Frontiers of Entrepreneurship Research

Volume 36 | Issue 10
CHAPTER X. FAMILY ENTERPRISE

Article 3

6-11-2016

WHAT MAKES NON-FAMILY CEOS MORE EFFECTIVE MANAGERS? (SUMMARY)

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SUMMARY

WHAT MAKES NON-FAMILY CEOS MORE EFFECTIVE MANAGERS?

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Principal Topics

Are non-family CEOs or family CEOs better managers? Some studies demonstrated that family CEOs have advantages over non-family CEOs as they are more knowledgeable about the family business and enjoy larger support from family owners (Anderson and Reeb, 2003; Miller and Le Breton-Miller, 2005; Miller et al., 2008; Minichilli et al., 2010; Ward, 2006). In contrast, other studies established some inherent disadvantages of hiring top managers from within due to the limited size of the family market, and a lack of sufficient skills and competencies (Handler, 1992; Lansberg, 1999; Bertrand & Schoar, 2006; Bloom and Van Reenen, 2007 Mehrotra et al., 2013). Hence, additional research is needed to clarify the relative efficacy of family CEOs vs. non-family CEOs. In this study, we contribute to the literature on the relative efficacy of family CEOs vs. non-family CEOs by investigating the management areas within which family CEOs might have comparative advantage over nonfamily CEOs and vice versa.

Method

Our dataset was derived from recent surveys of managers and management practices across more than 30 countries over long periods of time (Bloom & Van Reenen, 2007, Bloom, Sadun and Van Reenen, 2009, Bloom et al 2014,). Specifically, we used the surveys containing data on family-owned businesses in the manufacturing sector providing information on CEO type (family vs. non-family). For these firms, we examined the normalized scores of management practices across different dimensions (Bloom & Van Reenen, 2007) as well as indicators of firm performance. We hypothesized that non-family CEOs will have positive impact on firm performance compared to family-CEOs, and that this effect will not be affected by country and firm size (Hypothesis 1). In addition, we hypothesized that the probability of "good" management practices being implemented within a family firm, across all dimensions, will be higher when a non-family CEO is at the helm (Hypothesis 2).

Results and Implications

Our study found strong evidence in support of both hypotheses. Using logistic regression, we examined the conditional probability of a firm being "well" managed under a certain type of CEO (family versus external). We found that the probabilities were much higher for non- family CEO for all dimensions of management, but especially for the Target setting dimension. Overall, non-family CEOs outperformed family-CEOs in all the key areas of management.

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