The Stock Market Reaction to the CEO successor Announcement in Family Firms

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Idea and motivation

- **Big Picture:** Do CEOs matter to firm value? How much and why?
- This paper is about family CEOs versus outsiders in family firms.
- Theoretical motivation: Is a family CEO better?
  - Yes: long term focus, firm-specific knowledge, higher level of trust, higher non-monetary rewards from firm success
  - No: selected from a small pool and therefore may not be competent. Or may expropriate other shareholders.
- Therefore, this is an empirical question.

Empirics and Results

Empirics

- The paper investigates how the market react to the announcement of the CEO successor (event study)
- Also, examines if the effect is stronger for different firms, eg: poor performance prior the announcement.
- Data from public firms in France, German, and UK from 2001 to 2010

Main Results

- Market does not react to announcement of a Family CEO successor.
- Market reacts positively when an outsider is announced to be the successor.
- Larger effect for firms with poor performance and independent boards.

My evaluation

Why should we like the paper?

- Trying to answer an important research question
- Data from several countries
- Lots of tests and results

My comments

- Interpretation of results
- Contribution of the paper

Comment on the main result

- Table VI shows CARs based on two windows: [-40,0], [-40,20]
- The results on CAR come (mostly) from the window of [-40, 0]. Shouldn't we be concerned about this?
- I would like to see the results for [-40, -2], [-3,1], 0, [1,3], [4,20], for example.
- For the first and the last group we should not observe any abnormal effect.
- Maybe explain more why the effect comes from the window before the event.

Comments: Interpretations of the results

- To interpret the results as causal, we need to assume that replacing a family CEO with an outsider is exogenous to firm outcomes.
- However, change in family CEO-status is unlikely to be random.
- **Selection:** Poor performance firms (those with a strong board) replace the family CEO with a non-family. That is, we only investigate the impact of replacing "bad" family CEOs.
- **Omitted variable:** Announcement of a non-family successor is a signal of, eg., the board becoming strong. That is, the positive market reaction may be due to other things correlated with (caused) the appointment of an outsider CEO.
- Another example: Succession by a non-family may suggest that the firm is "in play" for a takeover (Morck et al. 1988). Because of the higher probability of takeover, investors may react positively to such a change.

- In addition, the interpretation of the interaction terms are not obvious to me.

Comments: Suggested additional analysis

- Why is replacing a family CEO with a non-family have a positive effects?
  - Is it because of problems with family connections per-se (agency issues)? or
  - is it because family CEOs are systematically different in characteristics such as age, experience?
- Longer term effects?
  - The paper finds the immediate impact on shareholder wealth.
  - Look at the change in ROA, or monthly abnormal stock returns?

Contribution

According to the paper:

1. It focuses on listed family firms, whereas the literature has mostly focused on unlisted firms.
   - Bennedsen et al. (QJE2007), Perez-Gonzalez (AER2006), Smith and Amoako-Adu (JCF1999)
2. Uses data from three different corporate governance systems (France, Germany, UK)
   - Nice, but would be great to put more effort on explaining the differences across countries.

A suggestion: highlight the main contribution of the paper, specially with respect to Bennedsen et al. (QJE2007).

Minor Comments

- Who is taken as family? Relatives are accounted?
- Why do you not have firm fixed effects?
- Why having both "Family wedge x Family CEO" and "Family wedge x NonFamily CEO" in regressions? Why not adding Family wedge and Family CEO in regressions, and add one interaction? This way the interpretation would be easier.
- From Smith and Amoako-Adu (JCF1999): "Vancil (1987) and Booth and Deli (JFE1996) note that CEO successors are typically selected several years prior to the CEO's departure." If that's the case, how should we interpret your results?
- Others (eg.
- Smith et al. (JCF1999)) have found that when family successors are appointed, stock price declines significantly. Any explanation for the contradicting results?
- Differentiate between non-family insider and outsider?
- Need to provide at least one quantitative result in the introduction.
- Section 4.1 seems too long (about 10 pages). Maybe considering splitting it to more sections/subsections.

Overall assessment

- Nice paper
- Could be even better!