Asia Pacific Management Review xxx (2017) 1–7

Contents lists available at ScienceDirect

Asia Pacific Management Review

journal homepage: www.elsevier.com/locate/apmrv

CEO succession decision in family businesses – A corporate governance perspective

Chin-Jung Luan [a], Ying-Yu Chen [b, *], Hsiu-Ying Huang [c], Kai-Shiuan Wang [a]

[a] National Dong Hwa University, Department of International Business, Hualien, Taiwan
[b] National Dong Hwa University, Bachelor Program of Management Science and Finance, Hualien, Taiwan
[c] Feng Chia University, Department of International Trade, Taichung, Taiwan

ARTICLE INFO

Article history:
Received 4 October 2015
Accepted 27 March 2017
Available online xxx

Keywords:
Family-owned business
Succession planning
Corporate governance

ABSTRACT

Using a comprehensive database of Taiwanese family-owned business, this study investigates chief executive officer (CEO) selection decisions in family-owned businesses. Our data sample is composed of 129 listed family businesses from 1998 to 2008. By employing theories of family-owned business succession and corporate governance, the study examines the influence of chairman of the board (COB) and CEO duality, current CEO/family relations, and shareholding ratio of outside directors on CEO-selection decisions in family-owned businesses. The results demonstrate that a family-owned business is more likely to select an intra-firm member as the new CEO when the incumbent CEO is a family member. Moreover, a family-owned businesses are prone to selecting new CEOs from external sources when the shareholding ratio of outside directors is greater. Based on the findings, the study can contribute to CEO succession research and family-business research in emerging economies.

© 2017 College of Management, National Cheng Kung University. Production and hosting by Elsevier Taiwan LLC. All rights reserved.

1. Introduction

The objective of business-succession planning aims at a smooth transition in the top management position. Within family-owned businesses, CEO succession planning is complicated due to the intertwining of management and ownership (Sharma, 2004). Benson (1990) also found that only 30 percent of family businesses succeed in subsequent generations. Both the family's needs and business requirements influence the CEO succession decision. A serious conflict arises when the interests of both parties are not compatible. In addition, the business's stakeholders also exert a great influence over succession decisions in which the family business is a listed company. This implies difficulty in smooth succession in family businesses.

Among the transition of top management positions, the CEO succession decision is pivotal in family businesses. In fact, the process and result of CEO selection is a signal to business stakeholders who are concerned about the stability, competitiveness, and growth of the business. The essential issue for CEO selection is related to the decision of whether candidates will be from inside or outside of the family-owned firm. In other words, a family business may confront a dilemma in deciding to choose from family members or non-family members or an employee promotion or recruited outside the firm when choosing the new CEO to meet both the family needs and business requirements.

The reasons for an insider succession decision include an increase in employee loyalty and the board of directors' acquaintance with the candidates. However, the major reason for an outsider succession decision is the employment of a new leadership style that may lead to transformation for the company. For example, Delta Air Lines, the third largest U.S. airline, recruited Leo Mullins, who has no prior experience in the airline business, to revamp Delta Air Lines. The purpose in making such a decision was the consideration of a new mindset and leadership style introduced into the conventional airline business. Friedman and Singh (1989) and Datta and Guthrie (1994) stated that the new strategic planning, organizational structure, and resources required of an organization may also follow the inauguration of a new CEO.

Corporate governance has played an important role in both

* Corresponding author.
E-mail addresses: cjluan@gms.ndhu.edu.tw (C.-J. Luan), kerrichen@gms.ndhu.edu.tw (Y.-Y. Chen), huanghy@fcu.edu.tw (H.-Y. Huang), m9733016@gms.ndhu.edu.tw (K.-S. Wang).

Peer review under responsibility of College of Management, National Cheng Kung University.

http://dx.doi.org/10.1016/j.apmrv.2017.03.003
1029-3132/© 2017 College of Management, National Cheng Kung University. Production and hosting by Elsevier Taiwan LLC. All rights reserved.

ARTICLE IN PRESS

family and non-family businesses. The CEO succession decision is also one of the important research issues in corporate governance. However, research on CEO succession decisions for family businesses is still scarce. A company's board of directors nominates, appoints, and delegates a suitable CEO to manage the company. Thus, the designated CEO has substantial influence over the company's performance by virtue of his or her decision-making in strategic planning and responsibility in the company's strategy implementation. Additionally, the board of directors has the authority to decide the CEO's turnover. The constituents on the board of directors play essential roles in management and control the power of a company. Prior studies on corporate governance have focused more on large companies, especially European and American companies; however, research has not paid much attention to the investigation of small and family businesses located in emerging countries. Due to the growing importance of corporate governance in emerging economies, this study attempts to examine CEO succession decisions for small and family businesses in emerging countries from the perspective of corporate governance to fill the research gap.

The purpose of this study is to investigate CEO succession decisions in family-owned businesses and explore the factors that influence these decisions by employing theories of business-succession planning and corporate governance. Prior studies on family-owned businesses were mostly survey based and used an exploratory approach. The data that we collected are from a comprehensive database of Taiwanese family businesses, providing sufficient family-business data for this study. To fulfill the research purpose, the study aims to answer the following questions. First, does chairman of the board (COB)/CEO duality have an influence on the succession decision in terms of insider-outsider choices? Second, does whether the incumbent CEO is a family member affect the succession decision? Third, is the shareholding ratio of outside directors influential on the CEO succession decision?

The research questions in this study mainly pertain to the CEO succession decisions of family-owned businesses for which data have been collected in Taiwan. The reason that we choose Taiwan as our research context is because Taiwan was ranked in 20th place for global-trade entities by the World Trade Organization (WTO) in 2014. In addition, more than 95 percent of Taiwanese enterprises are small and medium enterprises (SMEs), and 80 percent of Taiwanese enterprises are family businesses. According to statistics from the Ministry of Economic Affairs in Taiwan, the total number of SMEs in Taiwan exceeded 1.38 million in 2015, and 70 percent of the total export value was from SMEs in 2015. As family businesses play an important role in SMEs, they therefore make a substantial contribution to the economic development of Taiwan.

2. Theoretical bases and hypotheses

2.1. Family business and succession-planning strategy

Family business has played a dominant role in the economic development of most countries. From previous research, scholars have made various elaborations regarding the definition of a family business (shown in Table 1) and yet have not reached a consensus. As stated by Beckhard and Dyer (1983), a family business is an organization family members influence decisions regarding its ownership or management. Gallo and Sveen (1991) also stated that a business being a family firm indicates that a family owns business and that family members hold the majority of stocks and exert managerial control over the management team in making important business decisions. Scholars have mostly proposed that dominant shareholding ownership and control power that family members possess in a business define a family business. We thus conclude that a family business is usually governed by two principal components: holding a greater proportion of the firm's equity ownership and involving dominant managerial control power on the business. The dominant equity ownership and managerial control power constitute the difference between family-owned businesses and non-family-owned businesses. In this study, we define a family-owned business as members from the [1]same family holding more than two board director positions in a business, which causes the weight of succession planning to be more essential in a family business.

Table 1
Definitions of a family business.

Author	Definition
Dyer (1986, p.xiv)	“It is an organization in which decisions regarding its ownership or management are influenced by a relationship with a family”.
Stern (1986, p.xxi)	“A corporate owned and operated by members of one or more families.”
Ward (1987, p. 252, p.252)	“The family business means that passed on for the family's next generation to operate and control.”
Lansberg (1988, p. 2, p.2)	At least one member of a family has control or ownership in a company.
Gallo and Sveen (1991)	A family firm is the business owned by a family, and the family members have majority of stock and enforce managerial control over core of the management team, making important decisions regarding the business.
Litz (1995)	The concept of a family business has two perspectives. One view is in terms of structure, families are involved in firm ownership and management. Another view focuses on management's intention to maintain or increase intra-organizational family involvement.

The exploration of succession planning in family business has drawn scholars’ attention for decades. Researchers have highlighted that succession planning plays an important role in the success of a family business, and good succession planning is beneficial to the sustainability of a family business (Brockhaus, 2004; Ward, 1987). However, founders of family businesses tend to ignore planning for business succession. As Kertesz and Atalaya (1999) stated, approximately 70 percent of family business founders are reluctant to plan for succession ahead of time. Studies have shown that less than one third of family businesses passed down the control power to the next generation when the incumbent chairman retired, and only a half of those family businesses conducted succession planning for the third generation (Beckhard & Dyer, 1983; Kets de Vries, 1985; Lansberg, 1988; Ward, 1987).

In addition, different types of successors may have an impact on family businesses. Burkart, Panunzi, and Shleifer (2003) and Perez-Gonzalez (2006) argued that non family-related CEOs perform better than family-related CEOs. In contrast, an empirical study conducted in the US which found that firms with founders from family-related businesses as their CEOs outperform those from non-family-related businesses. Additionally, the performances of these family firms may decline dramatically when someone from the next generation becomes the new CEO (Villalonga & Amit, 2006). Similar empirical studies were also conducted in Canada, France, Germany, and the UK (Morck, Stangeland, & Yeung, 1998; Bloom, Dorgan, Dowdy, & Van Reenen, 2007).

[1] The same family indicates a member of the board of directors with a spouse or within the second relatives between a family hold at least 5 percent of the company's shareholding (Gomez-Mejia, Nunez-Nickel, & Gutierrez, 2001).

Please cite this article in press as: Luan, C.-J., et al., CEO succession decision in family businesses — A corporate governance perspective, Asia Pacific Management Review (2017), http://dx.doi.org/10.1016/j.apmrv.2017.03.003

ARTICLE IN PRESS

2.2. Corporate governance in family-owned businesses

Corporate governance in family-owned businesses is different from that in regular businesses (Brenes, Madrigal, & Requena, 2009). Family-owned businesses have different family cultures and ambitions concerning business power control, which has an impact on the composition of the board of directors. Non-family members can participate as constituents of the board of directors in a family-owned business. The composition of the board of directors in a family business has become more diversified due to increasing competition in the business environment. From prior studies, statistical data has shown that only 30 percent of companies survive following inheritance by the second generation, and only 10 percent of those inherited companies survive following inheritance by the third generation. Furthermore, a majority of companies are from family businesses in these surviving companies (Ward, 2002).

The succession plan for family businesses is influential to the firm's business life cycle (Brenes, Madrigal, & Molina, 2008). Brenes et al. (2008) found that the board's composition depends on the generation of the family and maturity stage of the company. Previous studies found that members of the board of directors may not incorporate the first generation of family members while the family business founder still dominates the business controlling power (Brenes et al., 2009). As long as the family business founders still possess dominant control power over their businesses, supporting power from the board members may not be necessary. However, family-owned business founders may start to incorporate their descendants into becoming board members when they plan to pass down business-control power to the second generation (Brenes et al., 2009). At that stage, the necessary strategy for those founders to maintain dominant business-control power in their families is to arrange for family members to be on the board.

2.3. Corporate governance and the board of directors

The importance of corporate governance in family- and non-family-related businesses arises from increasing business financial scandals across countries worldwide. Board members dominate the managerial decision of companies. The board delegates authority and responsibility to a CEO in governing and managing the company. Therefore, the key role for the board of directors is in the supervision of the top management team's performance. Essential duties for the board of directors include approbating the CEOs' policy makings, monitoring the company's performance, and making decisions about CEO successors (Fama & Jensen, 1983; Jensen & Linton, 1993).

Because the board of directors possesses the greatest power in a company's decision-making and supervision, the board is responsible for either profits or losses in a firm. By virtue of monitoring performance of the top management team and exerting authority over the CEO, the board is capable of reducing agency problems and sustaining benefits for all shareholders (Fama, 1980; Williamson, 1983). In addition, previous studies indicated that the size of the board of directors and equity ownership structure may have a great impact on the effectiveness of the board's supervision and turnover rate of the CEO (Denis, Denis, & Sarin, 1997; Weisbach, 1995). The board of directors is more prone to choose a successor CEO who has similar values and characteristics to the board (Boeker & Ellstrand, 1996).

2.4. CEO duality and CEO-selection decision

CEO duality indicates that the chairman concurrently plays a dual role as the CEO in a company. Features of CEO duality include reducing information asymmetry from top executives. If the company's CEO is different from the chairman, the CEO as a designated role may screen the obtained information from the chairman or board to maximize his or her own profit. Another feature of CEO duality is efficiency in decision-making. CEO duality facilitates decision-making and the implementation of corporate strategies due to consistency in authority from ownership and management. In addition, Brickley, Coles, and Jarrell (1997) stated that CEO duality may reduce agency costs arising from monitoring costs for position separation of the chairman and CEO. Due to the dual position, a CEO may dedicate himself or herself to work and maximize profits for the company (Daily & Dalton, 1994).

However, duality may result in disadvantages, such as the impairment of the board's independence. Previous studies have shown that the board's independence is hindered when the CEO is one of the board members (Dalton, Catherin, Elistrand, & Jonathan, 1998; Jensen & Linton, 1993; Kensner & Victor, 1996). Dahya, Lonie, and Power (1998) also proposed that the CEO may prevent the board from making CEO turnover decisions while filling the dual position.

Duality helps the incumbent CEO have a better understanding of identifying talented candidates for a new CEO successor within the firm. In addition, to exert control power over the new CEO, the incumbent CEO is more likely to select CEO candidates from internal talents. Specifically, in a family-owned business, the incumbent CEO is also prone to choosing a family member as the new CEO successor. Thus, we hypothesize the following.

Hypothesis 1. A family-owned business is more likely to select an insider as the new CEO successor when the incumbent CEO holds a dual position.

2.5. Family relation and CEO-selection decision

In family-owned businesses, the inherited control power of the company has been emphasized more for decades. The transition of control power from a family member to a non-family-member professional executive is a challenging decision for family-business founders. The misalignment of the founding family members' interests and professional talents may result in conflicts of interest. Barnes and Hershon (1994) stated that family members may be more concerned about financial and “political” benefits in family businesses. CEOs from family-owned businesses attempt to maximize profit for the business and maintain the family's interests and control power. To maintain the family's control power and interest, CEOs are more likely to select intra-firm members as new CEO successors when the incumbent CEOs are family members. We thus hypothesize the following.

Hypothesis 2. A family-owned business is more likely to select an insider as the new CEO successor when the incumbent CEO is a family member.

2.6. Shareholding ratio from outside directors and CEO-selection decision

According to past research, a variety of factors may have substantial impacts on the CEO succession decision. These factors include the board's independence, ownership structure, and company performance (Denis et al., 1997; Weisbach, 1995). To improve a company's performance and the board's image of independence, several companies have started to employ outside directors on the board. The incorporation of outside directors into the board is beneficial for a company to obtain professional suggestions and

Please cite this article in press as: Luan, C.-J., et al., CEO succession decision in family businesses — A corporate governance perspective, Asia Pacific Management Review (2017), http://dx.doi.org/10.1016/j.apmrv.2017.03.003

ARTICLE IN PRESS

maintain the board's independence. Fama and Jensen (1983) found that independent outside directors can provide more neutral suggestions and bring a positive image to enterprises. Even if the board chooses an insider as a new CEO candidate for maintaining the company's control power (Zajac & Westphal, 1996), decisions made by outside directors are still influential when they possess a greater shareholding ratio in a company.

In this study, we propose that outside directors may prefer to choose from outside rather than inside candidates. With a higher shareholding ratio in the company, outside directors may put more weight on the firm's performance. The board of directors may prefer to recruit professional talent from an external pool rather than employ a family member. Thus, we hypothesize the following.

Hypothesis 3. The greater shareholding ratio of outside directors in a family-owned business is positively related to the selection of an outsider successor.

We summarize our hypotheses in Fig. 1, which depicts the overall research framework in our study.

3. Methodology

3.1. Data sample

Our data sample is collected from the Taiwan Stock Exchange (TWSE) and Taiwan Economic Journal (TEJ) database from 1998 to 2008. The TEJ, which was founded in April 1990 in Taiwan, provides accurate and reliable data on companies throughout Asia. The database contains comprehensive information about all Taiwanese publicly listed companies. We identified and employed a dataset composed of 129 listed family businesses from 1998 to 2008. The observation period was chosen because the financial crisis happened in 2001 and may have resulted in changes of CEO turnover in the consecutive years.

To identify family-owned businesses from the TEJ database, companies with shareholders from the same family aggregately possessing a company's shareholding ratio over 10 percent were selected as our data sample. Additionally, we collected each sample company's succession arrangements from annual reports and press releases to complement the shortage of succession information in the TEJ. Family businesses with two or more CEO turnovers within three years were excluded from our data sample. Therefore, the final data sample included 129 observations.

3.2. Measures

3.2.1. Dependent variable

CEO-selection decision. The CEO-selection decision was measured as the family-owned businesses selecting a successor either from within family members (i.e., insider) or outside family members (i.e., outsider). The insider/outsider CEO-selection decision was measured as a dummy variable (1 = insider, 0 = outsider). The data were collected from publicly announced succession events.

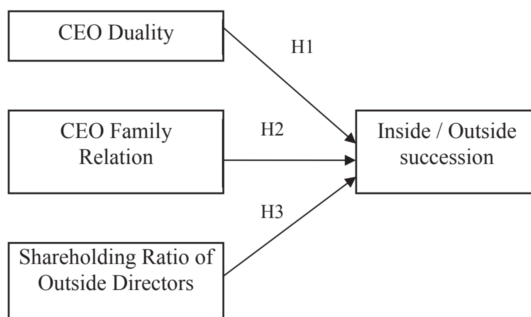

Fig. 1. Research framework.

3.2.2. Independent variables

CEO duality is operationally defined as the chairman playing a dual role as the CEO in a company and coded as "1" with duality and otherwise "0." *CEO's family relation* (i.e., CEO/family relation) indicates the transition of control power from one family member to another insider family member (i.e., successor). *CEO's family relation* was coded as "1" when a family member was designated as a CEO and otherwise "0." Data of CEO duality and CEO's family relation were collected from companies' annual reports. In addition, Fama and Jensen (1983) stated, to improve the board's image of independence, outside directors were employed as board members in listed companies. Additionally, the percentage of outside directors among board directors varies among different companies' corporate-governance practices. Hence, the *shareholding ratio of outside directors* is decisive in a company's decision-making. The ratio was measured by the shares of outside directors divided by the total shares the board of directors in a company owns.

3.2.3. Control variables

We also incorporated three control variables in this research model. *Firm size* implies the degree of difficulty and complexity of a CEO's work. The larger a firm's size, the more the CEO's responsibility and capability is necessary to cope with the business (Sierra, Talmor, & Wallace, 2004). Firm size was measured by the companies' total assets in the year before succession. This study also controlled for *firm age*. To measure firm age, we calculated the duration between the founding and present year under study. In this research, *industry* is also controlled. To control for differences between industries, this study included the industry differences measured by a dummy variable (1 = electronic industry, 0 = not electronic industry).

3.3. Analysis

Our hypotheses relate to the influence of the COB and CEO duality, the CEO/family relation, and the shareholding ratio from outside directors on the CEO-selection decision in family-owned businesses. We estimated that when the incumbent CEO is a family member and holds COB and CEO duality and when the shareholding ratio of outside directors is greater, these family-owned businesses will be more likely to select CEO successors from insiders or outsiders.

Given the data structure, we tested the relationships between various independent variables and the dependent variable by employing logistic regression analysis. The structure of the data for this study is longitudinal and includes the years from 1998 to 2008. The control variables were incorporated into the regression analysis.

4. Results

Tables 2 and 3 present the specifications used to estimate the relationships between CEO duality, CEO/family relation, outsider shareholding ratio, and the insider/outsider CEO succession decision. As Table 2 shows, the correlation result between CEO/family relation and insider/outsider CEO succession decision (coefficient = 0.41, $p < 0.001$) is positively significant, whereas the result between outsider shareholding ratio and insider/outsider CEO succession decision (coefficient = −0.26, $p < 0.01$) is negatively

Please cite this article in press as: Luan, C.-J., et al., CEO succession decision in family businesses — A corporate governance perspective, Asia Pacific Management Review (2017), http://dx.doi.org/10.1016/j.apmrv.2017.03.003

Table 2
Descriptive statistics and the correlation matrix.

Correlations	Mean	S.D.	1	2	3	4	5	6	7
1.Insider/Outsider CEO	0.814	0.391	1						
2.Firm size	6.613	0.557	0.14	1					
3.Firm Age	26.357	11.601	0.16	0.36 ***	1				
4.Industry	10.264	6.749	−0.08	0.09	−0.10	1			
5.CEO Duality	0.287	0.454	0.04	−0.15	−0.09	−0.07	1		
6.CEO/Family Relation	0.419	0.495	0.41 ***	−0.11	−0.26 **	−0.20 *	0.16	1	
7. Outside Directors' Shareholding	9.733	8.793	−0.26 **	−0.25 **	−0.25 **	0.12	- 0.07	−0.06	1

N = 129; ***$p < 0.001$; **$p < 0.01$; *$p < 0.05$.

Table 3
Descriptive statistics.

Variables		Yes (1) (Number)	(%)	No (0) (Number)	(%)	Total number
Corporate Governance	CEO Duality	37	28.68%	92	71.32%	129
	CEO/Family relation	54	41.86%	75	58.14%	129
Dependent variable	Insider/Outsider CEO Succession	104	80.62%	25	19.38%	129

significant. However, the correlation between the CEO duality and insider/outsider CEO succession decision (coefficient = 0.04) is not significant. When comparing these two results, the coefficient of CEO/family relation exerts a greater influence on the insider/outsider CEO succession decision than does the outsider director shareholding. As the data in Table 3 show, 28.68 percent of the sampled firms have CEO/chairman duality among the 129 listed companies, 41.86 percent of the sampled firms' CEO successors are family members, and 80.62 percent of the sampled firms prefer insider CEO succession.

Table 4 demonstrates the logistic regression results of the hypothesis testing. Control variables were tested in Model 1. The regression result is shown from Models 2 to 4 and demonstrates that a significantly positive relationship between CEO/family relation and insider CEO succession ($\beta = 1.043$; $p < 0.05$). This result supports Hypothesis 2 and additionally shows a significantly negative relationship between outsider directors' shareholding ratio and insider CEO succession ($\beta = -0.057$; $p < 0.05$). Therefore, Hypothesis 3 is also supported. The unexpected finding is the relationship between CEO duality and insider CEO succession, for which the result is not significant for Hypothesis 1.

5. Discussion

From a conventional perspective, CEO succession has been viewed as an internal company issue. Prior research in succession has been more focused on one dimension of succession or the effects of CEO succession. Research with two or more dimensions of CEO succession is still scarce. We employed 129 Taiwanese listed family firms to be empirically tested. The first dimension is the relationship between the corporate governance and CEO succession selection in family businesses. Variables of the corporate-governance dimension include CEO duality, CEO/family relation, and outside directors' shareholding ratio.

The main objective in this research is to explore the relationship between factors related to corporate governance and CEO succession selection in family firms. From our empirical findings, Hypotheses 2 and 3 are supported. The CEO candidate's family relation

Table 4
Results of logistic regression analyses.

Dependent Variable: Insider/Outsider CEO Succession				
	Model 1	Model 2	Model 3	Model 4
Control Variables				
Firm Size	0.531	0.554	1.091*	0.413
	(0.456)	(0.453)	(0.536)	(0.469)
Firm Age	0.025	0.026	−0.011	0.016
	(0.022)	(0.022)	(0.024)	(0.023)
Industry	−0.029	−0.028	−0.016*	−0.022*
	(0.346)	(0.035)	(0.040)	(0.036)
Independent Variables				
CEO Duality		0.361		
		(0.532)		
CEO Candidate's Family Relation			1.043*	
			(0.521)	
Outside Directors' Shareholding Ratio				−0.057*
				(0.025)
Constant	−2.318	−2.606	−6.002†	−0.746
	(2.806)	(2.816)	(3.212)	(2.928)
Number of Observations	129	129	129	129
Wald Chi-square	5.09	5.56**	5.13*	10.26**
−2 Log Likelihood	118.87	118.39	88.90	113.69

†$p < 0.1$ * $p < 0.05$ **$p < 0.01$ ***$p < 0.001$.

Please cite this article in press as: Luan, C.-J., et al., CEO succession decision in family businesses — A corporate governance perspective, Asia Pacific Management Review (2017), http://dx.doi.org/10.1016/j.apmrv.2017.03.003

has a positive effect on CEO succession selection for family firms that prefer insiders as successors. These family firms may arrange for family members to be employed by the company before the succession, which provides a greater opportunity for family firms to be involved in business operations and occupy key positions in these firms. When the incumbent CEO retires, one of the family members will be selected as the new CEO. This result corresponds to Zajac and Westphal's (1996) argument that the board of directors prefers to choose a familiar internal candidate to avoid an information-asymmetry problem.

Another result shows that outside directors' shareholding ratio is negatively related to insider/outsider CEO succession, indicating that businesses with greater outside directors' shareholding ratio would rather choose an outsider as the CEO successor than an insider. A corporate board generally includes outside members who act as arbitrators in disagreements among internal managers and conduct tasks that involve serious agency problems (Fama & Jensen, 1983). Most outside directors are either managers of other corporations or important decision agents in other organizations. Their value of human capital is on their performance as internal decision managers (Fama & Jensen, 1983). These outside directors thus have the incentive to develop reputations as experts in decision control and use their directorships to signal their decision expertise. To maintain their independence and expertise in decision-making, outside directors may prefer outsiders to insiders to be CEO successors.

6. Conclusion

Family business has played a dominant role in the emerging economy. However, owing to the difficulty in smooth succession in family businesses, only a small percentage of family businesses succeed in the next generation. For a smooth transition in the top management position and success in family business, the CEO succession decision is essential. Instead of investigating the consequences of the CEO succession decision, this study examines factors that may have a substantial influence on CEO succession decisions in family-owned businesses. The main reason is that previous studies have been mostly focused on post-succession outcomes regarding the issue of CEO succession. Drawing on theories of family-owned business succession and corporate governance, we employed factors such as COB and CEO duality, the current CEO's relation to the family, and shareholding ratio of outside directors in our research model, and we tested for effects on CEO succession decisions. The results demonstrate that a family-owned business is more likely to select an insider as the new CEO when the incumbent CEO is a family member. Moreover, a family-owned business is prone to select a new CEO from outside of the family when the shareholding ratio of outside directors is greater.

We conclude several managerial implications in this study. First, a majority of businesses in Taiwan are family businesses that have confronted the CEO succession problem in recent years. Due to the intertwining of management and ownership power in family businesses, the transition of the top management position is essential and complicated. In this research, we found that a family-owned business is more willing to select an insider as the new CEO when the incumbent CEO is a family member. Stewardship within family members is a key driving force behind succession decisions made by incumbent CEOs from a conventional family-business perspective. Additionally, the reduction of monitoring costs could be another key driving force behind succession decisions. From the perspective of transaction costs, the governance structure a business chooses must be cost containment. The selection of an insider as the new CEO successor indicates that the board of directors anticipates fewer monitoring costs for the insider, which provides a different theoretical perspective. Second, as mentioned before, outsiders may provide a new leadership style and lead to a company's transformation. The research finding indicates that a family-owned business is more likely to select a new CEO from outsiders when the shareholding ratio of outside directors is greater. From a corporate-governance perspective, to protect stockholders' rights and interests and reduce the information asymmetry problem, a family-owned business must employ outside directors to not only balance the management and control power but also introduce a new leadership style to the company. Finally, this study predicts a positive relationship between CEO/COB duality and insider CEO succession selection; however, the result is not significant and indicates a neutral preference for the selection of an insider/outsider CEO successor. This might imply a lack of succession planning on the part of the business owing to the dominant management and control power possessed by the CEO duality. The incumbent CEO has not yet planned to hand over the management and control power to the successor. Another implication of the CEO duality that is notable for investors is stability in the top management team, which indicates that a transition in the top management position will not occur in the near future.

This study also provides new insights contributing to CEO succession literature and family businesses in the emerging economy. For example, when foreign investors come from the West to the East, corporate-governance structures such as CEO/family relation and the shareholding ratio of outside directors are good indicators to justify their investment decisions in family businesses. However, a limitation of this study is that only the quantitative data-collection method is used. The various research methods used, such as the incorporation of qualitative case analyses, may enrich the outcomes for this research. Further investigation for case analyses of family businesses can be expected in the near future.

References

Barnes, L. B., & Hershon, S. A. (1994). Transferring power in the Family business. *Family Business Review, 7*(4), 377–392.

Beckhard, R., & Dyer, W. (1983). Managing continuity in the family-owned business. *Organizational Dynamics, 12*(1), 5–12.

Benson, B. (1990). *A success guide for growth and survival*. Homewood, Ill: Dow Jones-Irwin.

Bloom, N., Dorgan, S., Dowdy, J., & Van Reenen, J. (2007). Management practice and productivity: Why they matter. *Management Matters*, 1–10. September.

Boeker, W. H., & Ellstrand, A. E. (1996). CEO successor choice, its antecedents and influence on subsequent firm performance: An empirical analysis. *Group and Organization Management, 21*(1), 105–123.

Brenes, E., Madrigal, K., & Molina, G. (2008). Estrategias para asegurar la continuidad de las empresas familiars. *INCAE Magazine, 1*(5), 55–67.

Brenes, E. R., Madrigal, K., & Requena, B. (2009). Corporate governance and family business performance. *Journal of Business Research, 24*(2), 22–34.

Brickley, J. A., Coles, J. L., & Jarrell, G. (1997). Leadership structure: Separating the CEO and chairman of the board. *Journal of Corporate Finance, 3*(3), 189–220.

Brockhaus, R. H. (2004). Family business succession: Suggestions for future research. *Family Business Review, 17*(2), 165–177.

Burkart, M., Panunzi, F., & Shleifer, A. (2003). Family firms. *Journal of Finance, 58*(5), 2167–2202.

Dahya, J., Lonie, A. A., & Power, D. M. (1998). The case for separating the roles of chairman and CEO: An analysis of stock market and accounting data. *Corporate governance: An International Review, 4*(2), 71–77.

Daily, C. M., & Dalton, D. R. (1994). Bankruptcy and corporate governance: The impact of board composition and structure. *Academy of Management Journal, 37*(6), 1603–1617.

Dalton, D. R., Catherin, M. D., Elistrand, A. E., & Jonathan, L. J. (1998). Meta-analytic reviews of board composition, leadership structure, and financial performance. *Strategic Management Journal, 19*(3), 269–290.

Datta, D. K., & Guthrie, J. P. (1994). Executive succession: Organizational antecedents of CEO characteristics. *Strategic of Management Journal, 15*(7), 569–577.

Denis, D. J., Denis, D. K., & Sarin, A. (1997). Ownership structure and top executive turnover. *Journal of Financial Economics, 45*(2), 193–221.

Dyer, W. G. (1986). *Cultural change in family firms*. San Francisco, CA: Jossey-Bass.

Fama, E. (1980). Agency problems and the theory of the firm. *Journal of Political Economy, 88*(2), 288–307.

Fama, E., & Jensen, M. (1983). Separation of ownership and control. *Journal of Law Economics, 26*(2), 301–325.

Please cite this article in press as: Luan, C.-J., et al., CEO succession decision in family businesses – A corporate governance perspective, Asia Pacific Management Review (2017), http://dx.doi.org/10.1016/j.apmrv.2017.03.003

Friedman, S. D., & Singh, H. (1989). CEO succession and stockholder reaction: The influence of organizational context and event content. *Academy of Management Journal, 32*(4), 718–744.
Gallo, M. A., & Sveen, J. (1991). Internationalizing the family business: Facilitating and restraining factors. *Family Business Review, 4*(2), 181–190.
Gomez-Mejia, L., Nunez-Nickel, M., & Gutierrez, I. (2001). The role of family ties in agency contract. *Academy of Management Journal, 44*(1), 81–95.
Jensen, I. B., & Linton, S. J. (1993). Coping strategies questionnaire (CSQ): Reliability of the Swedish version of the CSQ. *Cognitive Behaviour Therapy, 22*(3 & 4), 139–145.
Kensner, I. F., & Victor, B. L. (1996). Board composition and the commission of illegal acts: An investigation of Fortune 500 Companies. *Academy of Management Journal, 29*(4), 789–799.
Kertesz, R., & Atalaya, C. I. (1999). Family businesses in Argentina: Current issues. Community. *Work & Family, 2*(1), 93–103.
Kets de Vries, M. F. R. (1985). The dark side of entrepreneurship. *Harvard Business Reivew*, 160–167. November-December.
Lansberg, I. (1988). The succession conspiracy. *Family Business Review, 1*(2), 119–143.
Litz, R. A. (1995). The family business: Toward definitional clarity. *Family Business Review, 8*(2), 71–81.
Morck, R., Stangeland, D., & Yeung, B. (1998). *Inherited wealth, corporate control and economic growth: The Canadian disease (No. w6814)*. National Bureau of Economic Research.
Perez-Gonzalez, F. (2006). Inherited control and firm performance. *The American Economic Review, 96*(5), 1559–1588.
Sharma, P. (2004). An overview of the field of family business studies: Current status and directions for the future. *Family Business Review, 17*(1), 1–36.
Sierra, G. E., Talmor, E., & Wallace, J. S. (2004). *A Unified Analysis of Executive Pay: The Case of the Banking Industry (No. 2004-02)*. Federal Reserve Bank of St. Louis.
Stern, M. H. (1986). *Inside the family-held business*. New York, NY: Harcourt Brace Jovanovich.
Villalonga, B., & Amit, R. (2006). How do family ownership, control and management affect firm value? *Journal of Financial Economics, 80*(2), 385–417.
Ward, J. L. (1987). *Keeping the family business Healthy: How to plan for continued growth, profitability, and family leadership*. San Francisco, CA: Jossey-Bass.
Ward, J. L. (2002). The Role of the board in family business strategy. *Family Business Know-How, 4*, 1–3.
Weisbach, M. S. (1995). CEO turnover and the firm's investment decisions. *Journal of Financial Economics, 37*(2), 159–188.
Williamson, O. E. (1983). Credible commitments: Using hostages to support exchange. *The American Economic Review, 73*(4), 519–540.
Zajac, E. J., & Westphal, J. D. (1996). Who shall succeed? How CEO/Board preferences and power affect the choice of new CEOs. *Academy of Management Journal, 39*(1), 64–90.

Please cite this article in press as: Luan, C.-J., et al., CEO succession decision in family businesses – A corporate governance perspective, Asia Pacific Management Review (2017), http://dx.doi.org/10.1016/j.apmrv.2017.03.003