Placeholder CEOs

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June 7, 2024

Preliminary draft: Please do not quote without permission

ABSTRACT

This paper examines the role of *placeholder CEOs*, non-family executives serving between two family CEOs. Renowned family firms such as Toyota, Zara, H&M, Hermes, Berings Bank, and Ford, have appointed placeholder CEOs. Our analysis of Japanese firms from 1949 to 2015 reveals that placeholder CEOs account for about 28% of all professional CEO appointments, with a notable one in ten family firms opting for their appointment. Placeholder CEOs exhibit distinctive characteristics, such as older age, better education, and longer CEO tenures of 4.5 years when compared to the conventional professional CEOs. They maintain performance levels similar to their predecessor family CEOs, while professional CEOs improve firm performance. This study highlights the critical role of placeholder CEOs in helping founding families maintain control during transitional periods when family heirs are not ready for leadership.

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

We would like to thank Andrew Ellul and the participants at the 2023 Conference on Resilience of Family Business during Turbulent Times for valuable comments.

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

1. Introduction

CEO succession is notoriously challenging for every organization. In family firms, the challenge is even higher given that these firms have multiple, potentially conflicting priorities: employing family members to maintain the control of the business within the family, exploit strategic valuable family assets (Bennedsen and Fan 2014) and enjoy non-monetary private benefits (Burkart et al 2002), and hiring professionals from the managerial labor market to increase firm profitability by leveraging expertise that cannot be found within the family (e.g., Morck et al., 2000; Perez Gonzales 2006, Villalonga and Amit 2006).

Despite this difficulty, several family firms around the world exhibit a striking longevity over multiple generations, which points to a strong ability to navigate succession challenges.[1] One such challenge is when no heir is readily available within the controlling family. Factors such as the patriarch's unexpected illnesses or delays in parenthood due to the patriarch's multiple marriages can lead to succession before the designated successor is deemed ready. When this happens, hiring a professional non-family manager for a temporary period of time can provide a successful succession strategy. We designate "placeholder CEOs" to refer to non-family managers who lead a firm between two family CEOs.

Existing literature (e.g., Perez-Gonzalez 2006; Bennedsen et al. 2007) commonly categorizes them as professional CEOs due to their lack of family ties and, critically, it does not account for the potentially temporary nature of their role. We show that placeholder CEOs possess unique characteristics and play a distinct role, separate from traditional professional

[1] For example, Mehrotra et al. (2012) documents that in the sample of Japanese listed firm, more than 85% of family firms preserve family control over five decades from 1949 to 2000.

CEOs. This distinction challenges the prevailing assumption and underscores the need for a nuanced understanding of professional leadership in family firms.

We motivate the paper by showing various cases of large family firms across various countries that have appointed placeholder CEOs. These firms are namely Zara, Hermes, H&M, Berings Bank, Toyota Motor, and Ford (see Section 2). We then focus on a systematic study of placeholder CEOs in Japanese family firms, using unique data spanning over half a century and covering all listed firms in Japan from the reopening of stock exchanges in 1949 to 2015. We focus on transitions with a departing founder/founding family CEO, amounting to 1,597 successions over these six decades.

Our data reveal that placeholder CEOs are common in listed family firms in Japan. They 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%. Placeholder CEOs differ significantly from professional CEOs in demographics. They are the oldest, averaging 63 years, compared to 58.6 years for family CEOs and 60.2 years for professional CEOs. More frequently, placeholder CEOs are graduates of top universities. They also average 26 years with the firm, approximately 5 years longer than professional CEOs. Additionally, placeholder CEOs have an average tenure of 4.52 years, exceeding the 3.95 years of professional CEOs, confirming that their role is not interim.

Our analysis indicates that the factors leading to the appointment of placeholder CEOs differ from those for professional CEOs, suggesting their distinct corporate roles. First, firms with older patriarch CEOs and with young heir are more likely to be succeeded by placeholder CEOs (relative to family CEO appointments). Second, proxies for family power, namely family ownership, eponymy, and firm age are a strong negative predictor of professional CEO appointments (vs. family CEO appointments), whereas the predictive effect is 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. Third, professional CEO appointments are more likely after a period of *underperformance,* which is consistent with the idea that professional managers are often hired in turnaround situations. Placeholder CEOs, however, 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.

Our final analysis builds on a difference-in-difference estimation common to the literature on CEO succession in family firms (e.g. Perez-Gonzalez 2006; Bennedsen et al. 2007; Mehrotra et al. 2013) 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 might lead to an underestimation of the effect of professional CEOs on family firms' performance.

Our work offers several contributions to the family firm literature. From its inception, the literature has asked whether professional managers, founders or their descendants perform better in the CEO role.[2] Subsequent studies have explored how these CEO types differ in terms of managerial style (Mullins and Schoar 2016), innovation (Amore et al. 2023), and on-

[2]See, for example, Morck et al. (2000); Claessens et. al. (2002); Anderson and Reeb (2003); Villalonga and Amit (2006); Miller et al. (2007); Sraer and Thesmar (2007); Adams et. al. (2009); Falenbrach (2009). See also Villalonga and Amit 2020 for the recent literature review.

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 (Perez-Gonzalez, 2006; Cucculelli and Micucci, 2008; Bennedsen et al., 2007, 2015). 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 binary 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, and 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.

Our 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. 2011 and 2013), that Japanese family owners have historically adopted to bolster the pool of available talents preserve family dynasties. Finally, our paper advocates for additional empirical investigation into the existing evidence of superior performance of professional CEOs with respect to inherited family CEOs. Through re-classifying professional CEOs into placeholders and "professional" CEOs, it raises intriguing questions about whether “meritocratic” professional CEOs truly outperform “nepotistic” family CEOs using an international dataset.

2. Theoretical Arguments and Examples of Placeholder CEOs Across the World

2.1 Successor Choice in Family Firms

We examine the selection of successors in family firms, moving beyond a simple succession model focusing on "family vs. non-family" leadership dichotomy. While both options have merits and drawbacks, the optimal choice is highly context dependent.

2.1.1 Family Leadership: Preserving Legacy and Control

The existing literature highlights key drivers for family management. First, family leadership can leverage unique assets like family legacy, networks, and shared values (Bennedsen & Fan, 2014). These relational assets are harder for outsiders to replicate. Second, family ownership allows for dynastic control, safeguarding private benefits and socio-economic wealth (Demsetz & Lehn, 1985; Burkart et al., 2003). Often, family CEOs might be chosen during strong performance periods to maintain strategic continuity.

2.1.2 Non-Family Leadership: Addressing Threats and Opportunities

The selection of professional managers is often driven by external threats or internal opportunities (Bennedsen, 2024). Threats can include weak financial performance, market share loss, or declining customer satisfaction, forcing a reevaluation of the business model. Hiring external CEOs can be a response to turnaround challenges (e.g., Kang & Shivdasani, 1995). Opportunities may include new market entries, rapid growth, outsourcing considerations, or attracting outside investors. Company expansion may necessitate professional leaders with industry expertise to navigate these complexities (Landes, 1949; Chandler, 1977; Bennedsen, 2024). Studies suggest that professional CEOs may achieve superior performance during their tenure (e.g., Bennedsen et al., 2007; Bloom & Van Reenen, 2007; Mehrotra et al., 2013).

2.1.3 Beyond the Binary: Placeholder CEOs for Dynastic Succession Planning

We propose that the family vs. professional CEO model is overly simplistic. In some cases, governance mechanisms can combine the strengths of both approaches. Mehrotra et al. (2012), for example, illustrate how arranged marriages and adoption of outside talents can integrate non-family managers into the family structure. In this paper, we document the use of "placeholder CEOs," where a trusted and experienced employee temporarily assumes leadership when no qualified family member is available. The placeholder CEO's role is to nurture the next-generation leader and eventually hand over control. This mechanism, akin to the historical role of a regent in preserving a monarchy, is crucial in bridging leadership gaps.

Like a regent in a monarchy, the placeholder CEO plays a critical role, requiring deep firm knowledge, leadership skills, and the ability to navigate complex economic environments. They must be committed to the family's success and ensure business continuity in the hands of the family. In maintaining the status quo, placeholder CEOs are likely to adopt corporate policies similar to their family predecessors, leading to stable firm performance.

2.2 Placeholder CEOs from Across the World

We begin with Zara, the Spanish fast-fashion brand under the umbrella of Inditex. Founder and Chairman Amancio Ortega lacked a suitable heir when he turned 76 in January 2011, with his daughter Marta from his second marriage only 27 at the time. Ortega appointed his trusted manager, Pablo Isla, to the chairmanship, running Inditex with a market capitalization of $84 billion. It was not until December 2021, when Marta turned 37, that she was designated as Isla's successor, completing a generational handover process spanning at least a decade. This transition involved the temporary leadership of a non-family manager, highlighting the complexity of succession planning in family-owned enterprises.

Inditex's succession challenges are mirrored in other prominent firms globally. In the US, Estée Lauder saw Leonard Lauder relinquish control to Fred Langhammer at age 66 in 1999, only for leadership to return to Leonard's son, William P. Lauder, four years later, when William turned 44. Similar transitions occurred in notable firms such as Barings Bank (UK), H&M (Sweden), Hermes (France), Michelin (France), 21st Century Fox (US), and Ford (US).

In Japan – the context of our study – loyalty managers (called *banto* in Japanese) have played a crucial role as a leadership bridge in family successions. An illustrative example of placeholder CEO appointments comes from Makita, a manufacturer of portable power tools established in 1915. Masahiko Goto, the 3rd generation family CEO, stepped down in 2013 at 67, succeeded by Shiro Hori (65). Three years later, Masahiko's first son, Munetoshi Goto, turned 38 years old and took over. Hori served as a placeholder CEO in this scenario. The appointment of placeholder CEOs is used in many century old dynastic firms such as Kikkoman (established 1661), Mizkan (a vinegar manufacturer, established in 1804), Nisshin Seifun (established 1900) and Toyota Motor Group (established 1902). Section 4 provides detailed statistical evidence from all listed firms.

3. Data and Definitions

Our sample includes all publicly traded firms that went public since the stock market opened right after WWI from 1949 to 2010. We concentrate on family firms, specifically on family CEO succession events during the same period. Analysing family CEO successions until 2010 ensures ample time for accurately defining CEO types and evaluating post-succession performance outcomes and corporate policies. Essentially, our analysis spans the period of 1949 – 2015.

3.1 The definition of family firms & Data Sources

Following the methodology documented by Mehrotra et al. (2013) and Bennedsen et al. (2022), 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). We extend this dataset, which ends in 2000, to cover the period until 2015. We obtain the list of top 10 shareholders (during the period of 1970 to 1999) and top 30 shareholders from 2000 onwards from the Development Bank of Japan. Pre-1970 data were manually collected from the annual reports. Board data from 1949 to 1975 were hand-collected from the company annual reports, while data from 1970 onwards are obtained from Toyo Keizai's board database (*Yakunin shikihou*). The board 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*).

Founding family members include not only biological and adopted son but also sons-in-law. Adopted sons and sons-in-law are typically appointed in their 20s as designated heirs. These individuals are regarded as family members, while undergo a grooming process within the family firm, ascending to management positions before assuming the CEO role.

The data on the founding families' tree data are gathered from various sources: (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] 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.

Financial data covering the period until 2015 are obtained from the Development Bank of Japan. We exclude a small number of the firms where financial; ownership, family or board data are missing. The final sample covers almost the entire universe of publicly listed firms in Japan from 1949.

3.2. Placeholder CEOs vs. Professional CEOs

Professional CEOs are strictly defined as non-family managers who continuously manage family firms, with the family primarily serves as the major shareholder. In essence, founding family members do not return to run the firm as CEO. In contrast, a placeholder CEO is a non-family manager who serves between two distinct family CEOs, typically with the incoming CEO being the predecessor's son. In our empirical analysis, placeholder CEOs must serve for

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

at least one year, distinguishing them from interim CEOs, who typically serve only a few months (Ballinger and Marcel 2011).

Our definition stipulates that the subsequent family CEO appointed after a placeholder CEO must differ from the CEO who stepped down during the placeholder appointment. If the same family member reassumes the CEO position, it suggests a potential failed professionalization attempt within the family firm (see Amore et. al., 2021). Consider Canon, where Fujio Mitarai (the founder's first son) served as the sixth CEO from 1995 to 2006. He was succeeded by a non-family CEO, Tsuneji Uchida, but in 2012, Fujio Mitarai returned as CEO/Chairman until 2016. His successor was Masaya Maeda, a professional CEO. However, in May 2020, Maeda resigned due to health reasons, and Mitarai, aged 85, returned to the firm as CEO. We exclude these failed professionalization from our analysis.

There is a caveat in the empirical analysis regarding CEO succession classification. It is unclear ex ante whether a non-family CEO is a Placeholder CEO, as families typically do not disclose this intention. Informing investors that a CEO is a temporary appointment until the heir matures is uncommon. However, media reports often speculate on such reasons based on the patriarch's and heirs' ages. Consequently, researchers only definitively identify ex post whether non-family CEOs are placeholders. Nonetheless, our analysis identifies characteristics at CEO succession that correlate with whether a CEO is a Placeholder or Professional CEO.

4. Stylized Facts

4.1 The Prevalent of Placeholder CEOs

We begin with showing the full sample of family firms classified by CEO types from 1955 to 2009. Figure 1 shows that family CEOs dominate all other types of CEOs, representing around 70% of the sample. Interestingly, over six decades, family firms demonstrate remarkable resilience, with approximately 16 percent not surviving as family firms. Placeholders CEOs account for around 7% of the overall sample.

Figure 2 illustrate the prevalence of firms run by placeholder CEOs. 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, professional CEOs are twice as prevalent as placeholder CEOs across all measures.

Table 2 shows that in almost 90% of the cases, there is one placeholder CEO, serving between the two family CEOs. In 8% of the cases, there are two placeholder CEO appointments between two family CEOs. An illustrative case is the CEO succession at Kikkoman, a soy sauce maker founded in 1603 by the Mogi and several 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 according to our definition. Then, in 2013, Yuzaburo Mogi's nephew (aged 60) was appointed as Kikkoman's CEO.

In only a few instances, there are three or four placeholder CEOs who lead the firm for an extended duration. Toyota Motor provides an example. After Tatsuro Toyoda stepped down as CEO in 1995, the firm was successively led by three non-family CEOs until his nephew Akio Toyoda turned 50 and assumed the CEO position in 2009. In this case, we designate the three non-family CEOs as placeholder CEOs.

4.2 Characteristics of Placeholder CEOs

We start by examining the ages of CEOs across different CEO types at the time of succession. Panel A of Table 3 shows the age of the incoming CEOs. Not surprisingly, Family CEOs assume their executive roles at a relative younger age (50 years old) compared to Placeholder and Professional CEOs (60 and 57 years old respectively). Panel B reveals intriguing findings: when Placeholder CEOs step down, the incoming Family CEO's average age is 50 years, aligning with our hypothesis that Placeholder CEOs primarily serve as interim CEOs until the family scion is prepared to assume control. This age aligns with the Japanese standard.

Table 4 illustrates CEO traits derived from panel data spanning 1955 to 2015, aligning with the findings in Table 3. First, the absence of a mature family heir is associated with the probability of Placeholder CEO designation. Placeholder-led firms exhibit an average family board membership of around one family member, signifying the existence of family heir. Nonetheless, family board members in Placeholder CEO scenarios tend to be younger, averaging 47 years, compared to Family CEO-led firms where the average age is 49 years. This suggests that family scions are groomed through board service as they await ascent to the CEO position within their firms.

Second, Placeholder CEOs exhibit distinct traits compared to Professional CEOs. Across the three categories, Placeholder CEOs are the oldest, with a mean age of 63, while Family and Professional CEOs have average ages of 58.6 and 60.2, respectively. Regarding education, Placeholder CEOs are more frequently graduates of top universities compared to both Family and Professional CEOs. This finding corroborates the results of Adams et al. (2018), who observed that family CEOs tend to possess lower cognitive ability than external CEOs. In terms of tenure with the firm, Placeholder CEOs have an average tenure of 26 years, slightly lower than that of Family CEOs but approximately 5 years longer than Professional CEOs. As for their tenure as CEOs, Placeholder CEOs serve an average of 4.52 years, statistically longer than the 3.95 years typical of Professional CEOs. Notably, Family CEOs have the longest average tenure, serving for an average of 9.28 years.

Third, the presence of a family chairman is notably more common in firms led by Placeholder CEOs compared to those led by Professional CEOs. This trend aligns with the notion that the chairman's presence may secure family control and facilitate a smooth transition to a family CEO in the future when the heir is prepared, by serving as the chairman.

Finally, family ownership in firms led by Placeholder CEOs and Professional CEOs (13.14% and 13.84%, respectively) is lower compared to firms led by Family CEOs, indicating that voting power may be utilized to maintain management roles within the family.

In summary, the univariate test results reveal that Placeholder CEOs are older, better educated, have longer tenures within the firm, and serve longer tenures as CEOs compared to Professional CEOs. These traits suggest that the founding family selects trusted veterans to safeguard family control of the firm for future generations.

5. Empirical Results

In this section, we conduct multiple regressions to analyze the succession of family CEOs, focusing on two key issues. Firstly, we investigate the factors influencing the choice between family and non-family CEOs. Secondly, to better understand the role of placeholder CEOs versus professional CEOs, we examine the performance outcomes surrounding the succession.

5.1 The Determinants of Placeholder CEO Appointments

We test the hypothesize that when placeholder CEOs are appointed when the incumbent family CEO (or patriarch) nears retirement and no "mature" son is qualified. We use a proxy for the presence of family heirs not yet ready, represented by a dummy variable set to one if there is at least one family member aged between 40 and 50 years old on the board. In addition, as noted by the literature, the influence of the founding family in the firm is associated with appointment of family CEOs. We use family ownership, firm age, and eponymous firms as proxies for family controlling power. Eponymous firms are represented by a dummy variable set to one if the firm name matches the founding family name. The literature has widely documented that the founding family has a unique ability to leverage the family name, reputation and relationships to access resources such as financial, tacit knowledge and relational capital (e.g., Mullins and Schoar 2016). Firm age is measured by the number of years since the firm went IPO, representing the family's reputation in running the firm and its networks.

In Table 5, we present the univariate test of family traits and firm characteristics, measured one year before succession. The results are generally similar to Table 4 in terms of the CEO traits. We also observe that the age of the patriarch CEO seems to trigger succession and is linked to the appointment of a Family CEO. Outgoing CEOs are at their oldest when succeeded by Family and Placeholder CEOs (67.2 and 66.1 years old, respectively), whereas the mean age of outgoing CEOs is 63 years old for the appointment of Professional CEOs.

Table 6 presents the *Logit* regression models estimating the factors that affect the selection of non-family CEOs in model (1). In Model (2) and (3), we investigate the factors influencing the choices of Placeholder and Professional CEOs, respectively. In all regression models, the benchmark group is family CEOs. The regressions also control for a set of firm characteristics, namely, firm size, cash holding, leverage, standard deviation of ROA over past five years, bank ownership, outgoing CEO tenure, dummy variable indicating the presence of family chairman, dummy variable indicating the presence of non-family board members with top university education, and year fixed effects.

The estimated coefficient of *Outgoing family CEOs Age* is negative, indicating that aging CEOs are more likely to nominate family CEOs. In other words, 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.

Regarding family controlling power, family ownership appears pivotal, with estimated coefficients significantly negative at the 1% level. This implies that higher family ownership increases the likelihood of selecting family CEOs, underscoring the family's voting power. Additionally, eponymous firms and older firms are less inclined to appoint professional CEOs compared to family CEOs.

Regression results indicate that firms with lower performance, as measured by ROA, are more prone to appointing professional CEOs, supporting the hypothesis that poor performance leads to professionalization. Similarly, high-growth firms, as indicated by sales growth, are more likely to appoint professional CEOs. Lastly, firms with higher investment, as measured by the ratio of capital expenditure to sales, tend to nominate non-family CEOs. Firm size, leverage ratio, cash holding ratio do not have any effect on the CEO appointments.

5.2. Performance before and after succession

We examine whether placeholder and professional CEOs have differing mandates by analyzing the performance outcome post succession as compared with pre succession. Following Mehrotra et al. (2012), we employ three key performance indicators: return on assets (ROA), sales growth, and employment growth. This choice aligns with Japanese management practices, where these variables are considered pivotal indicators of performance.

The univariate results in Panel A of Table 7 largely support our hypothesis that professional CEOs are appointed to address poor firm performance, potentially leading to performance improvements. On average, professional CEOs assume leadership of firms with inferior performance, indicated by ROA, trailing family CEOs by approximately 1.11 percent and placeholder CEOs by 1.7 percent. Conversely, placeholder CEOs oversee firms with the strongest ROA, surpassing those appointing family CEOs by roughly 0.66 percent (albeit marginally significant only at the 10% level). Similar trends are evident in sales growth, while employment growth exhibits differing patterns (Panel B and Panel C).

In the post-succession phase, the appointment of professional CEOs correlates with relatively high performance, particularly evidenced in ROA, where statistical significance is observed. Specifically, professional CEOs demonstrate superior performance, exceeding family CEO appointments by approximately 0.75 percent and placeholder CEO appointments by 0.91 percent. These findings align with existing literature. Intriguingly, this pattern does not hold for placeholder CEO appointments, whose performance does not significantly differ from that of family CEO appointments, supporting our hypothesis on the role of placeholder CEOs.

The results are confirmed by the regressions of difference-in-differences model presented in Table 7 and Table 8. Here the key explanatory variables are *Post* which is a dummy for the post-succession years (and zero for the pre-succession years), dummies identifying the successor type as family, placeholder, or professional CEO appointments (*Family, Placeholder, Professional*), and the interaction between *Post* and the CEO dummy. We control for various firm characteristics namely size, leverage, firm age, cash holding, family ownership, industry and year fixed effects. Table 7 presents regressions where family CEO appointments serve as the baseline, while Table 8 uses professional CEO appointments as benchmarks.

Consistent with the univariate analysis, professional CEOs enhance firm performance, particularly in ROA, compared to family CEOs. However, this effect is not observed for placeholder CEOs. Their performance remains largely unchanged relative to firms appointing family CEOs.

6. 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. With few exceptions, this unique succession pattern is largely undocumented in the family business literature, which has focused on the binary distinction between family and professional CEOs without considering the potentially temporary nature of professional CEO appointments. We label these 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 using a data of six decades from post-World War II 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, and (3) corporate consequences. A key contribution of this study is that we go beyond the dichotomous distinction between family and professional non-family CEOs. In addition, we highlight for the first time how families can strategically engage a hybrid group of professionals to sustain control of the business over multiple generations.

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Figure 1: Family Firms in the Sample from 1955 – 2010

This figure illustrates the proportion of sample of family firms, classified by CEO type: Family and non-family CEOs. Non-family CEOs include Interim, Placeholder, and Professional. The sample comprises all family firms that went public between 1949 and 2010. Family firms refer to those where the founding family is among the top 10 shareholders or board members; firms are classified as former family firms otherwise.

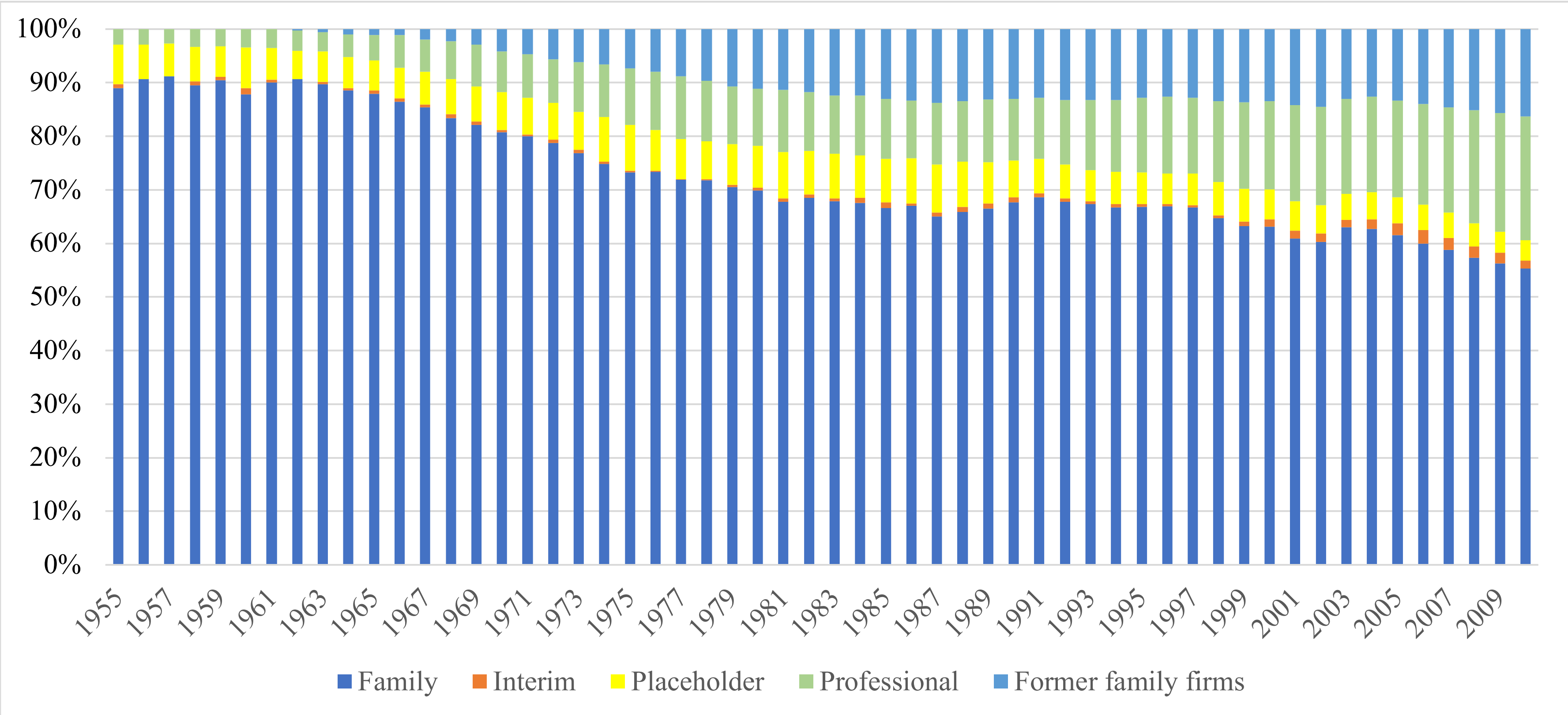

Figure 2: Placeholder CEOs among Family Firms from 1955 – 2010

This figure illustrates the proportion of Placeholder CEOs among family firms in terms of number, total assets, sales, and number of employees. The sample comprises all family firms that went public between 1949 and 2010. Family firms refer to those where the founding family is among the top 10 shareholders or board members; firms are classified as former family firms otherwise.

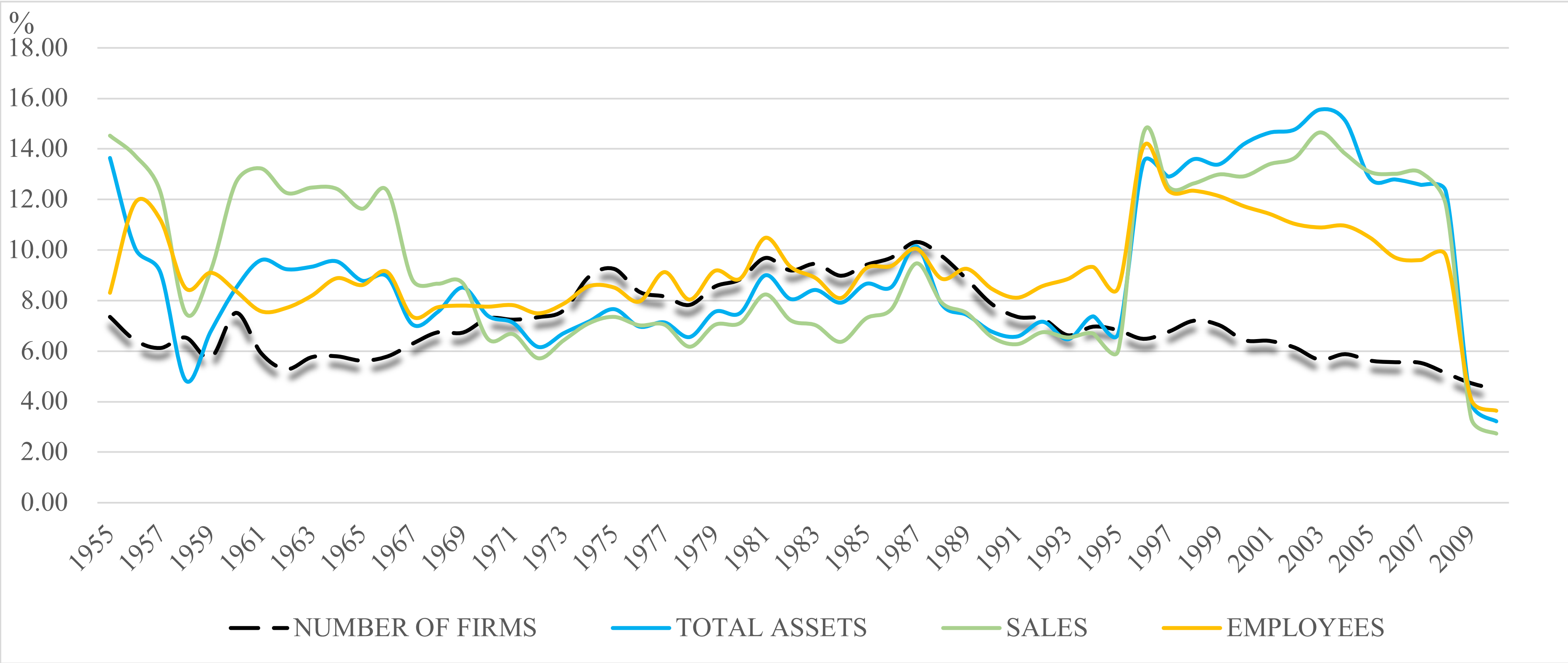

Table 1: Sample Classified by Top Management Type

This panel presents the number of firms, mean value of total assets, sales, and employees of the four groups of firms. Firms are classified by the CEOs who are (1) Family, (2) Placeholder, (3) Professional, and interim CEOs. Panel A is based on the full sample of family firms. Panel B is based on the subsample of firms that were run by non-family CEOs.

Panel A: Full Sample of Family Firms

	Number of firms	%	Total assets (bil. Yen)	%	Sales (bil. Yen)	%	Employees (million)	%
Family (1)	42,023	75.7%	2,100.00	63.40%	2150.00	63.83%	47.9	71.52%
Placeholder (2)	3,777	6.8%	334.00	10.1%	322.00	9.6%	6.17	9.2%
Professional (3)	691	1.2%	62.50	24.9%	834.00	24.8%	12.10	18.1%
Interim (4)	9,042	16.3%	54.50	1.6%	62.50	1.9%	0.798	1.2%
Total	55,533	100%	2,551.00	100%	3,368.50	100%	66.97	100%

Panel B: Sub-sample of Family Firms Led by Non-Family CEOs

	Number of firms	%	Total assets (bil Yen)	%	Sales (bil Yen)	%	Employees (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%

Table 2: Number of Placeholder CEOs

This table presents the number of placeholder CEOs who serve in between family CEOs.

Number	1	2	3	4	Total events
Placeholder CEOs	279	26	7	1	313
Percentage	89.14%	8.31%	2.24%	0.32%	100.00%

Table 3: Age of CEOs at Succession

This table presents mean of CEO age at succession time. Panel A shows the results based on succession of family CEOs. Firms are classified by incoming CEOs: (1) Family, (2) Placeholder, and (3) Professional CEOs. Panel B represents the sample of succession placeholder CEOs. P value of the differences in mean of outgoing CEO age across the groups is shown in the parenthesis

Panel A: Age of Incoming CEOs

Incoming CEOs	Observations	Mean Incoming CEO Age	Difference in Incoming CEO Age		
			(1) - (2)	(1) - (3)	(3) - (2)
(1) Family	1086	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 B: Sample: Succession Placeholder CEOs

This panel presents mean and median of age of incoming family CEO and outgoing placeholder CEO at the succession time when placeholder CEOs stepped down.

	Observations	Mean CEO Age	Median CEO age
Outgoing Placeholder CEOs	336	65.14	66
Incoming Family CEOs	336	50.09	49

Table 4: CEO Traits & Board Characteristics (Panel Data of 1955 – 2015)

This table shows the characteristics of the family, CEOs, and the board using panel data from 1955 –2015. Firms are categorized based on the type of CEOs: (1) Family, (2) Placeholder, and (3) Professional. Differences represent the variance in mean values for each variable. Variable description is in Appendix A. Significance levels are denoted by ***, **, and *, indicating significance at the 1%, 5%, and 10% levels, respectively.

	Family CEOs	Placeholder CEOs	Professional CEOs	Difference in Mean		
	(1)	(2)	(3)	(2) - (1)	(3) - (1)	(3) - (2)
CEO with Top Uni Education	0.135	0.274	0.246	0.139***	0.111***	-0.028***
CEO Corporate Tenure	27.905	26.219	21.002	-1.686***	-6.903***	-5.217***
CEO age	58.577	62.969	60.265	4.392***	1.688***	-2.704***
Tenure as the CEO	9.28	4.52	3.95	-4.761****	-5.321****	-0.561****
Number of Family on the Board	0.568	0.946	0.557	0.379***	-0.011	-0.390***
Presence of Family Heir	0.077	0.162	0.044	0.084***	-0.033***	-0.118***
Presence of Family Chairman	0.201	0.466	0.392	0.265***	0.191***	-0.074***
Observations	32,307	3,245	7,751			

Table 5: Family & Firm Characteristics at Succession

This table shows the characteristics of the family and firms one year before succession. Firms are categorized based on the incoming CEOs: (1) Family, (2) Placeholder, and (3) Professional. Differences represent the variance in mean values for each variable. Significance levels are denoted by ***, **, and *, indicating significance at the 1%, 5%, and 10% levels, respectively.

	Incoming CEOs			Difference in Mean		
	Family	Placeholder	Professional			
	(1)	(2)	(3)	(2) - (1)	(3) - (1)	(3) - (2)
Age of Outgoing CEOs	67.24	66.13	62.59	1.1170	4.659***	-3.542***
Outgoing CEO Tenure as CEO	11.85	10.69	10.41	-1.165**	-2.445***	-1.280***
Number of Family on the Board	0.98	0.64	0.46	-0.334***	-0.519***	-0.185***
Presence of Family Heir	0.19	0.10	0.04	-0.087***	-0.142***	-0.055***
Family Ownership	19.08	16.85	16.97	-2.232**	-2.111***	0.121
Eponymous Firms	0.36	0.30	0.22	-0.053*	-0.137***	-0.084***
Firm Age	17.02	17.02	16.97	0.003	-0.054	-0.056
Firm Size	44.52	43.16	41.46	-1.356	-3.058***	-1.702
ROA	4.54	5.46	3.15	0.922***	-1.387***	-2.309***
Sales Growth	3.78	5.43	2.41	1.654	-1.363	-3.017**
Capital Expenditure	2.65	6.11	3.79	3.462*	1.139	-2.323
Leverage	22.12	20.50	22.89	-1.616	0.776	2.392*
Observations	1789	1179	1463			

Table 6: Determinants of Transition from Family CEOs

This table presents the *Logit* regression models for transition from family CEOs. In Model 1, the dependent variable is set equal to one for non-family CEOs, and zero for family CEOs. In Model 2 and 3, the dependent variable is equal to one for placeholder CEOs and professional CEOs, respectively, and zero for family CEOs. Control variables are Size, Leverage, and Cash holding, Bank Ownership, Outgoing CEO tenure, Presence of Family Chairman, and Presence of board members with top university education. Variable description is in Appendix A. All independent variables are measured one year before a transition year. 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.

	Non-Family CEOs	Placeholder	Professional
	(1)	(2)	(3)
Presence of Family Heir	-0.5346***	-0.3681***	-0.3450*
	(9.72)	(23.24)	(1.80)
Outgoing Family CEO Age	-0.0080***	-0.0079***	-0.0066***
	(4.63)	(4.02)	(3.73)
Presence of Family Heir * Outgoing CEO age	0.0098**	0.0138**	0.0033
	(2.08)	(2.28)	(0.63)
Family Ownership	-0.0045***	-0.0029***	-0.0045***
	(5.27)	(2.75)	(5.07)
Eponymous Firms	-0.0495**	-0.0221	-0.0598**
	(1.99)	(0.81)	(2.29)
Firm Age	-0.0018**	-0.0005	-0.0022**
	(2.14)	(0.57)	(2.50)
ROA	-0.0019	0.0053*	-0.0056**
	(0.89)	(1.84)	(2.46)
Sales Growth	0.0012*	0.0002	0.0015**
	(1.68)	(0.18)	(2.27)
Capital Expenditure	0.0012***	0.0013**	0.0010***
	(2.91)	(2.11)	(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

Table 7: Univariate Test of Performance around Succession

This table presents the univariate test of performance around succession of family CEOs. Firms are classified into 3 groups by incoming CEOs as (1) Family, (2) Placeholder, and (3) Professional. 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. ***, **, and *, indicate significance level at the 1, 5, and 10, respectively.

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 8: Firm Performance around Succession: Using family CEOs as benchmark

OLS regression results for performance around succession of family CEOs. Placeholder CEOs and Professional CEOs are a dummy variable set to one if the incoming CEO is a placeholder CEO and Professional CEO, respectively. The benchmark group is *Family CEOs*. Post is a dummy variable, which is set to one for the two-year post succession. The dependent variable in models (1), (2) and (3) is ROA, Sales Growth, and Employment Growth, respectively. Variable description is in Appendix A. 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	-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)
Constant	5.592***	23.390***	7.377**
	(2.98)	(6.26)	(2.55)
Year fixed effects	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes
No of Observations	6151	6151	6151
Adj. R-squared	0.2866	0.2059	0.0786

Table 9: Firm Performance around Succession: Using professional CEOs as benchmark

OLS regression results for performance around succession of family CEOs. Family CEOs is a dummy variable set to one if the incoming CEO is from the family. Placeholder CEOs is a dummy variable set to one if the incoming CEO is a placeholder CEO. The benchmark group is *Professional CEOs*. Post is a dummy variable, which is set to one for the two-year post succession. The dependent variable in models (1), (2), and (3) are ROA, Sales Growth, and Employment Growth, respectively. Variable description is in Appendix A. 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 effects	Yes	Yes	Yes
Industry fixed effects	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).
Top Japanese universities	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.
Presence of Non-Family with Top Uni Education	Dummy equals to one if there is at least one non-family member graduated from a top Japanese 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.
Family CEO Age	Age of the CEO. *Source*: Mehrotra et. al. (2013); Toyo Keizai.
Presence of Family Heir	Dummy equals to one if there is at least one family member on the board (except the family CEO/ Chairman) who is between 40 and 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);
Tenure as the CEO	Tenure of the CEO
CEO Corporate tenure	Number of years the CEO working with 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.