Management team replacement and family business performance: an empirical test in Southern Italy [*]

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Abstract

Purpose of the paper: *This empirical research has the aim of verifying the effects of management team replacement on performance in second-generation family businesses.*

Methodology: *Our empirical investigation examines a sample of 992 manufacturing family businesses. These firms are located in Southern Italy and they are second generation family firms. The sample was divided into: 1) a main group composed of 496 firms that replaced management teams after family succession; 2) a control group of 496 firms that did not replace management teams after family succession. The performance indicators were compared using: 1) paired samples t-test; 2) Levene's test; 3) independent samples t-test.*

Findings: *The comparison between the two homogeneous groups points out that there are no significant changes in performance after family succession. Regarding management team replacement, only second-generation family businesses that have changed the management team suffer significant deterioration in performance.*

Research limitations: *The results only concern enterprises in Southern Italy that operate in the manufacturing sector.*

Research and managerial implications: *The research underlines the importance of the involvement of management teams and their business decision-making power in retaining "old" managers in family businesses.*

Originality/value of paper: *Few empirical studies have investigated the effects of management team replacement after family succession. The results of this research could extend the perspective of the emerging Socioemotional Wealth theory.*

Key words: chief executive officer; management team; socioemotional wealth; performances; family succession

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1. Introduction

This empirical research has the aim of verifying the effects of management team replacement on performance in second-generation family businesses.

The research investigates unlisted family firms that: 1) have a governance that is more structured and articulated with respect to micro and small businesses; 2) have undergone a family succession that not only involves the CEO-founder but also the management team.

The hypothesis is that the success of the CEO-founder may continue in second generation family firms if the successor is able to retain the managerial resources that have contributed to the achievement of competitive advantage.

From this perspective, the success of the CEO-founder arises from his or her ability to select managers with professional skills that the CEO-founder integrates them into his or her strategic vision without creating internal conflict (Barney, 2006; Mazzoni and Mustilli, 2007; Carney, 2005).

This vision of the founder may explain the conflicting results of numerous empirical studies that have focused on the effects of family succession. In fact, some researchers sustain that second generation family businesses record a worsening performance because of the exit of the CEO-founder. Other studies show an improvement or a substantial stability performance attributable to the greater cultural preparation of second generation entrepreneurs (Dyer, 2006).

In both the first and the second cases, attention was focused only on the relationship between firm performance and the event of the exit of the founder without considering the effects that a generational change could have on the MT.

Therefore, this research fits within the framework of studies investigating the effects of family succession on corporate performance but it proposes a broader vision of the problem. In fact, the research intends to check the impact of the replacement of the MT on the economic-financial performances of second generation family businesses.

The article is structured in five paragraphs. The following section illustrates the literature and hypothesis of the research. The third paragraph outlines the sample and the methodology. In the fourth section the results of the analysis are discussed, while in the last part a conclusion relating to the hypothesis is drawn.

2. Theoretical background and hypothesis

Succession represents one of the most important events in a family business (Colli, 2002).

Regarding family succession, a study of a sample of 161 family firms in the 1998-2008 period showed the negative impact of succession on business performance evaluated in terms of ROA and ROE, in the three years after the succession (Minichilli *et al.*, 2011).

The authors have interpreted this result from the perspective of the emerging theory called "Socioemotional Wealth" (Stockmans *et al.*, 2010; Berrone *et al.*, 2010; Zellweger *et al.*, 2010). According to this perspective, the choice of a new CEO is not inspired by economic aims, but by the need to preserve social and emotional family assets (i.e. to preserve the family's influence on business decisions, the continuation of the family dynasty in the firm and the mismatching between firm assets and family goods) (Minichilli *et al.*, 2011; Pearson *et al.*, 2008). The choice of the new CEO is linked to the owner's family's ability to perpetuate strong management control (Bertrand and Schoar, 2006; Panunzi *et al.*, 2006; Bennedsen *et al.*, 2007; Mishra *et al.*, 2001; Perez-Gonzalez, 2006).

However, although the Socioemotional Wealth theory is acceptable, it is necessary to extend the analysis by investigating the effects of the exit of the management team hired by the CEO-founder on the performance of second generation family businesses (Minichilli *et al.*, 2010; Ling and Kellermanns, 2010; Nicholson and Kiel, 2007; Crouch, 2012).

In fact, the deterioration of performance cannot be attributed only to the replacement of the CEO-founder (Maury, 2006; McConaughy *et al.*, 1998; Miller and Le Breton-Miller, 2007). We should not forget that the distinctive characteristic of a successful entrepreneur is linked to his or her ability to manage resources that the literature defines valuable, rare, inimitable and organized (Barney, 1991; La Porta *et al.*, 1999).

Among these resources is the management team that the CEO-founder hires during the growth process of the family firm. In fact, the development of a family-owned company requires new skills to manage the increasing complexity of the economic environment (Faraci and Vagnani, 2007; Maggioni, 2010). The founder must acquire complementary skills by hiring and controlling a management team (MT).

Long-term relationships between the founder and an efficient top management enable:

1. the accumulation of tacit knowledge (Gomez-Mejia *et al.*, 2001; Morck *et al.*, 2004);
2. the growth of relational and social assets which becomes the competitive advantage of family firms (Schulze *et al.*, 2001).

In the light of this vision, the success of family businesses depends on the ability of the CEO-founder to select an efficient management team.

Therefore, when a family succession takes place, the descendant must demonstrate great leadership and the ability to involve human resources (Huse *et al.*, 2008; Kaplan and Minton, 2006; Chrisman *et al.*, 2003; Chrisman *et al.*, 2004; Voordeckers *et al.*, 2007; Lin and Hu, 2007; Perez-Gonzalez, 2006).

If the descendant doesn't have these qualities, the management team will leave the family firm, preventing future entrepreneurial success (Villalonga and Amit, 2006; Cucculelli and Micucci, 2008; Bartholomeusz and Tanewski, 2006; Barontini and Caprio, 2006).

Now it is possible to take one step further into the perspective of Socioemotional Wealth. In fact, we can assume that deterioration in performance after family succession is due not only to the descendant's poor choices but also to the exit of the management team hired by the founder.

Regarding these premises we proposed the following hypothesis:

Hypothesis H.1 *The replacement of the management team hired by the CEO-founder causes the deterioration of the performances of second generation family businesses.*

In particular, we intend to check if there is a deterioration in economic and financial performances in second generation family firms, and if the latter is only attributable to the exit of the CEO-founder or also to the replacement of the management team.

3. Sample and methodology

The empirical survey analyses a sample of second generation family businesses in the 1998-2008 period. The sample is composed of manufacturing family businesses located in Campania, Basilicata, Puglia and Calabria that have the following dimensional characteristics: 1) 50-250 employees; 2) revenues between 10-50 million euro or total assets between 10-43 million euro.

Following an approach that has already been adopted in previous research (Morresi, 2009), companies were qualified as "family" businesses by considering two dimensions of analysis related to their property and the management.

As regards the first dimension, a company was considered a family business if its property was concentrated on a single person or on a group of individuals bound by ties of kinship. With regards to management, businesses were considered family businesses if the founder and/or his descendants were directly involved in business management in the role of CEO. The combination of these two conditions of ownership and control has allowed us to identify family businesses.

The survey was done using the information of 1,252 company registers provided by the Chambers of Commerce of Campania, Basilicata, Puglia and Calabria. The kinship was verified by the last names and residence (street and house number) of the subjects that possess the property and perform management duties in companies.

In addition, in order to respond to the research hypothesis, it was necessary to divide the sample into two subsets:

1. a main group of firms that replaced the management team in the three years following the family succession;
2. a control group of firms that didn't replace the management team after the family succession.

In order to identify the two groups it was necessary to administer a questionnaire to 1,252 entrepreneurs via the CATI (Computer-Assisted Telephone Interviewing) computer system. This questionnaire aimed to identify: 1) how many firms changed the management team; 2) the seniority of managers; 3) the voluntary exit of the managers from the firms; 4) the age of the managers leaving the firms; 5) the number of managers replaced after family succession; 6) when the change in management occurred; 7) the involvement of the management team in the governance after the family succession; 8) the involvement of the management team in the ownership of the firm after family succession.

995 companies responded to the questionnaire, while others were excluded from the final sample because they did not answer. However, in order to compose a main group and a control group of the same number, 3 questionnaires were excluded from the sample.

As a result, at the end of this selection process, the sample was composed of 992 companies involved mostly in activities related to food (19%) and beverages (15%) industries (table 1).

Tab. 1: The sample

	Number of companies	**Impact %**
Manufacturing		
Food Industries	185	19%
Beverage Industries	150	15%
Tobacco industry	134	14%
Textile Industries	129	13%
Clothing packaging	134	14%
Manufacture of leather goods	133	13%
Industry of wood and wood products	127	13%
Total	**992**	**100%**

Source: Our elaboration

The main group includes 496 enterprises and the control group includes the same number of companies (table 2).

The sample was examined by analysing the financial statements filed with the Chambers of Commerce in the 1998-2008 period. The analysis examines three aspects: 1) growth; 2) profitability; 3) financial performance.

Growth and profitability are measured by revenues, return on equity (ROE), return on investment (ROI) and return on sales (ROS). Instead, the financial analysis is accomplished using the following indicators: leverage ratio, net financial position, current ratio, quick ratio and cash ratio.

Tab. 2: The main group and the control group

	Main group	**Control Group**
	Replacement of the management team	**No replacement of the management team**
Manufacturing		
Food Industries	92	93
Beverages Industries	77	73
Tobacco industry	65	69
Textile Industries	66	63
Clothing packaging	66	68
Manufacture of leather goods	64	69
Industry of wood and wood products	66	61
Total	**496**	**496**

Source: Our elaboration

In order to find when the performance changes in the two subsets of enterprises, the 1998-2008 period was divided into four phases (figure 1):

1. the phase of generational change (T);
2. the phase that lasts 3 years before the generational change (T-3);
3. the phase that lasts 3 years after the generational change (T+3);
4. the phase that lasts 5 years after the generational change (T+5).

It is evident that the “critical moments” are represented by:

1. T, the moment of generational change in the main group and in the control group;
2. T+3, the moment of management change in the main group.

Performance indicators of the main group and the control group were calculated and compared in the four moments that have been identified.

In addition, the model has been integrated with the following three control variables:

1. economic cycle. This variable is calculated as the change in the percentage of the Gross Domestic Product throughout the four phases. This control variable was inserted because the time horizon is very long (1998-2008). Therefore, it is necessary to verify that there have been no changes in the economic cycle that may have influenced the overall performance of the analyzed sample. It is necessary to stress that the changing values of GDP associated with each company in the sample are always different because the time of the succession (T in the main group or Tcg in the control group) is different for every company;
2. trends in the sector. This variable is calculated as the change in the percentage of additional value of each of the seven economic sectors. This control variable has been inserted to check if any significant negative cycles of the economic sector occurred during the period under consideration . for this variable as well, it is necessary to highlight that the changes in the added value of each company are always different because the time of succession (T in the main group or Tcg in the control group) is different;

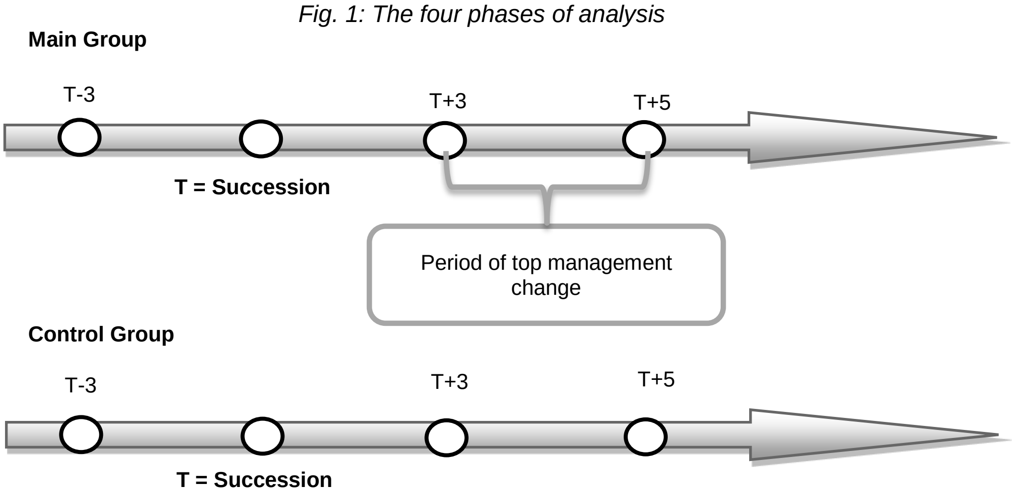
3. dimension. This variable is calculated as the absolute variation of employees throughout the four phases. This variable was inserted to check whether there were any significant variations in the size of the companies that had been measured by the employees.

These control variables were also calculated and compared in the four phases that were identified.

The comparisons between these phases were made using the paired sample t-test which allowed us to check if:

1. a worsening performance in the main group occurred at the moment of family succession (T) or in correspondence with the change of the management team (T+3);
2. a worsening performance in the control group occurred at the moment of family succession (Tcg).

Fig. 1: The four phases of analysis



Source: Our elaboration

In fact, the paired samples t-test allows the comparison of the average performance of two groups by checking the statistical significance of the differences.

Therefore, in the main group, the performance recorded at the time of the generational change (T) was compared with the performance at times T-3, T+3 and T+5 (T-3 with T; T with T+3; T with T+5). The same comparisons were made in the control group.

Moreover, the performance recorded at time T+3 were compared with time T+5 (T+3 with T+5). The same comparison was made in the control group even if T+3cg is not a critical time of changes in management.

The same procedure was carried out for the three control variables.

In addition, it was verified whether the intensity of the abandonment of top managers (i.e. the number of managers that leave family firms) influenced the performance of the main group. As a result, the main group was divided into two sub samples:

1. the first sub sample includes all the firms that have replaced a number of managers lower than or equal to the average of substitutions that occurred in the main group;
2. the second sub sample includes all the firms that have replaced a number of managers that is higher than the average of substitutions that occurred in the main group.

The use of the paired sample t-test allowed to check if the change in performance occurred at T or at T+3 in the two sub samples.

On the other hand, the comparison between the main group and the control group was done using the independent samples t-test. This test allows the comparison of two independent samples by checking the statistical significance of the differences between the averages of the two groups. The independent samples t-test requires the preventive use of Levene's test to check the homogeneity of variances.

The independent samples t-test compared the performances of the main group with the performances of the control group at critical moments (T vs Tcg; T+3 vs T+3cg; T+5 vs T+5cg) in order to verify the existence of significant differences between the two groups. The same comparison was made for the control variables.

4. Results

Before commenting the performance, it is necessary to comment the answers provided by the entrepreneurs of the main group and control group (table 3).

In the main group, the seniority of top managers is 21 years. Moreover, the abandonment of managers was voluntary in 68% of total cases. The average age of managers leaving the enterprises is around the early 50s. This implies that the managers are quite young and certainly did not leave the company to retire. In addition, the main group carried out a change of management 1.5 years after the family succession. The average number of replaced managers is equal to 2. Furthermore, only 9% of respondents introduced new systems of incentives and involvement of the managers, but none of the entrepreneurs have went to the extent of offering them a share of ownership in second generation family firms.

In the control group, the system of incentives has assumed considerable importance as a result of family succession. In fact, 77.63% of the respondents have introduced new systems of incentives for managers. These qualitative data show that better care was taken of human resources in the control group.

Tab. 3: The answers of the entrepreneurs

Questions	Main group	Control group
1. % Of firms that changed management team after family succession	100%	0%
2. Seniority of top managers (average)	21 years	20 years
3. % Of voluntary abandonment of top managers hired by the founder	68%	0%
4. Age of top managers (average)	54 years	51 years
5. Number of managers replaced after family succession (average)	2	0
6. Time needed to change management team	1,5 years	n. d
7. % Of firms that have introduced new incentives or involvement of management team after family succession	9,00%	77,63%
8. % Of firms that have allocated shares to the manager after family succession	0%	0%

Source: Our elaboration

Table 4 shows the t-test of the revenues, profitability ratios, financial ratios and control variables of the main group. This analysis allows the identification of the critical moment in which statistically significant differences between the performances of the main group occur.

In this respect, table 4 shows that in the main group there were no statistically significant differences between the performances of T-3 and T. Therefore, in the course of the year of the family succession no substantial changes in the performances of the main group occurred. Even in comparing the performances of generational change T with those relating to T+3 there are no significant differences (table 4).

Instead, the period between T+3 and T+5 shows worsening performance of the main group. The t-test highlights the significant differences between the averages of revenues, ROE, ROI, and ROS. On the other hand, the financial ratios show a worsening performance of leverage ratio and current ratio (Table 4).

The comparison of the control variables show the non-existence of macroeconomic phenomena or change in the employment dimension of companies.

The analysis in the main group was thoroughly carried out by running the t test in: 1) the main sample that replaced no more than 2 top managers after the family succession. The choice of the limit of 2 substitutions is derived from the observation that the average of managers replaced in the main group is equal to 2 (see table 3); 2) the main sample that replaced more than 2 managers.

Tab. 4: The paired samples t test in the main group (Euro and percentages)

	T-(T-3)		(T+3)-T		(T+5)-(T+3)		t test		
Growth and Profitability	**Mean difference**	**Standard deviation**	**Mean difference**	**Standard deviation**	**Mean difference**	**Standard deviation**	**H0 T-3 = T**	**H0 T = T+3**	**H0 T+3 = T+5**
Revenues	-162.922	4.256.107	375.057	5.449.665	-7.831.037	18.640.486	-0,853	1,533	-9,356***
ROE	-0,42%	0,41	-0,12%	0,03	-1,94%	0,15	-0,225	-1,107	-2,817***
ROI	-2,38%	0,39	1,22%	0,43	-1,37%	0,05	-1,370	0,640	-6,495***
ROS	0,03%	0,02	2,11%	0,43	-0,59%	0,05	0,282	1,090	-2,683***
Financial ratios									
Leverage ratio	-0,52%	0,42	1,50%	0,41	-4%	0,42	-0,277	0,809	-2,302**
Net Financial Position	-42.625	2.762.536	-12.840	2.936.358	-19.382	2.876.942	-0,344	-0,097	-0,150
Current ratio	-0,01	0,41	0,023	0,39	-0,04	0,42	-0,404	1,290	-2,000**
Quick ratio	-0,01	0,43	-0,029	0,74	0,002	0,25	-0,507	-0,864	0,179
Cash ratio	-0,004	0,42	0,0004	0,02	0,0004	0,02	-0,209	0,494	0,494
Control variables									
Economic Cycle	1,12%	0,40	-0,10%	40,20%	-2,22%	41,18%	0,628	-0,053	-1,201
Trends in the sector	0,98%	0,43	1,12%	0,41	-0,39%	0,42	0,507	0,608	-0,209
Dimension	-4,62	80,89	-1,47	82,97	-2,68	81,61	-1,273	-0,396	-0,732
sig. level: 1% (***); 5%(**)									

Source: Our elaboration

Table 5 shows that the main group that replaced no more than 2 managers did not register a significant change in performance.

Tab. 5: The paired samples t test of the main group that replaced no more than 2 managers (Euro and percentages)

	T-(T-3)		(T+3)-T		(T+5)-(T+3)		t test		
Growth and Profitability	**Mean difference**	**Standard deviation**	**Mean difference**	**Standard deviation**	**Mean difference**	**Standard deviation**	**H0 T-3 = T**	**H0 T = T+3**	**H0 T+3 = T+5**
Revenues	-98.685	3.533.659	535.040	23.045.546	298.839	4.068.743	-0,622	0,517	1,636
ROE	0,40%	0,40	0,11%	0,42	-1,54%	0,40	0,225	0,057	-0,852
ROI	-2,06%	0,41	1,00%	0,39	-1,34%	0,40	-1,129	0,572	-0,747
ROS	-0,24%	0,41	2,01%	0,40	0,18%	0,41	-0,127	1,116	0,098
Financial ratios									
Leverage ratio	-0,18%	0,41	1,51%	0,42	0,16%	0,40	-0,098	0,806	0,091
Net Financial Position	-25.998	628.854	16.875	601.004	-23.714	604.456	-0,921	0,625	0,874
Current ratio	0,004	0,39	0,002	0,40	-0,007	0,40	0,210	0,09	-0,392
Quick ratio	-0,006	0,42	0,008	0,41	0,018	0,41	-0,321	0,433	0,979
Cash ratio	0,021	0,39	-0,02	0,41	-0,0198	0,40	1,224	-1,278	-1,099
Control variables									
Economic Cycle	0,74%	0,40	0,81%	41,39%	-1,53%	40,66%	0,411	0,433	-0,840
Trends in the sector	0,90%	0,41	0,71%	0,42	-0,31%	0,43	0,493	0,377	-0,159
Dimension	-4,29	85,74	-1,62	84,79	5,00	81,76	-1,114	-0,425	1,362
sig. level: 1% (***); 5%(**)									

Source: Our elaboration

On the other hand, the main group that replaced more than 2 managers shows a significant change in performance (table 6). The analysis shows that there were no statistically significant differences in performance between T-3 and T. Even comparing the performance of moment T with those relating to the moment T+3 there are no significant differences.

However, in comparing the performances of T+3 with those of T+5, the t test revealed significant differences between revenues, ROE, ROI and ROS. The financial ratios show worsening performances of leverage ratio and current ratio (Table 6).

Tab. 6: The paired samples t test of the main group that replaced more than 2 managers (Euro and percentages)

	T-(T-3)		(T+3)-T		(T+5)-(T+3)		t test		
Growth and Profitability	**Mean difference**	**Standard deviation**	**Mean difference**	**Standard deviation**	**Mean difference**	**Standard deviation**	**H0 T-3 = T**	**H0 T = T+3**	**H0 T+3 = T+5**
Revenues	-195.430	3.941.141	-98.306	4.008.027	-9.099.913	21.013.976	-1,104	-0,546	-9,644***
ROE	-2,42%	0,39	-2,32%	0,41	-4,57%	0,41	-1,385	-1,270	-2,485**
ROI	-2,50%	0,41	1,50%	0,41	-4,61%	0,39	-1,355	0,805	-2,627***
ROS	2,66%	0,40	2,15%	0,40	-1,60%	0,05	1,464	1,202	-7,029***
Financial ratios									
Leverage ratio	-2,64%	0,41	2,03%	0,40	-7,96%	0,56	-1,450	1,124	-3,183***
Net Financial Position	-71.416	3.135.900	-136.344	4.700.599	-19.431	3.144.987	-0,507	-0,646	-0,138
Current ratio	-0,01	0,40	0,02	0,42	0,18	1,49	-0,502	1,21	-2,662***
Quick ratio	-0,02	0,39	0,029	0,40	-0,0004	0,40	-1,303	1,649	-0,024
Cash ratio	-0,008	0,40	0,04	0,40	0,0064	0,41	-0,421	2,000	0,349
Control variables									
Economic Cycle	1,40%	0,40	-0,21%	41,20%	-3,43%	39,17%	0,779	-0,111	-1,948
Trends in the sector	1,22%	0,39	2,23%	0,41	0,60%	0,40	0,689	1,225	0,338
Dimension	-5,00	81,76	-3,02	80,72	-3,56	79,61	-1,362	-0,833	-0,996
sig. level: 1% (***); 5%(**)									

Source: Our elaboration

These results add important information with respect to the data observed in table 4. In fact, the deterioration in business performance requires the replacement of a large number of managers (more than 2). The control variables did not show significant variations.

Table 7 shows that the control group did not register any significant changes in performances with respect to the main group. In particular, in the time interval between T+3cg and T+5cg significant changes in the indicators of growth and profitability did not occur like in the main group. The same remarks apply to financial ratios.

Tab. 7: The paired samples t test in the control group (Euro and percentages)

	T-(T-3)		(T+3)-T		(T+5)-(T+3)		t test		
Growth and Profitability	**Mean difference**	**Standard deviation**	**Mean difference**	**Standard deviation**	**Mean difference**	**Standard deviation**	**H0 T-3 = T**	**H0 T = T+3**	**H0 T+3 = T+5**
Revenues	242.677	37.397.716	-1.551.415	37.318.932	-639.389	38.774.784	0,145	-0,926	-0,367
ROE	-1,38%	0,40	-1,10%	0,41	-0,35%	0,42	-0,774	-0,598	-0,190
ROI	2,97%	0,41	0,29%	0,40	1,06%	0,42	1,624	0,163	0,564
ROS	0,79%	0,40	-1,71%	0,41	2,08%	0,42	0,446	-0,923	1,113
Financial ratios									
Leverage ratio	-0,80%	0,42	-1,05%	0,41	0,44%	0,42	-0,421	-0,564	0,237
Net Financial Position	-100.921	4.065.440	54.756	4.056.080	-6.678	3.019.927	-0,553	0,301	-0,049
Current ratio	0,013	0,42	-0,01	0,43	0,02	0,40	0,700	-0,73	0,960
Quick ratio	0,011	0,43	-0,004	0,38	-0,001	0,38	0,593	-0,238	-0,052
Cash ratio	0,009	0,39	-0,03	0,40	-0,0112	0,40	0,524	-1,444	-0,622
Control variables									
Economic Cycle	1,88%	0,41	-0,74%	0,41	-0,57%	0,42	1,019	-0,404	-0,306
Trends in the sector	0,99%	0,43	0,44%	0,40	-0,22%	0,41	-0,517	0,247	-0,119
Dimension	4,75	81,14	0,02	80,88	-1,26	78,50	1,304	0,006	-0,357
sig. level: 1% (***); 5%(**)									

Source: Our elaboration

Therefore, the analysis shows that there is a substantial continuity in business performance if a change of management team does not occur after the family succession. Control variables do not show statistically significant changes.

At this point, it was necessary to carry out a comparison between the performance of the main group and that of the control group in order to check if and when the performance of the two groups was significantly different (table 8).

The comparison between the performance of the main group and that of the control group (table 8) shows that there were no significant differences between the two groups at the moment of the generational change (T). The data related to T+3 do not show any significant difference between the two groups.

However, the most important moment is T+5: all profitability indicators show trends that were significantly different between the two groups. These data highlight that the difference between the two groups becomes statistically relevant only after a change in management.

However, with regards to the financial ratios, it has been noted that only the leverage ratio and current ratio show a significant difference between the two groups (Table 8).

The control variables did not show significant variations in the period under review.

Tab. 8: The independent samples t test between the main group and control group (Euro and percentages)

	Levene's Test for Equality of Variances			t-test for Equality of Means								
	H0 T = Tcg	H0 T+3 = T+3cg	H0 T+5 = T+5cg	(Tcg)-(T)		(T+3cg)-(T+3)		(T+5cg)-(T+5)		H0 T = Tcg	H0 T+3 = T+3cg	H0 T+5 = T+5cg
Growth and Profit.	**F**	**F**	**F**	**Mean diff.**	**Std. Error Diff.**	**Mean diff.**	**Std. Error Diff.**	**Mean diff.**	**Std. Error Diff.**	**t**	**t**	**t**
Revenues	0,05	0,02	1052,67***	-89.778	277.949	-77.924	268.322	-37.747.128	1.389.527	-0,323	-0,290	-27,165***
ROE	1,59	0,56	1221,57***	-2,02%	0,02	-2,15%	0,02	-46,46%	0,01	-1,116	-1,148	-35,001***
ROI	1,42	0,03	1210,50***	2,36%	0,02	1,37%	0,02	-46,60%	0,01	1,317	0,740	-35,211***
ROS	0,46	1,04	1318,28***	-1,09%	0,02	-2,21%	0,02	-48,27%	0,01	-0,570	-1,197	-37,412***
Financial ratios	**F**	**F**	**F**	**Mean diff.**	**Std. Error Diff.**	**Mean diff.**	**Std. Error Diff.**	**Mean diff.**	**Std. Error Diff.**	**t**	**t**	**t**
Leverage ratio	1,70	0,16	305,71***	2,64%	0,02	0,72%	0,02	-7,43%	0,03	1,426	0,395	-2,883***
Net Financial Position	3,35	0,01	0,06	-356.310	227.467	57.205	54.840	-40.590	55.863	-1,566	1,043	-0,727
Current ratio	0,01	1,94	88,86***	-0,02	0,02	-0,02	0,02	-0,48	0,06	-1,192	-1,00	-7,477***
Quick ratio	0,33	0,50	1,24	-0,01	0,02	0,012	0,02	0,0149	0,02	-0,450	0,651	0,798
Cash ratio	2,45	1,26	0,01	0,006	0,02	0,01	0,02	0,0064	0,02	0,341	0,729	0,341
Control variables	**F**	**F**	**F**	**Mean diff.**	**Std. Error Diff.**	**Mean diff.**	**Std. Error Diff.**	**Mean diff.**	**Std. Error Diff.**	**t**	**t**	**t**
Economic Cycle	0,28	0,17	0,26	2,37%	0,02	0,64%	1,80%	0,63%	1,85%	1,293	0,357	0,341
Trends in the sector	0,98	1,83	0,01	0,88%	0,02	0,66%	0,02	1,33%	0,02	0,468	0,358	0,707
Dimension	0,31	2,84	0,76	0,00	0,02	0,00	0,02	0,01	0,02	-0,051	-0,188	0,429
sig. level: 1% (***); 5%(**)												

Source: Our elaboration

5. Conclusions

The results of the empirical survey show that, when looking at the effects of succession on business performance, it is not possible to focus only on the event of family succession and the replacement of the CEO-founder.

In fact, the comparison between the two groups has demonstrated that significant changes in performances do not occur in the three years following the family succession. However, if we had stopped at this observation, the conclusion would have been that the succession of the CEO-founder has no immediate effects on the performances of family firms.

Instead, by extending the survey to the consequences of such a change in the management team, we observed that family businesses suffer from a worsening in performances of growth, profitability and some financial indicators. This phenomenon was not found in second generation family businesses that did not change the management.

Therefore, it is evident that when the successor is unable to substitute the founder in his or her function of “attractor” of human resources, the best managers leave the company which has a negative impact on business performance.

Therefore, the empirical analysis confirms that the replacement of the management team hired by the CEO-founder causes the deterioration of the performances of second generation family firms (hypothesis H.1 confirmed).

However, the survey shows that only in the case of a replacement of more than 2 members of the management team is there a decrease in business performance.

The confirmation of the hypothesis has important implications with respect to the theoretical perspective of Socioemotional Wealth. In fact this research:

1. identifies the cause of deterioration of performances in the replacement of the old management team and not in the appointment of the CEO-successor;
2. demonstrates that the integration of the CEO-founder's skills with those of the managers' determines a competitive advantage for family firms.

As regards the first point, it is confirmed that the selection of the CEO successor is relevant for the effectiveness of corporate governance. However, the deterioration in performance is mainly caused by the exit of the management whose skills enabled the family firm to survive and grow.

The CEO successor of a family business can be selected according to emotional criteria that have no relationship with the achievement of economic goals, but this is not enough to explain why some second generation family firms record a worsening performance while others do not. Instead, the survey shows that the main cause of the deterioration of performance is mainly the loss of managerial resources because of the inability of the new CEO to maintain them.

As regards the second point, we must consider that the talent of the CEO-founder is a central factor of the success of family businesses. However, we now need to recognize that the founder cannot deal with an increasingly complex environment without an expert management team.

This last consideration suggests new areas of investigation. In particular, it would be necessary to understand whether the reduction of performances is connected to the replacement of managers with special skills (finance, administration, marketing).

Therefore, it will be necessary to study the systems of incentives used to retain managers in family businesses by also checking the effectiveness of the alignment of the interests of the owner and management. This research topic can have a positive impact on the creation of new forms of involvement of management in family businesses.

Finally, it will be necessary to extend the empirical survey to other geographical areas in Italy in order to check if the results obtained in this research may be extended to other areas.

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