

# Placeholder CEOs

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# This paper

- We study *placeholder CEOs* -- non-family managers appointed following the departure of a family CEO and succeeded by another family CEO, typically from the next generation.
- Placeholder CEOs are not the same type as the “Professional CEOs” that are well studied by the literature.
  - Professional CEOs are to handle treats & opportunities in the firm.
  - Placeholder CEOs’ task is to groom the family heir.
- The empirical evidence is based on the data from Japan over 6 decades confirms that placeholder CEOs are an alternative succession strategy to ensure family control for generations.

# Regency in Monarchies



Blanche of Castile acting as regent for her son,  
the young King Louis IX of France.



# The boss: Bernard Arnault (at 74, b. 1949)

Retail & Consumer

## LVMH's Arnault brushes off succession question

Asked by an analyst about succession plans.

By Reuters

January 26, 2023 6:20 PM GMT · Updated a year a



"You will have noticed that the retirement age is being raised."  
(to 80 years old)

Market cap: \$441.7 bil  
(08/06/2024)

# AGM 2024: LVMH appointed new board members, Alexandre Arnault (31), and Frédéric Arnault (29)



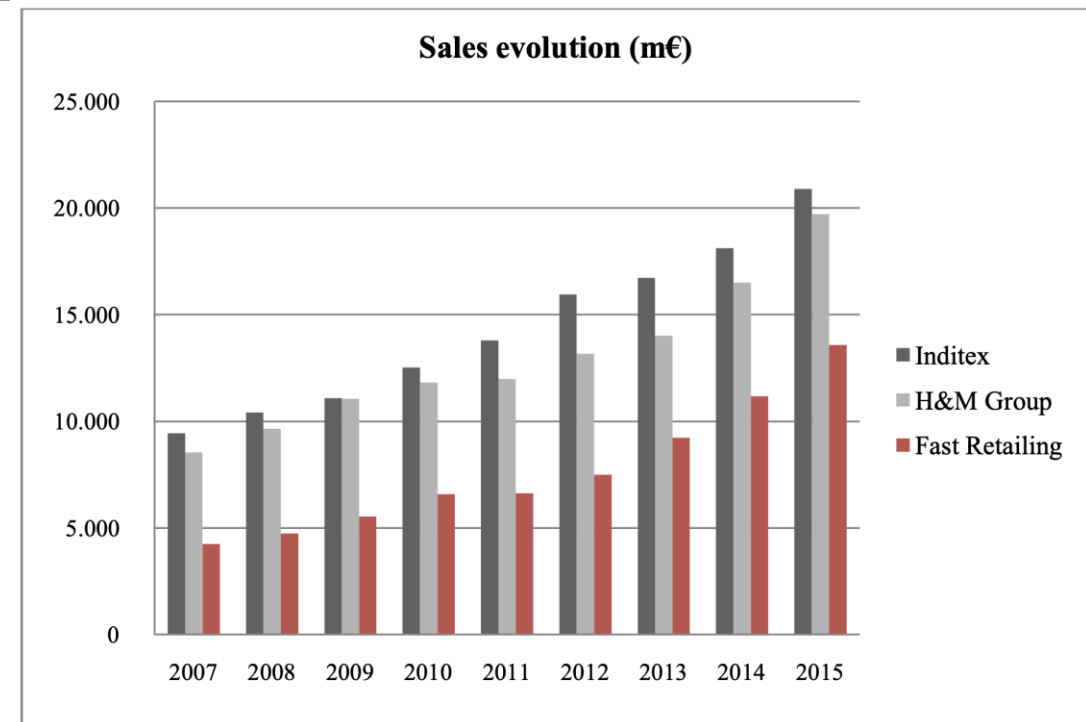
## LVMH succession plans accelerate as Arnault children step up

Clockwise from left: Delphine Arnault, Frederic Arnault, Jean Arnault, Antoine Arnault, Alexandre Arnault and at far right Bernard Arnault © FT montage/ABACAPRESS via Reuters/AFP via Getty Images/Shutterstock/Bloomberg

As the next generation moves up, the patriarch's lieutenants step aside to facilitate it. "One doesn't deny an Arnault kid. [In the end it is a familial group,](#)" said the person close to the group. (FT, April 15, 2024)



- Founders: Ortega & then-wife Mera in 1975
- IPO in 2000
- Jan 2011, Ortega turned 75.
- Zara was Spain's largest company & the world's largest retailer with sales of almost 15 bil euros.



# The Family of Amancio Ortega



- ❖ 1st Marriage: 3 children who are not involved in the business.
- ❖ 2<sup>nd</sup> Marriage:
  - Eldest daughter & son are in philanthropic work.
  - **Marta, the youngest daughter has just turned 27 (b. 1984).**



Pablo Isla

The Chairman  
(2011)





November 30, 2021

## Markets nervous about changes

Inditex shares fell almost 5% after the announcement.

Forbes

Nov 30, 2021, 10:35am EST | 12,912 views

## Zara Is Back In Family's Control After Billionaire Founder Taps Daughter As Chair

Marta Ortega

(b, Jan 1984, 37 years old)

Inditex

+ Add to myFT

## Inditex shares fall after it appoints founder's daughter as chair

Zara owner completes 'generational' management overhaul and names new chief executive



The announcement that Marta Ortega, daughter of Inditex's founder, will take over as chair was described as a 'backward step' © Oscar Gonzalez/NurPhoto via Getty Images

# Placeholder CEO: Pablo Isla 2011 – 2021



Amancio Ortega (85)  
The Founder & Chair: 1975 - 2011

Marta Ortega  
Chair: since Jan 2022 (at 38)

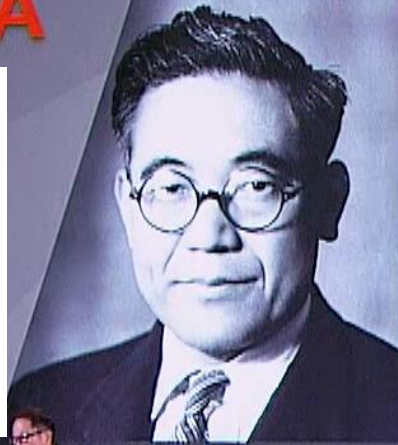


Eiji Toyoda  
President : 1967-1982



Tetsuro Toyoda  
President: 1922 - 1995

TOYOTA



Kiichiro Toyoda



Shōchirō Toyoda



Akio Toyoda

President – 1982 - 1992

President: 2009 – 2023

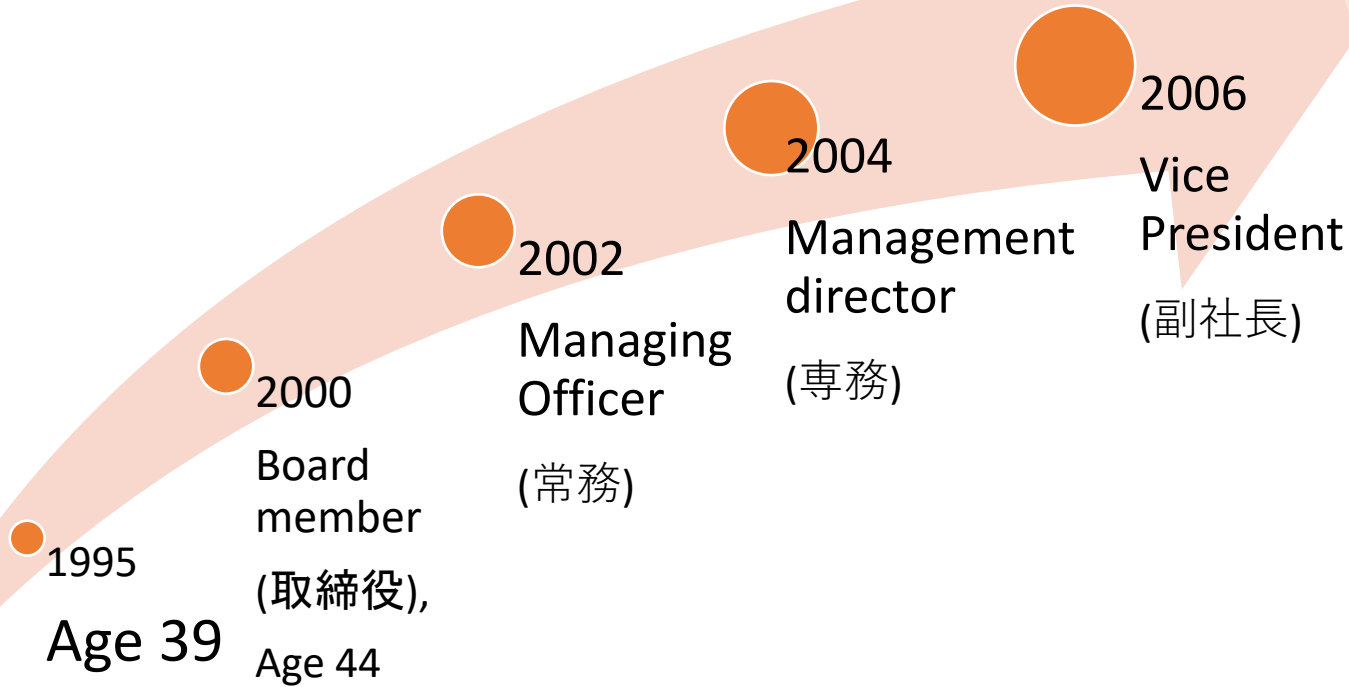
TOYOTA

Toyota used 3 Placeholder CEOs  
(1995 – 2009)



# Rising son: Akio Toyoda

President: Mar 2009 at 50



\*2006: Toyota surpassed GM to be no. 1 automaker by sales,  
\*2009: Akio Toyoda is the CEO  
(FY 2008 net profit **-436.9 bil**)





Toyota Motor AGM (June 2022)  
Investors asked about his succession plan  
He was 65 & 12 years as CEO



Market Cap: **\$205.15 B** (01/02/2023)  
Employees: 350,000 (2021)



# Is Sato-san a Placeholder CEO?



Daisuke Toyoda  
(age 33, working at  
TMC Subsidiary)



**Koji Sato,**  
**CEO (since April 2023)**

Akio Toyoda  
CEO: 2009 – Mar 2023  
Chairman: April 2023



# Placeholder CEOs in large corporations



ESTÉE LAUDER



# The Unique Dataset: Japanese Listed Firms

- Long-term dataset of all family firms that went IPO since 1949 – 2010 to study the evolution of family firms over 60 years.
  - Sample: 2,930 listed firms
  - Number of Transitions: 926
  - Financial data: 1949 - 2015
- The sample is the extension of the database constructed by Mehrotra, Morck, Shim, and Wiwattanakantang (JFE 2013).

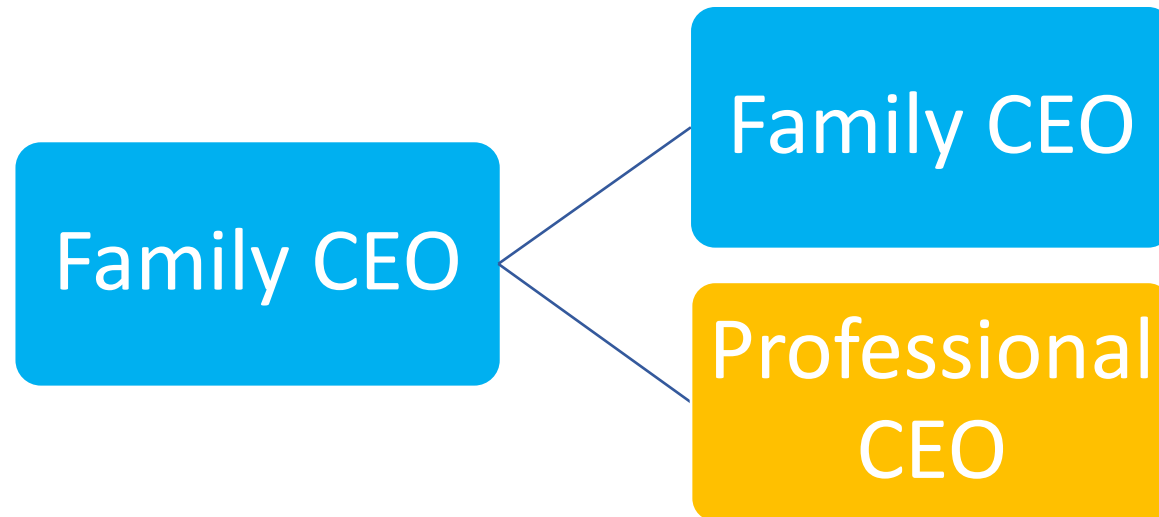


# Research questions

- ❖ How prevalent are Placeholder CEOs?
- ❖ What are the role of Placeholder CEOs?
  - Do placeholder CEOs manage the firm like Professional CEOs?
  - Are placeholder CEOs invisible CEOs (behind the family's control)?

# The Model: Leadership Succession in Family Firms

- We study succession when the family CEO steps down from the leadership role.
- The literature is based on a one-period succession model, which considers only two choices:



# Family vs. Non-Family CEOs

- **Family CEOs: *Preserving Legacy and Control***

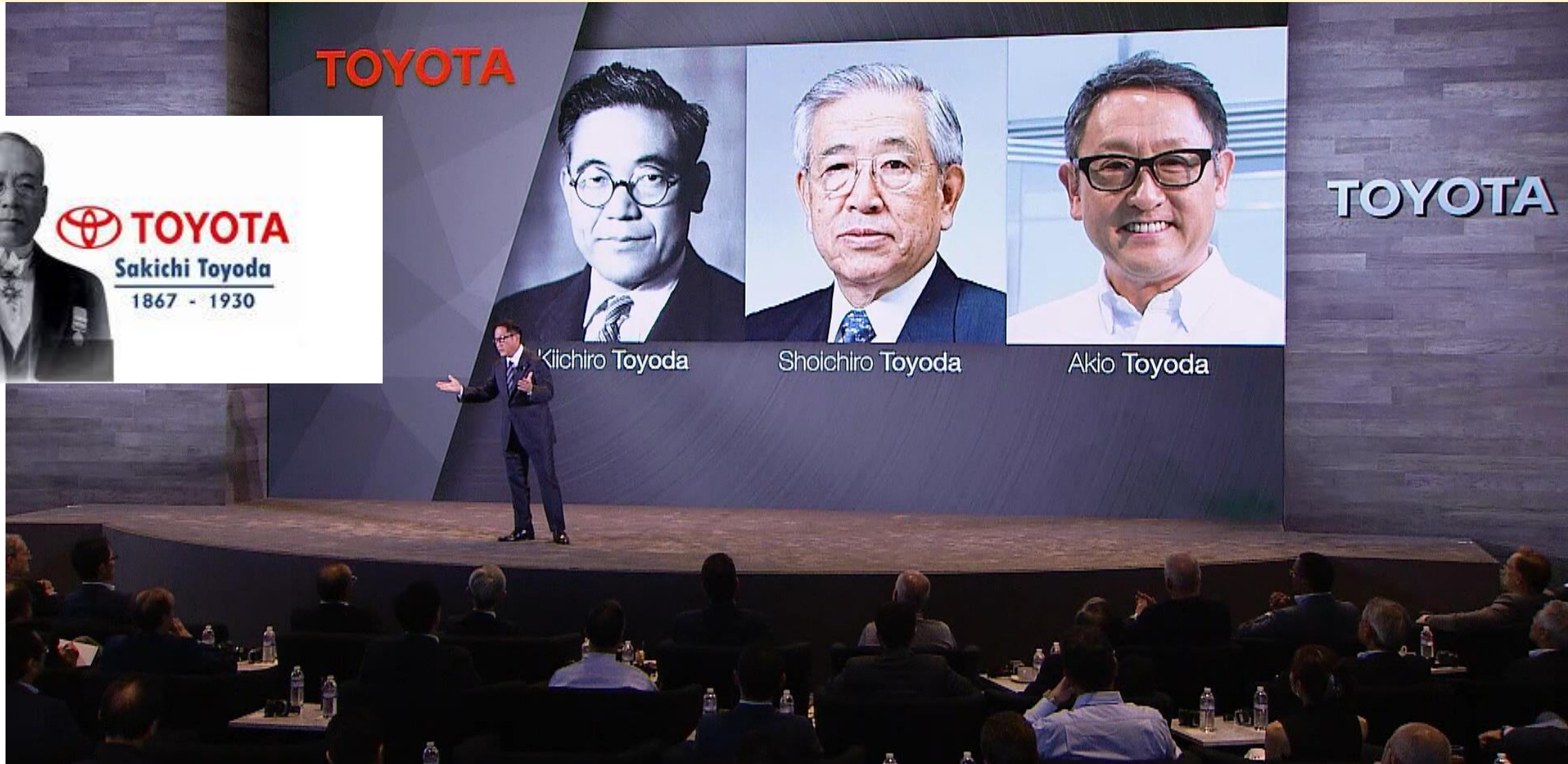
- Family leadership is in a better position to deploy family unique assets like family legacy, networks, and shared values. These relational assets are harder for outsiders to replicate. (Bennedsen and Fan, 2014).
- Family management safeguards private benefits and socio-economic wealth (Demsetz and Lehn 1985; Burkart et al. 2003).
- Nepotism (Morck et al., 2000)

- **Professional CEOs: *Addressing Threats and Opportunities***

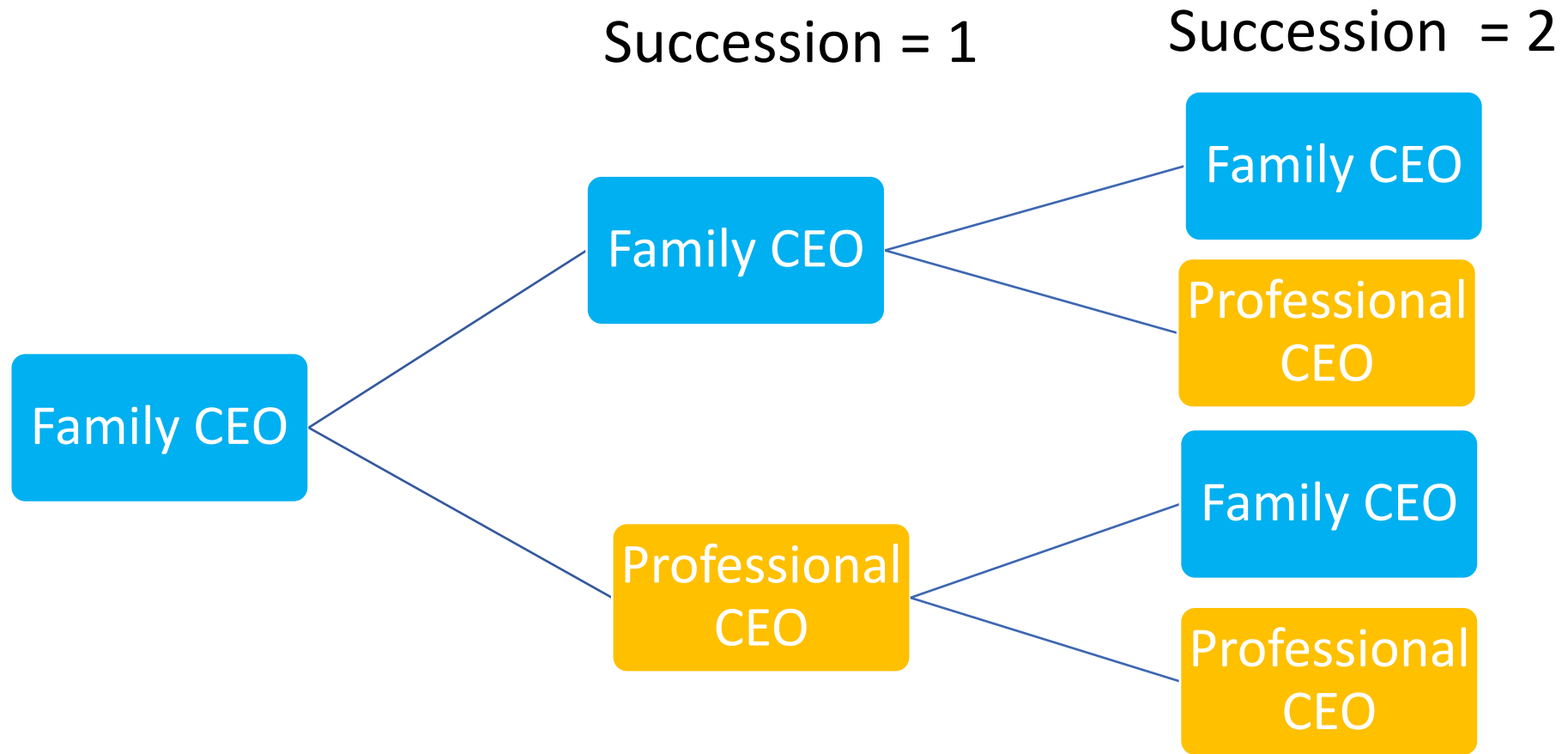
- Threats include poor financial performance, market share loss, or declining customer satisfaction, forcing a reevaluation of the business model.
- The need to pursue new opportunities, such as new market entry, rapid industry growth, and the need to attract outside investors.
- Professional CEOs achieve superior performance during their tenure (e.g., Bennedsen et al., 2007; Bloom & Van Reenen, 2007).



# Dynastic Motive (responsibility to the family): Keeping the family control for generations



# Multi Periods Succession Model



There is risk from appointing a Professional CEO as he might not turn the leadership role back to the Family.

## Family factors & availability of family member talent pool influence succession choices:

When the patriarch is aging & the family lacks capable heirs, the family is likely to select a placeholder CEO whom the family can “trust.”





# Trusted Placeholder CEOs

## ❖ **Capable Management**

- They are capable to run a day-to-day management. They are expected to maintain the family's management style to keep the family legacy and firm survival as a family firm.

## ❖ **Grooming Family Heirs**

## ❖ **Passing the Baton back to the Family**

- The family can trust him that the leadership would be passed to the family when family heirs are ready.

# Post Succession: Firm Performance

- **Placeholder CEOs ensure family leadership.**
  - In maintaining the *status quo*, placeholder CEOs are likely to undertake corporate actions, similar to the family predecessors, leading to **stable** firm performance.
- **Professional CEOs navigate treats & pursue opportunities.**
  - Professional CEOs are associated with **superior performance**, when compared with Family CEOs & Placeholder CEOs.

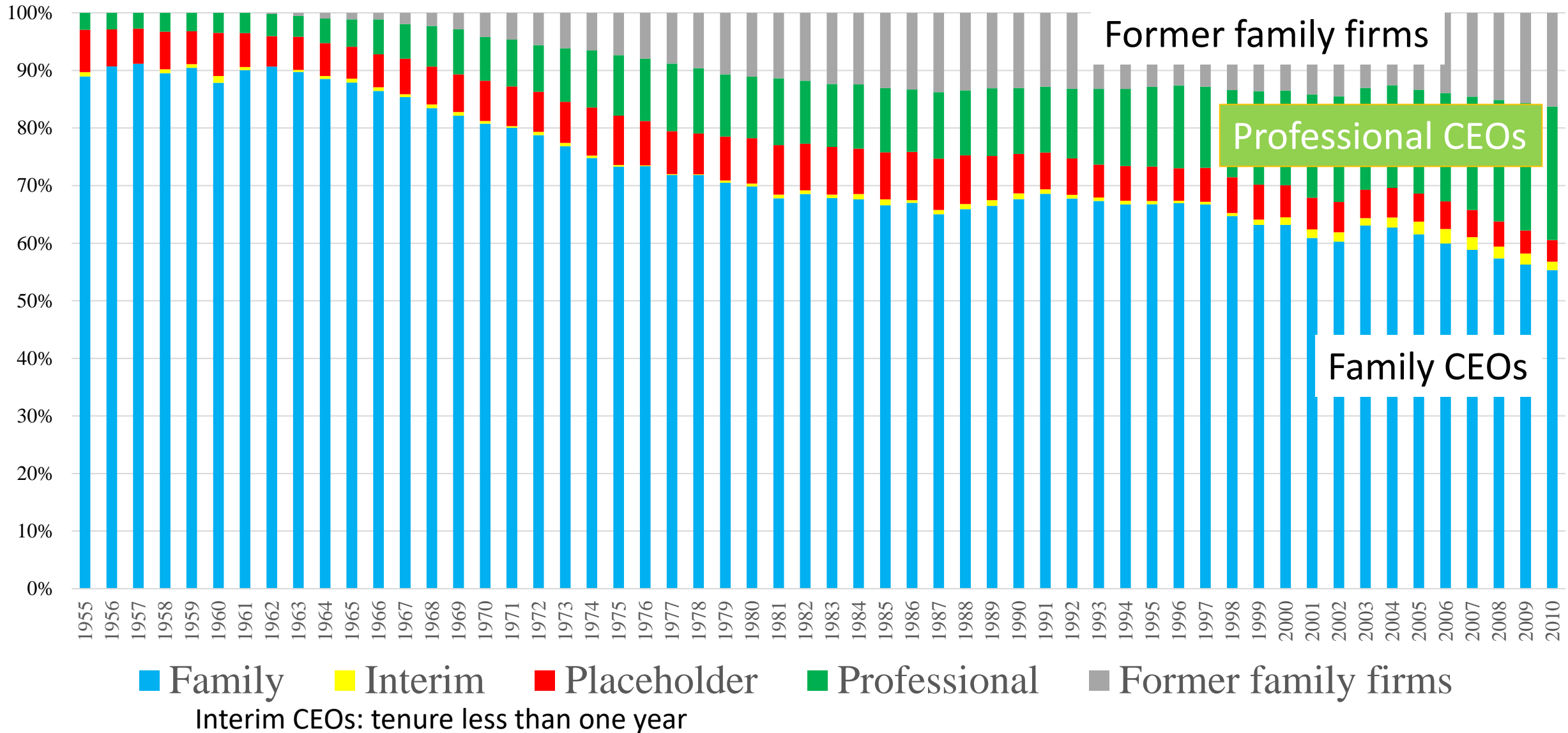
**Stylized Facts:**

**Placeholder CEOs in Japan**



# Family Firms: Classified by CEO Type (1955 – 2010)

Placeholder CEOs account for around 8% of family Firms



# The Ratio of Placeholder CEOs to Professional CEOs (1955-2010): Mean Ratio = 28%

|                  | Number of<br>firms | %      | Total assets<br>(bil Yen) | %      | Sales (bil<br>Yen) | %      | Employees<br>(mil) | %      |
|------------------|--------------------|--------|---------------------------|--------|--------------------|--------|--------------------|--------|
| Placeholder (1)  | 3,777              | 28.0%  | 334.00                    | 27.55% | 322.00             | 26.43% | 6.17               | 32.36% |
| Professional (2) | 9,042              | 66.93% | 62.50                     | 5.13%  | 834.00             | 68.44% | 12.10              | 63.45% |
| Interim (3)      | 691                | 5.11%  | 54.50                     | 4.49%  | 62.50              | 5.13%  | 0.798              | 4.19%  |
| Total            | 13,510             | 100%   | 1,212.50                  | 100%   | 1218.5             | 100%   | 19.07              | 100%   |

Sample: Family firms run by non-family CEOs

Some Characteristics

**Placeholder CEOs vs Professional CEOs**



# Panel Data: Firms Run by Each CEO Type (1955 – 2010)

|                            | Family | Placeholder | Professional | <i>t test</i> |            |            |
|----------------------------|--------|-------------|--------------|---------------|------------|------------|
|                            | (1)    | (2)         | (3)          | (2) - (1)     | (3) - (1)  | (3) - (2)  |
| Family Ownership           | 18.64  | 16.10       | 15.63        | -2.541**      | -3.012***  | -0.472     |
| CEO Corporate Tenure       | 27.905 | 26.219      | 21.002       | -1.686***     | -6.903***  | -5.217***  |
| Tenure as the CEO          | 9.28   | 4.52        | 3.95         | -4.761****    | -5.321**** | -0.561**** |
| CEO age                    | 58.577 | 62.969      | 60.265       | 4.392***      | 1.688***   | -2.704***  |
| CEO with Top Uni Education | 0.135  | 0.274       | 0.246        | 0.139***      | 0.111***   | -0.028***  |
| Observations               | 32,307 | 3,245       | 7,751        |               |            |            |

# Transition from Placeholder CEOs back to Family CEOs

- Placeholder CEOs step down at 65.
- When family heirs are ready (50 years old)

## Age of CEOs at succession

|                           | Obs | Mean  | Median |
|---------------------------|-----|-------|--------|
| Outgoing Placeholder CEOs | 336 | 65.14 | 66     |
| Incoming Family CEOs      | 336 | 50.09 | 49     |

# Determinants of Succession

- Non-family CEOs vs. Family CEOs
  - Placeholder CEOs
  - Professional CEOs



# Logit Regressions

## Determinants of Succession: Non-Family CEOs, vs Family CEOs

|  | Non-Family CEOs<br>(1) | Placeholder<br>(2)    | Professional<br>(3)  |
|--|------------------------|-----------------------|----------------------|
| Presence of Family Heir * Outgoing CEO age | 0.0098**<br>(2.08)     | 0.0138**<br>(2.28)    | 0.0033<br>(0.63)     |
| Presence of Family Heirs (age 40-50)       | -0.5346***<br>(9.72)   | -0.3681***<br>(23.24) | -0.3450*<br>(1.80)   |
| Outgoing Family CEO Age                    | -0.0080***<br>(4.63)   | -0.0079***<br>(4.02)  | -0.0066***<br>(3.73) |
| Eponymous Firms                            | -0.0495**<br>(1.99)    | -0.0221<br>(0.81)     | -0.0598**<br>(2.29)  |
| Firm Age                                   | -0.0018**<br>(2.14)    | -0.0005<br>(0.57)     | -0.0022**<br>(2.50)  |
| ROA  | -0.0019<br>(0.89)      | 0.0053*<br>(1.84)     | -0.0056**<br>(2.46)  |
| Sales Growth                               | 0.0012*<br>(1.68)      | 0.0002<br>(0.18)      | 0.0015**<br>(2.27)   |
| Capital Expenditure                        | 0.0012***<br>(2.91)    | 0.0013**<br>(2.11)    | 0.0010***<br>(2.76)  |
| Controls                                   | Yes                    | Yes                   | Yes                  |
| Year fixed effects                         | Yes                    | Yes                   | Yes                  |
| Number of observations                     | 1812                   | 1199                  | 1499                 |
| Number of transitions                      | 927                    | 313                   | 614                  |
| Probability > chi2                         | 0.0000                 | 0.0000                | 0.0000               |
| Pseudo R-squared                           | 0.1895                 | 0.1296                | 0.2640               |
| Log pseudolikelihood                       | -1017.5859             | -599.1959             | -746.3012            |

Firms with Older CEOs & having young heirs are more likely to appoint Placeholder CEOs, suggesting placeholder CEOs’ role of grooming family heirs.

|   | Non-Family<br>CEOs   | Placeholder           | Professional         |
|---|----------------------|-----------------------|----------------------|
|   | (1)                  | (2)                   | (3)                  |
| Presence of Young Family Heirs (age 40-50)          | -0.5346***<br>(9.72) | -0.3681***<br>(23.24) | -0.3450*<br>(1.80)   |
| Outgoing Family CEO Age                             | -0.0080***<br>(4.63) | -0.0079***<br>(4.02)  | -0.0066***<br>(3.73) |
| Presence of Young Family Heir * Outgoing<br>CEO age | 0.0098**<br>(2.08)   | 0.0138**<br>(2.28)    | 0.0033<br>(0.63)     |

Family power is associated with keeping family leadership.

|                     | Non-Family CEOs<br>(1) | Placeholder<br>(2)   | Professional<br>(3)  |
|---------------------|------------------------|----------------------|----------------------|
| Family Ownership    | -0.0045***<br>(5.27)   | -0.0029***<br>(2.75) | -0.0045***<br>(5.07) |
| Eponymous Firms     | -0.0495**<br>(1.99)    | -0.0221<br>(0.81)    | -0.0598**<br>(2.29)  |
| Firm Age            | -0.0018**<br>(2.14)    | -0.0005<br>(0.57)    | -0.0022**<br>(2.50)  |
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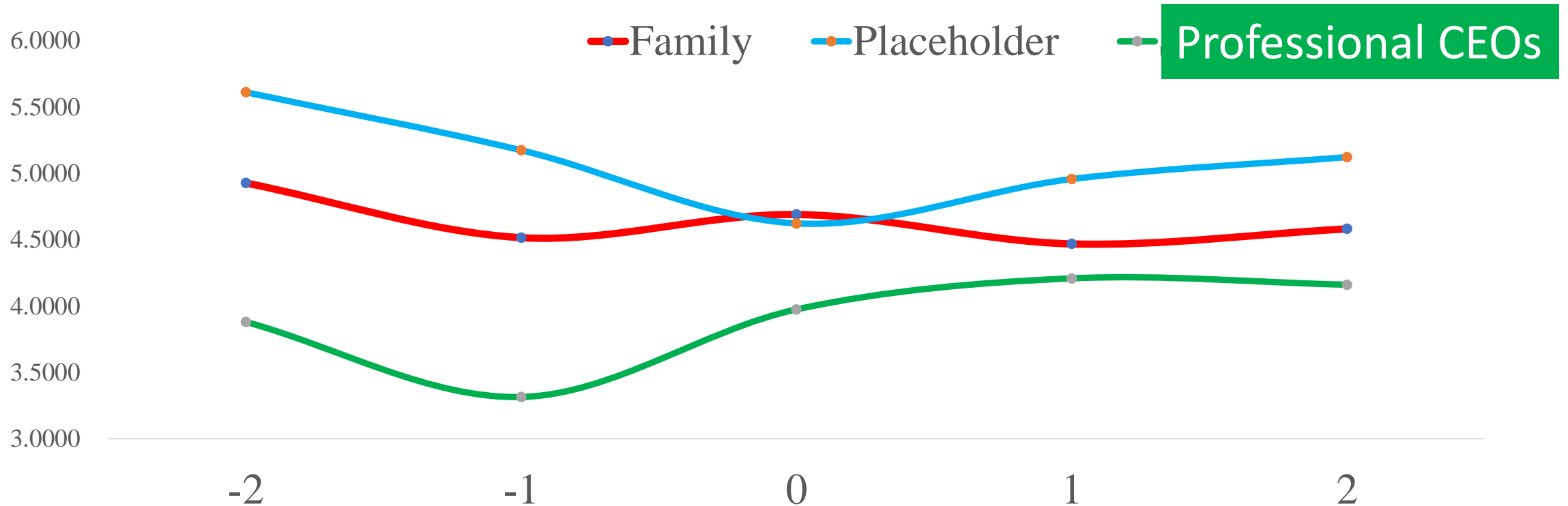


Firms with poorer performance & high sales growth are more likely to appoint Professional CEOs.

|                     | Non-Family CEOs<br>(1) | Placeholder<br>(2)   | Professional<br>(3)  |
|---------------------|------------------------|----------------------|----------------------|
| Family Ownership    | -0.0045***<br>(5.27)   | -0.0029***<br>(2.75) | -0.0045***<br>(5.07) |
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| Capital Expenditure | 0.0012***<br>(2.91)    | 0.0013**<br>(2.11)   | 0.0010***<br>(2.76)  |

Performance: Post Succession

# Firm Performance (ROA) around Succession (t = 0)



- Professional CEOs inherit relatively poor performance firms.
- Professional CEOs are associated with a higher profitability relative to family & Placeholder successions.

# Regression:

## The benchmarks: Family CEOs

- Professional CEOs display superior performance post succession, compared with family CEOs.
- ROA of firms run by placeholder CEOs is similar to Family CEOs.

|  | ROA               |
|--|-------------------|
| Post * Placeholder CEOs                                    | -0.368<br>(1.24)  |
| Placeholder CEOs   | 0.515*<br>(1.66)  |
| Post * Professional CEOs                                   | 0.665**<br>(2.4)  |
| Professional CEOs  | -0.586**<br>(2.3) |
| Post   | 0.168<br>(1.15)   |
| Controls: Firm size, age, leverage, cash, family ownership | Yes               |
| Year FE  | Yes               |
| Industry FE  | Yes               |
| S.D. Clustered at the firm level                           | Yes               |
| Obs  | 6151              |
| Adj. R-squared   | 0.2866            |

\*\*\*, \*\*, and \* denote significance at the 1, 5, and 10 percent levels, respectively.



## The benchmarks: Professional CEOs

- Professional CEOs display superior performance post succession, compared with Placeholder CEOs.
- Placeholders are indeed different from Professional CEOs.**

|  | ROA                 |
|--|---------------------|
| Post * Placeholder CEOs                              | -1.034***<br>(2.88) |
| Placeholder CEOs                                     | 1.101***<br>(3.14)  |
| Post * Family CEOs                                   | -0.665**<br>(2.40)  |
| Family CEOs  | 0.586**<br>(2.30)   |
| Post   | 0.833***<br>(3.37)  |
| Controls: Firm size, age, leverage, cash, family own | Yes                 |
| Year FE  | Yes                 |
| Industry FE  | Yes                 |
| S.D. Clustered at the firm level                     | Yes                 |
| Obs  | 6151                |
| Adj. R-squared                                       | 0.2866              |

# Conclusion

- First study of Placeholder CEOs as a novel succession strategy in family firms.
- **Placeholder CEOs and Professional CEOs serve different purposes.**
  - Placeholder CEOs allows founding families to preserve control when they lack readily available heirs for the CEO position and are less conducive of financial performance.
  - Professional CEOs are appointed to change corporate policy.

# The Implication to Corporate Governance

- Not all non-family CEOs are “professional CEOs.”
  - While placeholder CEOs serve the family, they might not be firm value enhancing.