# Increasing foreign competition pushes family members out of firms

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When competition from abroad increases, family firms are more likely to fire senior managers who are members of the family than those who are not relatives. What's more, these firms are more likely to replace the unrelated managers who were fired with executives from outside the family. Meanwhile, leadership jobs previously occupied by relatives are left vacant. These are the central findings of my study.

Analysing data on UK family firms in manufacturing for the period from 2004 to 2014, the research tracks the composition of firm management and how it changed due to increased competition. Competition accounted for almost half of the average family senior manager departures in the period.

Family businesses in the UK made a £346 billion value-added contribution to GDP in 2011, providing 40 per cent of total private sector employment. While family members who act as managers are likely to be less qualified than outsiders and have less incentive to exert effort during hard times, they are also less likely to fall prey to short-termism in investment. Yet, competition reduces the private benefit of family control and thus leads to more senior family manager departures.

From Santander's "swift transition" to Samsung's "soft succession," family businesses have been under the spotlight during their vulnerable transition times. Despite the ambiguous comparison of performances between family and non-family firms, corporate governance, especially the succession plans inside family firms, remains understudied both inside family businesses and in academics. When do family firms appoint a family member to important senior managerial positions? Is blood always thicker than water?

While lots of them lack succession plans, the senior executive manager succession decision is a major and critical challenge in determining firm growth in the long run and survival in difficult times. Faced with intense product market competition, an unrelated manager has more incentive to exert effort and reduces the monitoring cost. Unrelated managers with better skills selected from a larger talent pool are more capable than the family managers, thus favouring the choice of the unrelated manager. However, family managers have less myopic investment strategies compared to unrelated managers. Furthermore, the good reputation carried on by the founder or the previous family managers, the business relationship built up, and the private benefits of family control add to advantages of passing the firm onto family hands.

My empirical findings show that 1 unit increase in foreign competition, which is measured as the exchange rate of the pound against a foreign currency index, leads to 0.207 more family managers leaving the family firm in the subsequent two years. This number is statistically significant and accounts for almost half of the average family senior manager departures in my sample period.

In contrast, the study shows that unrelated senior managers are less likely to be fired during these hard times. To better understand what happens after senior managers leave the firm. I then decompose the results into the outcomes of family manager departures and unrelated manager departures. I find that 1 unit increase of import penetration leads to a significant increase of 0.206 family managers leaving the firm without any further replacement to their positions.

Among those who are replaced, there is a 0.006 decrease in the number of family to family transitions on average (the number is not statistically significant). However, I find a significant 0.05 increase of unrelated managers replacing unrelated departing managers. (The absolute numbers reported here are small but they are economically significantly large compared with the average frequencies I observed in my full sample).

The results suggest that competition reduces the private benefit of family control and thus leads to more senior family managers departures. The fact that these departing family managers are not replaced and even when there is a replacement, we see a drop of family succession tells us that some family senior manager positions are redundant and family managers are less qualified. Is blood really thicker than water? The answer is perhaps no when there is a fierce outside competition.

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*Notes:*

- *This blog post is based on the author's paper Manager turnover and product market competition: evidence from UK family firms, presented at the Royal Economic Society's annual conference at the University of Bristol in April 2017. (The first link leads to an older version of the paper. The new one hasn't been released yet.)*
- *The post gives the views of its authors, not the position of LSE Business Review or the London School of Economics.*
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