Transfer of family businesses and its impact on a firm's debt and growth rate

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In this paper we study the impact of a family business transfer on the debt and growth rate based on a sample of 152 small- to medium-sized businesses. The aim is to identify the effects of a succession by relying on panel data gathered over the period 1991-2006 resulting in more than 2,000 firm-year observations. The main findings are that a transfer from the first- to the second generation negatively influences the debt rate of the company, where in successions between later generations this effect is being reversed. With respect to firm growth, analyses indicate that in first-generation companies the growth rate decreases after the transition, where in next-generation firms no effect on the growth level can be identified.

Introduction

Family business succession constitutes an interesting and important topic in organizational literature (Miller et al., 2003). Although both increases and decreases have been identified, the impact of a family business succession on the financial structure and performance is still unclear. The first aim of our study is to find empirical evidence of a change in debt and growth rate after an intergenerational transfer within private SMEs took place. We will try to explain our results using two perspectives: an agency perspective (Jensen & Meckling, 1976) and a stagnation perspective (Miller et al., 2008). Secondly, several authors have shown that a transfer from the founder to the second generation can be different from that occurring in later generations (e.g. Davis & Harveston (1998, 1999); Schulze et al.(2003)). We will therefore investigate whether the impact of a succession from the first to the second generation differs from a succession between later generations.

The remainder of this paper is structured as follows. In the next section we review the literature on the impact of succession on the firm’s debt and growth rate and formulate some hypotheses. The third section discusses the methodology used in this paper (data, variables, estimated model). In the fourth section the empirical results are presented. In the last section a conclusion is made and some practical implications are formulated.

Literature review and formulation of hypotheses

Many studies in the succession literature take into account the agency perspective to analyze managerial behavior (Giambatista et al., 2005). The agency perspective was introduced by Jensen and Meckling (1976) and focuses on information asymmetries between managers, shareholders and bondholders. Although several studies point to the lower exposure of family firms to agency costs (Fama, Jensen, 1983; Daily, Dollinger, 1992), these agency problems can also increase in family businesses due to increasing family conflicts and dysfunctional altruistic behavior from the moment the next generation takes over the leadership of the company (Davis, Harveston, 1999; Smith, Amoako-Adu, 1999).

Related to this view, Miller et al. (2008) introduce the stagnation perspective in order to to explain the characteristics and behavior of family businesses. The stagnation perspective combines several reflections in family business studies on the conservative and sometimes dysfunctional nature of the family firm. Since many of the problems in family firms often originate from family conflicts, nepotism, succession difficulties etc., there is some common ground between the stagnation and agency perspective. According to Miller et al. (2008) this stagnation perspective can manifest itself in several ways, such as a lack of financial and managerial resources often found in family firms, a risk averse and conservative behavior, a reluctance to growth, and the short-lived nature of many family firms resulting from the former “weaknesses”.

Impact of a succession on the firm’s debt rate

Negative relationship between a succession and the debt rate

Using an agency perspective, Schulze et al. (2003) argue that equity ownership is likely to become more diffuse with each transition in a family firm to the next generation. This can lead to a divergence of interests between the shareholders who serve on the board of the firm, who will prefer to reduce financial leverage, because increased risk has a negative effect on the safety of their personal investments. The results of Schulze et al. (2003) show that especially in sibling partnerships there is a lower willingness to bear risk compared to controlling owners and cousin consortiums, since increased levels of loss aversion, goal misalignment and conflicts among family members reduce these firms’ incentive to use debt to fund their investments.

Several studies argue that when family firms progress from one generation to the next, they will become less willing to attract debt financing because of a reduced readiness to take risk. Referring to Ward’s model (1987, 1997a) which discriminates between family firms where the business rather serves the family (family orientation), and family firms where the family rather serves the business (business orientation), Reid et al. (1999) find that family orientation becomes more important as family firms develop over generations. Family oriented firms are more reluctant to use “risky” external sources of capital as this could dilute family control. In a similar way, Kaye and Hamilton (2004) indicate that descendants usually have a lower willingness to take risks compared to their parents. As they have a stronger preference for wealth-preservation instead of further wealth-creation, they try to avoid a highly leveraged capital structure. The reluctance of many owners of smaller family firms to use a highly leveraged capital structure is a consequence of the family's desire to transfer a healthy company over different generations, thereby safeguarding the family's name and the lifework created by the founder. Thus, the higher risk aversion and the lower willingness to attract debt financing reduce the available financial resources for next-generation family firms, which is consistent with the stagnation perspective. Shepherd and Zacharakis (2000) argue that descendants are less willing to undertake risky activities because they usually have invested large amounts of capital for buying themselves into the company.

The stagnation perspective is also supported by studies that focus on the lower ability of family firms to attract debt financing after a succession. For example, Anderson, Mansi and Reeb (2003) take into account information asymmetries between bondholders and shareholders and find evidence that the former may consider succession from the founder to the next generation as harmful to their wealth because the descendants are less qualified to lead the company. Other authors point to the fact that succession usually increases the number of family members involved in the business. An increase in the number of active and passive family shareholders after succession may lead to intra-family conflicts (Davis, Harveston, 1999; Harvey, Evans, 1995), higher dividend payout ratios and less attention to reinvesting retained earnings (e.g. Schwass, 2005). Beckhard and Dyer (1983) and Paul (1996) suggest that intra-family conflicts are a major contributor to family business failure. Creditors may therefore be less willing to provide debt to next-generation managed family firms.

Positive relationship between a succession and the debt rate

Schulze et al. (2003) stated that in a cousin consortium, mostly found in third- and later generations, there will be a further dispersion of ownership. At this stage, risk preferences of family owners will be more in line with those of institutional investors and shareholders of public firms, which will lead to a higher willingness to take risk and use debt financing.

Other authors suggest that next-generation family firms will actually find it easier to attract debt financing compared to their first-generation counterparts and therefore may have higher debt rates. Le Breton-Miller, Miller (2006) and Gersick et al. (1997) e.g. point to the importance of long-term relationships between family firms and external stakeholders like banks. If the transition of a family firm is managed successfully, the firm may get better conditions when seeking debt finance from banks because a long-term relationship with the bank will give the firm the status of a reliable debtor. Moreover, the family firm could have higher incentives to meet current and future obligations because the family name is at stake.

In addition, several other studies suggest that family firms may want more debt financing after succession. Based on the agency theory, Blanco-Mazagatos et al. (2007) point to the increasing weakness of family ties and problems of opportunism and altruism over the course of generations. Family members who run the firm are able to enjoy excessive salaries and perks, or could take decisions in their own interest. Family members who are not actively involved in the business may therefore enforce the use of higher amounts of debt financing, because debt can serve as a governance mechanism that reduces agency costs resulting from managerial opportunism. In that way, a higher demand for debt financing can be expected in next-generation family firms compared to their first-generation counterparts.

Moreover, according to De Massis, Chua, and Chrisman (2008), the tax burden that may result from a transfer in ownership during the succession can put a serious strain on the family firm’s resources. Successors often need to borrow high amounts of capital to buy the shares of the company, which will require them to draw money out of the business through higher salaries or dividend payments in order to pay off their mortgages and interests (Bjuggren, Sund, 2001, 2005). Because of these cash withdrawals, many next-generation family firms will be characterized by a higher demand for debt financing.

Based on former insights, we can formulate the following hypotheses:

Hypothesis 1a: A family business transfer in first-generation family firms will lead to a negative effect on the debt rate of the company

Hypothesis 1b: A family business transfer in next-generation family firms will lead to a neutral to positive effect on the debt rate of the company

Impact of a succession on the firm’s growth rate

Negative relation between a succession and the growth rate

Focussing on agency problems between principal and minority family owners of family firms that went through a succession, Schulze et al. (2003) find evidence that an increased level of ownership dispersion in family firms evolving to a sibling partnership can result in a more risk averse behavior, eventually leading to a reduction of firm growth. However, they also find that this effect is being reversed in a cousin consortium, as in this stage family owners will again have a higher willingness to take risks and will focus more on growth.

According to Ward (1997b), increased conflicts among family members are one of the main reasons behind the stagnation of a family business. Consistent with this argument, Mishra, Randøy, and Jenssen (2001) find that family ownership in younger firms has a higher positive effect on firm value compared to later generations of family firms, mainly due to the weakening of family ties and lower cohesiveness among family members over generations. Related to this view, Davis and Harveston (1998, 1999) introduced the idea of "generational shadow". This term refers to those successions which prove to be incomplete due to the continuing influence of older generation family members who no longer directly control the company. As this behavior can constrain the successors' motivation and increase the chance of conflicts, a dysfunctional effect on the company can be expected. Davis and Harveston further show that the generational shadow cast by the founder is much greater than the generational shadow cast by subsequent generations. They also point to the effect of organizational learning that occurs in companies that have already experienced a succession. Family firms that have been involved in one or more succession events will probably have their own standard practices that work best for them.

Several studies are based on the idea that when family firms move from one generation to the next, their goals change, which can result in stagnation. First-generation family firms are more business oriented than later generation firms, which are more family oriented, and firms with a business orientation have a higher capacity to grow (Dunn, 1995; Cromie et al., 1995; Reid et al., 1999). Similarly, Martin and Lumpkin (2004) find that in successive generations entrepreneurial orientation tends to diminish and give way to family orientation, as stability and inheritance concerns become the business' principal drivers. Thus, it is clear that this stronger family orientation can confine the firm's prosperity since it often results in a lower willingness to grow.

Other studies attribute a stagnation of the family business and a lower growth performance after succession to the descendants' lack of competences and skills. Since the alternative of hiring a better and more experienced external manager is often disregarded, these companies face a lack of managerial resources, which limits their ability to attain high performance (e.g. Bennedsen et al., 2007; Cucculelli, Micucci, 2008). For a sample of listed firms in the US, Villalonga and Amit (2006) examine the impact of family ownership, control, and management on firm value. Their results show a non-monotonic relation between generation and firm value. Descendant-CEOs seem to exert a negative effect on firm value which is totally attributable to second-generation family firms. On the other hand, Villalonga and Amit find a significant positive incremental contribution of third-generation family businesses to firm value. This contrasts with the findings of Pérez-González (2006), who observes that especially third-generation family firms are less profitable in running their business, given the significant declines in return on assets of these companies compared to family firms in which control is handed over from the first- to the second generation. Pérez-Gonzalez argues that promoting family CEOs in publicly traded corporations can significantly hurt performance due to the lower talent of family descendants. Finally, the study of Morck and Yeung (2003) brings forward that lower growth can be expected in firms controlled by descendants as the latter might be less hard-working and less able compared to the founder as real entrepreneur.

Other authors have attributed the stagnation of firms after succession to the lack of financial resources (e.g. Upton, Petty, 2000; Bjuggren, Sund, 2005; Miller, Le Breton-Miller, 2006). The increasing demand for dividends by family members as family businesses enter second or later generations may result in a serious reduction of available financial means that are needed to support the firm’s development and growth. Furthermore, the sale of the shares to the next generation may be financed by the successors from the firm’s operating cash flows by means of increased salaries or dividend payments. Such cash withdrawals can restrict the firm’s ability to attain future growth.

Positive relation between a succession and the growth rate

Zahra (2005) and Fernández and Nieto (2005) find that when new generations of family members become actively involved in the company, wealth increase and strategic renewal become more important. The underlying argument is that with each succession in a firm, new family members bring fresh knowledge and insights into the company, which positively affects the incentive to innovate, internationalize and grow. McConaughy and Phillips (1999) also find evidence that descendant-controlled family firms are more profitable than family firms controlled by the founder. Although founder-controlled firms have a higher capacity to grow, family firms managed by descendants have a higher ability to generate profits as they can reap the benefits of earlier investments in capital assets and R&D made by the founder. Diwisch et al. (2007) identify a significant positive effect of past succession on the performance of Austrian SMEs.

Based on former insights, we can formulate the following hypotheses:

Hypothesis 2a: A family business transfer in first-generation family firms will lead to a negative effect on firm growth

Hypothesis 2b: A family business transfer in next-generation family firms will lead to a neutral to positive effect on firm growth

Research methodology

Data

This study is based both on survey data and publicly available archival data. For gathering information on family involvement in a company as well as on the occurrence of a family business succession, a questionnaire was sent out to 2,500 Flemish (northern part of Belgium) small and medium-sized limited liability companies with total employment between 10 and 250 employees.

After two rounds, a response rate of 20.16% was obtained, resulting in a population of respondents of 504 companies. The 504 companies in our data set could all be regarded as family businesses since they had 50% or more of the shares owned by members of the family and/or a managing director who perceived the company as a family business.

To assess the presence of non-response bias, we compared the firms that responded to the first round of our questionnaire against those that cooperated in the follow-up survey. No significant differences could be found between those two groups of respondents with respect to the size, sector, age, and location of the company. We also compared these business characteristics between the responding firms and the original 2,500 firms of the survey population. With respect to all these variables, the group of respondents had similar characteristics to those of the survey population of 2,500 firms.

Publicly available archival data were gathered for the period 1991-2006 in the form of balance sheet and profit and loss account figures from the Bel-first database and data provided by the National Bank of Belgium. Only companies were selected that, in the period of analysis, experienced their first succession (i.e. from the first to the second generation) or that were handed over between later generations of family members. As we further required that each company in the sample had financial information available for at least one year preceding and one year following the transfer, all successions took place between 1992 and 2005. This resulted in a subgroup of 152 family business successions. Since some of these companies are founded after 1990, and thus have no financial information available for the whole period of analysis, our sample concerns an unbalanced panel data set of more than 2,000 firm-year observations across this 16-year period (1991-2006). Additionally, 110 first-generation family firms that have not yet experienced a succession are also included in the analysis as a control group. Table 1 gives an overview of the profile of the companies in our sample.

Table 1: Profile of companies in the sample

Characteristics		Family firms transferred from 1st to 2nd generation	Family firms transferred between later generations	Control group: 1st gen. family firms
Number of firms		86 (57%)	66 (43%)	110
Sector (proportion):	manufacturing	30 (35%)	24 (36%)	28 (26%)
	construction	22 (26%)	10 (15%)	18 (16%)
	trade	18 (21%)	21 (32%)	34 (31%)
	services	16 (18%)	11 (17%)	30 (27%)
Company age (mean)		26	71	19
Total assets (mean)		4,070,994	4,499,901	2,613,480

Apart from the 110 first-generation family firms which are only used as a control group, 57% of all family business successions in this study occur between the first and the second generation. The other 66 firms are thus family businesses that have already experienced a succession in the past, as they are transferred between the second and third, or between later generations in the period of analysis. We further learn that, in the year of succession, first generation family firms that are transferred to the second generation have been in business on average for 26 years, whereas second- and later generation family firms have 71 years of operation at the moment of succession. With regard to the size of the companies experiencing succession, we find that the mean total assets figure increases from 4.1 million euro to 4.5 million euro. Finally, when looking at industry differences between the companies that are involved in a family business transfer, more or less the same distribution can be found among the various sectors.

Variables

Dependent variables. In order to test our first two hypotheses, leverage is measured by taking the total amount of debt scaled by total assets. With respect to the other two hypotheses, we analyze growth performance by looking at the growth rate in total assets of the company. The choice to measure assets growth instead of sales growth is due to the absence of sufficient sales figures for all firms, as for Belgian SMEs the disclosure of sales figures is voluntary in their financial statements.

Independent variables. Based on these two questions of the questionnaire, two dummy variables are constructed which measure the occurrence of the transfer of the business from the first- to the second generation (TransferFirst) and between next-generation family members (TransferNext) respectively. They take on value 1 in the year after succession and the following years onward, and 0 otherwise. This allows measuring the permanent change in the dependent variables following the business transfer.

Corresponding to the work of Harris and Raviv (1991), Rajan and Zingales (1995), and Fama and French (2002), we further include some other determinants in analyzing a company's level of indebtedness. Tangibility, calculated as fixed assets to total assets, is used as a measure of the collateral value of the firm. It is expected that large proportions of tangible assets in the balance structure, will lead to a higher willingness of lenders to supply debt to the company. We also use the assets growth rate in our analysis on the level of debt as a measure of current investments, which is supposed to be positively related to leverage. We further include a measure of firm profitability by taking earnings before interest, taxes, depreciation and amortization divided by total assets (gross return on assets). As this variable is a measure of the internal financing capacity of the firm, a negative impact can be expected on the level of debt, given that many owners/managers prefer to finance their activities with internal funds rather than debt. With respect to the regression on assets growth, gross return on assets will be included as a control variable, as it incorporates the finding of Carpenter and Petersen (2002) that the growth rate of small firms is often constrained by the availability of internal financial means. Finally, in all our analyses, we will also integrate firm size as a control variable corresponding to Romano et al. (2001), Delmar et al. (2003) and Anderson and Reeb (2003) by means of the logarithm of total assets. In addition, year indicators are included in order to control for macroeconomic factors. Company age is not included in the regressions due to the collinearity problem that can occur between this variable and the year dummies in a within-firm analysis (Honjo, Harada, 2006). Descriptive statistics and Pearson correlations of the variables used in this study are shown in Table 2.

Table 2: Descriptive statistics and correlations of dependent and explanatory variables

Variables	Mean	SD	1	2	3	4	5	6	7
1. Total debt to total assets	.63	.23							
2. Assets growth	.08	.21	.11**						
3. Company age	44.62	39.10	-.16**	-.02					
4. Log size	7.54	1.12	-.03	.09**	.22**				
5. Gross return on assets	.16	.11	-.16**	.07**	-.16**	-.04			
6. Tangibility	.31	.22	.06**	.01	-.19**	-.20**	.22**		
7. Transfer 1st to 2nd generation (dummy)	.22	.42	-.05*	.01	-.21**	.07**	-.01	-.00	
8. Transfer between later generations (dummy)	.20	.40	-.10**	-.04	.38**	.19**	-.04*	-.10**	-.27**

* p < .05; ** p < .01.

Empirical models tested

Previous studies that analyzed the effect of a generational transition on firm behavior based on cross-sectional analysis have some limitations that can be eliminated using panel data methodology (Perez-Gonzalez, 2006; Bennedsen et al., 2007; Blanco-Mazagatos et al., 2007). For this reason, we start in this study from a longitudinal setting in order to more accurately identify the pure succession outcomes in a company. Moreover, by following a fixed-effects approach, the within-firm variation in capital structure and performance due to succession will be analyzed by controlling for time-invariant characteristics which are often difficult to observe or measure (e.g. the family business' history or culture). These characteristics vary across firms but are assumed to be constant for each individual firm. They also capture effects that are specific to the industry in which the firm operates. Fixed effects panel data analysis does not allow using industry dummies in the regression models since industry is expected to be time-invariant and therefore it is included in the firm's intercept. The following regression models will be tested based on fixed effects panel data analysis:

$$Debt_{i,t} = \alpha_i + \alpha_1 Logsize_{i,t} + \alpha_2 Tangibility_{i,t} + \alpha_3 GrossROA_{i,t} + \alpha_4 Growth_{i,t} + \alpha_5 TransferFirst_{i,t} + \alpha_6 TransferNext_{i,t} + \alpha_t Year_t + \varepsilon_{i,t}$$

$$Growth_{i,t} = \alpha_i + \alpha_1 Logsize_{i,t} + \alpha_2 GrossROA_{i,t} + \alpha_3 TransferFirst_{i,t} + \alpha_4 TransferNext_{i,t} + \alpha_t Year_t + \varepsilon_{i,t}$$

where α_i represents the time-invariant unobservable firm and/or industry-specific effects and α_t the firm-invariant time-specific effects as represented by the year indicators.

In order to control for a potential mean reversion effect and in order to evaluate the results relative to an appropriate benchmark, we matched each of the family firms that experienced a succession in the period of analysis to a similar family firm from the first generation that had not yet been involved in a succession. For every sample firm we looked for a control firm within the same industry and with a similar pre-event capital structure, growth and profitability figure respectively. By taking the difference between the sample and control firm's accounting data, adjusted debt, adjusted growth and adjusted profitability figures were calculated and integrated in our models, as they better allow us to isolate the pure impact of the succession event on the financial structure and performance of the company.

Research results

Debt rate

In this section we discuss the results of the regression analysis regarding the impact of a succession on the debt rate of family firms (see table 3).

Table 3: Regression analysis: the firm's debt rate

Independent variables	Coef.	SE	Coef.	SE
Controls				
Log size	.11***	.02	.12***	.02
Tangibility	-.09*	.05	-.12**	.05
Gross return on assets	-.31***	.06	-.32***	.06
Growth	.00***	.00	.00***	.00
Intergenerational succession				
Transfer from 1st to 2nd generation (dummy)			-.04***	.02
Transfer between later generations (dummy)			.06***	.02
Year (0, 1) indicators	Yes		Yes	
R^2	.09		.11	
Δ R^2			.02***	
F	8.59***		10.10***	
Number of observations	1,970		1,970	
Number of firms	150		150	

Note: SE, Robust standard errors.
***, ** and * indicate significance at the 1, 5 and 10% level, respectively.

The results indicate that after controlling for several firm characteristics a significant effect can be found for both transfer dummies. The model gives evidence of a significant negative effect of succession on the firm's leverage in first-generation family firms, as the adjusted level of indebtedness seems to decrease by four percentage points. With respect to successions in next-generation family firms, the opposite conclusion holds true, as the regression identifies a significant increase of about six percentage points in the adjusted debt rate of the company. Apparently, the effect that can be identified in family firms experiencing their first succession is being reversed in firms that are handed over between later generations. Therefore, hypothesis 1a and 1b are supported.

With respect to the other independent variables, also size, profitability, tangibility and growth have a significant impact on the adjusted debt rate in the company. The results show that larger firms are more indebted than smaller ones, but that especially in firms of a smaller size the use of debt financing rises sharply. Also company growth has a significant positive impact on the debt rate. On the other hand, tangibility exerts a negative influence on the use of debt. This counterintuitive effect can be explained by the fact that the companies in our sample have a large proportion of short term debt in their capital structure, and that firms usually try to match the duration of their assets and liabilities. Finally, with respect to firm profitability a negative effect can be found. This seems logical, as firms that are able to generate larger amounts of internal financial means, are less dependent on debt financing for funding their activities.

Growth performance

The results of the regression analysis regarding the impact of a succession on the growth rate of family firms are presented in Table 4.

Table 4: Regression analyses: the firm's growth rate

	Growth			
Independent variables	Coef.	SE	Coef.	SE
Controls				
Log size	.19***	.03	.20***	.03
Gross return on assets	.05	.11	.06	.11
Debt				
Intergenerational succession				
Transfer from 1st to 2nd generation (dummy)			-.08**	.03
Transfer between later generations (dummy)			.00	.03
Year (0, 1) indicators	Yes		Yes	
R^2	.05		.06	
ΔR^2			.01**	
F	4.66***		4.38***	
Number of observations	1,744		1,744	
Number of firms	139		139	

Note: SE, Robust standard errors.
***, ** and * indicate significance at the 1, 5 and 10% level, respectively.

Table 4 indicates that a succession from the first- to the second generation leads to a significant decline in the adjusted growth rate of the company of eight percentage points. This makes clear that in family firms experiencing their first succession growth will slow down after the transfer of the company compared to first-generation family firms, which is in support of hypothesis 2a. However, regarding successions in next-generation family firms, no significant changes in the adjusted growth rate can be identified, meaning that hypothesis 2b is not supported.

Regarding the other independent variables, we find that the logarithm of size is significantly positively related to the growth rate of the company, which leads to the conclusion that growth increases strongly particularly in smaller firms and that this rise in the growth rate gradually decreases in companies that become larger. With respect to the impact of gross return on assets on the growth rate, the effect is not significant, although the positive coefficient to some extent suggests that firms realizing high amounts of internal financial means have a higher capacity to grow.

Robustness tests

In order to assess the validity of our results we applied some robustness tests which mainly concern the use of alternative measures (long term versus short term debt and financial versus non-financial debt). No clear indication was found that the results in this study can be attributed to a specific type of leverage. The results in this study are being checked for their robustness against outliers in the sample by removing the most extreme 1% cases of the dependent variables in our analyses.

Due to the possibility that multicollinearity has an effect on our results, we replicated our analyses on the debt rate by excluding tangibility from our debt model. However, the resulting effects were identical to those found in Table 3. In addition, an alternative measure of firm size was integrated in our analyses based on the logarithm of total employment. However, the use of this alternative size measure or the exclusion of the size variable does not change our results either. Finally, as mentioned before, company age was not included in the regressions due to the collinearity problem. If we do integrate firm age in our analyses as a variable controlling for business life-cycle issues, it does not change the results and findings of this study.

Conclusion and discussion

The focus on a longitudinal study of succession in family firms allows us to provide direct evidence on the consequences of a transition as both pre- and post-succession data within a company are analyzed. Moreover, our research questions are formulated based on a theoretical framework including two perspectives, i.e. the agency perspective and the stagnation perspective.

As shown by our analyses, the transfer from the first- to the second generation seems to negatively influence the debt rate of the company. However, in later generations of family firms this effect is reversed. With respect to the hypotheses on growth performance, regression analyses show that the growth rate decreases significantly when a family firm is transferred from the first- to the second generation. However, in next-generation family firms, no significant effect of succession on the growth level can be identified.

This paper shows that succession in the family firm can give way to some form of stagnation which can result in a more conservative financial structure and a limitation of the firm’s growth rate. This corresponds to the idea that family firms often become more risk averse after succession. As next-generation family members are often more concerned for wealth preservation than further wealth creation, this can result in a lower debt rate in the company and a lower orientation towards firm growth. Moreover, the agency perspective offers a further explanation for the changing financial structure and performance of family firms over generations, since stagnation is often rooted in conflicts between family members.

In that sense, it is shown that the stagnation perspective will be especially apparent in second-generation family firms.

Third or later generation companies are usually less confronted with conflicts between the incumbent and the successor and less characterized by a higher risk aversion which jeopardize their prosperity. Davis and Harveston (1998, 1999) e.g. indicate that the transition between the founder and the second generation can be regarded as the most turbulent one. As next-generation family firms are less vulnerable to conflicts resulting from the founder's shadow, and because family managers already have a broad experience with the transition from earlier successions, it is expected that the transfer between later generation family members can be settled more smoothly without harming the company's development. In addition, the study of Schulze et al. (2003) shows that the stronger alignment of the shareholders' interests and reduced agency costs in a cousin consortium, as often found in third-generation family firms, can result in a higher willingness to increase debt financing and to extend again the focus on the firm's expansion in comparison to sibling partnerships. However, besides this idea of increased ownership dispersion, successors could also try to avoid family conflict and to better align the interests of the family and the business by buying the shares from the older generation or from other family descendants. De Massis et al. (2008) and Bjuggren and Sund (2001, 2005) also point to the financing issues related to succession, which can seriously increase the need for seeking external financing. As many next-generation family firms have already grown to a sizeable dimension and firm value, it can be expected that especially firms of the third- or later generation will need to rely more heavily on debt financing for funding the business transition.

Practical implications

It is important to study business transfers as it can lead to more insights into best practices how to carry out a succession and on the way in which the business is expected to change due to the transition event.

With regard to our finding that a family business succession can cause some stagnation in the sense of lower debt and growth rates, we could come to the conclusion that some potential of these firms remains unanswered. On the one hand, this could result in the advice to family business founders not to teach their children to shy away from risk in order to preserve the wealth they inherited, but to stimulate the new business leaders of the following generation to increase their entrepreneurial spirit to work towards the further growth of their business. On the other hand, this conservative behavior should not be detrimental as such.

Similar to the risk profile of investors in general, family business owners are free to take decisions in accordance with their degree of risk tolerance. What's more, especially in times of economic crisis, this behavior allows family firms to survive some of their competitors that were too eager for gaining short term profits and growth by investing in high risk projects.

The government should take some steps towards stimulating family business successions. A possible measure refers to the reduction of taxation related to a family business transfer. Although several countries already took some steps in this direction (e.g. Austria, Sweden etc.), more work still needs to be done in order to further limit the financial burden and conditions related to an inheritance or gift of the shares. Another measure lies in the introduction of multiple voting rights as it considerably lowers the financial needs of family members who want to expand the company's success while keeping control in family's hands. Contrary to the Belgian company law which does not allow for shares with multiple voting rights, this system can be found in Scandinavian countries. A final example of governmental support can be found in several initiatives that increase the awareness of the problems related to a transfer. Entrepreneurs close to their retirement could e.g. be actively approached to support them with advice regarding succession (e.g. in The Netherlands), or potential successors could be trained to take up their role as family business leader through transparent, well-structured and coordinated programmes or workshops.

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