research finds that industry features affect investment decisions (e.g., Röller & Tombak, 1993).

Finally, I control for time-invariant fixed effects, and for time fixed effects, in order to control for unobservable firm features and year effects.

Financial accounting data are collected from Amadeus, the European database from Bureau Van Dijk, while corporate governance and CEO information are handcollected via annual corporate governance reports.

⁹ The main index used to proxy for financial health is the leverage index. However, when I included the leverage index in the model, problems of multicollinearity arise. Therefore, I replaced the leverage ratio with the solvency ratio, which also captures the level of financial health.

Models

I test the first hypothesis with the regression model in Equation (1).

 $\begin{aligned} Capex_{i,t+1} &= \beta_0 + \beta_1 Family_{i,t} + \beta_2 Independence_{i,t} + \beta_3 Institutional_{i,t} + \\ \beta_4 Solvency_{i,t} + \beta_5 CashFlow_{i,t} + \beta_6 SGrowth_{i,t} + \beta_7 IndustryPerf_{i,t} + \lambda Y_t + \\ &\qquad \eta F_i + u_{i,t} \qquad (1) \end{aligned}$

In order to test the second and the third hypotheses, I run the regression model in Eq. (1) in the sub-sample of family-controlled firms, replacing *Family* with *FamCEO*, as follows:

 $\begin{aligned} Capex_{i,t+1} &= \beta_0 + \beta_1 FamCEO_{i,t} + \beta_2 Independence_{i,t} + \beta_3 Institutional_{i,t} + \\ \beta_4 Solvency_{i,t} + \beta_5 CashFlow_{i,t} + \beta_6 SGrowth_{i,t} + \beta_7 IndustryPerf_{i,t} + \lambda Y_t + \\ &\qquad \eta F_i + u_{i,t} \end{aligned}$

4. **RESULTS**

Descriptive Statistics

Table 2 reports summary statistics of the key metrics. The full sample consists of 946 observations, of which 534 refer to family-controlled firms (56.45%), and 412 refer to non-family firms (43.55%). The sub-sample of family-controlled firms seems to well represent the population of Italian family firms. The range of family

ownership for the sub-sample of family controlled firms moves from 50.01% to 84%, with an average family holding of 61.31%. Among the family-controlled firms, little more than the half is managed by a family CEO (51.7%). On a univariate basis, data show that, on average, family-controlled firms invest less than non-family firms (Capex, 0.039 for family-controlled firms; 0.048 for non-family firms). On average, boards of sampled firms are constituted by 9 directors and no significant differences emerge between family and non-family firms. As regards board independence, data show that, on average, boards of family-controlled firms are composed by a lower percentage of independent directors (38.8%) with respect to non-family firms (41.9%). Not surprisingly, institutional ownership is lower in family firms (5.23%) than non-family firms (11.80%). Moreover, data show that family-controlled firms are, on average, more creditworthy and have higher cash availability than non-family firms (Solvency, 39.4% for family firms; 36.9% for non-family firms; CashFlow, 0.068 for family firms; 0.043 for non-family firms). In addition, family-controlled firms report higher performance than non-family firms (Performance, 3.82% for family firms; -0.09% for non-family firms).

TABLE 2

| | Full Sample (N.Obs. = 946) | | Family-Controlled Firms (N.Obs = 534) | | | Non-Family Firms (N.Obs. = 412) | | | T-test | |
|-----------------------------|-------------------------------|--------|--|---------|--------|------------------------------------|---------|--------|---------|-----------|
| | 1°P.le | Mean | 99°P.le | 1°P.le | Mean | 99°P.le | 1°P.le | Mean | 99°P.le | (p-value) |
| Capital Expenditures | 0.001 | 0.043 | 0.229 | 0.001 | 0.039 | 0.181 | 0.001 | 0.048 | 0.229 | 0.000 |
| Family Ownership (%) | 0.000 | 41.624 | 82.300 | 50.014 | 61.309 | 84.009 | 0.000 | 16.110 | 49.296 | 0.000 |
| Family CEO | - | - | - | 0.000 | 0.517 | 1.000 | - | - | - | |
| Board Size | 5.000 | 9.434 | 19.000 | 5.000 | 9.333 | 18.000 | 5.000 | 9.566 | 19.000 | 0.122 |
| Board Independence | 0.111 | 0.401 | 0.889 | 0.143 | 0.388 | 0.700 | 0.111 | 0.419 | 0.889 | 0.002 |
| Institutional Own | 0.000 | 8.095 | 83.220 | 0.000 | 5.233 | 20.990 | 0.000 | 11.804 | 87.608 | 0.000 |
| Solvency ratio | 0.000 | 0.383 | 0.878 | 0.034 | 0.394 | 0.916 | 0.000 | 0.369 | 0.786 | 0.015 |
| Cash Flow | -0.237 | 0.057 | 0.233 | -0.065 | 0.068 | 0.220 | -0.438 | 0.043 | 0.250 | 0.000 |
| Sales Growth | -0.665 | 0.049 | 1.131 | -0.659 | 0.045 | 1.100 | -0.705 | 0.054 | 1.131 | 0.297 |
| Performance (%) | -38.000 | 2.117 | 23.440 | -19.620 | 3.818 | 24.700 | -42.090 | -0.092 | 18.720 | 0.000 |
| Industry Performance (%) | -9.869 | 1.926 | 8.555 | -9.869 | 2.403 | 8.555 | -9.869 | 1.307 | 8.555 | 0.000 |

Descriptive Statistics

The variables are defined as follows: Capital Expenditures is the annual amount of capital expenditures scaled by total assets. Family Ownership is the percentage of shares held by a family. Family CEO is a dummy variable equal to 1 if the CEO is a member of the controlling family, and 0 otherwise. Board Size is the number of board directors. Board Independence is the ratio of independent directors over the total number of board directors. Institutional Own is the percentage of shares held by institutional investors. Solvency ratio is the ratio of net income plus depreciation deflated by total liabilities. Cash Flow is the ratio of firms' generated cash flows to total assets. Sales Growth is the percentage of growth in firms' sales. Performance is the firm's Return On Asset. Industry Performance is the average of the performance of firms in the same industry.

Empirical results

Table 3 reports correlations among the main variables, which summarily confirms the predictions. Actually, data show that the level of capital expenditures is negatively correlated with family control and positively correlated with board independence. However, data show a negative correlation between the level of capital expenditures and the presence of a family CEO.

Moreover, level of capital expenditures is highly positively associated with firm cash flow, and with the industry performance. Findings also show a non-correlation between the family control and board independence, while the latter is negatively correlated with the presence of a family CEO.

The correlation analysis shows the existence of significant correlations between some predictors. In order to face concerns of multicollinearity, I run the VIF analysis. The VIF values show that the analysis is not affected by multicollinearity problem (VIF of the predictors are all lower than 5.0).

TABLE 3

| Contraction Mathia | Corre | lation | Matrix |
|--------------------|-------|--------|--------|
|--------------------|-------|--------|--------|

| | Capex | Family | Independence | FamCEO | Institutional | Solvency | CashFlow | SGrowth | IndustryPerf |
|---------------|---------|---------|--------------|---------|---------------|----------|----------|---------|--------------|
| Capex | 1 | | | | | | | | |
| Family | -0.095* | 1 | | | | | | | |
| Independence | 0.130* | -0.013 | 1 | | | | | | |
| FamCEO | -0.124* | 0.564* | -0.136* | 1 | | | | | |
| Institutional | 0.004 | -0.068* | 0.021 | -0.089* | 1 | | | | |
| Solvency | -0.005 | 0.086* | -0.125* | 0.111* | 0.038 | 1 | | | |
| CashFlow | 0.279* | 0.118* | -0.006 | 0.033 | 0.183* | 0.371* | 1 | | |
| SGrowth | 0.059 | 0.012 | -0.061 | 0.047 | 0.087* | 0.124* | 0.243* | 1 | |
| IndustryPerf | 0.075* | 0.125* | 0.035 | 0.069* | -0.021 | 0.149* | 0.198* | 0.260* | 1 |

Table 3 presents Spearman correlation for the variables in Equation (1) and Equation (2). The variables are defined as follows: *Capex* is the annual amount of capital expenditures scaled by total assets. *Family* is a dummy variable equal to 1 if the majority of shares are held by a family, and 0 otherwise. *Independence* is the ratio of independent directors over the total number of board directors. *FamCEO* is a dummy variable equal to 1 if the CEO is a member of the controlling family, and 0 otherwise. *Institutional* is the percentage of shares held by institutional investors. *Solvency* is the ratio of net income plus depreciation deflated by total liabilities. *CashFlow* is the ratio of firms' generated cash flows to total assets. *SGrowth* is the percentage of growth in firms' sales. *IndustryPerf* is the average of the performance of firms in the same industry. The symbol * denotes significance at 5%.

Table 4 reports the empirical results concerning the test of H1. Findings show the existence of a negative relationship between the family control and the level of investment spending (*Family*, $\beta = -0.011$; *p-value* = 0.079). Therefore, evidence confirms that family-controlled firms tend to invest less than non-family firms.

Findings also show that the level of capital expenditures highly depends on the degree of firm's solvency (*Solvency*, $\beta = 0.043$; *p-value*= 0.001), and on the availability of cash holding (*CashFlow*, $\beta = 0.065$; *p-value*= 0.001).

TABLE 4

Regression of Capital Expenditures on Family Control

| Capex | Exp.Sign | Coefficients | | p-value | Std. Err. | | |
|--|----------|--------------|-----|---------|-----------|--|--|
| Intercept | | 0.026 | *** | 0.003 | 0.009 | | |
| Family | - | -0.011 | * | 0.079 | 0.006 | | |
| Independence | ? | 0.016 | | 0.100 | 0.010 | | |
| Institutional | + | 0.000 | | 0.853 | 0.000 | | |
| Solvency | + | 0.043 | *** | 0.001 | 0.013 | | |
| CashFlow | + | 0.065 | *** | 0.001 | 0.019 | | |
| SGrowth | + | 0.004 | | 0.324 | 0.004 | | |
| IndustryPerf | + | 0.000 | | 0.838 | 0.001 | | |
| Year-fixed effects | | Yes | | | | | |
| Firm-fixed effects | Yes | | | | | | |
| Obs.# 946 | | | | | | | |
| R ² 12,76% (<i>p-value 0.000</i>) | | | | | | | |

The variables are defined as follows: *Capex* is the annual amount of capital expenditures scaled by total assets. *Family* is a dummy variable equal to 1 if the majority of shares are held by a family, and 0 otherwise. *Independence* is the ratio of independent directors over the total number of board directors. *Institutional* is the percentage of shares held by institutional investors. *Solvency* is the ratio of net income plus depreciation deflated by total liabilities. *CashFlow* is the ratio of firms' generated cash flows to total assets. *SGrowth* is the percentage of growth in firms' sales. *IndustryPerf* is the average of the performance of firms in the same industry. The symbols *, **, ***, denote significance at 10%, 5%, 1% respectively.

Table 5 reports the empirical results concerning the test of H2 and H3.

As regards the second hypothesis, results show that, within family-controlled firms, those managed by a family CEO invest more than those managed by a professional manager (*FamCEO*, $\beta = 0.012$; *p-value*= 0.064). Therefore, evidence confirms that the presence of a family CEO has a positive impact on the level of capital expenditures.

As regards the third hypothesis, findings show that board independence is positively associated with the level of capital expenditures (*Independence*, $\beta = 0.038$; *p-value*= 0.010).

This result confirms that the monitoring of independent directors incites investment spending in family-controlled firms.

Surprisingly, I find that, other things being equal, institutional ownership in family-controlled firms is negatively related to capital expenditures, even if the magnitude is rather low (*Institutional*, $\beta = -0.001$; *p-value*= 0.058). Finally, as expected, results show a strong positive impact of the solvency ratio and the cash availability on the level of investment spending (*Solvency*, $\beta = 0.046$; *p-value*= 0.017; *CashFlow*, $\beta = 0.053$; *p-value*= 0.076).

TABLE 5

Regression of Capital Expenditures on Family CEO and Board Independence

| Capex | Exp.Sign | xp.Sign Coefficients | | p-value | Std. Err. | | |
|--|----------|----------------------|----|---------|-----------|--|--|
| Intercept | | 0.003 | | 0.794 | 0.011 | | |
| FamCEO | + | 0.012 | * | 0.064 | 0.006 | | |
| Independence | + | 0.038 | ** | 0.010 | 0.015 | | |
| Institutional | + | -0.001 | * | 0.058 | 0.000 | | |
| Solvency | + | 0.046 | ** | 0.017 | 0.019 | | |
| CashFlow | + | 0.053 | * | 0.076 | 0.030 | | |
| SGrowth | + | 0.002 | | 0.675 | 0.005 | | |
| IndustryPerf | + | 0.000 | | 0.593 | 0.001 | | |
| Year-fixed effects | | Yes | | | | | |
| Firm-fixed effects | Yes | | | | | | |
| Obs.# 534 | | | | | | | |
| R ² 13,15% (<i>p</i> -value 0.000) | | | | | | | |

The variables are defined as follows: *Capex* is the annual amount of capital expenditures scaled by total assets. *FamCEO* is a dummy variable equal to 1 if the CEO is a member of the controlling family, and 0 otherwise. *Institutional* is the percentage of shares held by institutional investors. *Solvency* is the ratio of net income plus depreciation deflated by total liabilities. *CashFlow* is the ratio of firms' generated cash flows to total assets. *SGrowth* is the percentage of growth in firms' sales. *IndustryPerf* is the average of the performance of firms in the same industry. The symbols *, **, ****, denote significance at 10%, 5%, 1% respectively.

5. CONCLUSION

A critical concern of family firms' behaviour is the low propensity to invest and growth. While literature provides evidence that family controlled firms face underinvestment and low growth problems, it provides limited insight on what factors are able to incite investment spending in family firms.

Building on agency and stewardship constructs as complementary frameworks, this study investigates whether board monitoring and CEO's emotional attachment might affect investment spending within family firms.

Empirical results show that family-controlled firms invest less than non-family firms. However, findings show that, within family firms, board independence and family management have a positive impact on the level of investments in family firms. These results suggest that both an effective board monitoring and a strong CEO's emotional commitment are able to mitigate agency conflicts and to incite investment spending.

It should be noted, however, that this study does not examine whether the impact of board independence is lower in family-controlled and managed firms. In other words, these results do not imply that the presence of a family CEO makes board monitoring superfluous.

This study has two main limitations. First, this study focuses on the level of investment spending, but it does not examine the efficiency of such investments. Actually, while findings suggest that board monitoring and CEO's emotional

attachment are able to encourage investments in family-controlled firms, results do not provide evidence on whether corporate resources are invested efficiently.

Future research may extend our knowledge, by investigating whether there are potential downsides, generated by an excessive emotional attachment. For instance, future studies may investigate whether an excessive emotional involvement may lead to overinvestment problems. Actually, the strong sense of personal identification with the firm may lead family CEOs, especially the founders, to consider the firm as a private asset, enjoying excessive discretion and feeling free to follow their own impulses (Miller & Le Breton-Miller, 2006).

On this perspective, future studies may also investigate whether the higher level of investments undertaken by the family CEO conceals hubris-driven overinvestment problems (Miller & Le Breton-Miller, 2006). Actually, founder CEOs hold several features generally recognized as antecedents of the hubristic behavior. Indeed, they often exhibit charisma and authority both inside and outside the firm, they are likely to have higher performance, and they enjoy the reputation of successful business people (Villalonga & Amit, 2006; Berrone et al., 2012; Picone et al., 2014). For these reasons, it is possible that founder CEOs are particularly overconfident and make an inefficient use of resources.

Second, this study hypothesizes that board independence is able to incite investment spending because of both a direct monitoring over managerial actions and performance, and a signaling effect that may relax financial constraints of family firms. However, in the latter case, findings of a positive association between board independence and capital expenditures may not imply an effective board monitoring.

Future studies may investigate whether and when the monitoring effect or the signaling effect is prevalent in the context of family firms.

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CONCLUSIONS

Over the last decade, the interest of scholars and regulators on the effectiveness of board monitoring in listed firms has increased considerably.

Yet, literature provides little evidence on whether board of directors of family listed firms is able to safeguard the interests of small investors, mitigating the influence of family owners on corporate decisions.

From the agency perspective, board of directors, especially independent directors, should ensure the protection of minority shareholders' rights against the potential abuses of the controlling family, by exerting an effective monitoring over family-affiliated managers (Schulze et al., 2001; Anderson & Reeb, 2004; Gabrielsson & Huse, 2005). However, board of directors in family firms is typically depicted as a "rubber stamp-board that only meets to formally approve what the owner-manager has already decided to do" (Gabrielsson & Huse, 2005, p.30).

This thesis aimed at providing empirical evidence on the effectiveness of board monitoring in family firms. In particular, the thesis investigated how the family's influence affects corporate decisions, and whether the board monitoring is effective in preventing family opportunism.

For this purpose, the thesis provided three studies, which focused on two main corporate decisions, namely CEO turnover decisions and investment decisions, investigating whether and how they are affected by family influence, and whether the board provides an effective monitoring, mitigating family opportunism. Each study aimed to fill specific gap in the governance literature and provided contributions to extend the field of knowledge on the effectiveness of board monitoring in listed family firms, as described in the following paragraphs.

The first chapter, entitled "*Family Ownership and CEO Turnover Decisions. The Role of Family Ties and Trust*", focused on CEO turnover decisions in family firms. While prior studies have mainly focused on the differences between family and nonfamily firms, providing evidence that CEO turnover-performance sensitivity is higher in the former, this study aimed at investigating CEO turnover-performance sensitivity within family firms.

In particular, the study examined two potential internal and external factors that may affect incentives and ability of family owners to replace an underperforming executive. At firm-level, the study examined whether the CEO turnover-performance sensitivity is weakened by the existence of family ties. At country-level, the study examined whether the turnover-performance sensitivity for professional CEO is weakened by the cultural propensity to distrust a stranger.

Findings showed that the likelihood of dismissal of an underperforming CEO is lower when the CEO is a family member rather than a professional manager. However, findings revealed that the turnover-performance sensitivity for professional CEO is significantly weak in contexts characterized by the cultural propensity to distrust a stranger.

This study provides an important contribution to the literature, by showing that CEO turnover decisions within family firms are likely to be affected by family opportunism, as family owners may lack ability and/or incentives to replace a closely-related CEO, even in case of poor performance.

Moreover, two interesting insights emerged from the empirical evidence provided in this study. First, as emphasized in Anderson & Reeb (2004), the safeguard of small investors' interests should not be taken for granted. An effective oversight able to prevent family's influence in corporate decisions is needed. Therefore, it is important to understand whether the internal control devices, especially the board of directors, are able to weaken the influence of family owners, ensuring, for instance, a prompt replacement of a poorly-performing CEO. This was the purpose of the second study.

Second, findings of this study suggested that, while family CEOs may enjoy greater discretion over corporate decisions, professional CEOs may feel stronger incentives to make decisions in the family interest, in order to keep their position for a long time. Therefore, potential heterogeneity in family firms' behavior may be explained by whether CEO is committed towards the family or toward the firm. This was the purpose of the third study.

The second chapter, entitled "*Family Entrenchment, Board Independence, and CEO Turnover*", focused on the effectiveness of the board monitoring and the role of independent directors in preventing family opportunism. In particular, the study investigated whether board composition shapes the sensitivity of the CEO turnover-performance relationship in family firms.

Findings revealed that the CEO turnover-performance sensitivity is significantly weaker when the board has a high presence of family directors, while it is significantly stronger when the board is highly composed by independent directors.

This study provides several contributions to the literature. First, to the best of my knowledge no study had investigated the relationship between board independence and CEO turnover in family firms. This study provided evidence that board independence affects CEO turnover-performance sensitivity in family firms. Second, because of risks of collusion, recent studies question the validity of board independence in family firms (e.g., Romano, 2005; Gutiérrez & Sáez, 2013). This study provided empirical evidence supporting the effectiveness of board independence as control device. Third, this study also provided interesting evidence for regulators, by showing that enhancing the representation of independent directors may lead to increase the effectiveness of board monitoring, counterbalancing the influence of dominant shareholders on corporate decisions.

The third chapter, entitled "Family Ownership and Investment Decisions. The Role of Board Monitoring and CEO Emotional Attachment", focused on investment decisions of family firms.

While, prior studies showed that, because of risk aversion and financial constraints, family firms invest less than non-family firms (e.g., Lins et al., 2013), this study aimed at investigating whether board monitoring and CEO's emotional attachment towards the firms might incite investment spending within family firms.

Findings confirmed that family-controlled firms invest less than non-family firms. However, findings revealed that, within family firms, board independence and the presence of a family CEO have a positive impact on the level of capital expenditures. The study provides several contributions to the literature. First, it adds to the debate on board independence in family firms, by showing that a greater power balance and a higher representation of independent directors may prevent family opportunism, encouraging executives to act in the firm's interest. Second, this study enriched the debate on the heterogeneity of family firms' behavior (Chua et al., 2012; Chrisman et al., 2012), by showing that the heterogeneity of family firms' behavior can be due, at least partially, to a different degree of CEO emotional commitment towards firm's growth. Third, this study added to the debate on professionalization in family firms (e.g., Stewart & Hitt, 2012), by warning that professional CEOs may have high incentives to act in the family owners interests, even at the expense of firm performance. Conversely, family management may have some bright sides, which derive from the personal identification with the firm and a higher level of emotional attachment. Fourth, this study provided a theoretical contribution, emphasizing that a complementary adoption of agency and stewardship perspectives allows researchers to capture the several facet of family firms' behavior (Le Breton-Miller et al., 2011).

Taken together, the three studies have provided interesting insights both on the effects of family ownership concentration on corporate decisions, and on the effectiveness of board monitoring.

As regards the first point, the dissertation has shown that the controlling family might affect important corporate choices, such as CEO turnover and investment decisions. In doing so, the thesis has paid attention to the potential heterogeneity rising not only from the involvement of the family in the management but also from cultural features, which are relatively overlooked in the governance field (Schulze & Gedajlovic, 2010). An interesting insight has emerged, that is, risks for small investors deriving from the close family-manager relationship may potentially be higher when the CEO is a professional manager, which further stresses the need of an effective board oversight.

As regards the second point, the dissertation has shown that, while the effectiveness of the board monitoring role can be undermined by the presence of family directors, independent directors provide an effective oversight, preventing the influence of the controlling family over corporate decisions. This result constitutes a first step towards a clearer understanding of the effectiveness of board monitoring in family firms, as it shows that board independence in family firms may be more than mere window-dressing.

Yet, much remains to be done to disentangle antecedents and consequences of the effectiveness of board monitoring in family firms.

For instance, interesting purposes for future studies are: what lead family owners to install an effective independent board? Are family firms more or less likely to set independent boards with respect to non-family firms? Are there any differences within family firms in the willingness to set independent boards?

Undoubtedly, addressing these questions requires examining how family owners balance their desire to keep control on corporate decisions with their concerns over family and firm reputation. Although these two dimensions may not be mutually exclusive, it is reasonable to expect that the desire to exert control and influence with the aim of a dynastic succession may prevail in first generation-family firms, while the safeguard of firm image and reputation can gain greater importance once the firm moves through generations and the firm itself becomes a symbol of the family achievement (Gomez-Mejia et al., 2003; Berrone et al., 2012).

Another interesting purpose for future studies is to understand when board independence in family firms is effective. For instance, future studies may investigate whether independent directors appointed by the minority coalition are more effective than those appointed by the dominant family. Future studies may also investigate whether debt plays a mediating or moderating role on the effectiveness of board independence. Indeed, family firms tend to rely more on debt financing (e.g., Croci et al., 2011). For high level of leverage, financial institutions may exert pressures to appoint independent directors with the aim to monitor managerial actions.

In addition future studies may also examine whether the presence of the lead independent director strengthen the effectiveness of board monitoring, or whether independent directors resignations are predictive of agency conflicts in family firms.

Finally, it would also be interesting examining when board independence is more likely to be ineffective. Relying on specific empirical techniques, such as the social network analysis, researchers may investigate whether risks of collusion between family owners and independent directors are more likely to occur in family firms visà-vis non-family firms, or in different kinds of family firms, such as founder-centered family firms.

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