Gender effect, family characteristics and firm performance on succession decisions - Evidence from Finnish family firms

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Abstract
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GENDER EFFECT, FAMILY CHARACTERISTICS AND FIRM PERFORMANCE ON SUCCESSION DECISIONS - Evidence from Finnish Family Firms

PURPOSE OF THE STUDY

This thesis investigates the impact of family characteristics in corporate decision making and the consequences of these decisions on firm performance. The main objective is to find evidence on whether the gender of the company CEO's children and other family characteristics have an impact on succession decisions and whether the gender of the company CEO has an impact on the company performance. The empirical study of the thesis concentrates on the gender effect in family firms especially when generation transfer occurs. I will also examine the effect of family and firm characteristics, such as the number of children and firm size, to the succession decision.

DATA & METHODOLOGY

I use data covering an 11 year period between 1994 and 2005 consisting of 196 family companies. The data is a combination of information from different sources. Financial data is collected from Voitto+ database as well as from the archives of the National Board of Patents and Registration of Finland and statutory releases of the companies. CEO transition data is hand-collected from the National Board of Patents and Registration of Finland's KATKA-database. Personal data is collected from the database of the Population Register Center of Finland. The analyses are performed using univariate analysis and multivariate OLS and IV 2SLS-regressions with STATA program.

RESULTS

According to the results, family successions are more likely to take place in smaller and more profitable companies than those with unrelated successions. Firms facing family transitions are also slightly younger. In addition, the results imply that when the CEO's first child is male, the likelihood of appointing a family member as CEO decreases by 11.5%. The study also shows that the gender of the CEO makes no difference when it comes to company performance, and that family firms prefer children over outside CEOs and also over other relatives. All types of transitions result in a decrease of performance, according to my findings. However, the decrease is not that drastic in firms where the successor comes from inside the owner family.

KEYWORDS

gender, gender effect, family firm, family characteristics, family transition, CEO, company performance

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GENDER EFFECT, FAMILY CHARACTERISTICS AND FIRM PERFORMANCE ON SUCCESSION DECISIONS - Evidence from Finnish Family Firms

TUTKIELMAN TAVOITTEET

Tämä gradu tutkii sukupuolen ja perhetekijöiden vaikutusta perheyritysten päätöksentekoon erityisesti sukupolvenvaihdostilanteissa, ja näiden päätösten seurauksia yritysten kannattavuuteen. Päätavoitteena on tutkia onko yrityksen toimitusjohtajan lasten sukupuolella ja muilla perhetekijöillä vaikutusta sukupolvenvaihdospäätöksiin ja siihen kuka jatkaa yrityksen johtajana. Tavoitteena on myös tutkia onko toimitusjohtajan sukupuolella vaikutusta yrityksen kannattavuuteen. Tutkimuskohteena on myös lasten lukumäärän ja yrityksen koon vaikutus sukupolvenvaihdospäätöksiin.

LÄHDEAINEISTO

Käytän tutkimuksessa yhdentoista vuoden aineistoa vuosien 1994 ja 2005 välillä, joka koostuu 196 perheyrityksestä ja 287 toimitusjohtajavaihdoksesta. Aineisto on yhdistelmä useasta eri tietolähteestä. Tilinpäätöstiedot on kerätty Voitto+-tietokannasta, sekä Suomen patentti- ja rekisterihallituksen tilinpäätösarkistoista, sekä yritysten omista tilinpäätöksistä. Toimitusjohtajavaihdokset on käsin kerätty patentti- ja rekisterihallituksen KATKA-tietokannasta. Henkilötiedot ja perhetiedot on hankittu Väestörekisterikeskuksen tietokannoista. Analyysit on toteutettu käyttämällä STATA tilasto-ohjelmiston monimuuttujaregressioita ja IV 2SLS-regressioita.

TULOKSET

Tulosten mukaan yritykset, joissa sukupolvenvaihdos tapahtuu perheen sisällä, ovat pienempiä ja kannattavampia kuin yritykset, joissa vaihdos tapahtuu ulkopuoliselle. Yritykset joissa sukupolvenvaihdos tapahtuu perheen sisällä, ovat myös hieman nuorempia. Tulosten mukaan todennäköisyys sille, että vaihdos tapahtuu perheen sisällä, pienenee 11.5 prosenttia, jos toimitusjohtajan esikoislapsi on miespuolinen. Tutkimus osoittaa että toimitusjohtajan sukupuolella ei ole merkittävää vaikutusta yrityksen kannattavuuteen ja että perheyrityksissä lapsia suositaan jatkajina verrattuna ulkopuolisiin toimitusjohtajiin ja muihin sukulaisiin. Kaikki vaihdokset aiheuttavat kannattavuuden laskua lyhyellä aikavälillä, mutta perheyrityksissä joissa jatkaja tulee perheen sisältä, tämä lasku ei ole niin suurta kuin yrityksissä, joita jatkaa ulkopuolinen johtaja.

AVAINSANAT

sukupuoli, sukupuolivaikutus, perheyritys, perhetekijät, perheyrityksen sukupolvenvaihdos, toimitusjohtaja, yrityksen kannattavuus

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1. INTRODUCTION

This introduction section familiarizes the reader with the topic of this thesis and gives an overview of the main issues, which will be covered in the upcoming sections. Firstly, I explain the background and motivation to this study. Secondly, I will introduce the research problem, objectives, and go briefly through the main findings. Thirdly, I demonstrate contribution and limitations regarding this study. I will go through some topic related earlier literature. At the end of the introduction chapter, I will briefly explain the structure of the rest of the paper.

1.1. Background and motivation to the study

Female presence in corporate boards and top management has become a topical question in the past few decades. There are at least three visible factors that have contributed to change this lack of interest, or at least the lack of studies, with gendered approach to business history. Firstly, the number of women managers has increased during the past few decades (EVA report, 2007). The research reveals, however, that women still face the glass ceiling phenomenon, which means that women have more difficulties in entering the top management and corporate boards of companies compared to men (Daily et al., 1999). Secondly, the educational and skill levels of women have improved a lot; more women graduate from high schools and universities than men, the only exception being technology universities (EVA report, 2007). The third factor is the increasing number of policies promoting women entrepreneurship and the opportunity of women becoming a new source of competitive advantage in the service economy. The debate has heated especially in the 21st century, as the topic has become more visible to public due to increased media coverage. When adding the family firm factor to the gender issue, the subject becomes even more interesting and topical, but also complex at the same time.

The importance of family businesses worldwide is significant, contributing to employment and wealth generation. This can be seen in entrepreneurial literature. Howorth et al. (2006)

conclude that family firms represent between 75% and 95% of firms registered worldwide and account for up to 65% of GDP. Also in Finland, family businesses are the backbone of the country's economy. According to the Finnish Family Firm Association, over 80 % of businesses in Finland are family businesses. The majority of these firms are small and medium-sized. In the most recent Finnish Top 500 companies listing (Talouselämä TE500, 2009), approximately 25% of the companies are family companies, totalling in 127 family firms on the list, altogether.

Although female managers in family companies are in a slightly different position than purely professional management or board members, it is important to study the effect of gender in the management of family firms, where the family name may obligate more women to higher positions than in other types of companies. According to the report by Finnish Business and Policy Forum EVA, women as entrepreneurs and as part of family firms have better possibilities in advancing to management positions such as CEOs and board directors (EVA report, 2007). It may also be taken for granted that a family member, whether a man or a woman and regardless of educational background, will take an official position in the company management at some point, as opposed to non-family companies where the position comes usually purely with education and experience, rather than with name. However, the glass-ceiling phenomenon also exists in family firms, although succession does not necessarily happen from father to son anymore, as it traditionally did in the past (EVA report, 2007).

During the next decade, generation transfer will be a current issue in many European and Finnish companies, mainly due to demographic factors; current owners of companies are reaching retirement age and it will lead, for example, to a shortage of leaders. Many of the companies facing the succession challenge are family firms. Thus, the core of this thesis is to investigate the gender effect and the effect of family characteristics in top management, concentrating on finding how gender, family and firm characteristics affect the succession decision, and whether it makes a difference for the firm if the successor is male or female. The empirical part of this study concentrates on studying the gender effect in family firms, especially when generation transfer occurs.

1.2. Research problem, objectives and main findings

The main objective of this thesis is to study gender effect in top management; whether the gender of a company CEO's children has an impact on succession decision, and whether the gender of the company CEO has an impact on the company performance. The empirical study of the thesis concentrates on the gender effect in family firms, especially when generation transfer occurs. I will also examine the effect of family and firm characteristics, such as the number of children and the size of the firm, to the succession decision.

The research questions are as follows:

1. *Does the gender of the top manager's children affect the succession decision?*
2. *How does the gender of the CEO affect firm performance in Finnish family firms?*
3. *How do other family and firm characteristics affect the succession decision?*
4. *Does it make a difference in terms of performance, whether the successor comes from within the family or is unrelated?*

The initial sample used in the study consists of 400 companies, out of which 127 are on the Finnish Top 500 list (TE500) in 2009. The TE500-list is published yearly by Talouselämä magazine. The information for the TE500 list is gathered by Balance Consulting, and the ranking is based on sales. The initial sample also includes 273 member companies of the Finnish Family Firm Association. The final sample, after eliminations due to lack of necessary data, consists of 196 family companies and 287 CEO transitions during an 11-year-period from 1994 to 2005.

Financial data is collected from the Voitto+-database as well as archives of the National Board of Patents and Registration of Finland. Some of the data comes from companies' statutory releases, as well as ETLA's TE500 list. ETLA is The Research Institute of the Finnish Economy. Qualitative data concerning family characteristics and CEO information is mostly hand-collected from company websites, biographies and chronicles of different firms and archives of the National Board of Patents and Registration of Finland. Family data is from the Population Register Center of Finland. All the data is combined, constructing a new

unique dataset, which is difficult to obtain. When it comes to methodology, I use both univariate as well as multivariate analysis. I compare different characteristics of the companies and their management. I also employ a two-stage regression model and difference-in-differences analysis methods.

The most visible finding of my research is that the share of female CEOs in my sample during the period under review is really small, only 22 women among 287 male CEOs. The results show that family successions are more likely to take place in smaller and more profitable companies, than those with unrelated transition. Companies facing family transitions are also slightly younger according to my sample. According to the results, when the CEO's first child is male, the likelihood of appointing a family member as a CEO decreases by 11.5%. The study also shows that the gender of the CEO makes no difference when it comes to company performance. My findings also show that family firms prefer children over outside CEOs and other relatives. According to the results, all types of transitions also result in decrease of performance; however, the decrease is not that strong in firms where the successor comes from inside the owner family.

1.3. Contribution and limitations

Gender effect studies and family firm studies are relatively new areas of research in Finland and in the Nordic countries. However, in the United States, gender effect has been studied to some extent, or at least more widely than in Europe or Asia. This is due mainly to the fact that Europe and Asia have less historical statistics on women's participation in family businesses than the U.S (Fernandez Perez and Hamilton, 2007). The data and information required for these kinds of studies and analyses are quite difficult to get without a proper database or available gender-oriented statistics. One reason for the data availability in the U.S. is that in the United States an earlier political awareness of women's rights as entrepreneurs and a more gender equal legislation have provided institutional power to have useful gender-oriented statistics.

In the Nordic countries, the most advanced studies related to the subject have been conducted in Denmark, where they have unique datasets provided by the government, which create good opportunities to measure and analyse the gender effect in family firms. For this study, the Finnish data is hand-collected and combined from different sources, creating a unique dataset, because suitable databases do not exist.

There are inevitable limitations when it comes to these kinds of studies. Even with proper and good quality data, it is hard to extract gender effects from other factors, such as the current state of economy, market demand and the qualities of the owners and management that are not gender related, which affect the firm performance. The available information is also blurred by the strong participation of women in family firms, not necessarily as owners or managers, but instead as collaborative partners, unpaid workers and unofficial leaders.

The availability of data can also be considered as limitation. Data availability concerning financials and family information is limited, in some cases the information needed is impossible to obtain. Due to restricted availability and difficulties in collecting the data by hand, the sample size is relatively small. This naturally limits the study and can affect the results and their significance.

Another obstacle that needs to be tackled is the issue of endogenous variables. In this kind of study it is difficult to extract the causalities, due to the endogenous nature of certain factors. This study tries to overcome the problem by using the gender of the CEO's children, which cannot be affected beforehand, as the exogenous instrument variable.

1.4. Related studies

The concept of diversity in corporate top management is a largely discussed area, especially concerning the effects it has on corporate performance. There are also studies concentrating on family firms and their performance. However, it has been argued that gender in family business is an under-studied aspect in the research of family firms (Sharma, 2004; Hamilton 2006).

Fernandez Perez and Hamilton (2007) have approached gender and family firms from an interdisciplinary aspect by studying the previous research. In their paper, they say that the role of women in family firms has always been important in all economies of the world; the contribution of women has been active already from the first stages of a business in providing a safe bridge between generations in case of death of a family member and in useful networking. Fernandez Perez and Hamilton also argue that the entrepreneurial contribution of women to family firms has changed in connection to the effects of technological revolutions and with the social transformations that have occurred during the birth and consolidation of industrialized economies.

In their article Fernandez Perez and Hamilton also point out that institutions and laws have provided changing environments for women in family businesses. In the western world these have been a hindering factor for women's recognition and compensation for their work in firms owned by male members, until the 20th century. Women's participation in family firms varies depending on the country and even region and city, as well as on the size and the markets of the company.

In terms of performance, the differences between family firms and non-family companies have been studied to a larger extent. For example, Anderson and Reeb (2003) have studied founding-family ownership and performance within the S&P 500 companies, and Maury (2005) has examined the same factors in Western European corporations. A similar type of study, concentrating on Finnish companies, was the topic of Samuli Vainikka's Master's thesis in 2008.

Many of these studies find out that family firms perform at least as well, or even better, than their non-family peers. These studies have not, however, paid attention to gender effect or the fact whether the CEO of the company is a family member or not. In fact, studies about gender effect and company performance, in context of family firms are difficult to find, since the topic has not been studied extensively.

The most advanced gender and family firm studies, to my knowledge, have been conducted by Bennedsen et al. (2007) in Denmark. Their study is, in large part, the basis of the empirical part of my Master's thesis. In their study, Bennedsen et al. (2007) have investigated the impact of family characteristics in corporate decision making, and whether the consequences of these decisions affect company performance. These questions are examined in the context of CEO succession decisions. The results of their study show that family characteristics have economically large effects on the decision to promote a family or unrelated CEO. They find that male first-child firms are 32.7% more likely to appoint a family CEO than female first-child firms. Results of Bennedsen et al. (2007) also suggest that family CEOs have large and negative causal impact on firm performance, whereas unrelated CEOs are valuable for the firms they lead. These findings might suggest that countries where the control and management of assets is commonly transferred among family can potentially underperform compared to economics where assets and management are competitively matched.

1.5. Structure of the thesis

The rest of this paper is organised as follows. The next section provides information on earlier literature related to family firms and company performance, as well as gender effect in family firms. It also introduces the empirical framework used in building the hypotheses. The third section outlines the research questions and introduces the hypotheses used in the study. The fourth section provides information on data sources and describes the data and sample characteristics, whereas the fifth part concentrates on the methodology employed in the study. The sixth part of the paper presents the findings of the research, including the empirical results, as well as their analysis and interpretation. Section seven will finish the thesis by summarising the results and concluding the study by comparing the results with previous studies. It also gives suggestions for further research in the area of gender effects and family firms.

2. PREVIOUS RESEARCH AND THEORETICAL FRAMEWORK

This section presents an overview of the main issues covered in previous literature and research related to gender effect, company performance, and family firms in general. Firstly, I describe the definitions of the terms used in this thesis. Secondly, I will demonstrate the importance of family firms for the worldwide business. Thirdly, I extend the introduction of previous research to cover also non-family companies by offering a general view on the gender effect and diversity of company boards, and their effect on company performance. In the fourth part, I present some insights of the role of women in family businesses. The fifth part of this section concentrates on outlining the empirical results of previous family firm performance related studies. Lastly, I will present the framework on which the hypotheses will be built in section three. I concentrate on concepts such as agency problem and separation of ownership and control. I will also introduce the self-selection problem, which is an important concept when talking about gender effect. I will also briefly explain what is meant by mirror effect.

2.1. Definition of the terms used in the thesis

Here, I present the terms I use the most in the thesis. Some terms do have the same meaning and are used interchangeably in the thesis. Knowledge of the meaning of these terms and their use will make the reading experience easier and more understandable.

Agency Problem
= A conflict of interest arising between creditors, shareholders and management because of differing goals

EVA
= Finnish Business and Policy Forum

Family firm

= In this thesis I use the definition of the current Ministry of Employment and the Economy. According to the definition, a company is a family firm, if it meets the following requirements:

I. The majority of votes are held by the person who established or acquired the firm, or their spouses, parents, child or child's direct heirs.
II. At least one representative of the family is involved in the management or administration of the firm.
III. The majority of votes can either be direct or indirect
IV. In the case of a listed company, the person who established or acquired the firm, or their families, possess 25% of the right to vote through their share capital, and there is at least one family member on the board of the company.

Family transition

= A CEO transition, where the incoming CEO is related by blood or marriage to the owner family.

Finnish Top 500

= A list published yearly by Talouselämä magazine. The information for the list is gathered by Balance Consulting, and the company ranking is based on sales. In this thesis, I use the listing from 2009, which is based on financial statements of 2008.

Generation transfer = Transition = Succession

= In this thesis the terms Generation transfer, Transition and Succession are used interchangeably. In this context, the terms mean transfer of power (CEO position) of family businesses from one generation to another.

Glass Ceiling

= A metaphor used to refer to an invisible barrier that prevents someone, in the context of this thesis, women, from advancing past a certain level in a company.

Mirror Effect

= A term which means that people tend to favour aspects that are similar to them; men tend to name men for management positions, for example.

Self-selection

= A term that is used to indicate any situation in which individuals select themselves into a group, causing a biased sample.

TE500

= The same as Finnish Top 500; used interchangeably with Finnish Top 500.

2.2. Gender effect in top management

This subsection concentrates on the representation of women in top management in general, paying attention to gender effect from the perspective of female CEOs and women as part of company boards. The representation of females in corporate boards and top management is low, compared to the fact that, according to the EU Commission report (2007), over 44% of the total workforce in EU countries is female. According to the report, they are more likely to be employed in junior positions and they only comprise 32% of those considered as heads of businesses (chief executives, directors and managers of small businesses).

In Finland, female representation in top management and corporate boards is currently around 12% (Kekki, 2007). Especially, considering the number of women graduating from universities, which is more than the number of men, the number of women in top management positions requiring university degree is really small (EVA report, 2007). This imbalance has caused discussion whether gender diversity in the boardroom, which would better reflect the real structure of the workforce, would improve companies' performance.

To accelerate the advancement of women to the top management positions, especially in the private sector in Finland, the Finnish Business and Policy Forum EVA, has carried out a project called "Women to the top!". As part of the project they have published a report,

"Women to the top! - A Leader Regardless of Gender", of women leaders (EVA, 2007). The conclusion of the report is that female presentation in top management positions is too small, and women as a corporate resource are an underrated aspect. Thus, more effort needs to be allocated to promote gender diversity in corporate boards and management positions.

One of the reasons behind the lack of females in top management is career choice; women tend to choose education that leads to careers in the public sector. On the other hand, in their careers, women tend to get stuck in positions as analysts and in middle management. This is due to the glass ceiling phenomenon, but depends also on the choices and shyness of women. Women should be greedier and consciously strive for career advancement, just like men have done (EVA report, 2007).

To balance this gender disproportion in top management, state representatives have been considering quotas in order to increase female presence in boards of directors in Nordic countries. The discussion, whether to have quotas or not, has been quite intense at times, and it has probably had more to do with the equality question between men and women, than with the increased company performance achieved through more diverse boards. In Norway, the discussion has resulted in a legislative rule that 40% of the board members have to be females as of January 1st 2008, or the companies face delisting or government imposed fines instead. The rule was introduced in 2005. So far none of the companies has faced delisting.

Finland and Sweden have also considered quotas if firms do not voluntarily add women in their boards. At the moment, the quota issue has been put aside and the diversity is being pursued in other, more natural ways. In both Finland and Sweden quotas are considered as the last resort if natural change does not happen. Quotas are considered to have both positive and negative sides; on one hand they are seen as a positive enforcement, and on the other hand they are seen as a negative constrain that limits the free choices of companies. Argumentation for adding female representatives to boards is not only based on equality issues between men and women, but, in an academic environment, on the increase of effectiveness when a board is more diversified as well.

When considering top management and gender effect from the perspective of company boards, without the family firm aspect, the previous research gives some evidence that the more diversified the board is, the more effectively it will work. According to Ellis & Keys (2003) and Blake & Cox (1991) more diverse boards have a tendency to have better relations with customers, suppliers and employees.

However, Adams and Ferreira (2009) challenge the increase in effectiveness when adding females to corporate boards. The first counterargument is tokenism; token board members are unlikely to have a large impact on effectiveness. In addition to women, this also applies to other minorities, if they are selected based on quotas. By adding a minority representative in the board, companies may try to improve their public image. This is known as the window-dressing phenomenon. More diverse boards also tend to have more disagreements (Eisenhardt et al 1997); therefore they should have more interaction and have a shorter meeting frequency than more homogenous boards, so that they could fight this tendency for disagreement.

In previous studies, gender diversity is not the only factor studied to increase board effectiveness. Other features such as race, age and nationality have also been discussed and investigated, and they have been considered to have a positive effect on board diversity (Carter et al 2003, Rose 2007).

2.3. Family businesses

This subsection highlights the importance of family businesses for the whole of the global economy; the importance of family businesses worldwide is a significant contributor to employment and wealth generation. This can be seen from the past entrepreneurial literature and research.

During the last few decades studies have shown that ownership is concentrated around families; the majority of firms around the world are controlled and owned by their founders or their descendants (La Porta et al., 1999). This implies that the view by Berle and Means

(1932) of firms with separated ownership and control is not as widespread as thought among publicly traded firms.

In the United States where the ownership is widely dispersed (Berle and Means, 1932), founding families own and control at least one third of large, publicly traded companies (Anderson & Reeb, 2003). In Western Europe, the majority of publicly held companies are family controlled (La Porta et al., 1999). These families often have large equity stakes and usually have executive representation. In Western European companies, founding families commonly continue holding significant equity stakes after retiring from managerial positions (Burkart et al., 2003). Howorth et al. (2006) argue that family firms represent between 75% and 95% of firms registered worldwide and account for up to 65% of GDP.

In Finland family businesses are also the backbone of the country's economy. According to the Finnish Family Firm Association over 80% of businesses in Finland are family businesses. The majority of these firms are small and medium-sized. In addition, over 100 companies in the Finnish TOP 500 companies' list are family companies. Family firms vary by size from micro start-ups to well established prominent large companies such as Ford, L'Oreal, Lego and IKEA, to name a few. Lemminkäinen, Ahlström Oy, Aarikka Oy and Hesburger on the other hand present a random example of well known family companies in Finland.

2.4. Women in family firms

This subsection reviews previous studies related to gender and family firms. The concept of diversity in corporate top management is a largely discussed area and especially whether it has an effect on corporate performance. It has, however, been argued that gender in family business is an under-studied aspect of the research of the family firms (Sharma, 2004; Hamilton 2006).

Fernandez Perez and Hamilton (2007) have approached the topic of gender and family firms from an interdisciplinary aspect by studying the previous research and history of women in family companies in general. In their working paper, they say that the role of women in

family firms has always been important in all economies of the world. Fernandez Perez and Hamilton also argue that the entrepreneurial contribution of women to family firms has changed in connection to the effects of technological revolutions and with the social transformations that have occurred during the birth and consolidation of industrialized economies. In the article, they also point out that institutions and laws have provided changing environments for women in family businesses. In the western world these were a hindering factor for women's recognition and compensation for their work in firms owned by male members, until the 20th century.

Women's participation in family firms varies depending on the country and even the region and the city, as well as on the size and the markets of the company. In the past decades, the number of women in managerial positions in family companies has increased. It is possible, that women who have climbed the corporate ladder in the past 20 years, are now returning to family firms with skills that have made them more attractive as CEO candidates.

The EVA report "Women to the top! - A Leader Regardless of Gender" (2007), shows that women have better possibilities to advance to management positions as entrepreneurs and in family firms. However, companies established by women tend to remain small. This is not problematic only in family firms, but in general, the companies where women are in top management positions tend to be smaller. One explanation for the fact that females gravitate towards smaller and more manageable companies is that women may not assess personal performance and success on traditional measures; they may prioritize family business decisions based on balancing work and family, because of their primary responsibility for children.

Although patriarchal inheritance is still dominant, succession does not necessarily happen from father to son anymore, as it traditionally did in the past. In family firms of different sizes, women nowadays have an opportunity to get to management positions. Also positions in the operational management, including CEO positions, can nowadays be inherited by women as equally as by men. Theoretically, in family firms women have the same opportunities to advance or inherit managerial positions as men, when there are men and women in the family. However, this change will happen more slowly than in other companies,

where professional managers change much more frequently and with lighter reasons than in family firms, where managers usually change in conjunction with generation transfer.

2.5. Family firms and their performance

This subsection reviews the results of previous studies related to family firms in terms of performance. The differences between family firms and non-family companies, concerning performance measures have been studied to a larger extent than gender issues. There is, however, a lack of studies concentrating on comparing performance in companies with family CEOs versus family companies with unrelated CEOs.

Previous research results on the impact of families in firm performance are somewhat mixed. Morck et al. (1988) find a positive effect of family management for young firms but a negative correlation for old firms. Yermack (1996) finds a negative effect of founding CEOs and Morck et al. (2000) and Perez-Gonzales (2006) find negative performance for family CEOs who inherit their positions. Villalonga and Amit (2006) find that founding families enhance value only when founders are active either as executives or directors of the corporation, but hurt valuations in descendant CEOs' firms.

Anderson and Reeb (2003) have studied founding-family ownership and performance within S&P 500 companies. Their cross-sectional results show that family firms perform at least as well as non-family firms. Using profitability-based measures (ROA), their results show that in the United States family firms perform significantly better than non-family firms; family firms tend to have higher valuations and profitability than non-family firms. This "U.S. family premium" is mainly due to founding family CEOs (Villalonga and Amit, 2006). These findings imply that family ownership in public firms reduces agency problems without leading to severe losses in decision-making efficiency.

In a paper about blockholders, founding-family ownership and firm performance, Andres (2008), shows that family firms are not only more profitable than widely-held firms, but also outperform companies with other types of blockholders. However, his results show that the

performance of family business is only better in firms in which the founding-family is currently active on executive or supervisory board. Ander's findings suggest that family ownership is superior only in restricted conditions. If the families are only shareholders, without board presentation, the performance of their companies does not significantly differ from other companies.

Maury (2005) has examined the same factors in Western European corporations. According to his study, family control increases company performance in Western Europe. Active family ownership, where family possesses at least one of the top two officer positions, increases profitability, whereas it does not change the value premium of family firms. According to the study, passive family ownership on the other hand does not change the profitability of family firms in comparison to non-family companies. Family control improves valuation at lower control levels, while profitability ratios start to increase in higher control levels (Maury, 2005).

A similar type of study on family influence on firm performance concentrating on Finnish data has been the topic of Samuli Vainikka's Master's thesis in 2008. He studied Finnish companies in the TE500 list from 1995 through 2004. According to his study, 36% of companies in 2005 were classified as family companies. His results show that family companies show equal or even better performance than non-family companies, and that family firms are higher leveraged than their non-family counterparts.

When it comes to reasons why family companies or companies led by a family CEO perform better, or in some cases worse, than their non-family competitors, there are a few possible explanations mentioned in the previous literature. First, I present the benefits and then the costs of family ownership and control in companies. In theory, family CEOs could perform better than non-related managers, because they are exposed to higher non-monetary rewards associated with the firms' success (Kandel and Lazear, 1992). Family CEOs are also argued to have hard-to-obtain, firm-specific knowledge and higher levels of trust from key stakeholders (Donnelley, 1964). As opposed to other CEOs, family managers could have longer-term focus on the company management (Cadbury, 200).

One benefit of family ownership is the decrease of agency problems; concentrated shareholders have strong incentive to monitor management and thus decrease agency problems. It can be assumed that, in case of family ownership, this monitoring incentive is even stronger, because families have usually invested most of their monetary, physical and mental wealth in the company, and might not be that well diversified. This makes families a unique type of investors with special concerns for the company's survival and strong incentive to monitor management. Families may have an advantage in monitoring, since they have a long experience in the company. In many cases, conflicts of interest between owners and managers do not exist or are of minor importance in family firms, since family members are most likely also members of the executive board.

In addition, knowledge and experience are more likely to be passed on within the family than shared with outsiders. Usually family members grow close to the company and its employees and are thus able to build trust and develop long-term relationships with external stakeholders, such as, suppliers, financiers, customers and other business associates. Ward (1988) points out, that families successfully create a working environment encouraging trust and loyalty, which leads to lower turnover and recruitment costs. These arguments suggest that family ownership increases the company's credibility to commit to contracts, and promotes loyalty and increased trust. Since most families regard their companies as assets that should be passed on from generation to another rather than being consumed during lifetime (Casson 1999), their investment decisions are based on long-term profit maximization; long-term plans are not sacrificed to boost short-term earnings, which can also impact company performance.

On the other hand, family ownership and control may also have negative consequences. In case of underperformance, the companies led by family CEOs might underperform due to tensions between family and business objectives (Levinson, 1971). Probably the biggest explanation for potential underperformance is, however, the fact that family CEOs are selected from a limited group of people who might not even possess managerial talents (Burkart et al., 2003).

Fama and Jensen (1983) mention that the combination of management and control might lead to less than optimal investment decisions, since the interests of the family are not necessarily

in line with other shareholders' interests. Instead of maximizing firm value, families might have incentive to sacrifice profits for personal benefits and thus expropriate minority shareholders.

According to Andres (2008), a founder might, for example, find personal pleasure from seeing his offspring running the company. In addition, families tend to give executive positions to family members restricting the labour pool to a limited group. Family's role in management selection increases entrenchment and may thus lower the firm's value, since outside control becomes more difficult. Schleifer and Vishny (1997) say that this entrenchment, which might cause that founders remain active in the firm although they are no longer competent, is one of the largest costs that large shareholders can impose. Their argument implies that the performance of family firms gets worse, the older the company is.

Andres (2008) also says that families, as large and undiversified investors, might also pursue risk reduction strategies by channelling investments towards projects that create uncorrelated cash flows relative to the company's core business, or by seeking less risky financing alternatives preferring less debt. Such strategies might be in the best interest of the controlling family, but not in the interests of other shareholders or company profitability.

2.6. Results of previous studies related to gender effect and firm performance

This subsection reviews the results of previous studies related to gender effect and firm performance. First, I will review some Finnish findings on the topic and then continue to introduce the subject in family firm context.

According to the EVA analysis (2007) about female leadership and firm profitability, women as CEOs and a bigger female presentation on company boards is positively related to better company performance, also when other factors affecting performance are considered. The findings of the EVA analysis indicate that a company led by a female CEO is, in practice, about 10% more profitable than a corresponding company led by a male CEO. The share of female board members has a similar positive impact.

A research conducted by Suomen Asiakastieto Oy in 2005 shows similar results. The findings point out that big companies managed by women perform better on average than companies led by men. In companies with female CEOs, return on capital employed was 18.5%, whereas the percentage in male CEO led companies was 14.2%. Equity/assets ratio in female led companies was more than 10% higher than the average.

The results are most likely affected by self-selection; women in top management positions are the most educated, talented, ambitious, committed and career oriented among the pool of female candidates. On the other hand, one negative assumption could be that only companies that are already performing well can afford the risk and hire women as managers, which distorts the results. Company performance can also be compared to growth; women tend to take less risk than men.

With Danish data, Bennedsen, Nielsen and Wolfenzon (2005) have investigated the impact of family characteristics in corporate decision making especially in the decision to appoint internal (family) or external CEOs. They find that both structure and politics of the family are statistically and economically important determinants of succession. Bennedsen, Nielsen and Wolfenzon also find that the probability of a family succession increases with the number of children and decreases with the ratio of female children and decreases with divorce, particularly when it is followed by a new marriage and a new family. They conclude that family dynamics play a significant role in firm decision-making even when families are not the sole owners of these companies.

In another research, this time together with Perez-Gonzales, Bennedsen, Nielsen and Wolfenzon (2007) study the impact of family characteristics on the corporate decision making and the consequences of these decisions on the company performance. The questions were again examined in the context of CEO succession decisions. The study is also the basis of the empirical part of this Master's Thesis.

The research by Bennedsen et al. (2007), shows that family characteristics have economically large effects on the decision to promote a family CEO or an unrelated CEO. They find that male first-child firms are 32.7% more likely to appoint a family CEO than female first-child

firms. Their results also suggest that family CEOs have large and negative causal impact on firm performance, whereas unrelated CEOs are valuable for the firms they lead. These findings might suggest that countries where the control and management of assets is commonly transferred among family can potentially underperform compared to economics where assets and management are competitively matched.

2.7. Agency problem - separation of ownership and control

This subsection presents the concepts of agency problem, as well as separation of ownership and control, which is closely related to agency problems.

Agency problem can be defined as a conflict of interest arising between creditors, shareholders and management because of differing goals. Such a problem arises when management and stockholders have conflicting ideas on how the company should be run. Separation of ownership and control, on the other hand, refers to the common situation in corporate world, where decision agents do not bear a major share of the wealth effects of their decisions. This means that managers are different from the owners of the companies and do not have large risks related to monetary stakes, when making decisions (with the exception of managerial ownership). In companies, where the CEO is a member of the owning family, conflicts of interest between financiers (owners) and the managers who run the company, should not exist or should at least be minimal, because the CEO also represents the owners' views.

In corporations ownership and control are usually separated this way, which leads to conflicts of interest between financiers (owners) and the managers who run the company (Fama and Jensen, 1983). These problems are known as agency conflicts and they can be mitigated by monitoring. In companies with dispersed ownership, the many small shareholders are most likely not informed well enough to be able to efficiently monitor the company. In addition, they do not even have the opportunity and required resources for active monitoring. Large investors or blockholders, on the other hand, have big enough stake and resources to invest in

monitoring management and thus mitigating agency problems. Their motivation is also strong due to large ownership stake.

Concentrated ownership has, however, also its downside. First, large shareholders primarily present their own interest and not, for example, the interest of the employees or minority shareholders. This means that they will use their control rights for maximizing their own utility, which might come with the expense of other shareholders. The probability of minority shareholder expropriation is particularly high if large investors hold majority voting rights in excess of cash-flow rights. In these cases they have an incentive to pay out larger proportions of company's cash flow as dividends, for example.

Founding families and owners of family companies can be considered as one form of the different types of blockholders. These founding families and family owners have an especially strong incentive to decrease agency problems and increase firm value. Nevertheless, several characteristics give reason to assume that they differ from other types of large shareholders.

On one hand, family ownership decreases agency problems; concentrated shareholders have strong incentive to monitor management and thus decrease agency problems. It can be assumed that, in the case of family ownership, this monitoring incentive is even stronger, because families have usually invested most of their monetary, physical and mental wealth in the company, and might not be that well diversified. This makes families a unique type of investors with special concerns for the company's survival and strong incentive to monitor management. Families may have an advantage in monitoring, since they have a long experience in the company. In many cases, conflicts of interest between owners and managers do not exist or are of minor importance in family firms, since family members are most likely also members of the executive board.

On the other hand, family ownership has also negative consequences. According to Fama and Jensen (1983) the combination of management and control might lead to less than optimal investment decisions, since the interests of the family are not necessarily in line with other shareholders' interests. Instead of maximizing firm value, families might have incentive to sacrifice profits for personal benefits and thus expropriate minority shareholders.

According to Andres (2008), families as large and undiversified investors might pursue risk reduction strategies by channelling investments towards projects that create uncorrelated cash flow relative to the company's core business, or by seeking less risky financing alternatives preferring less debt. Such strategies might be in the best interest of the controlling family, but not in the interests of other shareholders or the company profitability.

2.8. Self-selection problem

This subsection explains the term self-selection and why it is problematic when studying gender effects in top management.

Self-selection is a term that is often used to indicate any situation in which individuals select themselves into a group, causing a biased sample. It is commonly used to describe situations where the characteristics of the people which cause them to select themselves in the group create abnormal or undesirable conditions in the group. Due to these issues and thus the biased sample, the result might be skewed.

In the context of this study, the self-selection issue becomes visible in many ways. One of them is an explanation for the fact that women tend to have more top management positions in smaller companies rather than big ones, and companies established by women have a tendency to remain small. This is partly because of self-selection; females gravitate towards smaller and more manageable companies, because women may not assess personal performance and success on traditional measures; they may prioritize family business decisions based on balancing work and family, because of their primary responsibility for children.

Another example of the self-selection issue comes up when considering the number of women graduating from universities and the number of women in top management positions. The number of women in top management position requiring university degree is substantially small (EVA, 2007). Yet again, the explanation can partly be found from self-selection,

namely the career choice of women; women tend to choose education that leads to careers in public sector.

In addition, self-selection is also related to traditions, which affect the career choices and professional advancement of women. Some industries are considered as manly industries, such as oil, forestry, metals and telecommunication, and some especially suitable for women, such as retail, healthcare and service businesses. Women are also traditionally considered as the caretakers of the family, and sometimes career oriented women have been blamed for neglecting their families in favour of career. Nowadays this point of view has however been changing toward better equality. Nevertheless motherhood can still be seen as a factor that gets in the way of career advancement. Thus women gravitate towards certain industries and positions because of tradition.

The last effect of self-selection in corporate world that is also related to this study is the fact that women in top management positions are most likely to be the most educated, talented, ambitious, committed and career oriented among the pool of businesswomen. Thus, women who are greedier and consciously strive for career advancement, just like men, advance to the top positions through self-selection.

2.9. Glass ceiling phenomenon

In addition to self-selection, an even more important factor preventing the career advancement of women is the glass ceiling phenomenon. The EVA report (2007) says that women get easily stuck in analyst positions and middle management.

The term "*glass ceiling*" is a metaphor used to refer to an invisible barrier that prevents someone, in context of this thesis, women, from advancing past a certain level in a company (Morrison et al., 1992). The term "glass" (transparent) is used, because the limitation is usually an invisible barrier and is normally an unwritten and unofficial policy. The level at which this glass ceiling is apparent in different organizations may differ. Most observers

would agree, however, that responsibility beyond the general management level has been difficult for women to achieve (Barr, 1996; Morrison et al., 1992).

Daily et al. (1999) have empirically examined the career progress of women in the corporate environment over a 10-year period from 1987 to 1996. Their aim was to find out whether there has been an increase in women's representation on corporate boards and CEO positions. As a result they find out that the glass ceiling apparently persists at the executive level. Their results show greatly increased representation on corporate boards. However, they find no evidence of progress in women as CEOs. Furthermore, their study shows that there is no evidence of these circumstances improving in the coming years. The number of female inside directors in an intermediate, and requisite position in the succession to CEOs, is astonishingly small, only 0.006% in 1996 (Daily et al., 1999).

One factor contributing to the glass ceiling effect is a mirror effect, which means that people tend to favour aspects that are similar to them (EVA report, 2007). Since, traditionally men have been in a dominant position in the corporate world and the number of women managers has increased only during the past few decades, some old structures are still visible in the corporate world. For example, designation teams are mostly composed of men, old CEOs and board directors are men, and it can be assumed that it is easier to replace a man with another man. The tendency for mirror effect causes people to favour aspects that are similar to them, so these men tend to name men for top management positions. Furthermore the people choosing CEO successors and candidates for management position may not know women who are suitable for the position; the pool of women with the capability and experience to serve on boards is larger than it is generally believed or known.

3. RESEARCH QUESTIONS AND HYPOTHESES

In this section, I present the research questions in detail, as well as hypotheses that will be tested in this study. The study has 6 differing hypotheses that try to answer the research questions and shed light to gender effect and the effect of family characteristics on succession decisions in Finnish family firms. Firstly, I will introduce the research questions. Secondly, I will concentrate on the hypotheses which are associated with succession decisions. Thirdly, I will introduce the hypotheses related to firm performance. The hypotheses are mainly drawn from theories of ownership concentration and agency problem, as well as from the former research and literature on the topic of family ownership, firm performance and gender effect.

3.1. Research questions of the study

This subsection presents the four research questions, for which this Master's thesis aims to find answers. The research questions are as follows:

1. *Does the gender of the top manager's children affect the succession decision?*
2. *How does the gender of the CEO affect firm performance in Finnish family firms?*
3. *How do other family and firm characteristics affect the succession decision?*
4. *Does it make a difference in terms of performance, whether the successor comes from within the family or is unrelated?*

The main objective of this thesis is to study gender effect in top management; whether the gender of the company CEO's children has an impact on the succession decision and whether the gender of the company CEO has an impact on the company performance. I will also examine the effect of family and firm characteristics, such as number of children and firm size, to the succession decision. The empirical study of the thesis concentrates on the gender effect in family firms especially when generation transfer occurs.

The purpose is to find out whether the gender of the top manager's children affects the succession decision and whether the manager's gender, or the fact that he or she is a member of the owner family, makes a difference in terms of company performance? The research also tackles the problem of gender effect on succession decisions in Finnish family firms. The aim is also to find out if gender and family characteristics actually affect the initial succession decision. Are women in an inferior position when succession decisions are being made? My intention is to find out whether gender plays a role when a family firm decides on a new company CEO when the old one retires.

3.2. Hypotheses associated with succession decisions

This subsection concentrates on the hypotheses associated with family characteristics and succession decisions. There are altogether 4 hypotheses in this group.

H1 = Firms choosing a family CEO are smaller than firms choosing an unrelated CEO

The first hypothesis compares the size of the family firms who choose family CEOs or unrelated CEOs. It assumes that firms choosing family CEOs are relatively smaller in size than their counterparts choosing unrelated CEOs. The reasoning for the hypothesis relies on the fact that family firms are usually small or medium sized and, I assume that smaller and more manageable firms are more likely to choose a family CEO, compared to a big company that might require the leadership of a professional CEO. Big family firms can also be public companies that usually have professional CEOs.

H2 = Probability of family succession increases with the number of the CEO's children

The second hypothesis suggests that as the number of the CEO's children increases, so does the likelihood of family succession. The reasoning behind this assumption is that the larger the number of offspring, the larger the pool of talent from which to choose the successor. I

also assume that in these cases it is more likely to find a child, who is keen and professionally capable to take on the position of CEO at the time of succession. If there is only one child, it is possible that he/she will pursue another career, instead of continuing in the family firm.

H3 = The gender of the CEO's children makes a difference on succession decisions in family firms; male children being preferred over females.

The third hypothesis takes the gender of a CEO's children as the exogenous variable in defining the succession decisions in family firms, and tries to find out does if it affects the succession decision. Here we can examine the effect in families with multiple children and also find out whether the gender of a child affects the decision to hire the CEO from outside the company in the succession process. The prediction in the hypothesis is that men are more preferred than women as CEO successors. Earlier research shows that the glass-ceiling phenomenon exists (e.g. EVA report, 2007 and Daily et al., 1999), which would imply that women have more difficulties advancing to management positions, leading to the assumption that male children are preferred over female children in succession decisions. The mirror effect, which means that people tend to favour aspects that are similar to them, is also a fact that contributes to the assumption of male preference; current male managers favour male successors.

H4 = In family firms men are preferred over women as CEO successors

Hypothesis number four takes into account gender and firm succession and tries to answer the question how these two are connected. The prediction in this hypothesis, just like in the previous one, is that men are more preferred than women as CEO successors. The basis for this assumption lies in the fact that although succession does not necessarily happen from father to son anymore, as it traditionally did in the past, patriarchal inheritance is still dominant. A recent EVA report (2007) shows that in their careers, women tend to get easily stuck in analyst positions and middle management. Daily et al. (1999) also show that the glass ceiling apparently persists at the executive level. One factor contributing to the glass ceiling

effect and the hypothesis is mirror effect, which means that people tend to favour aspects that are similar to them (EVA report, 2007). Since, traditionally men have been in a dominant position in the corporate world, and the number of women managers has increased only during the past few decades, some old structures are still visible in the corporate world; men tend to name men for top management positions.

Considering the fourth hypothesis, self-selection problems need to be taken into account. Due to these issues, the result of H4 might be skewed towards preference of male CEO's. This might be due to the fact that men are generally assumed to be greedier and more career-oriented than women, and so they might more eagerly pursue a career in top management. Women may prefer softer values and family over a demanding career in top management, and thus there might be a preference to choose male CEO's.

3.3. Hypotheses related to firm performance

The following two hypotheses are related to firm performance in context of family firms.

H5 = Firms with a family CEO perform better than firms with an unrelated CEO

The fifth hypothesis compares family firms with family CEOs and unrelated CEOs in terms of performance. It assumes that family CEOs perform better than their non-family competitors. The reasoning for this hypothesis relies on the fact that, in theory, family CEOs could perform better than non-related managers, because family CEOs are exposed to higher non-monetary rewards associated with the firms' success. It can be assumed that firms with family CEOs lack most of the agency problems, since ownership and control are not separated and thus the amount of information asymmetry is small. This could lead the companies to perform better than in a case where the CEO is unrelated. When the CEO comes from outside the family, the risk of agency problems and information asymmetries increases, since the ownership and control are more separated. Kandel and Lazear (1992) suggest that for this reason family firms could perform better than non-family firms. If the company's CEO comes from within the

family, it is argued that the CEOs have more hard-to-obtain, firm-specific knowledge and higher levels of trust from key stakeholders (Donnelley, 1964). As opposed to other firms, family CEOs and managers could have longer-term focus on the company management (Cadbury, 200). Based on these facts hypothesis number five expects that family firms perform better than their non-family counterparts.

H6 = Male CEOs perform better than female CEOs

The sixth hypothesis takes into account the gender effect, predicting that firms managed by males perform better than female led firms. Although men and women nowadays have equal opportunities regarding education, I expect superior performance for male CEO's, because men are generally assumed to be greedier, they work on industries which have large amounts of money in circulation, such as oil, forestry, metals and telecommunication, as opposed to women who tend to work on service and healthcare businesses. Men also may have different preferences in business compared to women, who might favour softer values over superior performance.

4. DATA DESCRIPTION AND SUMMARY STATISTICS

In this section I will give information about the data used in the empirical study and analysis. Firstly, I introduce the data sources. Secondly, I will give some statistical information about CEO transitions in Finland. Thirdly, I will introduce summary statistics about firm characteristics, and lastly I will show information about family characteristics of the sample companies.

4.1. Data sources

This subsection introduces the sources of data gathered for the empirical analysis. The data is collected partly with the help of the Finnish Family Firm Association, which provides the list of family firms within the TE500 list and some information on the ownership base of the family firms. The member companies of the Finnish Family Firm Association are also included in the sample.

The initial data consists of 127 family companies on the Finnish Top 500 List in 2009 and 273 member companies of the Finnish Family Firm Association, totalling in 400 companies. The study covers a period of 11 years between 1994 and 2005. For these 400 companies I hand-picked all the CEOs year by year from the database of the National Board of Patents and Registration of Finland, in order to create a new database of CEO transitions suitable for this study, making approximately 4400 individual searches altogether.

After the process of collecting CEO transitions, 136 companies had to be eliminated from the sample, due to lack of transitions during the period under review. I also needed to eliminate 15 companies in the initial sample, because they were too young, founded in the beginning of the 21st century, and thus could be included in the final sample. Due to lack of available data, on both personal as well as company level, I needed to eliminate further 53 companies from the sample. As a result of these radical eliminations, the final sample consists of 196 family companies totalling in 287 CEO transitions during the period under review.

The dataset contains financial information on firms, as well as personal and family information about the departing and incoming CEOs. The dataset used in the study is a unique combination of information from different sources, as explained below.

1. Information on CEOs and transitions is hand-collected from the database of the Board of Patents and Registration of Finland, which has access to management information from 1994 to present. The years of establishment, as well as information on industry classification are hand-collected from the Fonecta Pro Finder B2B database.

2. Financial information is mainly collected from the Voitto+-database by Suomen Asiakastieto Oy and the electronic archives of the National Board of Patents and Registration of Finland, as well as statutory releases of the companies. I have also used TE500 list of 2009 by ETLA as a source of financial information. The Finnish Top 500 (TE500) list is published yearly by Talouselämä magazine. The information for the Top 500 list is gathered by Balance Consulting and the ranking is based on revenues. I use the listing of 2009, which is based on financial statements of 2008.

3. Individual and family data about the departing and incoming CEOs are from the Population Register Center of Finland. These records include name, gender, birth date and family information, including parents, children and siblings. This data is used to construct the CEOs' family trees to identify, whether the departing and incoming CEOs are related. An important source of company and family information are also company web-sites, newspaper articles, as well as biographies and chronicles of different firms.

All these above mentioned data from different sources are combined, making the dataset of the study one-of-a-kind and difficult to obtain. Due to the nature of the required data and the restricted availability of the information, the sample size used in the study is relatively small. The size is limited in order to be able to be collected by hand and further processed to produce results answering the hypotheses. Family companies in the TE500 and member firms of the Finnish Family Firm Association were selected, because they have suitable information

available and are large and old enough. The data is also found in the databases used, and for the most part it is possible to hand-collect the needed information for such a restricted group of companies.

The analyses are performed using both univariate analysis and multivariate OLS and Two-stage-least-squares-regressions (2SLS) with STATA program, as well as difference-in-differences analysis. I will go through the methodology more closely in section six.

4.2. CEO transitions in Finnish family firms

In this subsection, I present summary statistics of CEO transitions in the sample companies between 1994 and 2005.

Table 1 on the next page presents transitions occurring during the period under review by year, type of transition and gender. As we can see from the table, there have been altogether 287 CEO transitions among the sample constituting 196 family firms between 1994 and 2005. The transitions have occurred quite evenly during the review period, increasing steadily during the whole period under investigation.

The smallest number of CEO transitions occurred in 1997 and the largest number in 2005. One reason behind this increasing tendency is the age structure of the companies and especially their CEOs. Many of the companies have been run by baby-boomers, who are facing retirement age in the 21st century. Initially, I examined the transitions from 1994 to 2008 in the sample companies, although the transitions of 2005 to 2008 are not included in the final study and this thesis. I also identified the increasing tendency of transitions even after 2005, and this will provide a fruitful research opportunity in the future.

Table 1. CEO Transitions in Sample Companies by Year, Type and Gender
This table shows the number of CEO transitions that occurred in family controlled companies between 1994 and 2005. CEO successions are classified in two groups; *Family,* when the entering CEO is related to the owner family and *Unrelated* otherwise. The table also presents the gender of the entering CEO.

YEAR	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	TOTAL	%
All family controlled firms	13	17	15	12	14	19	31	40	27	30	33	36	287	100.00 %
%	4.53 %	5.92 %	5.23 %	4.18 %	4.88 %	6.62 %	10.80 %	13.94 %	9.41 %	10.45 %	11.50 %	12.54 %	100.00 %	
Family	6	14	14	6	6	10	18	13	13	14	14	14	142	49.48 %
Male	6	14	13	6	6	9	17	8	13	12	12	12	128	44.60 %
Female	0	0	1	0	0	1	1	5	0	2	2	2	14	4.88 %
Unrelated	7	3	1	6	8	9	13	27	14	16	19	22	145	50.52 %
Male	7	3	1	6	8	9	13	27	13	15	16	20	138	48.08 %
Female	0	0	0	0	0	0	0	0	1	1	3	2	7	2.44 %
TOTAL Male CEO	13	17	14	12	14	18	30	35	26	27	28	32	266	92.68 %
TOTAL Female CEO	0	0	1	0	0	1	1	5	1	3	5	4	21	7.32 %

We can also see from Table 1 that 142 transitions have occurred among the owner families, meaning that the entering CEO is a member of the owner family. This makes up 49.5% of the transitions in family companies. The rest of the transitions among family owned companies were *Unrelated*, meaning that the entering CEO comes from outside of the family and is thus not related to the departing CEO. 145 the transitions were these unrelated transitions, making up to 50.5% of the total number of transitions. The figures are very even between family transitions and unrelated transitions.

The table also presents the division between male and female CEO's. We can see that the presentation of female CEO's in the sample is very low. It is notable that in only 21 cases of the 287 CEO transitions the entering CEO is a woman, which only accounts for 7.3% of the total number of transitions. In the 142 family transitions there are 14 female CEO's, which accounts for 4.9% of all the sample companies and 9.8% of the family transitions. The number of female CEO's in unrelated transitions is 7 out of 145, which presents 4.8% of the unrelated transitions and 2.4% of all transitions.

We can see that among the family transitions there are slightly more women CEOs compared to unrelated transitions. Yet, the number is very insignificant. The same conclusion is, however, detected also in the EVA report (2007). The small number of women in the sample could imply that the glass ceiling effect might be present also in family firms. It also implies that traditional patriarchal inheritance seems to be still dominant among the companies. Thus

H4, which predicts that in family firms men are preferred over women as CEO successors, would seem to hold.

Table 2. Detailed Classification of Successions by Type and Gender
This table shows the classification of sample companies by type of CEO succession and gender of the entering CEO in more detail. Unrelated firm successions are successions where the entering CEO is not related to the owner family of the company. Other-Other shows successions from a non-family related CEO to non-family related CEO. Family-Other shows successions from a family CEO to a non-related CEO. Family successions are succession where the entering CEO belongs to the owner family. Other-Family shows the succession from a non-family CEO to a family CEO, and Family-Family shows transitions from family CEO to family CEO. The table also shows the percentage of each of the succession types of the total number of successions in the sample. %TOTAL shows the percentage of the total number of successions, whereas %TYPE presents the percentage of the number of successions by type.

	Unrelated		Family		
Succession Type	**Other-Other**	**Family-Other**	**Other-Family**	**Family-Family**	**TOTAL**
Number	81	64	47	95	287
% TOTAL	28.22 %	22.30 %	16.38 %	33.10 %	100.00 %
Male	75	63	44	84	266
% TYPE	92.59 %	98.44 %	93.62 %	88.42 %	
% TOTAL	26.13 %	21.95 %	15.33 %	29.27 %	92.68 %
Female	6	1	3	11	21
% TYPE	7.41 %	1.56 %	6.38 %	11.58 %	
% TOTAL	2.09 %	0.35 %	1.05 %	3.83 %	7.32 %

Table 2 above shows the classification of companies by the type of transition and gender in more detail. The classification is based on whether the entering CEO belongs to the owner family or not; *Unrelated* successions are successions where the entering CEO is not related to the owner family of the company, and *Family* successions are successions where the entering CEO belongs to the owner family. *Other-Other* shows successions from a non-family related CEO to a non-family related CEO. *Family-Other* shows successions from a family CEO to a non-related CEO. *Other-Family* shows successions from a non-family CEO to a family CEO, and *Family-Family* shows transitions from a family CEO to a family CEO. The table also shows the percentage of the succession types of the total number of successions in the sample.

As we can see, the largest number of successions, 95 altogether, are Family-Family successions, where both the entering and the leaving CEO are related. Of the successions 81 are Other-Other successions, meaning that neither the leaving CEO nor the entering CEO are related to the owner family. The percentage of male CEOs is an overwhelming 92.7% of all transitions. In Family-Family transitions 11 of the incoming CEOs are female, which is 3.8%

of all transitions and 11.6% of Family-Family transitions. The number is, however, more than the number of female CEOs in other succession type's altogether, which totals in 10 women. Of the female CEO's two thirds, which is 14 altogether, take part in family successions, whereas only 7 women become CEOs in unrelated transitions. This implies very weakly, that women in family firms as members of the owner family have slightly better opportunities to become CEOs than women outside the family firm. This is in line with previous research (EVA report, 2007).

Table 3 on the next page, presents the number and percentage of companies and successions, as well as the number and percentage of family successions and unrelated successions by industry. Companies are divided in industries using the TOL2008 classification standards by main industry groups. Industry group X is not classified as its own industry, because it includes all industries that are otherwise unknown.

As we can see from the table, there are eight main industries on which there are no family firms and thus no successions present, but are purely represented by non-family companies instead. These eight industries are mining and quarrying; electricity, gas, steam and air conditioning supply; water supply; sewerage, waste management and remediation activities; public administration and defence; compulsory social security; education; other service activities; activities of households as employers; undifferentiated goods and service-producing activities of households own use and activities of extraterritorial organisations and bodies.

The explanation for the lack of family firms in these industries stems from the nature of the industries. Many of these industries are heavily regulated and also restricted by law, such as energy-related activities and public sector activities, to name a few, which might explain the non-existence of family firms. In some of these industries, companies need to be sizewise so large and capital extensive, requiring lots of outside capital, that being a family company is not possible.

Table 3. Companies and CEO Successions by Succession Type and Industry between 1994 and 2005
This table shows the number and percentage of family companies with CEO transitions, and the number of successions by succession type and industry between 1994 and 2005. Family-firm CEO successions are classified in two groups; *Family,* when the entering CEO is related to the owner family CEO, and *Unrelated* otherwise. Companies are divided by industries using the TOL2008 main group classification.

		Nr of Family-Firms		Nr of Successions		Type of Succession			
Industry		**Number**	**%**	**Number**	**%**	**Family**	**%**	**Unrelated**	**%**
A	***Agriculture, Forestry and Fishing***	***2***	***1.02 %***	***2***	***0.70 %***	***1***	***0.35 %***	***1***	***0.35 %***
B	Mining and Quarrying	0	0.00 %	0	0.00 %	0	0.00 %	0	0.00 %
C	***Manufacturing***	***67***	***34.18 %***	***105***	***36.59 %***	***47***	***16.38 %***	***58***	***20.21 %***
D	Electricity, Gas, Steam and Air Conditioning Supply	0	0.00 %	0	0.00 %	0	0.00 %	0	0.00 %
E	Water Supply; Sewerage, Waste Management and Remediation Activities	0	0.00 %	0	0.00 %	0	0.00 %	0	0.00 %
F	***Construction***	***14***	***7.14 %***	***19***	***6.62 %***	***6***	***2.09 %***	***13***	***4.53 %***
G	***Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles***	***48***	***24.49 %***	***65***	***22.65 %***	***39***	***13.59 %***	***26***	***9.06 %***
H	***Transportation and Storage***	***7***	***3.57 %***	***11***	***3.83 %***	***5***	***1.74 %***	***6***	***2.09 %***
I	***Accommodation and Food Service Activities***	***7***	***3.57 %***	***8***	***2.79 %***	***6***	***2.09 %***	***2***	***0.70 %***
J	***Information and Communication***	***7***	***3.57 %***	***11***	***3.83 %***	***3***	***1.05 %***	***8***	***2.79 %***
K	***Financial and Insurance Activities***	***9***	***4.59 %***	***14***	***4.88 %***	***10***	***3.48 %***	***4***	***1.39 %***
L	***Real Estate Activities***	***2***	***1.02 %***	***3***	***1.05 %***	***1***	***0.35 %***	***2***	***0.70 %***
M	***Professional, Scientific and Technical Activities***	***24***	***12.24 %***	***34***	***11.85 %***	***13***	***4.53 %***	***21***	***7.32 %***
N	***Administrative and Support Service Activities***	***4***	***2.04 %***	***7***	***2.44 %***	***5***	***1.74 %***	***2***	***0.70 %***
O	Public Administration and Defence; Compulsory Social Security	0	0.00 %	0	0.00 %	0	0.00 %	0	0.00 %
P	Education	0	0.00 %	0	0.00 %	0	0.00 %	0	0.00 %
Q	***Human Health and Social Work Activities***	***3***	***1.53 %***	***4***	***1.39 %***	***2***	***0.70 %***	***2***	***0.70 %***
R	***Arts, Entertainment and Recreation***	***2***	***1.02 %***	***4***	***1.39 %***	***4***	***1.39 %***	***0***	***0.00 %***
S	Other Service Activities	0	0.00 %	0	0.00 %	0	0.00 %	0	0.00 %
T	Activities of Households as Employers; Undifferentiated Goods and Service-Producing Activities of Households Own Use	0	0.00 %	0	0.00 %	0	0.00 %	0	0.00 %
U	Activitis of Extraterritorial Organisations and Bodies	0	0.00 %	0	0.00 %	0	0.00 %	0	0.00 %
X	Industry unknown	0	0.00 %	0	0.00 %	0	0.00 %	0	0.00 %
TOTAL		196	100.00 %	287	100.00 %	142	49.48 %	145	50.52 %

Industries with the most family companies and CEO successions are in order; manufacturing, wholesale and retail trade; repair of motor vehicles and motorcycles, professional, scientific and technical activities, as well as construction, which all include traditional family company industries. Otherwise companies and successions are quite evenly distributed between different main industries, as can be seen from the table.

Concentrating on the four largest industries, the biggest industry, manufacturing, has 67 companies, which makes 34.2% of all the companies. These 67 companies have altogether 105 CEO transitions, which makes 36.6% of all the 287 transitions. 47 of the transitions are family transitions, where the entering CEO belongs to the owner family, and 58 of the transitions are unrelated by type. Wholesale and retail trade; repair of motor vehicles and motorcycles has 48 companies with 65 successions, which makes 24.5% and 22.7% of the total numbers, respectively. Wholesale and retail trade; repair of motor vehicles and motorcycles is the only one of the four biggest industries that has more family transitions than unrelated transitions, 39 and 26 respectively. Scientific and technical activities and construction have 24 companies and 34 successions and 14 companies and 19 successions,

respectively. Altogether the four biggest industries make up to 78.1% of the total number of companies and 77.7% of the total number of successions.

4.3. CEO transitions and firm characteristics

In this subsection I present the firm characteristics of the family companies facing CEO transition during the period under review.

Table 4 on the next page presents the characteristics of the sample companies at the time of transition, based on the gender of the CEO. As we can see, there are no statistically meaningful differences in terms of firm size and operating profitability between firms where the CEO is male, compared to companies where the CEO is female. It has to be kept in mind that the representation of female CEOs in the sample is very small. Only 21 CEOs out of 287 are women, which makes only 7.3% of the total number of CEOs, and this limits the the analysis of the results.

The only significant difference can be found in the number of the CEOs children. It seems that female CEOs have fewer children than male CEOs. The difference is 8.23 percentage points and it is significant at one percent level. The result of female CEOs having smaller families is, in my opinion, logical. Women CEOs need to make some compromises regarding career and family, and in many cases this results in a smaller family.

Although other factors do not show significance, I find that the companies led by men seem to be slightly bigger than the companies led by female CEOs. The difference is, however, only of -3.6 to -4.7 percentage points smaller when measured as ln assets and ln sales, respectively. Based on the results, we can say that the gender of the CEO does not affect firm characteristics very much, and vice versa. The fact that companies led by men are slightly bigger is in line with the findings by the EVA report (2007), which points out that, in general, the companies where women are in top management positions tend to be smaller. One explanation for these results is the fact that women gravitate towards smaller and more manageable companies because women may not assess personal performance and success on

traditional measures; they may prioritize family business decisions based on balancing work and family, because of their primary responsibility for children (EVA report, 2007).

Table 4. Firm Characteristics by Gender of CEO
The table presents firm characteristics at the time of the Chief Executive Officer (CEO) transition (end of the year of transition) by the gender of the CEO. Ln Sales is the natural logarithm of sales in euros. Ln assets is the natural logarithm of the book value of assets in Euros. OROA is the operating income to the book value of assets. Net income to assets is the ratio of net income to the book value of assets. Industry-adjusted OROA is the difference between OROA and the average of the industry benchmark. Firm age is the difference between the CEO transition year and the year the company was established. Medians are in parenthesis.

		Gender of CEO		
Variable	**All**	**Male**	**Female**	**Difference**
	(I)	(II)	(III)	(IV)
N	287	266	21	245
Ln sales	9.905	9.939	9.475	-0.465
median	*9.723*	*9.731*	*9.112*	*(-0.83)*
Ln assets	9.929	9.955	9.596	-0.359
median	*9.672*	*9.710*	*9.550*	*(-0.89)*
Operating return on assets (OROA)	0.088	0.088	0.088	0.001
median	*0.069*	*0.068*	*0.074*	*(0.03)*
Net income to assets	0.203	0.144	0.954	0.810
median	*0.061*	*0.062*	*0.049*	*(0.93)*
Industry-adjusted OROA	-0.001	-0.000	-0.008	-0.008
median	*-0.008*	*-0.008*	*0.003*	*(-0.37)*
Firm age	48.474	48.831	43.952	-4.878
median	*37*	*37*	*32*	(-0.58)
Number of Children of Departing CEO	2.334	2.395	1.571	-0.823***
median	*2*	*2*	*2*	*(-3.48)*

Table 5 on the next page presents summary statistics of the firms in the sample at the time of succession. The table shows the sample as whole, as well as divided into different subgroups; *family* when the entering CEO is related to the owner family, and *unrelated* otherwise. CEO successions are also classified in more detail by type of succession; *other-other* shows successions from a non-family related CEO to a non-family related CEO. *Family-other* shows successions from a family CEO to a non-related CEO. *Other-family* shows successions from a

non-family CEO to a family CEO and *family-family* shows transitions from a family CEO to a family CEO.

Table 5. Firm Characteristics by Type of CEO Succession
The table presents firm characteristics at the time of the Chief Executive Officer (CEO) transition (end of the year of transition). CEO successions are classified first in two groups; *Family,* when the entering CEO is related by blood or marriage to the departing CEO, and *Unrelated* otherwise. CEO successions are also classified in more detail by type of succession; Other-Other shows successions from a non-family related CEO to non-family related CEO. Family-Other shows successions from a family CEO to a non-related CEO. Other-Family shows succession from a non-family CEO to a family CEO and Family-Family shows transitions from a family CEO to a family CEO. Ln assets is the natural logarithm of the book value of assets in euros. OROA is the operating income to the book value of assets. Net income to assets is the ratio of net income to the book value of assets. Industry-adjusted OROA is the difference between OROA and the average of the industry benchmark. Firm age is the difference between the CEO transition and the year the company was established. Medians are in parenthesis.

Variable	All	Family	Non-Family	Difference	Family-Family	Other-Other	Family-Other	Other-Family
N, successions	**287**	**142**	**145**	**3**	**95**	**81**	**64**	**47**
Distribution (%)	**100.00**	**49.48 %**	**50.52 %**	**1.05 %**	**33.10 %**	**28.22 %**	**22.30 %**	**16.38 %**
Ln sales (1000€)	9.905	0.227	0.233	-0.006	9.262	10.696	9.934	9.806
				(-0.07)	*9.334*	*9.657*	*9.690*	*9.416*
Ln assets (1000€)	9.929	9.497	10.353	-0.856***	9.359	10.722	9.886	9.774
				(-4.36)	*9.408*	*9.694*	*9.683*	*9.484*
Operating return on assets (OROA%)	0.088	0.116	0.061	0.055***	0.130	0.043	0.083	0.086
				(3.71)	*0.112*	*0.039*	*0.075*	*0.050*
Net income to assets	0.068	0.090	0.047	0.043***	0.099	0.035	0.063	0.071
				(3.26)	*0.083*	*0.063*	*0.068*	*0.065*
Industry-adjusted OROA	-0.021	0.004	-0.045	0.049***	0.018	-0.065	-0.020	-0.024
				(3.30)	*0.003*	*-0.039*	*-0.002*	*-0.035*
Firm age	48.474	38.830	57.917	-19.087***	34.558	67.173	46.203	47.468
				(-3.56)	*26*	*67*	*33.5*	*34*

The first row in Table 5 shows the natural logarithm of sales for the sample companies, and the second row presents the natural logarithm of total assets for the firms in the sample. It seems that firms that undergo family successions are relatively smaller than those who decide to appoint unrelated CEOs.

In order to present comparable measures of firm performance at the time of CEO transitions, both operating income and net income are scaled using the book value of assets. Operating return on assets (OROA) is measured as the ratio of earnings before interest and taxes (EBIT) to the book value of assets. OROA is a measure of performance that has been used to assess if firms' operations change around successions, in previous CEO turnover literature (Perez-Gonzales, 2006). OROA compares firms' cash flows to the total asset base used to generate them, and is unaffected by differences in the capital structure decisions of the firms. The average OROA for all the sample companies is 8.8%. When comparing Family and Unrelated

successions, I find that firms that experience family successions are more profitable than firms that choose unrelated CEOs. The figures are 11.6% and 6.1%, respectively. The difference is significant in 1 percent level.

Table 5 also presents the ratio of net income to assets, which is calculated using after-tax profits relative to the book value of assets. The average net income to assets is 6.8%. Also according to this measure, it seems that companies with family CEOs are more profitable than companies that have unrelated CEOs with a difference of 4.3 percentage points. This difference in net income to assets is significant at 1 percent level.

In addition, Table 5 reports industry-adjusted measures of OROA. Industry controls are calculated using equally weighted averages of all firms in the industry, including those that do not face CEO transition. For each industry, at least 20 non-event firms need to exist in any given year. The TOL2008 main industry classification is used to identify different industries. Industry-adjusted OROA shows that the difference in profitability of family-CEO and unrelated-CEO firms is 4.9 percentage points in favour of family firms. This result is in line with the unadjusted operating return on assets measure. Since there is no difference in the significance of industry-adjusted and unadjusted measures, we cannot say that the difference is driven by industry characteristics.

When concentrating on the more detailed division between different succession types, the results are similar; companies with family-family transitions are smallest and most profitable, whereas other-other transitions occur in the relatively largest and least profitable companies, other-family and family-other being in between, in respective order.

All in all, Table 5 suggests that family successions are likely to take place in relatively smaller and more profitable companies. This finding can partly be explained by the fact that most of the family companies are small or medium sized. Big companies are more challenging to manage, and thus it is likely that they have professional unrelated managers. Large companies can also be public companies, where the CEO usually comes from outside the family. An unrelated CEO represents the minority shareholders, so that the owner family cannot use their position to advance their own objectives against performance.

These results related to the characteristics of the companies facing CEO transitions are in line with the results of Bennedsen et al. (2007), who also find that companies facing family transition are relatively smaller and more profitable than those who decide to appoint unrelated CEOs. However, they find no difference in the firm age, whereas my results show that firms facing family transition are younger than companies with the entering CEO coming from outside the family.

4.4. Family Characteristics, Gender of Firstborn Child and CEO Succession Decisions

In this subsection I explore the family characteristics in more detail, concentrating on the children of entering and retiring CEOs. I will try to find connections between family characteristics and the choice of the incoming CEO, using univariate analysis explained in the previous subsection.

In Table 6 on the next page, I present the relationship between family characteristics and the choice of the incoming CEO. Column I shows the overall results of the successions. Number and share of CEO transitions, when classified as *family*, are presented in columns II and III. Number and share of CEO transitions classified as *unrelated* successions are presented in columns IV and V. Family successions are further divided into *family-children* transitions and *family-others* transitions. In family-children transitions, in columns VI and VII, the incoming CEO is a child of the departing CEO. Columns VIII and IX show family-others transitions when the incoming CEO is related, but not an offspring of the departing CEO. Columns X and XI present others-family successions, where the departing CEO is not related to the family, but the incoming CEO belongs to the family.

Family succession occurs 142 times out of the 287 CEO successions, which is 49.5% of the total. Column VI shows that in 53 of the family transition, which makes 37.3% of the total, the children of the departing CEOs are involved. According to column X, in 47 cases, which is 33.1% of the total family transitions, the CEO position is returned back to the family.

Table 6. Firm Successions and Family Characteristics of Departing CEOs
The table presents family characteristics at the time of the Chief Executive Officer (CEO) transition. CEO successions are classified in two groups; *Family,* when the entering CEO is related by blood or marriage to the departing CEO, and *Unrelated* otherwise. Family successions are further classified as *Family: Children* successions, where the entering CEO is a child of the departing CEO and *Family: Others*, otherwise. In Panels (A) to (C), the share of family and unrelated successions are presented by alternative family characteristics of the departing CEOs: (A) the number of children, (B) the ratio of sons to the total number of children , and (C) the gender of the firstborn child. T-values are in parentheses and the numbers of observations are in square brackets. ***, ** and * denote significance at the 1, 5 and 10 percent levels, respectively.

Description	Number of Successions	Type of Succession									
		Family		Unrelated		Family - Family				Others - Family	
						Family: Children		Family: Others			
		Number	Share	Number	Share	Number	Share	Number	Share	Number	Share
	(I)	(II)	(III)	(IV)	(V)	(VI)	(VII)	(VIII)	(IX)	(X)	(XI)
All	**287**	142	0.495	145	0.505	53	0.373	42	0.296	47	0.331
A. Number of children											
0	18	7	0.389	11	0.611	0	0.000	4	0.222	3	0.167
1	32	11	0.344	21	0.656	5	0.156	3	0.094	3	0.094
2	122	58	0.475	64	0.525	23	0.189	16	0.131	19	0.156
3	82	49	0.598	33	0.402	19	0.232	14	0.171	16	0.195
4 or more	33	17	0.515	16	0.485	6	0.182	5	0.152	6	0.182
Difference (1) minus (0)			-0.045				0.156		-0.128	0	-0.073
Difference (3) minus (1)			0.254				0.075		0.077		0.101
B. By gender ratio (male/children)											
< 50 percent	96	50	0.521	46	0.479	25	0.260	7	0.073	18	0.188
= 50 percent	80	35	0.438	45	0.563	10	0.125	10	0.125	15	0.188
> 50 percent	111	57	0.514	54	0.486	21	0.189	22	0.198	14	0.126
Difference (>50%) minus (<50%)			-0.007				-0.071		0.125		-0.061
C. By gender of firstborn child											
Female	131	73	0.557	58	0.443	24	0.183	23	0.176	26	0.198
Male	156	69	0.442	87	0.558	29	0.186	19	0.122	21	0.135
Difference male minus female			-0.115				0.003		-0.054		-0.064

In Panel A of Table 6, I show the frequency of family successions as a function of the number of children of the departing CEO. I find that the frequency of family successions increases with the number of children; from 34.4% for departing CEOs with one child to 59.8% for departing CEOs with three children. I also find that when moving from three to four or more children, the share of family succession does not increase further, but falls to 51.5% instead.

These results seem likely; if the CEO has only one child it is possible that the child is keen to pursue a career not in the family company. When the number of children increases, so does the pool of talent from which to choose the successor. It is also more likely to find a child that is willing to take on the CEO position in the family firm. However, when the number of children is more than four, it is likely that internal conflicts increase, when there are more children sharing the same pie. In that case it is likely that as a compromise, the CEO successor comes from outside the family.

According to the results presented in Table 6, it seems that family firms prefer children over other relatives at the time of succession. Panel A shows that in firms where the departing CEO has one child, the child is appointed as CEO in 15.6% of the successions. The ratio is zero when the departing CEO does not have children. An interesting observation is that part of this increase comes with the expense of relatives that are not children. When the share of family CEOs other than children is compared to CEOs who have one and no children, I find that the frequency with which other family members get the CEO position decreases by 12.8 percentage points from 22.2 to 9.4 percentage with the first child.

This implies preference of children over other relatives at the time of succession. The preference of children over relatives can partly be explained by tax issues. It is more profitable to make the succession to a child, than to a niece or a cousin, for example, because the amount of taxes that needs to be paid is smaller.

The results in Panel A are in line with the previous study by Bennedsen et al. (2007). They also find that the frequency of family successions increases with the number of children, from 29.1% with executives with one child to 41.3% with those who have three children. They also find that family companies seem to prefer children over other relatives at the time of succession. The results of Bennedsen et al. (2007) also show that when moving from three to four or more children, the share of family succession does not increase further, but falls instead, which is similar to my findings.

In Panel B of Table 6, I explore the relationship between the ratio of male children to the total number of children and succession decisions. Companies, where more than 50% of the departing CEO's children are male, are 0.7 percentage points less likely to have a family successor than in firms where less than 50% of the children are male. Similar results are also shown in columns VII and XI, which both report a decrease in the likelihood of child and family succession, when the share of male children is more than half of all children. However, the likelihood to appoint other family members, than own children to a CEO position, increases by 12.5 percentage points when the share of male children increases to over 50%.

This result differs strongly from the findings of Bennedsen et al. (2007), who report a 10.8% increase in the likelihood to appoint a family successor, when the ratio of male children is larger than 50%. They also a decrease of 3.3 percentage points in the likelihood to appoint another relative, when the male ratio is more than half. The reasons behind these dissimilarities are hard to evaluate, since Finland and Denmark, where the compared studies have been conducted, are quite similar when it comes to equality between men and women and education.

Panels A and B show an interesting relationships between family characteristics and the probability of family successions, but it is still difficult to declare causalities. Correlations might be explained by the CEOs' personal preferences for large and close families. Gender ratio is an attractive feature since it is partly exogenous; the departing CEO is unlikely to control the gender of children. However, the ratio is partly endogenous because individuals can affect the size of their families. (Bennedsen et al., 2007)

To overcome the endogenous variable problem, Panel C in Table 6 reports the relationship between the decision to promote a family CEO and a trait that is likely to be random, the gender of the firstborn child. This is a good way to investigate whether family characteristics might have an impact on the probability to appoint a family CEO, because the gender of the firstborn child is likely to be unaffected by the departing CEO, but instead is determined by nature.

Panel C shows that the departing CEO with a male firstborn is 11.5 percentage points less likely to appoint a family member as a successor than CEOs with female firstborns. However, the gender of the firstborn does not seem to affect the frequency with which the children of the CEO get the executive position. The gender of the firstborn, when it's male, seems to have a small negative impact of 5.4% on the frequency with which other relatives get the CEO position.

These results are also strongly in contrast with the findings of Bennedsen et al. (2007), who report a 9.6% increase in the likelihood to appoint a family successor, when the firstborn child of the departing CEO is male. They also report that this result seems to be driven by changes

in the probability of children of the outgoing CEO getting the position. When the firstborn is male, the probability of the entering CEO being a child of the departing CEO increases by 10.8 percentage points compared to a situation where the firstborn child is female, report Bennedsen et al. (2007).

It seems that the low level of females in CEO positions in Finland cannot be explained by the preference of male children over female. Overall, it looks like in Finland the gender of the children of the departing CEO does not affect the succession decisions in ways that were expected. Instead, it seems that female children are preferred over male, but this does not show in CEO appointments. Men are still preferred as leaders of the companies.

Having now investigated the effect of family characteristics on succession decisions and finding an exogenous trait for assessing the effect of gender in naming a family CEO, I will next describe the empirical methodology to study the consequences of a family CEO to company performance.

5. METHODOLOGY

This section reviews the research methodology applied in the study and introduces the variables used in regressions. Methodology is in large part based on the study by Bennedsen et al. (2007) which is conducted with Danish data. In this study I use univariate analysis, difference-in-differences analysis, as well as multivariate analysis; OLS and 2SLS regressions.

5.1. Univariate analysis

In univariate analysis I explore each variable in the data set separately and describe them on their own. For univariate data I present one observation per company using time series averages. I average across time series for each company and then determine the mean for the sample by averaging across companies.

5.2. Difference-in-differences analysis

To evaluate the impact of family CEOs on firm performance, I estimate the difference in firm profitability around CEO successions and evaluate the way in which firm profitability changes as a result of management transition. The difference provides an estimate of the impact of CEOs on performance that is not affected by the firms' time-invariant characteristics. However, this analysis can fail to control changes in performance that are due to industry or demand trends and succession-specific shocks for example.

To overcome this problem, a common solution is to adjust the measures by using industry benchmarks and using a difference-in-differences (DD) analysis, relative to a control group. In this case the changes in performance in companies that name a family CEO are compared to firms that experience a succession by an unrelated CEO as described in the following equation:

(1) $$y_i = \alpha_1 + X_i^{'} + c_1 famCEO_i + \varepsilon_{1i}$$

where:

y_i = the difference in performance of CEO transitions

$famCEO_i$ = indicator variable equal to 1 if the incoming CEO is family and 0, if unrelated.

c_1 = 0, under the hypothesis that all CEOs are equally talented

5.3. Multivariate analysis

A shortcoming of the DD analysis is that it requires that the program to be evaluated cannot be implemented based on differences in outcomes. In the setting of this thesis, this requirement implies that CEO decisions are uncorrelated with determinants of firm performance. To overcome this problem, I use the instrumental variable (IV) estimation method, which is explained in the next subsection 5.3.1.

5.3.1. Instrumental variables estimation – 2-stage least squares (2SLS)

Here is a brief explanation of what the regressions are all about. When the values of the regressors (the explanatory variables) depend on the values of the regressand (the dependent variable), it is said that the model's variables are mutually dependent. As a result, an

explanatory variable is correlated with the model error term. This violates the basic assumptions of OLS regression causing OLS estimators to become biased and inconsistent.

In this situation consistent and unbiased estimates may be obtained if a suitable instrument is available. In this case a valid instrument is a variable that meets the following two criteria; it should affect the probability of observing a family succession and it should not affect firm performance through other channels, except of its effect on CEO succession decision.

The advantage of using IVs is that we are explicit about the source of variation used to evaluate the relative impact of family CEOs and unrelated CEOs. In this study, I use the gender of the firstborn child to instrument for whether a new CEO comes from the family or is unrelated. Because this variation is independent of the firms' prospect it diminishes the concerns about causal interpretations of the study results.

There is, however, a drawback in using IV estimation, which is the fact that IV estimation is only based on the subset of firms that are affected by the instrument. If the effect of family CEOs is not constant across firms, then the IV only estimates the average effect of family managers on the set of firms that respond to the instrument. The 2SLS method includes two successive applications of OLS regression. 2SLS estimates are compared with OLS estimates to assess whether the gender of the departing CEO's firstborn affects the succession decision and firm performance.

To implement the IV estimator, I run the following first stage OLS regression:

(2) $$famCEO_i = \alpha_{2i} + X_i^{'} b_2 + c_2 genderfirst + \varepsilon_{2i}$$

where:

$famCEO_i$ = Indicator variable equal to 1 if the incoming CEO is family related to the departing CEO and 0 if unrelated.

genderfirst = Indicator variable equal to 1 if the first child is male and 0 if it is female

male/all = Ratio of male to total children of the departing CEO

firstborn = Indicator variable equal to 1 if the first child of the departing CEO is male and 0 otherwise

nrmale = The number of registered male children of the departing CEO at the time of transition

maleindic = Indicator variable equal to 1 if the departing CEO has male children, 0 otherwise

The second-stage equation estimates the impact of family successions on company performance:

(3) $$firmperformance = \alpha_3 + X_3^{'} b_3 + c_3 fam\hat{C}EO_i + \varepsilon_{3i}$$

where:

$firmperformance$ = the difference in performance of CEO transitions

$fam\hat{C}EO_i$ = predicted values from (2)

c_3 = our interest, which captures the direct effect of a family succession on performance.

Other variables that are used in the regressions (3) include the following:

firmage = Difference between the year of transition and the year of company establishment

male/all = Ratio of male children to total children of departing CEO

firstborn = Indicator variable equal to 1 if the first child of the departing CEO is male and 0 otherwise

nrmale = The number of registered male children of the departing CEO at the time of transition

maleindic = Indicator variable equal to 1 if the departing CEO has male children, 0 otherwise

lnassets = The natural logarithm of company assets at the time of transition

inadjoroa = Industry-adjusted OROA is the difference between OROA and the average of the industry benchmark

inadjniass = Industry-adjusted Net income to assets is the difference between the ratio of net income to the book value of assets and the average of the industry benchmark

lnsales = The natural logarithm of company sales at the time of transition

family = Indicator variable equal to 1 if the incoming CEO is family related, 0 if unrelated

oroa = Operating income to book value of assets

6. RESULTS

The purpose of this thesis is to study gender effect in top management in Finnish family firms and whether the gender of the company CEO and her/his children have an impact on the company performance and succession decisions. As the data has shown, the number of women in top management positions, as CEO's to be exact, is small. In this section I will go through the empirical results. Firstly, I will explain the results of univariate analysis related to the gender of the first child of the departing CEO and an array of family characteristics. Secondly, I go through the results of difference-in-differences analysis, and finally, I present the results of multivariate analysis; OLS and 2SLS regressions.

6.1. Results of univariate analysis

In this subsection I present the results of univariate analysis. In table 7 on the next page, I explain the results of univariate analysis related to the gender of the first child of the departing CEO and an array of family characteristics. The results are presented at the time of transition.

As we can see, there are no statistically meaningful differences in firm size and operating profitability between firms, where the departing CEO's first child is male, and firms where that child is female. However, I find a difference of -3.4 percentage points when it comes to net income to assets. We can see that Table 7 is in stark contrast with Table 5 on page 41, where I find significant differences between different firm characteristics for family and unrelated transitions. I also find that the gender of the first born is not affecting family size very much. The fact that there are no significant differences in firm characteristics between male firstborn and female firstborn companies, shows that gender of the CEO's firstborn child does not affect firm characteristics. This means that it is a good instrumental variable, as it does not directly affect the dependent variables.

Table 7. Firm and Family Characteristics by the Gender of the First Child of the Departing CEO
The table presents firm and family characteristics at the time of the Chief Executive Officer (CEO) transition. CEO successions are classified by the gender of the firstborn child; Male when the child is male and Female, when the child is female. Firms where the CEO does not have children were omitted from the sample. Ln assets is the natural logarithm of the book value of assets in euros. OROA is the operating income to the book value of assets. Net income to assets is the ratio of net income to the book value of assets. Industry-adjusted OROA is the difference between OROA and the average of the industry benchmark. Firm age is the difference between the CEO transition and the year the company was established. Number of Children of Departing CEO is the number of the known children of the departing CEO. T-values are in parentheses and the medians are in italics. ***, ** and * denote significance at the 1, 5 and 10 percent levels, respectively.

Variable	All	Male	Female	Difference
	(I)	(II)	(III)	(IV)
Ln sales	9.442	9.427	9.456	-0.029
median	*9.396*	*9.247*	*9.539*	*(-0.09)*
Ln assets	9.497	9.415	9.573	-0.158
median	*9.440*	*9.408*	*9.457*	*(-0.59)*
Operating return on assets (OROA)	0.116	0.103	0.127	-0.024
median	*0.100*	*0.087*	*0.105*	*(-1.09)*
Net income to assets	0.090	0.072	0.106	-0.034
median	*0.081*	*0.065*	*0.088*	*(-1.76)*
Industry-adjusted OROA	0.004	0.005	0.003	0.002
median	*-0.001*	*-0.010*	*0.000*	*(0.11)*
Firm age	38.831	37.797	39.808	-2.011
median	*28*	26	*28*	(-0.35)
Number of Children of Departing CEO	2.415	2.536	2.301	0.235
median	*2*	3	*2*	*(1.44)*

Based on the results on Table 7, I find no evidence that firm or family characteristics differ as a function of the instrumental variable, the gender of the departing CEO's firstborn child.

6.2. Results of difference-in-differences analysis

To analyze the relative performance of family CEOs I will present the results of difference-in-differences analysis in this subsection.

Table 8 on the next page shows the results of the analysis. Panel A presents result using industry-adjusted-OROA for a three-year window before and after CEO transitions. The three-year window is chosen so as to be able to capture the possible effect of transition. One- or two-year windows are considered too small. Also Bennedsen et al. (2007) have used a three-year window around the transitions in their study. Thus the results are comparable.

Column 1 shows that firms that face CEO transitions have lower than average profitability before succession. We can also see that after transition the profitability further decreases by 1.67 percentage points relative to their industry peers. This is in contrast with the findings of Bennedsen et al.(2007), who find that after transitions, companies outperform their industry peers by 0.8 percentage points. My result contrasts also other previous studies on CEO turnover (Huson et al., 2004).

When comparing before profitability levels of both family successions and unrelated successions, we find that family transitions occur in firms that have above average operating return on assets. In comparison, companies facing unrelated transition have below average profitability. The difference between these figures is 3.95 percentage points and it is significant at one-percent level. Bennedsen et al. (2007) have found a similar tendency between family transitions and unrelated transitions.

We can also see from Table 8 that both family and unrelated succession companies tend to perform worse after transition than before. However, companies with family transition still perform better than their industry peers. The difference between before and after performance for family transition companies is, nevertheless, statistically insignificant.

Companies that exhibit unrelated succession also tend to perform worse after transition than before. This difference is statistically significant in 5 percent level. The decrease in the profitability is 2.01 percentage points. This result is in contrast with findings of Bennedsen et al. (2007), who report that firms promoting an external CEO face improvement in profitability by 1.3 percentage points, which is a significant result at one-percent level.

Table 8. CEO Succession Decisions and Firm Performance around CEO Transitions
This table presents CEO Succession Decisions and Firm Performance around CEO Transitions. CEO successions are classified in two groups; *Family,* when the entering CEO is related by blood or marriage to the departing CEO, and *Unrelated* otherwise. Panel A reports industry-adjusted OROA before (three-year average) and after (three-year average) successions and differences in these measures around CEO transitions. Panel B presents differences (difference-in differences (DD)) around CEO transitions (and across succession groups) for the three year averages of the following variables: (I) OROA (II) industry-adjusted OROA (III) industry-adjusted net income to assets, (IV) ln assets and (V) ln sales. In all cases the year of transition is omitted. OROA is the operating income to the book value of assets. Industry-adjusted OROA is the difference between OROA and the average of the industry benchmark. Industry-adjusted Net income to assets is the difference between the ratio of net income to the book value of assets and the average of the industry benchmark. Ln assets is the natural logarithm of the book value of assets in euros. Ln sales is the natural logarithm of sales in euros. Medians are in italics. T-values are in parentheses and the numbers of observations are in square brackets. ***, ** and * denote significance at the 1, 5 and 10 percent levels, respectively.

Panel A. Dependent Variable: Industry-Adjusted Operating Return on Assets (OROA)

		Type of Succession		
	All	**Family**	**Unrelated**	**Difference**
	(I)	(II)	(III)	(IV)
Before	-0.003	0.018	-0.022	0.040***
median	*-0.017*	*0.000*	*-0.033*	(-2.89)
	[287]	[142]	[145]	
After	-0.019	0.004	-0.042	0.047***
median	*-0.032*	*-0.020*	*-0.043*	(-2.71)
	[287]	[142]	[145]	
Difference	-0.017*	-0.013	-0.020**	-0.007
	(-1.52)	(-0.71)	(-1.71)	(0.43)

Panel B. Alternative Dependent Variables: (Difference-in-Differences (DD) Analysis)

	Type of Transition			
Differences in	**Family**	**Unrelated**	**Mean Difference-in-Differences**	**Median DD**
	(I)	(II)	(III)	(IV)
Operating return on assets (OROA)	0.009	-0.003	0.012	0.006
			(0.75)	
Industry-adjusted OROA	-0.013	-0.020	0.007	-0.003
			(0.43)	
Industry-adjusted net income to assets	-0.027	0.024	-0.051	0.052
			(-1.21)	
Ln assets	0.177	0.211	-0.034	-0.019
			(-0.54)	
Ln sales	-0.227	-0.233	0.006	0.052
			(0.07)	

Panel B in Table 8 presents alternative measures of firm performance, when comparing family CEOs and unrelated CEOs. To find out, whether the decline in profitability shown in Panel A is due to industry factors, the first row shows unadjusted OROA as the performance measure, and the second row shows industry-adjusted OROA. As we can see, the unadjusted

OROA has increased in family transition companies, from which we can assume that the decrease in profitability is driven by industry factors. The results are, however, insignificant and thus we cannot make any conclusions. The last two rows of Table 8 show that unrelated CEOs decrease the asset base more than family related CEOs. We can also see that revenues decline in both subgroups compared to the level prior to the CEO succession.

To sum up the results of difference-in-differences analysis in Table 8, the results suggests that CEO transitions are associated with lower profitability in both related and unrelated successions; however, the decrease is not significant in family successions, whereas the decrease is significant in companies promoting an unrelated CEO. When it comes to alternative measures of profitability, the results are insignificant.

I believe that the decrease in the profitability could be impacted by the fact that a CEO change is a shock for the company. The new CEO, whether family or unrelated, has a lot to learn, and the transition period is not always thoroughly planned. This might impact the whole work environment thus decreasing the productivity. It is also possible that the CEO change is timed so that the profitability is already decreasing and the new CEO is not necessarily able to change the direction fast enough, so that it would show in my study's event window.

Table 9 on the next page presents different measures of firm performance, when comparing male and female CEOs. The first row shows unadjusted OROA as the performance measure, and the second row shows industry-adjusted OROA. As we can see, the unadjusted OROA has increased for both male and female CEOs, female CEOs having bigger value. Industry-adjusted OROA on the one hand has decreased for both genders; for male CEOs the decrease is slightly larger than for female CEOs. These results are insignificant and thus we cannot make conclusions. Instead, we need to note that the gender seems to have no difference on performance.

Table 9. Gender of CEO and Firm Performance around CEO Transitions
This table presents the gender of the CEO and firm performance around the CEO transitions. The table shows differences (difference-in differences (DD)) around CEO transitions by the gender of the CEO as three year averages on the following variables: (I) OROA (II) industry-adjusted OROA (III) industry-adjusted net income to assets, (IV) ln assets and (V) ln sales. In all cases the year of transition is omitted. OROA is the operating income to the book value of assets. Industry-adjusted OROA is the difference between OROA and the average of the industry benchmark. Industry-adjusted Net income to assets is the difference between the ratio of net income to the book value of assets and the average of the industry benchmark. Ln assets is the natural logarithm of the book value of assets in euros. Ln sales is the natural logarithm of sales in euros. Medians are in italics. T-values are in parentheses and the numbers of observations are in square brackets. ***, ** and * denote significance at the 1, 5 and 10 percent levels, respectively.

Differences in (three-year average post succession) - (three-year average pre-transition)	**Gender of CEO**		
	Male	**Female**	**Mean Difference-in-Differences**
	(I)	(II)	(III)
Operating return on assets (OROA)	0.223	0.378	0.155 (0.39)
Industry-adjusted OROA	-0.102	-0.064	0.037 (0.34)
net income to assets	0.258	0.203	-0.055 (-0.51)
Ln assets	0.192	0.227	0.035 (0.21)
Ln sales	0.206	0.594	0.389 (0.97)

The last two rows of Table 9 show that family CEOs of both genders increase the asset base, females more than male CEOs. We can also see that revenues increase in both subgroups, compared to the level prior to the CEO succession. In this case, the increase is bigger for female CEOs, which, together with the other results presented in the table, would imply that female CEOs perform better than their male counterparts.

However, all these results are statistically insignificant, which is most likely due to the small sample size and the small number of women in the sample. Thus such conclusions cannot be justified and I can only say that it seems that the gender of the CEO has no difference on performance. Based on these findings, H6, which hypothesizes that male CEOs perform better than female CEOs, needs to be rejected.

The results can be based on the fact that those women who are in CEO positions are the most talented from the female pool, so the best and most capable individuals have been selected to become CEOs. These women are talented also among the pool of male candidates. The results show that differences in performance are most likely not based on the CEO's gender, but instead rely on other individual characteristics.

6.3. Results of multivariate analysis

This subsection concentrates on the results of multivariate analysis; both OLS and 2SLS regressions, where the effect of family CEOs on firm performance are estimated using instrumental variables. However, I will first present the correlation matrix in Table 10.

From the correlation matrix below we can see that there are quite many variables that correlate with each other significantly. Correlations coefficients, which have a value less than 0.5 are tolerated. However, variables that correlate more than 0.5 should not be included in the same regressions, because that can distort the results.

Table 10. Correlation matrix
This table presents the correlations between all variables used in multivariate analysis. *Firmage* is the difference between the year of transition and the year of company establishment. *Male/all* tells the ratio of males to the total number of the departing CEO's children. *Firstborn* is an indicator variable equal to 1 if the first child of the departing CEO is male and 0 if it is female. *Nrmale* tells the number of registered male children of the departing CEO at the time of transition. *Maleindic* is an indicator variable equal to 1 if the departing CEO has male children, 0 otherwise. *Lnassets* is the natural logarithm of company assets at the time of transition. *Inadjoroa* tells the value of industry-adjusted OROA, which is the difference between OROA and the average of the industry benchmark. *Inadjniass tells the value of* Industry-adjusted net income to assets, which is the difference between the ratio of net income to the book value of assets and the average of the industry benchmark. *Lnsales* is the natural logarithm of company sales at the time of transition. *Family* is an indicator variable equal to 1 if the incoming CEO is family related, 0 if unrelated. *Oroa* is the same as the operating income to the book value of assets. ***, ** and * denote significance at the 1, 5 and 10 percent levels, respectively.

	firmage	male/all	firstborn	nrmale	maleindic	lnassets	indadjoroa	indadjniass	lnsales	family	oroa
firmage	1										
male/all	-0.041	1									
firstborn	0.046	0.684***	1								
nrmale	-0.019	0.725***	0.489***	1							
maleindic	0.050	0.781***	0.579***	0.661***	1						
lnassets	0.486***	-0.082	-0.017	-0.033	-0.054	1					
indadjoroa	-0.212***	0.100*	0.022	0.077	0.050	-0.202***	1				
indadjniass	-0.195***	0.060	-0.055	0.069	0.046	-0.149**	0.704***	1			
lnsales	0.408***	-0.054	0.026	-0.021	-0.033	0.783***	0.011	-0.117*	1		
family	-0.206***	0.004	-0.115*	0.048	0.037	-0.250***	0.192***	0.177***	-0.223***	1	
oroa	-0.203***	0.066	-0.036	0.069	0.013	-0.184***	0.939***	0.622***	0.035	0.214***	1

Table 11 on the next page presents the results of first-stage regressions when estimating relationships between the gender of the departing CEO's firstborn child and the type of succession. We find that having a male firstborn child is negatively correlated with a family transition. This result is consistent with the findings presented in Table 5 on page 41. Companies whose departing CEO has a male first child are 11.5% less likely to appoint a family CEO, relative to those who have a female firstborn. The result is significant on 10 percent level and it is in contrast with the results by Bennedsen et al. (2007).

One concern with this firstborn variable is that the variation might capture the effect of having a male child, a trait that can affect the decision of having more children if the firstborn is not male. Thus a male indicator dummy is added. The male indicator variable shows whether the departing CEO has male children altogether. By adding the male indicator variable the coefficient of the firstborn child is male variable decreases further by 0.9 percentage points. This leads to the result that the gender of the firstborn child has a significantly negative effect on 1 percent level.

Although, the male child indicator variable is significantly negatively correlated with family CEO appointments, families can favour male children over female. The probability of having a male child can be affected by increasing the number of children. Thus columns III and IV in Table 11 report first-stage regression results for variables that present the number of male children and the ratio of males to total children. The results of these variables are insignificant, which means that having a male child is not a very meaningful factor in family CEO successions.

Column V in Table 11 presents the regression results using the gender of the first child as an instrument and firm age and year dummies as added controls. The results show that family successions tend to happen, statistically significantly, in smaller and more profitable companies, when compared to companies promoting unrelated CEOs. The results also indicate that family successions happen in slightly younger companies, although this finding is insignificant. These findings of the regressions are in line with the results of univariate analysis in section five, Table 5. The estimate of male firstborn remains similar through all regressions.

Table 11. Gender of the Firstborn Child and Family Successions
In Table 11, the dependent variable is an indicator variable equal to 1 if the incoming CEO is related by blood or marriage to the owner family, otherwise 0. The gender of the firstborn child is male is an indicator value, which equals to 1 if the child is male and 0 if female. Male child indicator variable is an indicator variable equal to 1 if the departing CEO has at least one male child, 0 otherwise. Number of male children is the number of the departing CEO's male children at the time of transition. Ratio of male to total children is the ratio of the departing CEO's sons to all children at the time of transition. Ln assets, firm age, and industry-adjusted OROA are defined in Table 9. T-values are in parentheses. ***, ** and * denote significance at the 1, 5 and 10 percent levels, respectively.

Variable	**Dependent Variable: Family CEO**					
	(I)	(II)	(III)	(IV)	(V)	(VI)
Gender of the first born child	-0.115*	-0.205***			-0.120**	-0.117*
is male	(-1.95)	(-2.85)			(-2.08)	(-2.07)
Male child indicator variable		0.187**				
		(2.16)				
Number of male children			0.024			
			(0.81)			
Ratio male to total children				0.005		
				(0.06)		
Ln assets					-0.073***	-0.054***
					(-4.41)	(-2.83)
Firm age						-0.001
						(-1.24)
Industry-adjusted OROA						0.544**
						(2.41)
Year controls	No	No	No	No	Yes	Yes
R-squared	0.0131	0.0290	0.0023	0.0000	0.0764	0.1028
Number of CEO transitions	287	287	287	287	287	287

To summarize Table 11, first-stage regression results indicate that the gender of the first child being male has a strong negative impact on decisions regarding family succession. The results also indicate that family successions happen in smaller and more profitable companies. The results imply that gender of the first child being male has a strong negative impact on decisions regarding family succession. It seems that the low level of females in CEO positions in Finland cannot be explained by preference of male children over female.

Overall, it looks like in Finland the gender of the children of the departing CEO does not affect the succession decisions in ways that were expected. Instead, it seems that women offspring are preferred over men, but this does not show in CEO appointments. Based on

these contradicting results, together with the small number of female CEOs, I will reject H3, which expects that the gender of the CEO's children makes a difference on succession decisions in family firms; male children being preferred over females. The reasons behind the dissimilarities between my results and the ones by Bennedsen et al. (2007) are hard to evaluate, since Finland and Denmark, where the compared studies have been conducted, are quite similar when it comes to equality between men and women and education. One explanation for this strange finding can be found in the small size of the sample, which might skew the results.

Table 12 on the next page illustrates the correlation between the gender of the firstborn child and the change in the company's profitability, measured as industry adjusted OROA. As we can see from the table, these correlations are all statistically insignificant and thus it is difficult to make assumptions on whether the gender of the firstborn has any effects on firm profitability.

We can still look at the estimated coefficients for the direction of the impact. We can see from Table 12, that there seems to be a negative impact on firm performance, when the first child of the CEO is male. Gender of the first born has a positive coefficient, when including male child indicator variable, but the reaction is insignificantly 0.5%. When it comes to firm age, it seems that it does not have any kind of effect on the change in performance. All the other variables indicate negative impact of family CEOs on performance. However, we need to keep in mind that the change in profitability is in any of the cases, statistically not different from zero.

Table 12. Gender of the Firstborn Child and Performance on Succession
In this table, the dependent variable is the change in firm profitability around CEO transitions. In columns (I)-(VI), firm profitability is defined as industry-adjusted OROA. In Column (VII), firm performance is industry-and-performance-adjusted OROA. Changes in profitability are computed as the difference between the three-year average post succession profitability minus the three-year average pre-transition profitability. The year of succession is omitted. Gender of the firstborn child is male is an indicator value, which equals to 1 if the child is male and 0 if female. Male child indicator variable is an indicator variable equal to 1 if the departing CEO has at least one male child, 0 otherwise. Number of male children is the number of the departing CEO's male children at the time of transition. Ratio of male to total children is the ratio of the departing CEO's sons to all children at the time of transition. Ln assets, firm age, and industry-adjusted OROA are defined in Table 9. T-values are in parentheses. ***, ** and * denote significance at the 1, 5 and 10 percent levels, respectively.

Variable	**Dependent Variable: Differences in Operating Profitability around CEO Successions** (three-year average post succession) - (three-year average pre-transition)					
	(I)	(II)	(III)	(IV)	(V)	(VI)
Gender of the first born child is male	-0.008 (-0.50)	0.005 (0.25)			-0.008 (-0.49)	-0.008 (-0.46)
Male child indicator variable		-0.027 (-1.13)				
Number of male children			-0.011 (-1.35)			
Ratio male to total children				-0.030 (-1.30)		
Ln assets					-0.002 (-0.40)	-0.001 (-0.18)
Firm age						0.000 (-0.47)
Industry-adjusted OROA						-0.019 (-0.29)
Year controls	No	No	No	No	Yes	Yes
Number of CEO transitions	287	287	287	287	287	287

In Table 13 on the next page, I examine the effect of a family CEO on company performance around CEO transitions, using alternative conditions. In order to be able to compare OLS and IV estimates, I present in columns I and II the OLS regression estimates of the effect of family successions on performance. The difference in industry-adjusted OROA, before and after transition with a three-year window, is used as a measure of company performance.

Table 13. Firm Performance and Family Successions: OLS and Instrumental Variables
Estimated coefficients in Columns (I)-(II) are from ordinary least squares regressions and in Columns (III)-(VII) from IV-2SLS regressions. The dependent variable is the change in industry-adjusted OROA around CEO succession as defined in Table 9. Family CEO variable is an instrumental variable equal to 1 if the incoming CEO is related by blood or marriage to the departing CEO, otherwise 0. Gender of the firstborn child is male is an indicator value, which equals to 1 if the child is male and 0 if female. Male child indicator variable is an indicator variable equal to 1 if the departing CEO has at least one male child, 0 otherwise. Number of male children is the number of the departing CEO's male children at the time of transition. Ratio of male to total children is the ratio of the departing CEO's sons to all children at the time of transition. Other control variables are defined in Tables 9 and 10. T-values are in parentheses. ***, ** and * denote significance at the 1, 5 and 10 percent levels, respectively.

	Dependent Variable: Differences in Operational Profitability around CEO Successions (three-year average post succession) - (three-year average pre-transition)						
	OLS		**IV-2SLS**				
	(I)	(II)	(III)	(IV)	(V)	(VI)	(VII)
Family CEO	0.007	-0.001	-0.142	-0.100	0.228	0.005	-0.135
	(0.43)	(-0.05)	(-0.86)	(-0.97)	(1.00)	(0.06)	(-0.84)
Ln assets		-0.004					-0.011
		(-0.68)					(-1.04)
Firm age		0.000					0.000
		(0.08)					(-0.40)
Industry-adjusted OROA t=-1		0.096					0.173
		(1.46)					(1.49)
Year controls	No	Yes	No	No	No	No	Yes
Number of CEO transitions	269	269	269	269	269	269	269
Instrumental variables							
Gender of the first born child			x	x			x
Male child indicator variable				x			
Number of male children					x		
Ratio male to total children						x	

The estimates on column I in Table 13 are comparable to results in Table 7. However, in Table 13 the CEOs with no children are omitted from the sample, whereas in Table 7 the whole sample is used. Here we detect a positive relationship between a family CEO and company performance. The result is insignificant and thus we cannot make any assumptions based on it. The finding is in the same direction with the assumption of H5. However, the insignificance of the result leads to the fact that the hypothesis needs to be rejected. Firm age does not seem to affect the changes in company performance at all. In column II, size, age and profitability the year before the CEO transition are controlled. Yet again, the results are statistically insignificant, firm age and performance showing positive relationship, while ln assets and a family CEO have negative coefficients. Firm age does not seem to affect the changes in company performance at all.

Columns from III to VII present the results of 2SLS regressions using instrumental variables. The effect of a family CEO on company performance, when instrumented with gender of

firstborn and male indicator variable seems to be negative, whereas, when instrumented with number of children and male ratio, the effect seems to be positive. The results are statistically insignificant and thus no assumptions on the relationship between a family CEO and company performance can be made based on them.

In all cases the magnitude of the estimated coefficient seems to be larger than the one estimated using OLS regression, from which we can assume that OLS underestimates the difference in performance between family CEOs and unrelated CEOs, and there is a small effect in gender related variables on family CEOs, which again affects the performance result. To sum up the results, we can say that statistically it makes no difference on company performance, whether the departing CEO has male or female children.

7. CONCLUSION

This is the final part of my thesis, which will finish the thesis by summarising the results and concluding the study by comparing the results with previous studies. In the end of the section I will also gives suggestions for further research in the area of gender effects and family firms.

7.1. Restatement of gap, purpose and methodology

Female presence in corporate boards and top management has become a topical question in the past few decades, for example due to improvement in the educational levels and skills of women, as well as the increase in the number of policies promoting women entrepreneurship. This has led to an increased number of female managers. When adding the family firm factor to the gender issue, the subject becomes even more interesting and topical but also complex at the same time.

The importance of family businesses worldwide is significant, contributing to employment and wealth generation. This can be seen in the entrepreneurial literature. Howorth et al. (2006) conclude that family firms represent between 75% and 95% of firms registered worldwide and account for up to 65% of GDP. Also in Finland family businesses are the backbone of the country's economy. According to the Finnish Family Firm Association, over 80% of businesses in Finland are family businesses. The majority of these firms are small and medium-sized. During the next decade, generation transfer will be a current issue in many European and Finnish companies, mainly due to demographic factors; current owners of companies are reaching retirement age. Many of these companies facing the challenge of succession are family firms.

Thus, the core of this thesis was to study gender effect in top management; whether the gender of the company CEO's children has an impact on the succession decision and whether the gender of the company CEO has an impact on company performance. The empirical study of the thesis concentrated on the gender effect in family firms especially when generation

transfer occurs. I also examined the effect of family and firm characteristics, such as number of children and firm size, to the succession decision. The purpose was to find evidence whether it makes a difference for the company in terms of performance, if the successor is male or female or a member of the owner family. The aim was also to find out if gender and family characteristics actually affect the initial succession decision.

The initial sample used in the study consists of 400 companies, out of which 127 are on the Finnish Top 500 list (TE500) in 2009. The TE500-list is published yearly by Talouselämä magazine. The initial data includes also 273 member companies of the Finnish Family Firm Association. The final sample, after necessary eliminations due to lack of data, consists of 196 family companies and 287 CEO transitions during an 11-year period from 1994 to 2005.

Financial and company data for the study was collected from Voitto+ and Fonecta Pro Finder B2B databases, as well as the archives of the National Board of Patents and Registration of Finland. Qualitative data concerning family characteristics and CEO information was mostly hand-collected from company web-sites, biographies and chronicles of different firms and the archives of the National Board of Patents and Registration of Finland. Family data was provided by the Population Register Center of Finland. All the data was combined, constructing a new unique dataset, which is difficult to obtain. When it comes to methodology, I used both univariate as well as multivariate analyses. I compared different characteristics of the companies and their management. I also employed two-stage regression model and difference-in-differences analysis methods.

7.2. Comparison of results to previous research

This subchapter goes briefly through the findings of my study and compares them to previous research. Comparison is mainly done to the results by Bennedsen et al. (2007), because other previous research is in most parts not comparable to my results due to methodological differences. Table 14 on the next page summarizes the relevant results and Table 15 at the end of the chapter compares the hypotheses to the results to find out whether the hypotheses can

be accepted or not. It also lists some possible explanations for the differences between hypotheses and results.

Table 14. Summary of Results
This table summarizes the results of the study. The most important results are highlighted and those are related to the hypotheses of the study.

Summary of Results
• The number of transitions have an increasing tendency towards the end of the period under review.
• The share of female CEOs very small; in only 21 of the 287 CEO transitions the entering CEO is woman, which is 7.3% of the total number of transitions.
• Among family transitions there are slightly more women as CEOs compared to unrelated transitions; women in family firms as family members have slightly better opportunities to become CEOs than outside family firms.
• The four biggest industries comprise 78.1% of the total number of family companies; industries are manufacturing, wholesale and retail trade; repair of motor vehicles and motorcycles and professional, scientific and technical activities, as well as construction.
• Female CEOs have fewer children than male CEOs.
• Firms undergoing family successions are relatively smaller and more profitable than those who decide to appoint unrelated CEOs.
• CEO transitions are associated with lower after profitability in both related and unrelated successions.
• Firms with a family CEO perform relatively better than firms with an unrelated CEO.
• The frequency of family successions increases with the number of children and decreases if the CEO has more than four children.
• Children are preferred over other relatives at the time of succession.
• The gender of the first child being male has a strong negative impact on decisions regarding family succession.
• Firms where the departing CEO with a male firstborn is 11.5 percentage points less likely to appoint a family member as a successor.
• Female CEOs seem to perform better than their male counterparts; the result is not significant and thus male and female CEOs perform equally well on average
• In family firms men are preferred over women, although the impact of male children is negative

During the 11-year period under review, between 1994 and 2005, there have been altogether 287 CEO transitions in 196 family firms. The tendency among the number of transitions has been increasing during the whole period. The most visible finding of my research is that the share of female CEOs in my sample during the period under review is very small. In only 21 of the 287 CEO transitions the entering CEO is a woman, which accounts only for 7.3% of the total number of transitions. The number of transitions is evenly distributed between family transitions and unrelated transitions; with respective percentages of 49.5% and 50.5%. The results also show that among the family transitions there are slightly more women as CEOs compared to unrelated transitions. These results are in line with the findings of the EVA report “Women to the top! - A Leader Regardless of Gender” (2007), which shows that female representation in management positions is low and that women have better possibilities to advance to management positions as entrepreneurs and in family firms.

According to the findings of my study, it seems that firms undergoing family successions are relatively smaller and more profitable than those who decide to appoint unrelated CEOs. Figures when measured as operating return on assets are 11.6% and 6.1%, respectively, and their difference is significant in 1 percent level. Net income to assets and industry-adjusted measures of OROA also show similar tendencies. These results are in line with H1 and thus H1 can be accepted. These results are also in line with the results of Bennedsen et al. (2007), who also find that companies facing family transition are relatively smaller and more profitable than those who decide to appoint unrelated CEOs. They, however, find no difference in the firm age, whereas my results show that firms facing family transition are younger than companies with an entering CEO coming from outside the family.

According to my results, firms facing CEO transitions have lower than average profitability before succession. I also find that after the transition the profitability further decreases by 1.67 percentage points relative to the industry peers. When comparing before profitability levels on both family successions and unrelated successions, I find that family transitions occur in firms that have above average operating return on assets, compared to companies facing unrelated transition, whose profitability is below average.

When comparing the characteristics of companies led by male and female CEOs at the time of transition, I find that female CEOs have fewer children than male CEOs. The difference is 8.23 percentage points and it is significant at one percent level. Although other factors do not show significance, I find that the companies led by men, seem to be slightly bigger than the companies led by female CEOs. Based on the results, it seems that the gender of the CEO is not affecting firm characteristics very much and vice versa.

When it comes to family characteristics in terms of CEOs' children and successions, I find that the frequency of family successions increases with the number of children. This result is in line with H2, which, based on this, can be accepted. I also find that when moving from three to four or more children, the share of family succession does not increase further, but falls instead. According to the results, it seems that family firms prefer children over other relatives at the time of succession. Firms where the departing CEO has one child, appointed the child as CEO in 15.6% of the successions. The ratio is obviously zero when the departing

CEO does not have children. An interesting observation is that part of this increase comes in the expense of relatives other than children.

When the share of non-children family CEOs is compared to departing CEOs with one child or no children, I find that the frequency with which other family members get the CEO position decreases by 12.8 percentage points from 22.2 to 9.4 percentage with the first child. This implies preference of children over other relatives at the time of succession. Bennedsen et al. (2007) also find that the frequency of family successions increases with the number of children, from 29.1% with executives with one child to 41.3% with those who have three children. Similar to my results, they find that family companies seem to prefer children over other relatives at the time of succession. The results of Bennedsen et al. (2007) also show that when moving from three to four or more children, the share of family succession does not increase further, but falls instead, which is similar to my findings.

I also examined the relationship between the decision to promote a family CEO and the gender of the firstborn child, which is a random trait. As a result of both univariate and multivariate analyses, I find that having a male firstborn child is negatively correlated with a family transition. A departing CEO with a male firstborn is 11.5 percentage points less likely to appoint a family member as a successor than CEOs with female firstborns. The result is significant on 10 percent level. However, the gender of the firstborn does not seem to affect the frequency with which the children of the CEO get the executive position. These results are strongly in contrast with the findings of Bennedsen et al. (2007), who report a 9.6% increase in the likelihood to appoint a family successor, when the firstborn child of the departing CEO is male. They also report that this result seems to be driven by changes in the probability of children of the outgoing CEO getting the position. When the firstborn is male, the probability of the entering CEO being a child of the departing CEO increases by 10.8 percentage points, compared to a situation where the firstborn is female. One explanation for this strange finding can be found in the small size of the sample, which might skew the results.

As a result, when exploring the relationship between the ratio of males the total number of children and succession decisions, I find that companies, where more than 50% of the departing CEO's children are male, are 0.7 percentage points less likely to have a family

successor than firms where less than 50% of the children are male. However, the likelihood of appointing another family member than own child to the CEO position, increases by 12.5 percentage points when the share of male children increases to over 50%. This result differs strongly from the findings of Bennedsen et al. (2007), who report a 10.8% increase in the likelihood to appoint a family successor, when the ratio of male children is larger than 50%. They also report a decrease of 3.3 percentage points in the likelihood of appointing another relative than own child, when the male ratio is more than half.

When comparing male and female CEOs in terms of performance, I find that unadjusted OROA has increased for both male and female CEOs, female CEOs having bigger value. Industry-adjusted OROA on the one hand has decreased for both genders; for male CEOs the decrease is slightly larger than for female CEOs. The results also show that CEOs of both genders increase the asset base, females more than male family CEOs. I also find that revenues increase in both subgroups compared to the level prior to the CEO succession. In this case the increase is bigger for female CEOs. These results would imply that female CEOs perform better than their male counterparts. However, all these results are statistically insignificant, which is most likely due to the small sample size and the small number of women in the sample.

When comparing before profitability levels of both family successions and unrelated successions, I find that family transitions occur in firms that have above average operating return on assets, compared to companies facing unrelated transitions, whose profitability is below average. The difference between these figures is 3.95 percentage points and it is significant at one-percent level. Bennedsen et al. (2007) have found a similar tendency between family transitions and unrelated transitions. According to my study, companies that exhibit unrelated succession tend to perform worse after transition than before. This difference is statistically significant in 5 percent level. The decrease in the profitability is 2.01 percentage points.

This result is in contrast with findings of Bennedsen et al. (2007), who report that firms promoting external CEOs face improvement in profitability by 1.3 percentage points, which is a significant result at one-percent level. According to the results of my study, firms facing

CEO transitions have lower than average profitability before succession. I also find out that after transition the profitability further decreases by 1.67 percentage points compared to the industry peers, which also contradicts with the findings of Bennedsen et al.(2007), who find that after transitions, companies outperform their industry peers by 0.8 percentage points. My result also contrasts other previous studies on CEO turnover (Huson et al., 2004).

Table 15. Summary table of hypotheses and results
This table summarizes the results of the study and compares them to the hypotheses. The hypothesis column lists the hypotheses. The actual result column presents the list of results. The column Accepted/Rejected shows whether the results are in line with the hypotheses or not. If the original hypothesis is rejected, the last column, Reason, briefly lists the possible explanations why the result differs from the expectation of the hypothesis or is in line with the hypothesis.

Nr	Hypothesis	Actual result	Accepted/Rejected	Possible reasons
H 1	Firms choosing a family CEO are smaller than firms choosing an unrelated CEO	Firms choosing a family CEO are relatively smaller than firms choosing unrelated CEO	→Accepted	• family firms usually small or medium sized • big companies likely to require professional leader
H 2	Probability of family succession increases with the number of the CEOs children	Probability of family succession increases with number of CEOs children. If more than 4 children then probability begins to decrease	→Accepted	• the larger the number of offspring is, the larger the pool of talent from which to choose the successor. • when more than 4 children internal conflicts more likely →unrelated CEO a compromise
H 3	The gender of the CEO's children makes a difference on succession decisions in family firms; male children being preferred over females	Gender of CEOs children makes a difference Having male firstborn decreases likelihood of family transition by 11.5% → men still dominant on CEO positions, only 7.3% are women	→ Rejected	• small sample size might be reason for this result • traditional patriarchal inheritance still dominant • presentation of women in the sample really small • glass-ceiling phenomenon exists
H 4	In family firms men are preferred over women as CEO successors	Men are preferred over women as CEOs Although impact negative	→ Accepted	• traditional patriarchal inheritance still dominant • glass-ceiling phenomenon exists • self selection
H 5	Firms with a family CEO perform better than firms with an unrelated CEO	Firms with family CEO perform better than firms with unrelated CEO, insignificant	→ Rejected	• lack of agency problems • higher non-monetary incentives to family CEOs
H 6	Male CEOs perform better than female CEOs	Male and female CEOs perform equally well on average	→ Rejected	• women in CEO positions are the most talented from female pool → self selection • differences not geder-based, instead individual characteristics are more deciding factor • equality in education

7.3. Limitations and suggestions for further research

In this last subsection I will go through the limitations of this study. I will also present some suggestions that came to my mind during the research process regarding ideas for further research.

Firstly, I have to point out that there are inevitable limitations when it comes to these kinds of studies. When studying gender effects or any other kind of subject that has endogenous issues related to them, even with a proper and good quality data, it is hard to extract gender effects from other factors, such as the state of current economy, market demand and qualities of the

owners and management that are not gender related, affecting the firm performance. In this case, the information available is also blurred by the strong participation of women in family firms behind the curtains. This means that the participation of women does not necessarily take place as owners or managers but instead as collaborative partners, unpaid workers and unofficial leaders.

Secondly, the availability of Finnish data can also be considered as a limitation. Data availability concerning financials and family information is limited and in some cases all the needed information is completely impossible to obtain. The reasons behind this problem of availability are that some companies have not published their financials, if financials are available, there are relevant numbers missing, or some people have prohibited access to family information, to name a few. Due to restricted availability and difficulties in collecting data by hand, the sample size is relatively small. This naturally limits the study and can affect the results and their significance.

Another obstacle that needs to be tackled is the issue with endogenous variables. In this kind of study it is difficult to extract the causalities, due to the endogenous nature of certain factors. This study tries to overcome the problem by using the gender of the CEO's children, which cannot be affected beforehand, as the exogenous instrument variable. It is also important to note that emotions and patriarchal traditions still have a significant role in decision making related to generation transfers in family firms, and the effect of emotions is hard to measure tangibly.

Initially, I examined all the transitions from 1994 to 2008 in the sample companies, although the transitions of 2005 to 2008 were not included in the final study. I identified the increasing tendency of transitions also after 2005, which is natural due to the age structure of the companies and especially the age structure of the current CEOs, who, in many cases, represent the baby-boomer generation, and who are reaching retirement age either currently or in the near future. There was also a slight increase in the number of female CEOs after 2005, which will provide an interesting opportunity for further research regarding gender-oriented studies.

When it comes to further research, in a few years there will be more data available regarding successions, due to the retirement of baby boomers, which is currently a topical issue. I think it will be an interesting opportunity to study these generation transfers in a few years, when it is possible to obtain information of the years following the transitions. It would also be fruitful to widen the time horizon so that there could be several generation transitions in the same sample companies. However, due to the difficulties of data gathering, it might not be possible to widen the time horizon backwards to have a longer event window. I would also like to see some research comparing different industries in the future. There might be some interesting findings to be discovered.

Another interesting opportunity related to gender studies and family companies is the changing structure of Finnish industries. Public debate says that Finland is moving from production-based industries to more service-oriented industries, due to globalisation. Service industries on the other hand are the ones where women have been successful so far. I believe this will give new opportunities for female managers in the future. It will also provide an interesting field of gender-oriented research in the future.

It also needs to be kept in mind, that a CEO position is not the only relevant management position in family companies. Studying board structure and board director changes in a family firm context with a gendered view, would offer more insights to the gender effect in family firms. In my opinion that approach would complement this study, and combined together they would give a more comprehensive picture of the role and opportunities of women in family firms.

All in all, this thesis has intended to raise questions and conversation on the tender subject of generation transfers in family firms, and hopefully it gives new perspectives for decision making in these succession decisions, in order to decrease the risks and problems related to generation transfer and its effects on company performance.

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Appendix A: List of Tables