

Conflicts in Private Family Firms*

Jānis Bērziņš

Alminas Žaldokas

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Abstract

We use Norwegian household-level data and full structures of family relationships to understand how succession decisions are made when the family has multiple potential heirs. We argue that the decisions on ownership distribution in family firms are related to the potential of future family conflicts. We first theoretically show that both joint and concentrated control can be optimal, depending on how likely the heirs are to disagree about the corporate policy and such effect is non-monotonic. We document that the patterns of divided bequest are more likely when the potential disagreement is lower in private Norwegian family firms as captured by heirs being of different gender, levels of education, ages, and born to different parents. The firms controlled by the families that are expected to have fewer potential conflicts are also more likely to remain within the family control. We identify the potential of family conflicts based on the history of the founder's divorces instrumented by the divorces in the extended family relationships, outside of the nuclear family.

Keywords: Family Firms, Corporate Governance, Ownership Structures

JEL Classification: G32, G34

*Jānis Bērziņš: Finance Department, BI Norwegian Business School, email: janis.berzins@bi.no; Alminas Žaldokas: Department of Finance, Hong Kong University of Science and Technology (HKUST), email: alminas@ust.hk. We are grateful to Morten Bennesen, Alex Edmans, and Denis Gromb for their comments. Alminas Žaldokas acknowledges the General Research Fund of the Hong Kong Research Grants Council for financial support provided for this project (Project Number: 699113). Jānis Bērziņš acknowledges the grant from the Centre for Corporate Governance Research at BI Norwegian Business School.