Spotlight
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Do family firms hold non-family CEOs to a harsher standard when performance drops?

Ownership structure and board composition shape how quickly outside leaders face the exit door

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Family firms are often celebrated for their long-term orientation. They are supposed to be patient, values-driven, and willing to weather short-term setbacks for the sake of continuity. But this patience has limits—and those limits depend heavily on who is sitting in the CEO chair.

This study examines whether non-family CEOs in private family firms face higher dismissal risk after poor financial performance than family CEOs do. Using a longitudinal dataset of **917 medium and large Italian family-controlled firms** with revenues above €50 million, tracked from 2000 to 2010, the authors test how ownership concentration and family board representation shape the performance-turnover relationship.

WHAT WE STUDIED

The data comes from Bocconi University's Italian Observatory of Family Firms and includes over 8,000 firm-year observations. Performance was measured using industry-adjusted return on assets (ROA). The study distinguishes between family and non-family CEOs and examines two governance moderators: **family ownership concentration** (measured via the Herfindahl index across family shareholders) and the **number of family members on the board**.

The theoretical framework draws on behavioral agency theory, which emphasizes that family owners pursue both economic and socioemotional goals—legacy, trust, identity, control. These dual objectives create different evaluation criteria for insiders and outsiders, with consequences for how quickly poor performance triggers a leadership change.

KEY INSIGHTS

Non-family CEOs face far greater dismissal risk after poor results

The baseline finding is stark. Non-family CEOs are significantly more likely to be replaced following weak financial performance. Family CEOs, by contrast, are largely insulated—their probability of dismissal barely moves regardless of how the numbers look. The protective mechanism for family insiders is relational: shared history, kinship trust, and alignment with socioemotional goals create a buffer that outside leaders simply do not have. Non-family CEOs are evaluated primarily on financial metrics because those are the most legible and least contested criteria available to a family that does not know the person the way it knows its own members.

Dispersed family ownership amplifies the asymmetry

When family ownership is spread across many shareholders—siblings, cousins, branches—non-family CEOs face even higher dismissal risk after poor performance. The mechanism is coordination failure. Dispersed owners have diverse goals, weaker communication channels, and less capacity for nuanced evaluation. They fall back on the simplest available metric: short-term financial results. A concentrated owner, by contrast, can take a longer view, weigh contextual factors, and exercise patience when performance dips have a plausible explanation. The practical implication is that the ownership structure a non-family CEO walks into matters as much as the performance targets they are given.

More family directors on the board increases pressure on outside CEOs

Larger family representation on the board does not translate into more nuanced oversight. Instead, the study finds that more family directors increase the likelihood of non-family CEO dismissal after poor results. The explanation is internal complexity: more family voices mean more agendas, more potential for disagreement, and more difficulty reaching consensus on non-financial goals. When family board members cannot agree on what "good performance" looks like beyond the numbers, financial metrics become the default consensus mechanism—and non-family CEOs bear the consequences.

Family CEOs are protected across all governance configurations

Regardless of ownership concentration or board composition, family CEOs remain shielded from performance-driven dismissal. Their embeddedness in the family system provides a trust-based evaluation framework that financial results alone cannot override. This asymmetry reveals a potential governance gap: family insiders are judged on relationships, while outside leaders are judged on results. Over time, this double standard can undermine the firm's ability to attract and retain top professional talent.

TAKEAWAYS

Examine your governance before hiring an outside CEO

If your ownership is dispersed across many family members and your board is dominated by family directors, a non-family CEO will operate in a high-pressure environment where short-term financials carry outsized weight. Recognizing this dynamic before making the hire—and adjusting governance accordingly—can prevent costly turnover.

Codify non-financial performance criteria

Family firms evaluate family CEOs on a rich set of criteria: loyalty, cultural fit, legacy protection, relationship maintenance. Non-family CEOs deserve the same breadth. Formalizing non-financial goals—through family constitutions, strategy charters, or structured evaluation frameworks—ensures that outside leaders are assessed on what actually matters, not just what is easiest to measure.

Build trust deliberately

For non-family CEOs entering family firms, financial performance alone will not secure the role. Investing in understanding the family's history, values, and priorities—and demonstrating alignment with them—builds the relational capital that can provide a buffer when results temporarily fall short.

IMPACT

This study advances behavioral agency theory by showing that the multi-principal problem within family ownership groups has direct consequences for CEO evaluation and retention. It reconciles prior contradictory findings about whether family firms are more or less tolerant of CEO underperformance by demonstrating that the answer depends on who the CEO is and what the governance structure looks like. For practitioners, the warning is clear: professionalizing a family firm by hiring an outside CEO without adapting governance structures in parallel can backfire, triggering the very short-termism and instability the firm hoped to avoid.

RECOMMENDATIONS

1. **Formalize performance evaluation.** Define clear, multi-dimensional criteria that include both financial and non-financial goals before appointing a non-family CEO.
2. **Streamline family governance.** If ownership is dispersed, consider family councils or shareholder agreements that consolidate voice and reduce coordination costs.
3. **Train family board members.** Board education can help family directors move beyond default financial metrics toward more strategic, contextual evaluation.
4. **Invest in CEO onboarding.** Help non-family leaders understand the family's culture, legacy, and socioemotional priorities from day one.

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