Placeholder CEOs

Mario Daniele Amore[a]
Morten Bennedsen[b]
Vikas Mehrotra[c]
Jungwook Shim[d]
Yupana Wiwattanakantang[e]

October 26, 2023

Preliminary draft: Please do not quote without permission.

ABSTRACT

This paper introduces a novel category of professional CEOs in family firms. Placeholder CEOs are non-family executives in-between two different family CEOs. Notably renowned family firms, such as Toyota, Zara, H&M, Hermes, Berings Bank, Ford, and Estee Lauder, have engaged placeholder CEOs. Our comprehensive analysis of publicly traded Japanese firms covering the period from 1949 to 2009 reveals that placeholder CEOs account for about 28% of professional CEO appointments, with a notable one in ten family firms opting for their appointment Placeholder CEOs exhibit distinctive characteristics, such as older, better educated, and have longer tenures when compared to the conventional professional CEOs. Interestingly, placeholder CEOs maintain performance levels similar to their predecessor family CEOs, while professional CEOs improve firm performance. Our analysis indicates the divergent roles played by placeholder CEOs in enabling founding families to maintain control during periods when family heirs are not yet ready for leadership.

JEL Codes: G32; L26
Keywords: Family Control; Family Firms; Ownership; Succession; Corporate Governance, ESG

a. HEC Paris, CEPR, ECGI. Email: amore@hec.fr
b. University of Copenhagen, CEPR, DFI, ECGI. E-mail: mobe.eco@ku.dk
c. University of Alberta, ECGI. E-mail: vmehrotr@ualberta.ca
d. Kyoto Sangyo University. E-mail: ecoshim@cc.kyoto-su.ac.jp
e. National University of Singapore, EGCI. E-mail: yupana@nus.edu.sg

「血は水よりも濃い」– Blood is thicker than water

1. Introduction

Changing the CEO is notoriously challenging for every organization. In family firms, the succession decision is highly influenced by the controlling family who face the choice of appointing a family member to ensure the continuity of the family business or to appoint a professional non-family manager. Several studies in finance and economics have focused on the distinction between family and non-family CEOs and examined their differences in terms of management style (Mullins and Schoar 2016), effort provision (Bandiera et al. 2018), corporate policies (Amore et al. 2023) and financial performance (Bennedsen et al. 2007; Cucculelli and Micucci 2008; Perez-Gonzalez 2006). This literature implicitly assumes that a family member is or will be available for the CEO position, and thus that the family faces a static tradeoff between the potential financial benefits of hiring a professional manager vs. the non-monetary private benefits of keeping the CEO position within the family.

In practice, however, many family firms may lack an available heir at the moment of the CEO succession, for instance because the designated future family CEO is young. Consider the Spanish fast-fashion brand Zara. Amancio Ortega is the founder who served as chairman of the group Inditex,[1] which runs Zara together with other well-known brands like Massimo Dutti and Bershka. In January 2011 Amancio turned 76 and Marta, his only daughter from his second marriage, was only 17.[2] By this time, Inditex was the world's largest retailer with the market capitalization on $84 billion. With no family heir, Ortega appointed his right-hand man – the incumbent CEO, Pablo Isla, as chair. Although Mr. Isla managed Inditex well, he does not have the one thing that his boss most covets – family blood. In December 2021, when Marta

[1] In Spain, company chairs, especially in family firms, often have executive control of the company, while the CEO acts more as a head of day-to-day operations.
[2] None of his children from his first marriage was involved in the family business.

turned 37, Inditex announced that the boss' daughter would replace Mr. Isla to become Inditex's chair in April 2022. Amancio took at least 10 years to complete his generational handover process thanks to the involvement of a non-family manager who sat at the helm of the company in-between the founder and his family heir.

Inditex is not an isolated example. In the US company Estée Lauder, Leonard Lauder had run the eponymous firm founded by his mother until he was 66 years old before passing over to Fred Langhammer in 1999. Four years later, the top job returned to Leonard's 44-years old son, William P. Lauder. Other firms which experienced similar transitions include Barings Bank (UK), H&M (Sweden), Hermes (France), Michelin (France), and 21st Century Fox (US). In Japan, which is the focus of our study, this pattern of family transition is quite common, in particular in century-old family dynastic firms such as Kikkoman (est. 1661), Nisshin Seifun (est. 1900), Makita (est. 1915), Ezaki Glico (est., 1919), and Stanley Electric (est. 1920). In Mizkan (est. 1804, vinegar manufacturer), the patriarch's daughter Yuko Nakano (45) succeeded a professional CEO in 2021. She is the ninth generation CEO and the first female CEO in the firm's 200 years old history.

We label non-family managers who sit at the helm of the company in-between two family CEOs as *placeholder CEOs*. As noted, the use of placeholder CEOs is unexplored in the literature about family firms, which has exclusively focused on the broad distinction between family and non-family professional CEOs. Based on the current classifications employed in the literature, placeholder CEOs will be classified as professional CEOs (given that they do not have family ties with the controlling owner); yet, we will show that these CEOs have a unique and distinct role compared to professional CEOs.

Japanese firms are renowned for dynastic control across multiple generations (Mehrotra et al. 2013; Bennedsen et al. 2021). One of the key features of the Japanese model is the presence of loyalty managers (*banto*), which contributed to the success of some of the most powerful family business groups such as the Mitsui, Mitsubishi, and Sumitomo *zaibatsu* who dominated the Japanese pre-World War II economy. We exploit unique data spanning more than a half-century and containing the universe of all listed firms in Japan in the post-war period, when stock exchanges re-opened in 1949, until 2015. This dataset was constructed by Mehrotra et al. (2013) and we extended it to include recent years. We focus on transitions with a departing founder/ founding family CEO, amounting to 1,597 successions. Placeholder CEOs are defined as those professional non-family managers who are appointed as family firm CEOs, keep the position for at least one full year, and are subsequently replaced by a family CEO (different from the departing one). The classification excludes interim (also called acting) CEOs who are typically appointed for very short periods, typically half a year (Ballinger and Marcel 2010); in our sample, the average tenure of placeholder CEOs is above 4 years. Moreover, the classification is apt to exclude cases of "failed" professionalization attempts, in which the family CEO gets the position back following the disappointing hire of a non-family CEO.

Our data reveal that placeholder CEOs are fairly common in listed family firms in Japan: they are represent 7% of all family firms in our sample, and these firms amount to 10% of the sample's total assets, employees and revenues. Relative to the total number of professional CEOs, placeholder CEOs are almost 30%. In terms of demographic characteristics, incoming placeholder CEOs are significantly holder than both incoming family and professional CEOs. As compared to those appointing professional CEOs, family firms that appoint placeholder CEOs have a larger board of directors and more family members sitting in the board at the time of the CEO appointment. Moreover, they are more likely to have family directors with top university education (i.e. the talent pool for future family CEO appointments is of higher quality).

Next, we move to study the determinants of placeholder CEO appointments. Our main finding is that the factors leading to placeholder CEO appointments are different from those leading to professional CEO appointments, suggesting that placeholder and professional CEOs serve different corporate roles. First, relative to family CEO appointments, professional CEO appointments are more likely after a period of *underperformance* (consistent with the idea that professional managers are often hired in turnaround situations), whereas placeholder CEOs are more likely to happen after periods of good performance, presumably because in these cases the family has an intention of returning to the CEO role. Second, professional CEO appointments are more common among larger firms, whereas placeholder appointments are not correlated with firm size. Eponimy and the share of family ownership (typically considered as proxies of the extent of family control) are a strong negative predictor of professional CEO appointments (vs. family CEO appointments), whereas the predictive effect is weaker or insignificant for placeholder CEO appointments. That is, family control is as conducive of family CEO appointments as placeholder CEO appointments, again underscoring the placeholder CEO role as a caretaker for families with an intention of returning the CEO role. The number of family directors is negatively associated with both professional and placeholder CEO appointments (relative to family CEO appointments), though the effect is economically smaller in the former case.

Our final analysis builds on a difference-in-difference estimation common to the literature on CEO succession in family firms (e.g. Amore et al. 2021; Cucculelli and Micucci 2008; Bennedsen et al. 2007; Perez-Gonzalez 2006) to study the consequences of placeholder CEO appointments. The key innovation in our study is that we distinguish between professional and placeholder CEOs and estimate their separate effects on key performance variables. Consistent with existing results, we find that the appointment of professional CEOs is followed by an improvement in the firms' financial performance relative to the appointment of family

CEOs. On the other hand, when looking at the effect of placeholder CEOs we do not any find discernible difference relative to family CEOs. This result suggests that despite their lack of family ties, placeholder CEOs are more like family CEOs than professional CEOs are. As a consequence, grouping together professional and placeholder CEOs is likely to lead to an underestimation of the effect of professional CEOs on family firms' performance.

Our work offers several contributions to the literature. From its inception, the literature on family firms has asked whether professional managers, founders or second-generation family members perform better in the CEO role (Anderson and Reeb 2003; Villalonga and Amit 2006; Miller et al. 2007; Sraer and Thesmar 2007). Subsequent studies have explored how these CEO types differ in terms of managerial style (Mullins and Schoar 2016) or on-the-job effort provision (Bandiera et al. 2018). Studies explicitly focused on CEO succession have shown that the appointment of professional CEOs is associated with superior performance compared to family CEOs (Bennedsen et al., 2007; Perez-Gonzalez, 2006). This evidence has been interpreted as evidence of nepotism and biased preferences by the founding family (Burkart et al. 2003; Bertrand and Schoar 2006; Bloom and Van Reenen 2007; Mehrotra et al. 2013). The CEO succession literature has focused on the distinction between family and professional CEO performance following succession events. Exceptions include Mehrotra et al. (2013) who analyzed the role of adult adoptions as a strategic tool to involve managers that are family-related without having blood ties with the controlling family, or Amore et al. (2021) who looked at the performance attainment of family CEOs who return to the helm of the company after the tenure of a professional CEO. This paper sheds light on the unexplored phenomenon of placeholder CEOs, i.e. non-family managers who are appointed as CEOs following the departure of a family CEO and are succeeded by a new family CEO (typically from the next generation). We show that this type of family firm CEOs is observationally distinct from professional CEOs: the factors leading to placeholder CEO appointments are different from those leading to professional CEO appointments, and the consequences of the two succession types are different as well. The evidence suggests that placeholder CEOs offer a strategic tool to ensure continuity of family leadership when, during a transition process, new family CEOs are not readily available. Our work complements the literature on the tools, such as marriages and adult adoptions (Mehrotra et al. 2013), that Japanese family owners have historically adopted to bolster the pool of available talents preserve family dynasties.

2. Data and definitions

2.1 Sources

Our sample covers all publicly traded firms that went public since 1949 until 2010. We follow the firms' CEO succession events that occurred since 1949 until 2015. Following Mehrotra et al. (2013)'s methodology, we define family firms as the firms where the founding family is listed among the top 10 largest shareholders or serves as a board member. An executive is defined as a family member of the founding family if he is related to the family by blood, marriage, or formal adoption.

To identify family firms, we start by using the ownership database provided by Mehrotra et al. (2013), which gathered the founding families' tree data from various source to construct the ownership database: (1) *Tokiwa Shoin* (1977) provides the family trees of 1002 business leaders, (2) a series of books published by *Zaikai Kenkyusho* (1979, 1981, 1982, 1983, 1985) provides the family tree of publicly listed firms' board, (3) a set of thirty-eight Nihon Keizai Shimbun (2004) volumes provides the biographies of 243 prominent post-war business leaders, (4) commemorative volumes celebrating company anniversaries, (5) Toyo-keizai Shimposha (1995), (6) Nihon Keizai Shimbun (2004), (7) Japanese equivalent of Who's Who published by *Jinjikoshinjo*, and (8) company archives in Koyano (2007). Additional information is obtained from the Nikkei Telecom 21 database of corporate news items published from 1975 onwards in the Nikkei group of newspapers (Nihon Keizai Shimbun, the Nikkei Business Daily, the Nikkei Financial Daily and the Nikkei Marketing Journal) as well as extensive google and yahoo website searches.[3]

We extend Mehrotra et al.'s (2013) dataset, which ends in 2000, to cover the period until 2015. We obtain The list of top 30 shareholders from 2000 onwards from the Development Bank of Japan. Financial data are also obtained from the Development Bank of Japan. The Toyo Keizai database provides detailed information on the board of directors, including individual age, education (alma mater, major and graduation year), year initially hired, year appointed to the board, and year nominated as CEO (*Shacho*) or Chairman (*Kaicho*). We exclude a small number of the firms where financial or ownership data are missing. The final sample covers almost the entire universe of publicly listed firms in Japan from 1949 on. This dataset is then used to identify each firm's founder(s), ascertain each director, CEO/Chairman's relationship, if any, to the founding family by blood, marriage, or adoption, and to reach our ultimate goal of tracing the ultimate founding family/ controlling shareholder.

2.2. Definition of placeholder CEOs

We define placeholder CEOs non-family managers who serve as CEO in between to *different* family members from the founding family. That is, the outgoing family CEO and incoming family CEO must be two *different* individuals belonging to the same family. We also impose that managers have to serve as CEO for at least one year. In so doing, we differentiate placeholder CEOs from interim CEO succession. As the literature shows, interim CEOs or acting CEOs typically hold the position for just a few months (Ballinger and Marcel 2011). An example to illustrate this concept is the CEO succession process at Makita, a manufacturer of

[3] Family trees of well-known Japanese families in business and politics are available at https://keibatsugaku.com

portable power tools, founded in 1915. In 2013 Masahiko Goto, the 3rd generation family CEO stepped down at 67, and was succeeded by Shiro Hori (65). Three years later, Masahiko's first son, Munetoshi Goto, replaced Hori as the CEO. Munetoshi just turned 38 years old.

Our definition does not contain any restriction on the number of placeholder CEO appointments in-between the two family CEOs. A case in point is the CEO succession process in Kikkoman (a Japanese soy source maker, founded in 1603 by the Mogi and extended families). In 2004, Yuzaburo Mogi stepped down from the CEO position at 69. His successors were Takashi Ushiki (64) and Mitsuo Someya (67) -- two placeholder CEOs as per our definition. Then in 2013 Yuzaburo Mogi's nephew (aged 60) was nominated as Kikkoman's CEO. In Toyota Motor, there were three placeholder CEOs in between Tatsuro Toyota who stepped down in 1995 and his nephew, Akio Toyota was nominated as CEO in 2009. Takeda Pharmaceutical (Japan) and Ford Motor (US) also experienced similar successions.

Our definition requires that the new family CEO appointed following the placeholder CEO is different from the CEO that stepped down at the time of the placeholder appointment. When the same family member returns to the CEO position, it is plausible that the family firm experienced a failed professionalization attempt. Let us consider the Japanese company Canon. Fujio Mitarai (the first son of the founder) was Canon's sixth CEO in 1995 to 2006. He was succeeded by Tsuneji Uchida, but in 2012 Fujio Mitarai returned as CEO/Chairman until in 2016. His successor was Masaya Maeda, a professional CEO. But in May 2020 Maeda resigned due to health reasons, and Mitarai, who was 85, returned to the firm as CEO.[4]

There are two caveats about the classification of CEO successions in our sample. First, we do not know *ex ante* whether non-family CEOs were intentionally hired as placeholders. This limitation clearly arises from the fact that the founding family typically does not reveal

[4] Outside of Japan, the succession at Tata Group provides another example of failed professionalization. In 2012, upon turning 75, Ratan Tata announced his resignation and the group appointed 44-year-old Cyrus Mistry as the group leader. In 2016, however, the board removed Cyrus Mistry and Ratan returned as the group chairman.

the intention to keep a professional CEO for the long-run. In effect, we can only tell *ex post* whether a professional CEO is a placeholder by looking at the identity of the new incoming CEO. Second, we include in the sample successions that occurred until 2010 (whereas our accounting data are available until 2015). This choice is motivated by the need to have a sufficient period of time to investigate performance outcomes and corporate policies of succeeding CEOs post succession.

3.3. Summary statistics

We begin with plotting the prevalence of placeholder firms from 1955 to 2009 in **Figure 1**. Placeholder CEO firms rise steadily from 1955 through the post-war period, reaching a peak in the late 1980s, roughly coinciding with the Nikkei Index peak in that era. All measures of their prevalence show a similar trajectory, with total assets, revenues and the number of employees closely matching the number of placeholder CEO firms during the sample period.

In **Table 1** Panel A, we provide univariate statistics on CEO types among family firms in our full sample. Seventy-five percent of family firms have a family member as their CEO. Professional managers represent 16% of CEOs, with placeholder CEOs accounting for 7%, and interim CEOs accounting for 1.2% of CEOs. In terms of assets, professional CEOs account for a larger share than their numbers would suggest – about 25% of firm-assets are managed by professional CEOs. This indicates that professionalization of CEOs is more likely to occur in larger firms. Placeholder CEOs too account for a slightly larger share of assets than their numbers would suggest, representing 10% of firm-assets. In terms of employees, the presence of professional and placeholder CEOs is similar to their numbers among family firms.

In Panel B, we focus only on non-family CEOs in family firms. Consistent with the numbers in Panel A, we confirm that professional CEOs are twice as prevalent as placeholder CEOs across all measures.

In **Table 2**, we catalog the age of incoming and outgoing CEOs across the various CEO types. In Panel A, we dhow that the outgoing CEO is youngest when replaced by a professional manager (64 years) compared to the age of outgoing CEOs who are replaced by family and placeholder CEOs (68 and 67 years old respectively). It seems that family CEOs are less likely to extend their tenures when they are replaced by professional managers.

In Panel B, we examine the age of the incoming CEOs. Not surprisingly, we find that family CEOs assume their executive roles at a younger age (50 years old) compared to placeholder and professional CEOs (60 and 57 years old respectively). Most interestingly, in Panel C, we find that when placeholder CEOs depart, the age of the incoming family CEO is 50 years, consistent with our thesis that placeholder CEOs' main purpose is to serve as a CEO until the family scion is ready to assume control.

Furthermore, we argue that to ensure control in the absence of the family member serving as CEO, families would like to maintain control via board presence. In **Table 3**, we show that this is indeed the case. Family board presence is significantly more likely for placeholder CEOs compared to professional CEOs. Moreover, the family member's average age while serving as a board member is 47 years for transition to placeholder CEOs vs. transition to professional CEOs (53 years old), again indicating that family scions serve on their firms' boards while waiting to assume the CEO's role. A similar result is obtained when we record the age of the youngest family member who is serving on the firm's board.
Surprisingly, family ownership is similar for placeholder and professional CEO firms.

In Table 4, we find that across several firm characteristics, placeholder firms differ from professionally managed firms. For e.g., placeholder CEO firms have a larger board relative to professional CEO firms, underscoring that family members might have a purpose to get on the board of their firms for control enhancing reasons. Similarly, the number of family members on the firm's board is higher for placeholder vs. professionally managed firms.

eponymous firms have a higher likelihood of having a placeholder CEOs vs. a professional CEO. Profitability is higher among placeholder and family controlled firms.

4. Empirical results

4.1. The determinants of placeholder CEO appointments

Table 5 presents the *Logit* regression models estimating the factors that affect the selection of non-family CEOs: Placeholder vs. Professional CEOs. The regression results indicate that firms that have poor performance as measured by ROA or high growth firms as proxied by sales growth and the ration of capital expenditure to sales are more likely to appoint professional CEOs. In addition, the presence of non family board members with top university education is associated with employing professional CEOs. The results are consistent with the hypothesis that professional CEOs are selected for professionalization of the firms.

As noted by the literature, the influence of the founding family in the firm is associated with appointment of family CEOs. We proxy the family controlling power by several variables, namely firm age, eponymous firms, family ownership, and the number of family members of the board. The presence of family heirs matters as well, and is associated with family CEOs. We proxy family heirs by family members on the board who are between 40 to 50 years old.

The estimated coefficient of *Outgoing family CEOs Age* is negative, indicating that the firms tend to allow family heirs more time to mature before the patriarch steps down. However, in situations where the heirs are not yet well prepared, and as the family CEOs continue to age, the likelihood of appointing placeholder CEOs increases. This is evidence by the positive coefficient associated with the interaction term *Outgoing family CEOs Age * Presence of Family Heirs on the board*. The result suggests that the pivotal roles that the biological clock of the patriarch and the maturity of family heirs play in determining the CEO selection in family firms.

4.2. The performance implications of placeholder CEOs

In **Table 6** we examine whether placeholder and professional CEOs have different mandates. In particular, we test whether professional CEOs are brought in to arrest the firm's poor performance, and hence are likely to be associated with performance improvements. This notion is consistent with existing works such as Bennedsen et al. (2007) which finds that professional CEOs are appointed after a period of lower performance (as compared to family CEO appointments) and also that professional CEOs improve performance during their tenure. In contrast, we argue that placeholder CEOs are brought in to maintain the status quo, and hence our expectation is that there is no significant difference in pre-succession performance relative to firms that appoint family CEOs, neither a significant increase in performance post-succession.

The univariate results in **Table 6,** Panel A, largely support such conjectures. Focusing on the pre-succession period, we find that the average ROA of firms which hire professional CEOs is significantly lower than that of firms hiring family CEOs. This is consistent with the findings described above. However, comparing the pre-succession performance of firms which hired placeholder and family reveals a different pattern: the latter group does *not* exhibit lower performance; in fact, the performance of firms that hire placeholder CEOs is marginally better than that of firms hiring family CEOs (albeit only at the 10% level). The remaining part of Panel A analyzes the average performance in the post-succession period. Again consistent with existing results, we show that professional CEO appointments are associated with higher average ROA than family CEO appointments in the post-succession years. This is not true for placeholder CEO appointments, whose performance is not statistically different from that of family CEO appointments. This result is confirmed in Table 7 and Table 8, which shows the results of a difference-in-differences model in which the key explanatory variables are a dummy for the post-succession years (zero for the pre-succession years), a set of dummies identifying firms that undertake professional CEO and placeholder CEO appointments, and the interaction between the pre-post dummy and both the placeholder CEO and professional CEO dummy (the baseline is formed by firms which experience family CEO appointments). As shown, and consistent with existing research, professional CEOs improve firm performance relative to family CEOs. However, as anticipated in the descriptive analysis, this is not true for placeholder CEOs: their performance level does not significantly change relative to firms that appoint family CEOs.

5. Conclusion

Around 7% of listed firms in Japan are led by professional CEOs who sit at the helm of family firms for, on average, four years in-between two different family CEOs. We label them as placeholder CEOs, to denote the fact that their tenure provides family firms with the time to nurture and grow a family heir that will later be appointed as firm CEO. Orchestrating such a CEO succession is useful whenever families lack a readily available heir for the CEO job, and thus face a threat to their ability to keep control of the business. Placeholder CEOs are a pathway to solve this challenge. Several examples from well-known companies confirm this intuition: at the time of hiring the placeholder CEO, the family member who will eventually become the family CEO was too young for the position; hence, the controlling family appointed a trustworthy internal manager as CEO until that family member matured. Our investigation of all CEO successions in corporate Japan from post-world war indicates that placeholder CEOs are uniquely different from professional non-family CEOs in terms of: (1) individual characteristics; (2) firm-specific determinants of the CEO hiring decisions; (3) corporate consequences. A key contribution of this study is to go beyond the dichotomous distinction between family and professional non-family CEOs, and highlight for the first time how families can strategically involve an hybrid group of professionals to maintain control of the business over multiple generations.

References

Amore, M. D., Bennedsen, M., Le Breton-Miller, I., & Miller, D. (2021). Back to the future: The effect of returning-family successions on firm performance. *Strategic Management Journal*, *42*(8), 1432-1458.

Amore, M. D., Bennedsen, M., Foss, N., Bordeerath, B. 2023. CEO succession and innovation in family firms. Working paper.

Anderson, R. C., & Reeb, D. M. (2003). Founding-family ownership and firm performance: evidence from the S&P 500. *Journal of Finance*, *58*(3), 1301-1328.

Ballinger, G. A., & Marcel, J. J. (2010). The use of an interim CEO during succession episodes and firm performance. *Strategic Management Journal*, *31*(3), 262-283.

Bandiera, O., Lemos, R., Prat, A., & Sadun, R. (2018). Managing the family firm: Evidence from CEOs at work. *Review of Financial Studies*, *31*(5), 1605-1653.

Bennedsen, M., Nielsen, K. M., Pérez-González, F., & Wolfenzon, D. (2007). Inside the family firm: The role of families in succession decisions and performance. *Quarterly Journal of Economics*, *122*(2), 647-691.

Bennedsen, M., Mehrotra, V., Shim, J., & Wiwattanakantang, Y. (2021). Dynastic control without ownership: Evidence from post-war Japan. *Journal of Financial Economics*, *142*, 831-843.

Bloom, N., & Van Reenen, J. (2007). Measuring and explaining management practices across firms and countries. Q*uarterly Journal of Economics*, *122*(4), 1351-1408.

Burkart, M., Panunzi, F., & Shleifer, A. (2003). Family firms. *Journal of Finance*, *58*(5), 2167-2201.

Cucculelli, M., & Micucci, G. (2008). Family succession and firm performance: Evidence from Italian family firms. *Journal of Corporate Finance*, *14*(1), 17-31.

Mehrotra, V., Morck, R., Shim, J., & Wiwattanakantang, Y. (2013). Adoptive expectations: Rising sons in Japanese family firms. *Journal of Financial Economics*, *108*(3), 840-854.

Miller, D., Le Breton-Miller, I., Lester, R. H., & Cannella Jr, A. A. (2007). Are family firms really superior performers?. *Journal of Corporate Finance*, *13*(5), 829-858.

Mullins, W., & Schoar, A. (2016). How do CEOs see their roles? Management philosophies and styles in family and non-family firms. *Journal of Financial Economics*, *119*(1), 24-43.

Pérez-González, F. (2006). Inherited control and firm performance. *American Economic Review*, *96*(5), 1559-1588.

Sraer, D., & Thesmar, D. (2007). Performance and behavior of family firms: Evidence from the French stock market. *Journal of the European Economic Association*, *5*(4), 709-751.

Villalonga, B., & Amit, R. (2006). How do family ownership, control and management affect firm value? *Journal of Financial Economics*, *80*(2), 385-417.

Figure 1: Placeholder CEOs among family firms: 1955 – 2010

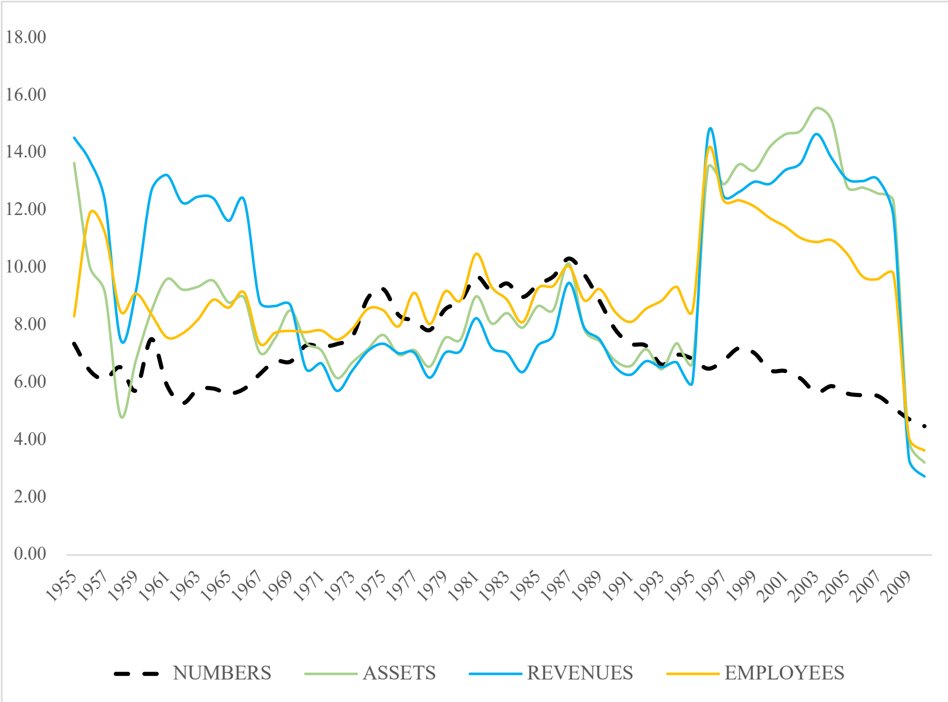

Table 1: Sample Classified by Top Management Type

Panel A: Full Sample

Top Management Type	Family CEOs		Non-Family CEOs					
Full Sample	Family CEOs (1)		Placeholder (2)		Interim (3)		Professional (4)	
Number	Number	%	Number	%	Number	%	Number	%
55,533	42,023	75.7%	3,777	6.8%	691	1.2%	9,042	16.3%
Assets	Assets	%	Assets	%	Assets	%	Assets	%
3,312,500,000,000	2,100,000,000,000	63.4%	334,000,000,000	10.1%	54,500,000,000	1.6%	824,000,000,000	24.9%
Revenues	Revenues	%	Revenues	%	Revenues	%	Revenues	%
3,368,500,000,000	2,150,000,000,000	63.8%	322,000,000,000	9.6%	62,500,000,000	1.9%	834,000,000,000	24.8%
Employees	Employees	%	Employees	%	Employees	%	Employees	%
66,970,032	47,900,000	71.5%	6,171,729	9.2%	798,303	1.2%	12,100,000	18.1%

Panel B: Non-Family CEOs

Top Management Type	Non-Family CEOs					
Full Sample	Placeholder (1)		Interim (2)		Professional (3)	
Number	Number	%	Number	%	Number	%
13,510	3,777	28.0%	691	5.1%	9,042	66.9%
Assets	Assets	%	Assets	%	Assets	%
1,212,500,000,000	334,000,000,000	27.5%	54,500,000,000	4.5%	824,000,000,000	68.0%
Revenues	Revenues	%	Revenues	%	Revenues	%
1,218,500,000,000	322,000,000,000	26.4%	62,500,000,000	5.1%	834,000,000,000	68.4%
Employees	Employees	%	Employees	%	Employees	%
19,070,032	6,171,729	32.4%	798,303	4.2%	12,100,000	63.5%

Table 2: Age of CEOs at Succession

Panel A: Age of Outgoing CEOs

This table presents average age of outgoing family CEOs during the succession. Succession is classified by incoming CEOs whether the incoming CEOs are (1) Family CEOs, (2) Placeholder CEOs, and (3) Profession CEOs. P value of the differences in mean across groups is shown in the parenthesis.

Incoming CEOs	Observations	Mean Age	Difference		
			(1) - (2)	(1) - (3)	(3) - (2)
(1) Family	1,086	68.24	1.117	4.659	-3.542
(2) Placeholder	276	67.13	(0.05)	(0.00)	(0.00)
(3) Professional	728	63.59			

Panel B: Age of incoming CEOs

This table presents average age of incoming CEOs during the succession of family CEOs. Incoming CEOs are classified into 3 groups: (1) Family CEOs, (2) Placeholder CEOs, and (3) Profession CEOs. P value of the differences in mean across groups is shown in the parenthesis.

Incoming CEOs	Observations	Mean Age	Difference		
			(1) - (2)	(1) - (3)	(3) - (2)
(1) Family	1087	49.98	-10.163	-6.749	-3.415
(2) Placeholder	276	60.14	(0.00)	(0.00)	(0.00)
(3) Professional	728	56.73			

Panel C: At Succession of Placeholder CEOs

This table presents age of outgoing placeholder CEOs and incoming family CEOs, when the outgoing CEOs are placeholder CEOs.

	Observations	Mean	Median
Outgoing placeholder CEOs	336	65.14	66
Incoming family CEOs	336	50.09	49

Table 3: Family characteristics at succession

This table shows the characteristics of the family members at succession of the family CEOs. Firms are classified into 3 groups by incoming CEOs as (1) the family, (2) placeholder, and (3) professional CEO. Difference is the difference is mean value of each variable. Bold figures represent the difference in mean value between the two groups that are statistically significant at the 5% level.

	Incoming CEO			Difference in mean		
	Family	Placeholder	Professional			
	(1)	(2)	(3)	(1) - (2)	(1) - (3)	(3) - (2)
Board size	11.46	11.78	10.16	-0.323	**1.298**	**-1.621**
Number of family on the board	0.99	0.72	0.46	**0.263**	**0.527**	**-0.263**
Presence of family with top university education	0.25	0.21	0.15	0.040	**0.100**	**-0.060**
Average age of family on the board	47.73	47.43	52.78	0.293	**-5.054**	**5.346**
Age of the youngest family on the board	45.30	45.45	51.08	-0.147	**-5.779**	**5.632**
Presence of family chairman	0.17	0.14	0.15	0.029	0.018	0.011
Family ownership	20.63	16.61	18.26	**4.012**	**2.366**	1.646

Table 4: Summary statistics of panel data

	(1)	(2)	(3)	T test		
	Family CEOs	Placeholder CEOs	Professional CEOs	(2) - (1)	(3) - (1)	(3) - (2)
Firm Age	40.739	45.838	45.748	5.099***	5.009***	-0.090
Firm Size	16.822	17.073	17.099	0.251***	0.277***	0.026
Board Size	10.649	12.130	10.713	1.480***	0.064	-1.417***
ROA	5.354	5.187	4.275	-0.167	-1.079***	-0.912***
Sales Growth	6.175	4.943	2.513	-1.233***	-3.662***	-2.429***
Capital Expenditure	6.062	5.433	3.767	-0.629	-2.294***	-1.665**
Total Debt Ratio	21.223	19.304	19.140	-1.919***	-2.083***	-0.164
SD 3 year of ROA (Forward)	2.039	1.882	2.182	-0.156***	0.144***	0.300***
Corporate Ownership	13.803	15.171	19.620	1.368***	5.818***	4.450***
CEO Age	58.369	62.900	60.232	4.531***	1.864***	-2.668***
CEO Eliteness (Top university graduation)	**0.133**	**0.269**	**0.245**	0.136***	0.112***	-0.024***
CEO Corporate Tenure (Insider / Outsider)	27.519	26.152	21.107	-1.367***	-6.412***	-5.045***
CEO Tenure	**8.743**	**4.420**	**3.893**	-4.323***	-4.850***	-0.527***
Family Ownership	20.310	13.475	14.097	-6.835***	-6.214***	0.621**
Eponymous firms	**0.293**	**0.314**	**0.270**	0.021**	-0.023***	-0.044***
Number of Family Member on the board	**0.560**	**0.949**	**0.565**	0.390***	0.005	-0.385***
Presence of family from top university	**0.189**	**0.226**	**0.133**	0.037***	-0.056***	-0.093***
Presence of family chairman	**0.196**	**0.466**	**0.399**	0.270***	0.203***	-0.067***
Number of observations	34,787	3,359	7,954			

Commented [MOU1]: Having Table 4 AND table 5 is confusing because the results are inconsistent between the two. Also, some variables in Table 4 (e.g. CEO Eliteness) do not show up in Table 5. Why don't we just have the determinants table?

Table 5: Determinants of the transition from family CEOs

This table presents the *Logit* regression models. The dependent variable in Model 1, 2 and 3 is equal to one for non-family CEOs, placeholder, and professional CEOs, respectively. Non family CEOs are defined as either placeholder or professional CEOs. Control variables are S.D. of ROA, Cash, Bank Ownership, and Outgoing CEO tenure.

	Non-Family CEOs	Placeholder CEOs	Professional CEOs
	(1)	(2)	(3)
ROA (t-1)	-0.0019	0.0053*	-0.0056**
	(0.89)	(1.84)	(2.46)
Sales Growth (t-1)	0.0012*	0.0002	0.0015**
	(1.68)	(0.18)	(2.27)
Firm Size (t-1)	(2.14)	(0.57)	(2.50)
	0.0094	-0.0010	0.0148
Capital Expenditure (t-1)	0.0012***	0.0013**	0.0010***
	(2.91)	(2.11)	(2.76)
Leverage (t-1)	0.0002	-0.0006	0.0008
	(0.30)	(0.74)	(1.08)
Firm Age (t-1)	-0.0018**	-0.0005	-0.0022**
	(2.14)	(0.57)	(2.50)
Eponymous Firms (t-1)	-0.0495**	-0.0221	-0.0598**
	(1.99)	(0.81)	(2.29)
Presence of Non-family with Top Uni Education (t-1)	0.4465***	0.3557***	0.4701***
	(5.18)	(3.54)	(5.36)
Family Ownership (t-1)	-0.0045***	-0.0029***	-0.0045***
	(5.27)	(2.75)	(5.07)
Number of Family on the Board (t-1)	-0.1833***	-0.1259***	-0.2082***
	(9.78)	(5.53)	(10.52)
Presence of Family with Top Uni on the Board (t-1)	-0.0029	-0.0111	0.0076
	(0.08)	(0.27)	(0.19)
Presence of Family Heirs on the Board (t-1)	-0.5346***	-0.3681***	-0.3450*
	(9.72)	(23.24)	(1.80)
Presence of Family Heirs on the Board (t-1) * Outgoing CEO age (t-1)	0.0098**	0.0138**	0.0033
	(2.08)	(2.28)	(0.63)
Outgoing Family CEO age (t-1)	-0.0080***	-0.0079***	-0.0066***
	(4.63)	(4.02)	(3.73)
Presence of Family Chairman (t-1)	0.0208	-0.0023	0.0343
	(0.66)	(0.06)	(1.04)
Controls	Yes	Yes	Yes
Number of observations	1812	1199	1499
Number of transitions	927	313	614
Year fixed effect	Yes	Yes	Yes

Table 6: Univariate Test of Performance change around succession

Firms are classified into 3 groups by incoming CEOs as (1) the family, (2) placeholder, and (3) professional CEO. Pre (2 years) and Post (2 yeas) are the mean performance of two years pre and post succession, respectively. Standard errors are clustered at the firm level and t statistics are in the parentheses.

Panel A: ROA

	Family	Placeholder	Professional	Difference		
	(1)	(2)	(3)	(2) - (1)	(3) - (1)	(3) - (2)
Pre (2 years)	4.729	5.394	3.676	0.664*	-1.053***	-1.718**
Post (2 years)	4.537	5.04	4.232	0.503	-0.305	-0.808**
Difference (Post - Pre)	-0.192	-0.353	0.556**	-0.161	0.748**	0.91**

Panel B: Sales Growth

	Family	Placeholder	Professional	Difference		
	(1)	(2)	(3)	(2) - (1)	(3) - (1)	(3) - (2)
Pre (2 years)	4.01	5.62	2.53	1.608*	-1.482*	-3.09
Post (2 years)	3.75	4.66	3.59	0.908	-0.166	-1.07
Difference (Post - Pre)	-0.256	-0.956	1.061	-0.700	1.316	2.02

Panel C: Employment Growth

	Family	Placeholder	Professional	Difference		
	(1)	(2)	(3)	(2) - (1)	(3) - (1)	(3) - (2)
Pre (2 years)	-0.729	0.758	-0.402	1.487*	0.327	-1.16
Post (2 years)	-1.042	-0.645	-0.132	0.397	0.910*	0.51
Difference (Post - Pre)	-0.313	-1.403	0.270	-1.090	0.583	1.67

Table 7: Performance change around succession

OLS regression results for performance around succession. The dependent variable in the column (1), (2), and (3) are ROA, Sales Growth, and Employment Growth. Firms are classified into 3 groups by incoming CEOs as (1) Family, (2) Placeholder, and (3) Professional CEOs. The benchmark group is *Family CEOs*. Post is a dummy variable, which is set to one for the two-year post succession. Standard errors are clustered at the firm level, and t statistics are in the parentheses. ***, **, and *, indicate significance level at the 1, 5, and 10, respectively.

	(1)	(3)	(4)
	ROA	Sales Growth	Employment Growth
Post * Placeholder CEOs	-0.368	-1.003	-1.22
	(1.24)	(0.93)	(1.13)
Placeholder CEOs	0.515*	1.328*	1.498*
	(1.66)	(1.67)	(1.87)
Post * Professional CEOs	0.665**	0.611	0.596
	(2.4)	(0.69)	(0.85)
Professional CEOs	-0.586**	0.674	0.276
	(2.3)	(1.02)	(0.52)
Post	0.168	0.517	0.068
	(1.15)	(1.08)	(0.19)
Firm Age	-0.042***	-0.029	-0.054***
	(4.38)	(1.52)	(3.65)
Firm Size	0.794***	0.750***	0.777***
	(6.38)	(3.52)	(4.50)
Leverage	-0.107***	-0.114***	-0.057***
	(12.11)	(6.92)	(4.44)
Cash	0.064***	-0.032	0.019
	(4.32)	(1.25)	(0.82)
Family Ownership	0.020**	0.021	0.036**
	(2.16)	(1.12)	(2.33)
Constants	5.592***	23.390***	7.377**
	(2.98)	(6.26)	(2.55)
Year fixed effect	Yes	Yes	Yes
Industry fixed effect	Yes	Yes	Yes
No of Observations	6151	6151	6151
Adj. R-squared	0.2866	0.2059	0.0786

Table 8: Performance change around succession

OLS regression results for performance around succession. The dependent variable in the column (1), (2), and (3) are ROA, Sales Growth, and Employment Growth. Firms are classified into 3 groups by incoming CEOs as (1) Family, (2) Placeholder, and (3) Professional CEOs. The benchmark group is *Professional CEOs*. Post is a dummy variable, which is set to one for the two-year post succession. Standard errors are clustered at the firm level, and t statistics are in the parentheses. ***, **, and *, indicate significance level at the 1, 5, and 10, respectively.

	(1)	(2)	(3)
	ROA	Sales Growth	Employment Growth
Post * Placeholder CEOs	-1.034***	-1.614	-1.816
	(2.88)	(1.32)	(1.55)
Placeholder CEOs	1.101***	0.654	1.221
	(3.14)	(0.74)	(1.43)
Post * Family CEOs	-0.665**	-0.611	-0.596
	(2.40)	(0.69)	(0.85)
Family CEOs	0.586**	-0.674	-0.276
	(2.30)	(1.02)	(0.52)
Post	0.833***	1.128	0.663
	(3.37)	(1.51)	(1.12)
Firm Age	-0.042***	-0.029	-0.054***
	(4.38)	(1.52)	(3.65)
Firm Size	0.794***	0.750***	0.777***
	(6.38)	(3.52)	(4.50)
Leverage	-0.107***	-0.114***	-0.057***
	(12.11)	(6.92)	(4.44)
Cash	0.064***	-0.032	0.019
	(4.32)	(1.25)	(0.82)
Family Ownership	0.020**	0.021	0.036**
	(2.16)	(1.12)	(2.33)
Constant	5.006***	24.064***	7.654***
	(2.65)	(6.36)	(2.65)
Year fixed effect	Yes	Yes	Yes
Industry fixed effect	Yes	Yes	Yes
Observations	6151	6151	6151
Adj. R-squared	0.2866	0.2059	0.0786

Appendix A: Variable Descriptions

Variables	Description
A. Family and board characteristics	
The board data	The board data includes the education background, birthday, year entering company, year assuming each position. *Source*: The data for 1955 – 1976 from Mehrotra et. Al. (2013); and the period of 1976 – 2015 from Toyo Keizai.
The founding family members	*Source:* Mehrotra et. Al. (2013).
Presence of family with top university education	Dummy equals to one if there is at least one family member graduated from a top university in Japan. Top universities are top public universities that require an entrance examination, namely, the University of Tokyo, Tokyo Institute of Technology, Kyoto University, Osaka University, Kobe University, Nagoya University, Tohoku University, Kyushu University, and Hitotsubashi University. *Source:* Toyo Keizai.
Presence of family chairman	Dummy variable equals to one if the chairman of the board is from the founding. *Source*: Mehrotra et. al. (2013); Toyo Keizai.
Age of board member	*Source*: Mehrotra et. al. (2013); Toyo Keizai.
Presence of family heirs on the board	Dummy equals to one if there is at least one family member on the board (except the family CEO/ Chairman) who is between 40 – 50 years old. *Source*: Mehrotra et. al. (2013); Toyo Keizai.
Family ownership	The percentage of shareholdings held by the founding family. *Source:* Development Bank of Japan; Mehrotra et. Al. (2013).
Board size	The number of all board members. *Source*: Toyo Keizai.
Eponymous firms	Dummy variable equals to one if the firm name is the family name. *Source*: Bennedsen et. al. (2022);
CEO corporate tenure	Tenure of the CEO at the firm.

B. Firm Characteristics

Total Assets	Total assets. *Source*: Development Bank of Japan.
Log (Total Assets)	Natural logarithm of total assets. *Source*: Development Bank of Japan .
Cash	Cash and short-term investments divided by total assets. *Source*: Development Bank of Japan.
Leverage	Total debt divided by total assets. *Source*: Development Bank of Japan.
Sales	Total sales. *Source*: Development Bank of Japan.
Sales Growth	Growth of sales over one year.
Capital expenditure	Capital expenditure plus depreciation divided by total sales. *Source*: Development Bank of Japan.
ROA	Earnings before interest, taxes, and depreciation divided by total assets. *Source*: Development Bank of Japan.
Employment	Number of employees. *Source*: Development Bank of Japan.
Employment growth	Growth of employment over one year.
Bank Ownership	Fraction of total shares held by financial shareholders. *Source*: Development Bank of Japan.
Firm age	The number of years from IPO. *Source*: Development Bank of Japan.