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THE IMPACT OF SOCIO-DEMOGRAPHIC DISSIMILARITY ON THE LONGEVITY OF EXTERNAL DIRECTORS IN FAMILY FIRMS

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Principal Topic

Appointing an external (i.e. a non-family member) CEO is argued to be an important decision for family firms (e.g., Dyer, 1986; Miller et al., forthcoming). Family firms recruiting an external CEO have been found to outperform those that appoint a family member as the CEO (Bennedsen et al., 2007). While there is a large body of literature focusing on the appointment of outside management in family firms, there is a lack of studies investigating factors influencing the likelihood for an external CEO to remain in the position, i.e. the length of their tenure. Building on the theory of embeddedness and homophily, we investigate the impact of CEO characteristics, board diversity and CEO dissimilarity on the longevity of external CEOs.

Method

To investigate the longevity of external CEOs (i.e. the likelihood of an external CEO exit) we rely on detailed longitudinal matched employer employee data obtained from Statistics Sweden (SCB). For our analyses, we have singled out family firms with five or more employees that have an external CEO in 2004 and follow them until 2010. We also have background information of the individuals prior to 2004. Family firms are defined as those owned by two or more family members either in a household (spousal couple) or in a biologically linked family (i.e. fathers, mothers and siblings). We use panel data logit analysis in order to investigate the exit of external CEOs.

Results and Implications

Our results indicate that the CEO’s age and gender have an influence on his or her tenure. We show that firm level and board level diversity does not have a strong effect on CEO longevity, while prior firm experience increases the likelihood that an external CEO will remain in his or her position. This reveals that an external CEO who has previously worked as an employee in the firm had the opportunity to become acquainted with the firm and family culture. Hence, it is important that the external CEO is socially embedded within the owner family. Furthermore, this implies that when an external CEO is the preferred choice, the chances of him or her remaining at the helm increase with prior firm and family experience.

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