경영학석사 학위논문

Family Successions and Corporate Decisions

– Nepotism–based explanation on a widely known agency problem –

재벌기업 가족승계와 기업 행태

– 친족고용 및 승진에 따른 투자 행태의 변화 –

2017 년 2 월

서울대학교 대학원

경영학과 재무금융 전공

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이 논문을 경영학석사 학위논문으로 제출함
2017 년 2 월

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김 준 오

김준오의 경영학석사 학위논문을 인준함
2017 년 2 월

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Abstract

Existing theories have explained corporate investment decisions through agency-based theories, while dismissing family-owned businesses which comprise vast portion around the world. Using Korean Chaebol data, this study suggests nepotism-based agency explanation on investment decisions among family owned firms. This paper find family firms decrease investment during the successors' entrance to the firm; especially when the heir is promoted. This paper offers nepotism-based interpretation of family firm investment decisions in order to mitigate adverse reactions from nepotism.

주요어 : Family firm, nepotism, investment, promotion, succession planning
학 번 : 2015-20598

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I. Introduction

Studies on family-owned firms have mainly focused on management turnover and managerial efficiency upon succession period. Issues such as gender effect on succeeding descendant (Bennedsen et al 2007), market reaction and post-turnover performance (Perez-Gonzalez 2006), and succession methods had previously been investigated. While theoretical implications of family successions show ambiguous conclusions, empirical results support negative firm performance upon family successions.

However, past literature has given little focus on succession process from the beginning of succession planning of the family firm; in this study, beginning of the succession planning is assumed to be the moment the successor is first introduced to the firm. In a hypothetical, first-best case scenario, public corporation would not arbitrarily decide on firm's prospect in response to family members of the CEO or to future CEO. Hence, the imperfection of CEO, to self-serve interest rather than to make a farsighted decision, requires stakeholders to properly censor the CEO (Acharya et al. 2011). While theory of internal governance provides agency-based explanation on conflicting relationship between CEO and the board, connection to family owned businesses still remain weak. Intuitively, this is obvious in a theoretical world, for the firm and family would both benefit from proper decision making in the long run; incentives of the firm and family are aligned (Davis et al. 1997).

However, under the influence of evident nepotism, it is difficult to assume that family firm succession is free from agency problem. In this paper, I test whether corporate investment tendency deviates when the heir is introduced to the firm, when the heir is promoted, and when the heir is promoted quickly relative to the

peers. Assuming the predecessor has a succession plan for the heir, the predecessor has incentive to modify corporate decisions; against the stakeholders and shareholders' favor. In this case, the monitoring roles of the shareholders and stakeholders would impose constraints on nepotism due to qualification issues. Since the reasoning behind the appointment is not based on managerial ability, on average, family managers hold inferior skills to that of professionals or 'qualified' individuals (Mork et al. 2000). This is supported by negative stock reaction upon family CEO turnovers (Perez-Gonzalez 2006). In order to prevent negative outbreaks of imminent nepotism, it is the predecessors' incentive to reduce outbreaks from both stakeholders and shareholders upon their attempt. The central question is then, how corporate decision would change in order to minimize the adverse impact of nepotism.

In this study, investment decision is scrutinized in order to capture family firm's action to mitigate adverse reactions on nepotism. Numerous studies have used investment as a key variable to describe agency problems that arises due to CEO tenure and turnover (Pan Wang et al 2016, Arikan Stultz 2016). However, according to theory, investment would not be an issue, since longer CEO horizon is guaranteed for family firms. If investment ought to decrease, despite its far sighted tendencies, the implication contradicts existing theories on agency issues among family owned businesses.

By investigating Korean Chaebol firms and its family members, I find decreased level of investment when the heir is introduced to the firm. Furthermore, I find significantly negative investment on the quarter of promotion, even in count of various corporate governance factors such as the predecessor's age. Decreased investment could indicate ambiguous implications, for I have tested to check for

possible myopic decision making to increase short-term profits. However, the results remain insignificant for various factors to satisfy the stakeholder and the shareholders. The only possible link is the announcement of seasoned equity offering that is positively correlated with the probability of promotion. Possible explanations for the last finding is that the firm might be interested in issuing equity to distract attention that is imposed on the succession, or the SEO announcement could be a signal to show that the firm is overvalued. However, additional testing on the SEO announcement and market to book ratio, the results are insignificant; which I carefully assume that the SEO announcement is a product of information asymmetry and market timing of the management.

This paper is progressed as the following. In section II, hypothesis and intuition for succession planning will be described. In section III, sample selection and details about the data will be described. In section IV, empirical investigation on investment tendencies while heir is introduced to the firm will be discussed. In section V, investment tendencies in the quarter the heir is promoted will be investigated. In section VI, the results of this paper will be discussed, and it will conclude in section VII.

II. Incentives for Succession Planning and Hypothesis

Imagine a family firm, where the founder has a child, or children, who is about to reach his or her adulthood. Since it is a family firm, founder will have the intention to introduce the potential heir to the firm for multiple reasons. First, introduction to the firm in the early stage for experience could help heirs' managerial skills after the succession. These skills are hard to obtain, as they are likely to be firm-specific and that they include early bond created with stakeholders

(Donnelley 1964). Second, if the heir is introduced into the firm unanticipated into an upper management role, justification for the position would be difficult. Furthermore, the speed in which the heir is promoted will also require effort to mitigate adverse reaction from the shareholders and stakeholders. Since the experience inside the firm not only provides experience but also creates presence to the stakeholders, excessively quick promotion could also create friction on the heir's presence. Therefore, the founder will be likely to plan the succession process with care, and the first assumption in this paper is presented:

Assumption 1: Succession process starts when the heir enters the firm.

This assumption could be challenged with the fact that succession planning could start before the successor enters the firm. However, as the starting point of the succession process, the first introduction to the firm may be the only viable point of the whole process.

The second assumption is well discussed in the previous section, and it is the following:

Assumption 2: Predecessor is not myopic and does not seek for self-serving gains in the short run.

This assumption allows simplification of investment goals, which could be divided into two parts; myopic and long term investments. Even though this assumption is open for criticism, this assumption still holds in this study for the following reasons. First, myopic investments seek for short term return, when CEO

has very short horizon (Acharya et al. 2011). When the CEO is about to retire and seek to gain in the short run, CEO is prone to take questionable investment opportunity. In this case however, the quality of the investment is the issue, not the intention of the investment decision. Therefore, any differences in investment may infer other motives than agency explanations in family firms.

Contrary to market reaction on far-sighted investment, which is favorable in the long run, reaction on nepotism-driven personnel decisions would have to require justification or compensation in the short run for smooth succession. With opposing stakeholders and shareholders, who are anxious about the firm's future, could now require short term amendments or corporate decisions that would fulfill their own needs. Where stakeholders and shareholders' favorable corporate policies vary, closer investigation would be followed later on this paper.

The succession plan itself could hinder rising oppositions by introducing the successor to the firm early, beginning his or her career from the bottom, or following regular promotion schedule. However, in this case where nepotism is clearly observable, this is unlikely the case; because any schedule of a succession cannot be slower than non-family employee's promotion schedule. The data used in this study supports this predication on Table I, where the relative speed of promotion is on average 9.72 years faster than the ordinary employees. Thus, the first hypothesis that will be tested will be the following.

H.1 Investment decision will decrease during the succession process, to minimize adverse impact from the stakeholders and shareholders

If nepotism related personnel decisions cause negative feedback from the

stakeholders and shareholders, it is plausible to assume the firm's interest is to minimize the outbreak. One of the ways to minimize would be to minimize firm public actions; predecessor would favor a low profile. Furthermore, if the nepotism is acknowledged by the stakeholders and shareholders, the predecessors would be pressured to make investment that might fulfill their self-interest. Another explanation that might be related to this hypothesis is that the predecessor exchanges the firm's long-term prospective gains to short-term to provide immediate compensation. Because resources are limited, firm's decrease in investment could be explained by relocating its resources in the short-term.

The central prediction of this paper is that corporate investment decision will decrease due to shareholder and stakeholder's pressure on nepotism. If this hypothesis is proven to be true, investment will slightly decrease when the heir is introduced to the firm. Especially when the heir enters the firm right into upper management; when the mitigating effort is most needed.

In respect to periods requiring higher levels of mitigation efforts, now the second and third hypotheses are provided.

H.2. Mitigation efforts would be stronger when the heir is promoted

H.3 Faster promotion will have negative relation to firm performance and investment

Since upper management positions require superior management skills and experience, nepotism-based promotion will require higher efforts to mitigate shareholder and stakeholder opposition. Therefore, the central question of this paper is the following; does predecessor decrease investment due to shareholder and stakeholder pressure rising from corporate nepotism. The question whether the

mitigation efforts are due to stakeholder and shareholder pressure or to provide short term compensation to shareholders would be tested in the later section of this paper.

III. Sample selection and data

In this study, I use Korean firm data, due to its richness in family owned business; widely known as Chaebol. Importance of Chaebol firms in Korean economy has been discussed over a long period of time. Composing majority of the Korean economy, Chaebol firms pose great influence not only economically but also socially. Specifically, last names of these 'royal' families are widely acknowledged by the public; for example, Lee family of Samsung, Koo family of LG, Shin family of Lotte and others more. Due to the public interest on these families and accessible data set of the family members, Korean market is implemented in this study.

As for the family data collection issue, the data is hand collected through news searches and personnel databases offered online; for consistency and availability, data from Chosun-ilbo personnel data base is used. Chaebol groups are identified through KFTC (Korea Fair Trade Commission) list. Among 65 groups, firms that do not have government relations are used. Total of 526 personnel information was collected and sorted out in order to reduce the following problems. First, the generational difference could be problematic. Due to reduced informational asymmetry in the recent era, succession planning might differ greatly in dealing with stakeholders and shareholders. Thus, the data is collected from 2001 through 2015. By sorting the data this way, another potential problem will be solved. In majority of cases, Chaebol families do not have only one child who seek for

succession into the predecessors' firm. Using limited years of data, it was possible to control each descendent to each prospective firm. To secure this, as seen on figure I, only the last line of the family generation is implemented; for example, personnel E, F, and G are used, for they compose the last line of the family and they share similar generation. As a result, 71 personnel data is used in this study. For each individual, the quarter of introduction to the firm, promoted period, years took to promote, and total career years were collected. Furthermore, for promotion speed comparison, I have used Korea Employers Federation (KEF) data, which provides average years taken for individuals to promote for each level of employment.

Financial data is collected from Dataguide and quarterly data from 2000 to 2015 is used. Quarterly data is used in order to distinguish each period when the heirs entered the firm and promoted. Detailed descriptions on the variables and descriptive statistics are listed in Table I. Investment is calculated by increase in tangible and intangible asset less depreciation and amortization in the previous quarter scaled to current asset. IRET is the industry adjusted return, which is industry average stock return less each firm return. Q is defined by addition of liability and book value of equity divided by asset. All variables are winsorized at 1% and 99% level. MB and IRET values reported are standardized, but the statistical testing without standardization does not affect the result of this paper.

As mentioned above, the relative speed of promotion for the family members are approximately 9 years faster than the industry average. This is consistent with the intuitive prediction that the child of the 'royal' family would be promoted quicker. The average age also provide insight on the personnel practices of chaebol firms in Korea. The age of the sample ranges from 24 to 74, while the mean age of

introduction in an unreported results show it is around their early 40s. This is due to individuals who had been working in other firms before their public introduction to the firm. Anecdotal evidences suggest that children of chaebol firms are quite often secretly admitted into the firm in a very early age, in order to give them required years for them to be in certain management positions. However, due to information restraints, secret admissions into the firm are neglected. This would not affect the results of this study, for only when the child's career becomes public, justification for their position would be necessary. Furthermore, the admission age support the first hypothesis, that introduction into the firm in an older age will create oppositions from the stakeholders and shareholders; accounting for positive correlation between age and position in the firm.

IV. Investment and Performance after the heir is introduced

In order to test the first hypothesis, investment is regressed on dummy variable on joining the firm with other control variables. The control variables are 1-year lagged values, which is quoted from Pan, Wang, and Weisbach's paper on CEO investment cycles. Join-dummy is a dummy variable that takes value of one, if the successor is introduced to the firm, and zero otherwise. The results of this regression are presented over Table II. The regression includes both year and firm fixed effects with clustered standard errors. Panel A and B is divided by differences in the key variable, which are join dummy in Panel A and relative speed of promotion in Panel B. The results are also divided into two sub-segments by excluding financial crisis period.

First by looking at the sample size, regression results in Panel A include all firms with or without the successor in the firm. Thus, the coefficient could be

interpreted as the effect of the successor joining the firm on investment for all the other periods without the heir in the firm; including all other remaining firms. This explains for the low adjusted r-squared, whereas in an unreported results show the coefficients and significance level remains unchanged. In Panel A, the coefficient on the dummy variable for joining the firm is -0.100 with a significance level of 10% in the case of all periods. However, in the case excluding financial crisis periods, coefficient is change to -0.122 with a 5% significance level. The regression results suggest that during the period when the successor is hired by its own family business, investment tends to drop. In accordance with the assumptions made earlier, this could be interpreted as firm shuns away from making investments due to possible pressure from stakeholders and shareholders. Because agency theory predicts farsighted decision making done by the family firm, decreased investment could only be explained by lack of good investment opportunities. However, since the model of this regression also accounts for other firms' investment decisions, the decreased level of investment would not be explained by lack of good investment opportunities: unless the opportunities are only limited to family firms.

However, Panel B results indicate that relative speed does not affect investment decisions. This result questions the hypothesis that long term investment is adjusted to unorthodox personnel promotion for nepotism. The interpretation on Panel B could be explained by the characteristic of promotion speed. Critical characteristic of this variable is that relative speed is a type of information that is more concealed than the information about joining the firm. Because the information is more hidden, the impact of quick promotion is likely to affect inside stakeholders rather than the outside shareholders. Furthermore,

relative speed of promotion is not likely to be perceived easily by outsiders of the firm. For example, the news of promotion could not be easily perceived by the outside stakeholders and shareholders because there are no relative factors involved. On the other hand, for relative speed to be easily conceived, one has to keep track of the average years it takes for a promotion, or one has to be an insider who shares the same interest of getting a promotion. Therefore, insignificant results of Panel B could be interpreted that inside stakeholders' opposition on nepotism does not impact corporate decisions; as oppositions by the market and outside shareholders could implicate changes in investment decisions.

This result is susceptible to criticism, for the lack of corporate governance variable to explain the changes in investment. In a recent study on investment cycles, the authors find that firm life investment cycle exists; in the early life of the firm disinvestment is higher and as it grows older, investment increases (Arikan Stultz 2016). Thus, I test the results again with firm age as the control variable in Table III, and the result remains unchanged. Even though the direct causal relationship is not observed, the regression results support the first hypothesis that investment levels do decrease when the successor is introduced into the firm; even accounting for firm life cycle effects on investment. On the other hand, firm performance, depicted by Tobin's q, is not affected by the successor's introduction to the firm. Now in order to verify the second hypothesis, promotion's impact on firm decision is investigated.

V. Promotion on Investment and Performance

Second hypothesis states that the successor's promotion into higher management would require greater mitigation effort for adverse reaction towards

nepotism; in which would result in decrease in investment. In order to test this hypothesis, promotion dummy will be included into the regression. Promotion dummy has a value of one, only in the quarter that the individual is promoted. Therefore, this variable will take account for both before the promotion and after the promotion. The result of this regression is observable in Table V. First, in Panel A, investment changes are observed for all specifications on promotion. The coefficients approximately show -0.05 with significance level of 1%. This result indicates during incumbent period in the firm, investment is significantly decreased when the successor is promoted. Two different explanations could be possible for this result. First explanation would be in aligned to the second hypothesis, which states stronger pressure from stakeholders and shareholder affects farsighted investments. The second possible explanation would be a result due to pure coincidence, explained through endogeneity. However, both interpretations still fits the hypothesis, for whether causality is reversed, the decision-making entity is still the management. Intuitively, because the firm decides both investment and promotion, the concluding incentives on the result would not be questioned. For the remainder of the columns in the table, corporate governance variables such as CEO tenure, firm age, father's age, and past stock performance is added for robustness. CEO tenure and firm age variables are widely used variables in favor of agency related explanations in publicly owned firms. However, in the second column, the coefficients on CEO tenure and firm age are insignificant; this result is expected and consistent with agency theory that family firms are not susceptible to horizon issues.

On the other hand, Panel B shows results for promotion effect on Tobin's Q. Consistent with the previous findings, promotion does not have a clear relation to

firm performance. However, significant results are observed for CEO tenure, but not on the father's age. This is explained by recent trends in chaebol firms in Korea, where professional managers are hired to operate the company. Furthermore, it also is consistent to earlier studies on family owned businesses and their low performance.

VI. Further investigation on Short-term compensation

According to the results, hypothesis regarding nepotism-based explanation still holds, for investment is decreased when the child of the family firm is hired in to the firm. Furthermore, the decreased investment was significantly lower in the quarter when the child is promoted. The hypotheses set in this paper predicts investment decrease due to pressure from shareholders and stakeholders. The question now is whether investment decision is due to adverse reactions that prohibits predecessor's investment inclinations or due to shareholder's needs for short term compensation. However, the only testable prediction is whether shareholder and stakeholder short-term compensation has significant relationship with promotion and employment of the successor.

In order for this explanation to be valid, the firm should provide short-term compensation as a part of justification for nepotism. Thus, firm compensation tendencies in the quarter of promotion is investigated, and presented in Table VI. For testing, logit regression is implemented with promotion dummy as the dependent variable. In order to observe family firms' short term behavior, share repurchases and seasoned equity offering are investigated. Even though previous literature show mixed market reactions toward seasoned equity offerings, if nepotism-based explanation stands true, positive market reaction is expected. The

reason for the positive market reaction is that if firm's purpose of the season equity offering is not related to market timing, or to pecking order, but related to compensation for short-term compensations to the shareholders, signal effect could provide positive returns.

Unfortunately, however, logit regression results in table VI show insignificant relationship between probability of promotion and seasoned equity offering or share repurchases. Significance level for share repurchase announcement and seasoned equity offerings are not significant; while p value for seasoned equity offering is approximately 0.11. In an unreported result, outside director's salary has significantly positive relation to promotion with a significance level of 1%. However, the due to limited sample size and further testing has proven inconsistent. This result would imply that

VII. Conclusion

This paper investigates nepotism-based explanation for investment policies in family owned businesses. Existing theories paid little or less attention to agency related issues on investment, because time varying CEO horizons did not apply to family firms. Theoretically, family owners have long horizons, due to the strong bond between the family and the firm. However, family firms also face nepotism for family successions, which could create adverse response from stakeholders and shareholders. In order to mitigate adverse reactions on nepotism, it is possible for family owned businesses to decrease its investment to compensate shareholders and stakeholders for nepotism activities; whether they are direct compensation or not. I find that at beginning of the succession process, which is defined to be the period of successor's entrance into the firm, investment decreases compared to the

periods where the successor is not in the firm. Furthermore, I find that during successor's entrance in the firm, investment is significantly low when the successor is promoted. However, the relationship between quick promotion and investment or firm performance is non-existent. This suggests that information that is only conceived by inside employees, or internal stakeholders, does not affect corporate decision on investment. Finally I test if the firm participates in activities for shareholders' short term gain, but find that seasoned equity offering and share repurchases do not have relationship with the promotion. For further research, other forms of short-term compensation for the outside stakeholders and shareholders could provide insight to the nepotism-based explanation of family firms' investment behavior. Especially, compensation for outside directors and percentage of stock options held by the top management could be investigated for future research.

Tables and Figures

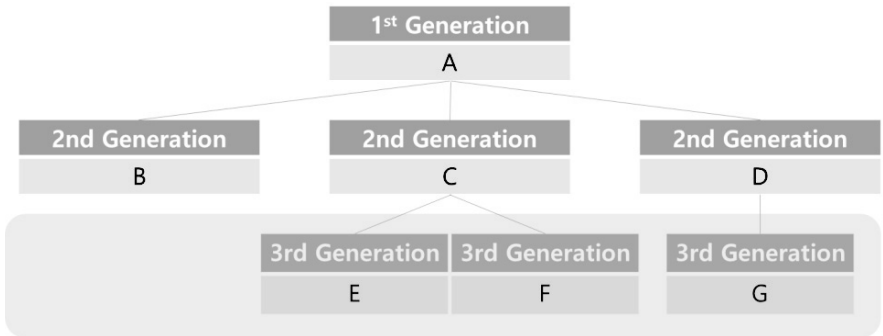

Figure I. Sample Selection Process

Table I. Summary Statics

This table is summary statistics of the variables used in this study. Korean market data is used from 2001~2015 retrieved from Dataguide. Personnel data is handcollected primarily through Chosun-ilbo personnel database. Relative Speed is calculated by subtracting actual years took to promote from market average years took for promotion. Investment is calcullated by increase in tangible and intangible asset less depreciation and amortization in the previous quarter scaled to current asset. IRET is the industry adjusted return, which is industry average stock return less each firm return. Q is defined by addition of liability and book value of equity divided by asset. All data is winsorized at 1% and 99% level. MB and IRET values reported are standardized, but the statistical testing without standardization does not affect the result of this paper.

		Mean	Std	Min.	Max	N
Firm #	86					
Personnel #	71					
Age		41.269947	9.331015	24	74	2830
Relative Speed		9.72	62.79	-4	21.4	2539
Promotion		2.95	2.63	0.3	16	2834
Generation		2.9982425	0.6317299	2	4	2845
Father Age		71.61	9.84	52	94	2845
CEO Tenure		4.74	3.52	1	18	80452
Firm Age		12.59	10.54	1	60	76490

Variable	Mean	Variance	Std.	Min	Max	N
Investment	0.1194956	0.3880702	0.6229528	0	47.495723	109948
Firm Age	12.737265	110.58184	10.51579	0.25	60	66179
MB	1.9650688	1	1	-33.92501	189.6191	73647
IRET	-0.590464	1	1	-4.935911	12.0119	73635
Log(Asset)	18.431481	2.3997852	1.549124	13.887309	25.692179	109932
Leverage	4.313883	1.1000087	1.048813	1.048813	8.25133	109932
Q	1.1940947	1.0487636	1.0240916	0.131855	83.62383	73647

Table II. Investment changes after the successor is introduced to the firm

$$Investment = \text{Constant} + \beta_1 JoinDummy + +\beta_2 IRET + \beta_3 Cash\ Ratio + \beta_4 DividendDummy + \beta_5 MB + \beta_6 Log(Asset) + \beta_7 Leverage$$

$$Investment = \text{Constant} + \beta_1 Rel\_Speed + +\beta_2 IRET + \beta_3 Cash\ Ratio + \beta_4 DividendDummy + \beta_5 MB + \beta_6 Log(Asset) + \beta_7 Leverage$$

This table shows the regression results of the equations above; changes in investment after the successor is introduced to the firm, and after speed of the promotion was faster than the normal peers. Both fixed effect on firm and year are included, with clustered standard errors. ***, **, and * respectively show significance level of 1%, 5% and 10%, which are supported by t-statistics provided in paranthesis. Korean market data is used from 2001~2015 retrieved from Dataguide. Personnel data is handcollected primarily through Chosun-ilbo personnel database. Relative Speed is calculated by subtracting actual years took to promote from market average years took for promotion. Investment is calcullated by increase in tangible and intangible asset less depreciation and amortization in the previous quarter scaled to current asset. IRET is the industry adjusted return, which is industry average stock return less each firm return. Q is defined by addition of liability and book value of equity divided by asset. All data is winsorized at 1% and 99% level. MB and IRET values reported are standardized, but the statistical testing without standardization does not affect the result of this paper.

	Panel A: Introduction to the Firm			**Panel B: Relative Speed of Promotion**	
	All Data	**Exclude 2008~2009**		**All Data**	**Exclude 2008~2009**
	(1)	**(2)**		**(1)**	**(2)**
Intercept	0.56127 ***	0.4825376 ***	**Intercept**	0.8730924 ***	1.012339 ***
	(26.55)	(23.61)		(5.70)	(5.77)
Join	-0.100208 *	-0.122497 **	**Speed**	0.0001812	0.0001469
	(-1.79)	(-2.26)		(0.42)	(0.30)
IRET	0.0010286 **	0.001016 **	**IRET**	0.0012605	0.0008217
	(1.99)	(2.02)		(0.37)	(0.21)
Cash Ratio	0.0200769 ***	0.0130258 *	**Cash Ratio**	0.0437057	0.557006
	(2.78)	(1.80)		(0.66)	(0.75)
Dividend	0.0073319 ***	0.0089732 ***	**Dividend**	0.0021524	0.0122339
	(4.46)	(5.53)		(0.21)	(1.10)
MB	0.0000299	0.0001844	**MB**	0.0052471	0.0003666
	(0.07)	(0.43)		(0.62)	(0.05)
Log(Asset)	-0.0280015 ***	-0.0237239 ***	**Log(Asset)**	-0.385341 ***	-0.0102452 *
	(-24.40)	(-21.33)		(-5.02)	(-1.69)
Leverage	-0.0033335 ***	-0.0035185 ***	**Leverage**	-0.0070115	-0.0448545 ***
	(-4.46)	(-4.76)		(-1.32)	(-5.06)
Firm-F.E & Year-F.E	O	O	**Firm-F.E & Year-F.E**	O	O
Obs.	73,634	63,638	**Obs.**	2,333	1,985
Adj. R	0.2157	0.2715	**Adj. R2**	0.4199	0.4423

Table III. Investment changes after the successor is introduced to the firm with Add. Control

$$Investment = \text{Constant} + \beta_1 JoinDummy + +\beta_2 IRET + \beta_3 Cash\ Ratio + \beta_4 DividendDummy + \beta_5 MB + \beta_6 Log(Asset) + \beta_7 Leverage$$

$$Investment = \text{Constant} + \beta_1 Rel\_Speed + +\beta_2 IRET + \beta_3 Cash\ Ratio + \beta_4 DividendDummy + \beta_5 MB + \beta_6 Log(Asset) + \beta_7 Leverage$$

This table shows the regression results of the equations above; changes in investment after the successor is introduced to the firm, and after speed of the promotion was faster than the normal peers. Both fixed effect on firm and year are included, with clustered standard errors. Corporate Governance variable firm age is added, which is years past since enlisted year. ***, **, and * respectively show significance level of 1%, 5% and 10%, which are supported by t-statistics provided in paranthesis. Korean market data is used from 2001~2015 retrieved from Dataguide. Personnel data is handcollected primarily through Chosun-ilbo personnel database. Relative Speed is calculated by subtracting actual years took to promote from market average years took for promotion. Investment is calcullated by increase in tangible and intangible asset less depreciation and amortization in the previous quarter scaled to current asset. IRET is the industry adjusted return, which is industry average stock return less each firm return. Q is defined by addition of liability and book value of equity divided by asset. All data is winsorized at 1% and 99% level. MB and IRET values reported are standardized, but the statistical testing without standardization does not affect the result of this paper.

	Panel A: Introduction to the Firm			**Panel B: Relative Speed of Promotion**	
	All Data	**Exclude 2008~2009**		**All Data**	**Exclude 2008~2009**
	(1)	**(2)**		**(1)**	**(2)**
Intercept	0.5508893 ***	0.4709469 ***	**Intercept**	0.8949176 ***	1.064726 ***
	(8.62)	(4.61)		(4.40)	(3.45)
Join	-0.0112443 **	-0.0134408 **	**Speed**	0.0001946	0.0001542
	(-2.02)	(-2.51)		(0.44)	(0.31)
Firm Age	-0.0001629	-0.000713	**Firm Age**	-0.001758	-0.0041449
	(-0.01)	(-0.04)		(-0.17)	(-0.21)
IRET	0.0013623 ***	0.0014019 ***	**IRET**	0.0012056	0.0007012
	(2.67)	(2.85)		(0.35)	(0.18)
Cash Ratio	0.0209329 ***	0.0142691 **	**Cash Ratio**	0.0429769	0.0550041
	(2.95)	(2.03)		(0.65)	(0.73)
Dividend	0.008402 ***	0.0102019 ***	**Dividend**	0.0022169	0.0125162
	(5.2)	(6.46)		(0.21)	(1.10)
MB	0.0000593	0.0003	**MB**	0.0052238	0.000477
	(0.14)	(0.54)		(0.61)	(0.05)
Log(Asset)	-0.0274066 ***	-0.0229171 ***	**Log(Asset)**	-0.0385324 ***	-0.0448688 ***
	(-24.21)	(-21.10)		(-5.00)	(-5.03)
Leverage	-0.0038154 ***	-0.0040208 ***	**Leverage**	-0.007118	-0.0103474 *
	(-5.18)	(-5.57)		(-1.33)	(-1.69)
Firm-F.E & Year-F.E	O	O	**Firm-F.E & Year-F.E**	O	O
Obs.	72,823	62,921	**Obs.**	2,315	1,967
Adj. R2	0.2235	0.285	**Adj. R2**	0.4196	0.4419

Table IV. Performance changes after the successor is introduced to the firm

$$Tobin's\ Q = \text{Constant} + \beta_1 JoinDummy + \ +\beta_2 IRET + \beta_3 Cash\ Ratio + \beta_4 DividendDummy + \beta_5 MB + \beta_6 Log(Asset) + \beta_7 Leverage$$

$$Tobin's\ Q = \text{Constant} + \beta_1 Rel\_Speed + \ +\beta_2 IRET + \beta_3 Cash\ Ratio + \beta_4 DividendDummy + \beta_5 MB + \beta_6 Log(Asset) + \beta_7 Leverage$$

This table shows the regression results of the equations above; changes in tobin's q after the successor is introduced to the firm, and after speed of the promotion was faster than the normal peers. Both fixed effect on firm and year are included, with clustered standard errors. ***, **, and * respectively show significance level of 1%, 5% and 10%, which are supported by t-statistics provided in paranthesis. Korean market data is used from 2001~2015 retrieved from Dataguide. Personnel data is handcollected primarily through Chosun-ilbo personnel database. Relative Speed is calculated by subtracting actual years took to promote from market average years took for promotion. Investment is calcullated by increase in tangible and intangible asset less depreciation and amortization in the previous quarter scaled to current asset. IRET is the industry adjusted return, which is industry average stock return less each firm return. Q is defined by addition of liability and book value of equity divided by asset. All data is winsorized at 1% and 99% level. MB and IRET values reported are standardized, but the statistical testing without standardization does not affect the result of this paper.

	Panel A: Introduction to the Firm			**Panel B: Relative Speed of Promotion**	
	All Data	**Exclude 2008~2009**		**All Data**	**Exclude 2008~2009**
	(1)	**(2)**		**(1)**	**(2)**
Intercept	4.754587 ***	4.782452 ***	**Intercept**	7.46449 ***	6.581596 ***
	(38.14)	(36.91)		(19.39)	(16.87)
Join	-0.0337168	-0.0491775	**Speed**	-0.0008062	0.0003648
	(-1.02)	(-1.43)		(-0.75)	(0.34)
IRET	0.1757985 ***	0.1650664 ***	**IRET**	0.078836 ***	0.0722284 ***
	(57.53)	(51.71)		(9.2)	(8.45)
Cash Ratio	1.10037 ***	1.139299 ***	**Cash Ratio**	0.7485462 ***	0.9034833 ***
	(25.76)	(24.82)		(4.53)	(5.43)
Dividend	0.0203372 **	0.0168173	**Dividend**	0.0662847 ***	0.0608539 **
	(2.1)	(1.63)		(2.6)	(2.46)
MB	0.7973924 ***	0.1075017 ***	**MB**	0.3042643 ***	0.1560717 ***
	(31.69)	(39.75)		(14.26)	(10.45)
Log(Asset)	-0.1943717 ***	-0.1948845 ***	**Log(Asset)**	-0.3556466 ***	-0.3069887 ***
	(-28.71)	(-27.64)		(-18.43)	(-15.57)
Leverage	0.0207042 ***	0.0157384 ***	**Leverage**	0.1890234 ***	0.1550095 ***
	(4.70)	(3.36)		(14.16)	(11.48)
Firm-F.E & Year-F.E	O	O	**Firm-F.E & Year-F.E**	O	O
Obs.	73,634	63,638	**Obs.**	2,333	1,985
Adj. R2	0.1003	0.09951		0.4015	0.29157

Table V. Investment and Performance changes when the successor is promoted

$$Investment = \text{Constant} + \beta_1 Promote + +\beta_2 IRET + \beta_3 Cash\ Ratio + \beta_4 DividendDummy + \beta_5 MB + \beta_6 Log(Asset) + \beta_7 Leverage$$

This table shows the regression results of the equations above; changes in investment when the successor is promoted. the subpanels include governace variables such as CEO tenure, firm age, father's age, and past stock return. Past performance variable is the moving average of the past 4 quarters. Both fixed effect on firm and year are included, with clustered standard errors. Corporate Governance variable firm age is added, which is years past since enlisted year. ***, **, and * respectively show significance level of 1%, 5% and 10%, which are supported by t-statistics provided in paranthesis. Korean market data is used from 2001~2015 retrieved from Dataguide. Personnel data is handcollected primarily through Chosun-ilbo personnel database. Relative Speed is calculated by subtracting actual years took to promote from market average years took for promotion. Investment is calcullated by increase in tangible and intangible asset less depreciation and amortization in the previous quarter scaled to current asset. IRET is the industry adjusted return, which is industry average stock return less each firm return. Q is defined by addition of liability and book value of equity divided by asset. All data is winsorized at 1% and 99% level. MB and IRET values reported are standardized, but the statistical testing without standardization does not affect the result of this paper.

	Panel A: Investmet			
	All Data			
	(1)	**(2)**	**(3)**	**(4)**
Intercept	0.8469774 ***	0.8798534 ***	0.9883108 ***	1.008172 ***
	(5.59)	(4.29)	(3.94)	(3.59)
Promote	-0.0458582 ***	-0.0491347 ***	-0.0493121 ***	-0.0519928 ***
	(-4.76)	(-4.83)	(-4.85)	(-4.85)
CEO Tenure		-0.0009029	-0.0009293	-0.0012149
		(-0.78)	(-0.80)	(-1.00)
Firm Age		-0.000535	-0.0004755	-0.0019369
		(-0.05)	(-0.04)	(-0.17)
Father Age			-0.0015475	-0.0022543
			(-0.76)	(-0.93)
Past Performance				0.0002934
				(1.43)
IRET	0.0000689	0.0000728	0.0001584	0.0000475
	(0.02)	(0.02)	(0.04)	(0.01)
Cash Ratio	0.618613	0.0668176	0.0696369	0.0741344
	(1.00)	(1.03)	(1.08)	(1.07)
Dividend	-0.0080933	-0.0095201	-0.0090975	-0.0094271
	(-0.81)	(-0.89)	(-0.85)	(-0.82)
MB	0.0039978	0.0039796	0.0039761	0.0012497
	(0.46)	(0.45)	(0.45)	(0.14)
Log(Asset)	-0.0357297 ***	-0.0365755 ***	-0.0371328 ***	-0.0348662 ***
	(-4.68)	(-4.61)	(-4.66)	(-4.14)
Leverage	-0.0107008 **	-0.0116839 **	-0.0119371 **	-0.015949 ***
	(-2.06)	(-2.15)	(-2.19)	(-2.70)
Obs.	2,476	2,385	2,385	2,223
Adj. R	0.3904	0.3895	0.3894	0.3952

Table V. Investment and Performance changes when the successor is promoted - *Continued.*

$$Tobin's\ Q = \text{Constant} + \beta_1 Promote + \ +\beta_2 IRET + \beta_3 Cash\ Ratio + \beta_4 DividendDummy + \beta_5 MB + \beta_6 Log(Asset) + \beta_7 Leverage$$

This table shows the regression results of the equations above; changes in investment when the successor is promoted. the subpanels include governace variables such as CEO tenure, firm age, father's age, and past stock return. Past performance variable is the moving average of the past 4 quarters. Both fixed effect on firm and year are included, with clustered standard errors. Corporate Governance variable firm age is added, which is years past since enlisted year. ***, **, and * respectively show significance level of 1%, 5% and 10%, which are supported by t-statistics provided in paranthesis. Korean market data is used from 2001~2015 retrieved from Dataguide. Personnel data is handcollected primarily through Chosun-ilbo personnel database. Relative Speed is calculated by subtracting actual years took to promote from market average years took for promotion. Investment is calculated by increase in tangible and intangible asset less depreciation and amortization in the previous quarter scaled to current asset. IRET is the industry adjusted return, which is industry average stock return less each firm return. Q is defined by addition of liability and book value of equity divided by asset. All data is winsorized at 1% and 99% level. MB and IRET values reported are standardized, but the statistical testing without standardization does not affect the result of this paper.

	Panel B: Tobin's Q			
	All Data			
	(1)	**(2)**	**(3)**	**(4)**
Intercept	7.209964 ***	6.949807 ***	7.978723 ***	8.142346***
	(19.12)	(13.84)	(13.02)	(12.48)
Promote	0.031324	0.0262103	0.0245319	0.0204717
	(1.31)	(1.05)	(0.99)	(0.82)
CEO Tenure		0.0096238***	(0.0093737)***	0.006557 **
		(3.39)	(3.30)	(2.33)
Firm Age		0.0288905	0.0294539	0.0267909
		(1.08)	(1.10)	(0.309)
Father Age			-0.0146445 ***	-0.0186525***
			(-2.92)	(-3.31)
Past Performance				0.0049715***
				(10.45)
IRET	0.0785723***	0.0787268 ***	0.0795371***	0.0792331***
	(9.26)	(9.09)	(9.20)	(8.70)
Cash Ratio	0.5945305 ***	0.5275334 ***	0.5542136***	0.4156686***
	(3.86)	(3.33)	(3.50)	(2.59)
Dividend	0.0788114 ***	0.0647071 **	0.0687061***	0.0588299**
	(3.19)	(2.47)	(2.62)	(2.20)
MB	0.3241896***	0.3145016 ***	0.3144683***	0.2664895***
	(15.04)	(14.49)	(14.51)	(12.48)
Log(Asset)	-0.3444834 ***	-0.3497917 ***	-0.355066***	-0.3458578***
	(-18.16)	(-18.01)	(-18.23)	(-17.68)
Leverage	0.1845681***	0.1854806 ***	0.1830843 ***	0.1650772***
	(14.32)	(13.93)	(13.75)	(12.08)
Obs.	2,476	2,385	2,385	2,223
Adj. R2	0.3863	0.3907	0.3928	0.4025

Table VI. Probability of Possible short-term compensation to Promotion

This table shows logit regression results for potential methods on short-term compensations for the shareholders. Dependent variable is the promotion dummy, which states one, if a firm has successor has been promoted in that quarter. MB and Past performances are 1 year lagged values. SEO announcement, share repurchases and dividend are dummy variables. Both year and firm fixed effects are included in the regression, and standard errors are clustered. In parenthesis, z-score value is presented.

	(1)	(2)
SEO Announcement	1.271557	
	(1.59)	
Share Repurchases		0.3892665
		(0.60)
Dividend	0.188718	0.079898
	(0.19)	(0.08)
MB	0.6126291	0.5678666
	(0.44)	(0.41)
Past Performance	-0.0010709	-0.0023987
	(-0.1)	(-0.21)
Firm-F.E & Year-F.E	O	O
Obs.	1,906	1,906

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국 문 초 록

재벌기업 가족승계와 기업 행태

– 친족고용 및 승진에 따른 투자 행태의 변화 –

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재무금융 전공

본 연구는 과거 대리인 문제로 설명되어왔던 기업 투자행태의 변화를 재벌기업의 승계 과정으로 분석하고 있다. 가족 기업들이 세계 대부분을 차지하는 만큼 그 중요도가 크지만, 이론적으로 투자 행태 변화에 있어서 가족 기업들은 대리인 문제가 없기 때문에 기존 연구 대상에서 제외되곤 하였다. 이는 가족 기업의 경우 승계 과정에 있어서 단기적인 투자가 아닌 장기적인 투자를 진행함으로써 기업의 이익을 추구하기 때문이다. 본 연구는 재벌 기업들의 투자 행태 변화를 네포티즘에 대한 주주 및 시장에서의 반감을 우려한 기업의 행태로 설명하고 있으며, 이는 기존 연구들과 차별점을 가진다. 그 결과 한국 재벌 기업들의 경우, 친자식이 입사한 후 와 전을 비교하였을 때 유의하게 투자가 저하되는 것이 나타난다. 이 결과는 친자식이 승진을 하는 분기에 특히 더 유의하게 나타나며, 이 시기가 주주들의 반감이 가장 높은 시기이기 때문에 투자 저하가 일어나는 것으로 설명된다.

주요어 : 재벌기업, 네포티즘, 투자행태, 승진, 승계, 가족경영
학 번 : 2015-20598