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Successor selection in times of continuity and renewal – A discrete-choice-experiment

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Succession in family firms generates unique and critical challenges for these organizations. Owing to family firms' idiosyncratic organizational context, family firm scholars suggest that *insider* successors should be preferred to *outsider* successors. However, recent strategic management and entrepreneurship research indicates that the suitability of an *insider* or *outsider* successor depends strongly on the firm's specific strategic context. We build on a discrete-choice-experiment with 123 decision-makers to test if the strategic context affects the successor selection in family firms. The results reveal that the demand for an *insider* candidate (instead of an *outsider* candidate) is significantly lower if a family firm aims at renewal rather than continuity. Yet, in contrast to strategic management research, the findings imply that the idiosyncrasies of a family firm prevail even if the business faces substantial renewal.

Keywords: family firm; innovation; succession; successor selection; insiderness; outsiderness

Introduction

Succession in family firms is distinct from succession in other types of organizations. Hence, family firms tend to find unique arrangements in managing their successions and successor selections. This is exemplified by the *Axia Award 2016*. Conducted by Deloitte (2016) in co-operation with the large German financial newspaper *Wirtschaftswoche*, this award is given to German family firms, which have successfully managed a succession, described as a "trial by fire". For instance, the prize honors the family firms for their success in planning the successor's development or assimilating a non-family successor to the family firm's key consortia.

In spite of the few successful examples, management research widely recognized that family firms often fail to manage the succession to the next generation (Le Breton-Miller *et al.*, 2004). Inadequate managerial capabilities among next-generation leaders are stated as a major reason for family firms' fragility (Cabrera-Suárez, 2006). While there is evidence suggesting that *kinship overrides competence* in successor selection (Pérez-González, 2006; Cucculelli & Micucci, 2008), more recent findings imply that family firm owners select a successor irrespectively of his or her family ties (Salvato *et al.*, 2012; Schlepphorst & Moog, 2014).

While family firm research and practice highlights successor's individual characteristics as key determinants of successor selection (Block, 2011; Sardeshmukh & Corbett, 2011), recent strategic management and entrepreneurship scholars emphasize the role of contingencies (Gruehn *et al.*, 2017; Williams *et al.*, 2017). Specifically, they suggest that *insider* candidates perform better only in a stable strategic situation, whereas o*utsider* candidates perform better in a changing strategic context (Wang *et al.*, 2016). If the family firm pursues a strategy aiming at continuity (i.e. 'maintenance' strategy), an *insider* successor can contribute specific knowledge with less integration costs associated as compared to an *outsider* successor (Chrisman *et al.*, 2014). However, strategic circumstances can reverse the preferences for the types of successors (Gruehn *et al.*, 2017; Karaevli, 2007). If the family firm aims at undergoing a strategic renewal (i.e. 'innovation' strategy), a decision-maker should favor the *outsider* over the *insider* successor (Wang *et al.*, 2016). Here, the value of the novel knowledge offered by an *outsider* successor should lead a decision-maker to accept incurring greater knowledge integration costs associated with the *outsider* candidate (Chrisman *et al.*, 2014; Karaevli, 2007).

Drawing on a discrete-choice-experiment (DCE) that simulates a successor selection, we explore to which extent the type of strategic challenge affects a decision-maker's valuation of *insider* or *outsider* candidates. Within the simulated decisions, we distinguish between a strategy for continuity (i.e. 'maintenance' strategy) as well as a strategy for renewal (i.e. 'in-

novation' strategy) (Minichilli *et al.*, 2014). Based on recent strategic management and entrepreneurship research, we conceptualize successor *insiderness* and *outsiderness* as a multidimensional construct (Gruehn *et al.*, 2017; Williams *et al.*, 2017). The DCE method enables us to analyze successor selection more deeply than prior empirical family firm research (Block, 2011; Sardeshmukh & Corbett, 2011). The usage of stated instead of revealed choices avoids confounding effects associated with real-life observations and the accompanying endogeneity biases, which threaten the internal validity and causality in many succession studies (Eddleston *et al.*, 2013; Fischhoff *et al.*, 2005). Contrasting successor choices made by family firm owners and by recruiting consultants, we test hypotheses derived from strategic management and entrepreneurship research (Gruehn *et al.*, 2017; Williams *et al.*, 2017) and explore idiosyncratic considerations in family firm succession (Chrisman *et al.*, 2014).

The remainder of this paper is structured as follows: In section 2, we introduce the theoretical framework. In section 3, we present the data and methodology. In section 4, we report the results of our DCE. In section 5, we discuss the findings and conclude in section 6 with the limitations and potential arrays for future research.

Theory

This study investigates the effects of candidates' *insiderness* and *outsiderness* on their propensity to be (pre)selected as a successor in family firms. We extend prior strategic management and entrepreneurship research (Gruehn *et al.*, 2017; Wang *et al.*, 2016; Williams *et al.*, 2017) by taking into account the candidate's key career development stages (Kotey & Folker, 2007). We relate *insiderness* to the acquisition of firm-specific knowledge and *outsiderness* to a reliance on general knowledge (Becker, 1975; Wang *et al.*, 2016). While the *insider* candidate usually possesses firm-specific knowledge building on a firm-specific education, experience, and leadership training, the *outsider* candidate contributes with more general knowledge based on general education, experience, and leadership training. Accordingly, we investigate three facets of successor *insiderness* and *outsiderness* based on a successor's (1) education, (2) experience, and (3) leadership training.

In family firms, the preservation of socio-emotional wealth (SEW) is typically a key objective for family firm owners facing a succession (Minichilli *et al.*, 2014; Strike *et al.*, 2015). Family firm owners take economic and non-economic considerations into account when selecting a successor candidate (Jaskiewicz *et al.*, 2016; Feldman *et al.*, 2016). Based

on such non-economic considerations, they often have idiosyncratic preferences for the family status of the successor candidates (Chrisman *et al.*, 2014; Souder *et al.*, 2017). Therefore, we complement a personal characteristic unique to successors in family firms, i.e. their family affiliation. This allows us to explore to which extent family firm owners' successor selections deviate from the successor selections suggested by independent professionals (i.e. recruiting consultants), reflecting the non-economic aspects associated with a successor's family status.

Firm-specific (technical) education vs. general (management) education

If a decision-maker's main concern is continuity of the business (i.e. maintenance strategy), s/he should expect that a candidate with firm-specific (technical) education offers more valuable knowledge at lower costs associated with integrating the knowledge (Chrisman *et al.*, 2014) than the candidate with general (management) education. The successor with firm-specific (technical) education is more likely than a candidate with general (management) education to preserve the high degree of tacit knowledge residing with the incumbent generation.

Since the tenures of employees and managers tend to be significantly longer in family firms than in other organizations (Lansberg, 1988), family firms often accumulate high levels of task-, product-, and market-specific knowledge (Duran *et al.*, 2016). Such specific know-how is often the driving force behind family firms' distinctiveness and competitive advantage (Cabrera-Suárez *et al.*, 2001; Miller & Le Breton-Miller, 2006). In such environments, next-generation leaders need to have a profound understanding of the specialized knowledge of the business to know how to ask the right questions and how to evaluate the answer (Wang *et al.*, 2016). The family firm employees tend to appreciate that a successor possesses some hands-on knowledge that provides them with an understanding about the product and the industry, in which the family firm operates (Cater & Justis, 2009). Given the importance of the relationships to internal and external stakeholders in family firms (Duran *et al.*, 2016), the decision-maker may want to ascertain that the successor can effectively determine and communicate the family firm's ongoing agenda. This corresponds to the thoughts of Wang *et al.* (2016) who argue that firms with deep firm-specific knowledge have a higher need to build close relationships to their key technical employees, in order to retain the level of understanding and trust required to implement the firm's strategy. Accordingly, we hypothesize:

H1: In the maintenance strategy, decision-makers prefer successors with firm-specific (technical) education to successors with general (management) education.

In the innovation strategy, however, we expect that a decision-maker perceives the knowledge provided by the successor with a general (management) education as more valuable than the know-how contributed by the successor with a firm-specific (technical) education. A family firm owner is likely to gather in-depth firm-specific knowledge during his or her tenure (Brumana *et al.*, 2015; Kelly *et al.*, 2000). By selecting the successor who obtained a general (management) education instead of a firm-specific (technical) education, the family firm owner raises the likelihood of information and knowledge asymmetries between incumbent and successor (Williams *et al.*, 2017). The differences can entail novel resource combinations and specific information and knowledge corridors that can be the basis for the implementation of new technological opportunities (Gruehn *et al.*, 2017; Sardeshmukh & Corbett, 2011).

Yet, the value of firm-specific knowledge acquired through firm-specific (technical) education is not only bound to the organizational context but is also influenced by exogenous factors such as external market conditions (Barney, 2001; Gruehn *et al.*, 2017). A decision-maker is likely to perceive the appointment of the successor with firm-specific knowledge as greater risk than the appointment of a candidate with general know-how (Wang *et al.*, 2016). The path dependency, which is often associated with a firm-specific career development, can be particularly harmful if a strategic renewal is required (Salvato *et al.*, 2012; Williams *et al.*, 2017). In contrast, the successor with general (management) education may apply his or her learnings (e.g. management concepts and generic skills) more flexibly in a changing environment (Gruehn *et al.*, 2017). These arguments correspond to observations from Pérez-González (2006) who finds that a successor's general (management) education can prove very valuable for a family firm's innovation activities. This also reflects evidence from Sardeshmukh and Corbett (2011) who identify that a successor's general (management) education is positively related to his or her ability to spot and pursue new opportunities. Hence, we hypothesize:

H2: In the innovation strategy, decision-makers prefer successors with general (management) education to successors with firm-specific (technical) education.

Firm-specific (inside) experience vs. general (outside) experience

A formal education offers a successor with systematic experience and problem-solving abilities (Cabrera-Suárez, 2006). While a formal education is viewed as building block of an individual's human capital (Pérez-González, 2006), it remains unclear if a firm-specific or general is more valuable in family firms. A large share of the successor's human capital is developed through on-the-job experience rather than a formal education (De Paolo & Scoppa, 2003). Though family firms may rely more extensively on firm-specific leadership training than non-

family firms (Fiegener *et al.*, 1994), the trade-off between a firm-specific and a general type of leadership training remains unexplored in family firm research.

In the maintenance strategy, the successor with firm-specific (inside) experience is likely to provide knowledge, which is perceived as more valuable than the knowledge of a candidate with general (outside) experience. The work experience of a successor is regarded as a particularly crucial means to acquire the understanding about details and nuances of specific tasks and situations (Sardeshmukh & Corbett, 2011). The decision-maker is likely to view on-the-job experience and learning-by-doing as an opportunity for the successor to grasp the unique and firm-specific techniques (Behrens *et al.*, 2014; De Paolo & Scoppa, 2003). If the family firm aims primarily at continuity of the business, the decision-maker should focus in the successor selection on the exploitation of established capabilities that are associated with these firm-specific techniques (Cater & Justis, 2009; Karaevli, 2007).

However, without a precise understanding about the firm's culture and the people to work with, the successor can have great difficulties in making effective use of his or her hard skills and formal competence (Hall & Nordqvist, 2008; Schlepphorst & Moog, 2014). Based on a firm-specific (inside) experience, the successor passes through a socialization process, in which s/he can internalize the norms and values of the family firm (Cabrera-Suárez, 2006), learn how to accommodate the needs of the family firm owners (Dyer, 1989), and strengthen important relationships (Akhter *et al.*, 2016). In contrast, the candidate with general (outside) experience may lack the required cultural understanding to perform effectively in the maintenance strategy (Karaevli, 2007), implying high integration costs associated with an outsider's knowledge. This is in line with evidence from strategic management research, showing that firm-specific (inside) successors perform better in companies with a strong demand for firm-specific skills (Bidwell, 2011; Williams *et al.*, 2017). Accordingly, we hypothesize:

H3: In the maintenance strategy, decision-makers prefer successors with firm-specific (inside) experience to successors with general (outside) experience.

In the innovation strategy, however, we predict that the decision-maker considers the knowledge of the successor with general (outside) experience to be more valuable for the strategic renewal than the knowledge of the successor with a firm-specific (inside) experience. During his or her general (outside) experience, a successor is likely to interact with several bosses and various stakeholders in other organizations and to establish a diverse network (Akhter *et al.*, 2016; Sardeshmukh & Corbett, 2011). The diversity of experience and input may enable a successor to develop critical managerial judgment and the ability to draw conclusions from

experiences independently and apply these in different business situations (Sardeshmukh & Corbett, 2011). The exposure to different ideas and situations is likely to equip a successor with a comprehensive repertoire of skills and behaviors (Datta *et al.*, 2005). Thus, a decision-maker should expect the successor with general (outside) experience to contribute novel and complementary knowledge to the business, which may help refresh the firm's capabilities on many organizational levels (Gruehn *et al.*, 2017; Wang *et al.*, 2016; Williams *et al.*, 2017).

The candidate with general (outside) experience is more likely to lack a strong cultural competence in the family firm than a candidate with firm-specific (inside) experience (Hall & Nordqvist, 2008; Schlepphorst & Moog, 2014). However, in the innovation strategy, the decision-maker should willingly incur the higher knowledge integration costs for the sake of more valuable knowledge contributed by the successor with general (outside) experience (Chrisman *et al.*, 2014). Accordingly, we follow strategic management scholars (Boeker, 1997; Karaevli, 2007), by considering a candidate with general (outside) experience as the better change agent than the candidate with firm-specific (inside) experience. Thus, we hypothesize:

H4: In the innovation strategy, decision-makers prefer successors with general (outside) experience to successors with firm-specific (inside) experience.

Firm-specific (mentorship) training vs. general (seminar) training

In the maintenance strategy, the decision-maker should prefer a successor with firm-specific (mentorship) training to a candidate with general (seminar) training. This may be the case, as the decision-maker is likely to perceive the knowledge of the successor, who has gained experience as a protégé of a mentor in the firm, as more valuable. Since a mentor-protégé relationship is usually grounded on strong interaction and trust (Cater & Justis, 2009), mentoring can facilitate the transfer of the tacit knowledge elements, rooted in the family firm's idiosyncratic organizational and social practices (Cabrera-Suárez *et al.*, 2001; Fiegener *et al.*, 1994). The decision-maker can feel more confident that the successor assimilates the values and norms of the family firm (Morris *et al.*, 1997) and that the successor develops a more sophisticated and strategic perspective on the business (Day, 2001), if the successor is guided by a mentor in the family firm. A decision-maker may also consider a mentoring relationship as a suitable means to foster the transfer of third-party relationships (Goldberg, 1996) and to strengthen the successor's acceptance among the employees of the family firm (De Massis *et al.*, 2016a; Dhaenens *et al.*, 2017). Consequently, we hypothesize:

H5: In the maintenance strategy, decision-makers prefer successors with firm-specific (mentorship) training to successors with general (seminar) training.

Yet, if the strategic renewal is the family firm's overarching priority (i.e. innovation strategy), we follow the strategic management and entrepreneurship literature and expect that the decision-maker favors the successor with general (seminar) training over the candidate with firm-specific (mentorship) training. The decision-maker may take this choice, since s/he is likely to view the knowledge of the successor with general (seminar) training as more valuable.

The exposure to diverse ideas and networks through a general (seminar) training (e.g. MBA) is likely to provide the successor with a set of generic skills that can be applied more flexibly in a changing environment than skills acquired through a firm-specific (mentorship) program. The firm-specific (mentorship) training may provide the successor with path-dependent and less valuable knowledge in the case of an innovation strategy, owing to the risk of overdependence (Day, 2001). Overdependence is associated with a protégé who is too closely aligned with his or her mentor, implying that the successor may not be able to perform independently in the family firm (Bidwell, 2011). Due to the close relationship to his or her mentor, the protégé runs the risk to simply adopt the mentor's assumptions and strategic vision that has proven valuable in the past (Day, 2001). The decision-maker should perceive this lack of ability to act autonomously and to formulate the new strategic vision for the family firm as particularly detrimental if the firm needs to pursue new business opportunities (i.e. innovation strategy) (Sardeshmukh & Corbett, 2011). Therefore, we hypothesize:

H6: In the innovation strategy, decision-makers prefer successors with general (seminar) training to successors with firm-specific (mentorship) training.

Family affiliation vs. no family affiliation

A decision-maker's successor selection is likely to be also dependent on the candidates' affiliation to the owning family (Jaskiewicz *et al.*, 2016). With respect to the family affiliation of a successor candidate, a decision-maker may conduct the successor selection based on *economic* and *non-economic* considerations (Salvato *et al.*, 2012). Besides the *non-economic* reasons for preferring family candidates, there may be *economic* reasons for selecting a family successor rather than a non-family candidate in the maintenance strategy.

A decision-maker should prefer a family successor to a non-family candidate, because s/he assumes that the integration of the family successor's know-how is easier and less costly (Chrisman *et al.*, 2014). Family successors are typically acquainted with the family's and firm's members and values in their childhood (Steier, 2001), and tend to develop an understanding about the family's goals and meaning of being in business (Hall & Nordqvist, 2008).

Because a decision-maker is likely to perceive the non-family successor as less loyal to the values or norms of the family firm (Block, 2011), s/he is likely to question the non-family successor's ability to utilize his or her knowledge in the firm (Fang *et al.*, 2016). Based on the affiliation to the family's values, the successor may be better able to continue the trust-based relationships with other family members, employees, customers, and other key stakeholders (Danes *et al.*, 2009; Hall & Nordqvist, 2008; Nordqvist *et al.*, 2013). Hence, we hypothesize:

H7: In the maintenance strategy, decision-makers (both family firm owners as well as recruiting consultants) prefer family successors to non-family successors.

In the innovation strategy, however, there may be *economic* reasons for selecting a successor from outside the family instead of a family successor. If the family firm renews its business strategy (i.e. innovation strategy), integrating non-family successors into the family firm's top management team may be particularly helpful (Dyer, 1989). By contributing novel ways of thinking, non-family successors are likely to inject new entrepreneurial energies to a family firm (Nordqvist *et al.*, 2013). A decision-maker may expect non-family successors to be less committed to the status quo but more committed to the new strategic direction (Gruehn *et al.*, 2017; Minichilli *et al.*, 2014). These managers are typically described as a self-selected group of highly driven individuals who have run through the pressure to perform in conventional labor markets (Block, 2011; Pérez-González, 2006). In contrast, family successors are more likely to fear the risk of personal failure and the inevitability of disappointing other family members (Ward, 1997). This can adversely affect the decision-making and can bear a reluctance to take risks, which is detrimental to the strategic renewal (Gruehn *et al.*, 2017). As one of the two types of decision-makers in our study, we hypothesize that the recruiting consultants should conduct the successor selection based on these *economic* considerations:

H8a: In the innovation strategy, recruiting consultants prefer non-family successors to family successors.

A family firm owner is likely to take *non-economic* considerations into account in this strategic context (De Massis *et al.*, 2016a), and the *non-economic* considerations should be more dominant than the *economic* reflections (Leittersdorf & Rau, 2014). Thus, we propose that the *non-economic* costs associated with a non-family succession should offset the perceived *economic* benefits from the non-family candidate (Chrisman *et al.*, 2014; Salvato *et al.*, 2012).

From a SEW perspective, the family firm owner may not necessarily select the 'best' successor candidate (Gómez-Mejía *et al.*, 2007; Souder *et al.*, 2017). The family firm owner

may want to satisfy their obligations and altruistic impulses toward family members (Handler & Kram, 1988). Leaving the firm in the hands of the family is likely to avoid incurring high emotional costs (De Massis *et al.*, 2016a). Often, non-family successors see their role in the family firm not only as one who is supposed to modify the firm's strategy, but also as one who needs to "kill sacred cows", i.e. to change the business norms of the family firm (Dyer, 1989). While non-family successors are usually welcomed for adding new ways of thinking, they are often mistrusted, since they are not expected to be loyal to the family firm's founding assumptions and values (Block, 2011; Fang *et al.*, 2016). Since these *non-economic* considerations are likely to outweigh the *economic* reflections of a family firm owner (Leittersdorf & Rau, 2014; Jaskiewicz *et al.,* 2016; Souder *et al.*, 2017), we hypothesize:

H8b: In the innovation strategy, family firm owners prefer family successors to non-family successors.

Data & Methodology

To test our hypotheses, we conducted discrete-choice experiments (DCEs) with family firm owners and recruiting consultants in Germany. DCEs are related to conjoint analyses in the marketing and management research (Behrens *et al.*, 2014; Hauswald *et al.*, 2016) or vignette analyses in the environmental and sociological research (Rost & Arnold, 2017; Steiner & Atzmüller, 2006). DCEs simulate a hypothetical choice situation (Sammer, 2007), resembling a successor selection in this study.

DCEs draw on *stated* instead of *revealed* choices (Louviere *et al.*, 2000), which offers several advantages for our study. The DCE approach provides the opportunity to observe and evaluate the characteristics of successor candidates *not* chosen by the decision-makers (Rost & Arnold, 2017). Selection and endogeneity biases tend to threaten the internal validity and causal relationships in many succession studies based on retrospective methods such as questionnaires or interviews (Eddleston *et al.*, 2013; Fischhoff *et al.*, 2005). Accordingly, we perceive the DCE method as a particularly suitable complementary means to investigate how decision-makers operate, because it is not confounded by the supply-side effects related to successor selections (Rassenfosse & Fischer, 2016).

DCEs simulate a decision context, which is closely related to real-life behavior and decision-making (Louivere *et al.*, 2000). Specifically, DCEs confront the participants with trade-offs among important characteristics of the successor candidates (Behrens *et al.*, 2014). This context allows us to assess the relative importance of a successor's characteristics (Green

et al., 2001) and to mitigate the selection bias associated with choices bound to social desirability (Wuestenhagen & Sammer, 2007). Finally, the DCE method enables us to examine a complex decision-making scenario, comprising multiple successor characteristics, various levels, and different strategic scenarios, in a manageable scope for the participants (Bryan & Dolan, 2004; Sammer, 2007).

Design of the DCEs

DCE participants receive multiple choice sets, each comprising a number of alternatives to select from (Rassenfosse & Fischer, 2016). Each alternative – also known as vignette – contains a description of a successor candidate, whose characteristics are varied in a systematic way (Steiner & Atzmüller, 2006). Thereby, DCEs allow us to assess a participant's perceived utility associated with different alternatives and the relative importance of the underlying characteristics (Behrens *et al.*, 2014; Green *et al.*, 2001).

To address the hypotheses outlined above, the successor candidates were described by four characteristics: (1) education, (2) experience, (3) leadership training, and (4) family affiliation. All of the four successor characteristics comprise a firm-specific and a general level. Additionally, all characteristics include a reference level, in which the characteristic is non-existing. Table 1 summarizes the four characteristics and their respective three levels.

For the operationalization of the general level and firm-specific level of the education, we extend prior research, which has compared the effect of no education and general (management) education (Sardeshmukh & Corbett, 2011), by complementing this comparison with a firm-specific (technical) education. Based on the specific sampling process, we ensured that decision-makers perceive technical studies as a firm-specific education. With respect to the operationalization of the general and firm-specific level of the work experience, we draw on prior strategic management (Wang *et al.*, 2016; Williams *et al.*, 2017) and family firm literature (Sardeshmukh & Corbett, 2011). The general level and firm-specific level of the leadership training was operationalized based on task-centered and relationship-centered leadership training (Fiegener *et al.*, 1994; Dhaenens *et al.*, 2017; Distelberg & Schwarz, 2013). The distinction into three different levels of family affiliation allows us to analyze the opportunities and risks associated with the family's influence on successions in greater detail (Jaskiewicz & Dyer, 2017; Lichtenthaler & Muethel, 2012). A more detailed overview of the operationalization of all variables and levels can be found in the Appendix.

Table 1 – Successor characteristics and their respective levels

Characteristic	Characteristic level
Education	No education General (mgt.) education Family firm-specific (technical) education
Experience	No experience General (outside) experience Family firm-specific (inside) experience
Leadership training	No training General (seminar) training Family firm-specific (mentorship) training
Family affiliation	Non-family Extended family Nuclear family

A major trade-off in the design of DCEs is to make the experiment realistic but manageable for all participants (Behrens *et al.*, 2014). Since the four attributes of the successor candidates with three levels would lead to 81 different candidates in a full-factorial design (3^4), we apply a fractional-factorial design to avoid overwhelming the DCE participants. We built a block structure by using the efficient fractional-factorial design from Yu *et al.* (2009) and provide every participant with six choice sets for each strategic challenge (Fischer & Henkel, 2013). In order to avoid any confounding order effects, we randomized the sequence of the choice sets and the order of the candidates per choice set (Behrens *et al.*, 2014; Steiner & Atzmüller, 2006). We limited the number of candidates in each choice set to three (Rassenfosse & Fischer, 2016). The DCE questionnaire also included one page defining the characteristics and levels of the successor candidates in the study (Behrens *et al.*, 2014).

Framing of Decision Scenarios

We compared two different scenarios. The strategic scenarios put the participants (1) in the situation, in which the family firm's overarching goal is the continuation of firm performance and survival ('maintenance' strategy), and (2) in the context, in which the growth through a technology-driven innovation is the firm's highest strategic priority ('innovation' strategy). The scenarios were designed as a within-subject experiment and, thus, presented successively to each participant. For each of the two scenarios, the participants run through six choice sets containing three candidates. For each of the choice sets presented, the respondents were asked to select the successor candidate whom they perceive as the greatest opportunity and the one whom they perceive as the greatest threat to the firm's strategic challenge (Fischer & Henkel, 2013). The detailed descriptions of the strategic scenarios are obtainable upon request.

We used two manipulation checks to ensure that participants understand the respective strategic challenge and differentiate the competencies required for the successor candidates. Participants were asked to rate the degree of innovativeness (Lichtenthaler & Muethel, 2012) to successfully address the specific strategic challenge. Based on Mumford *et al.*'s (2007) leadership skills framework, participants were subsequently asked to allocate 100 points to four different leadership skill requirements for the successor candidates, comprising (1) cognitive, (2) interpersonal, (3) business, and (4) strategic skills. Both manipulation checks worked successfully: Participants reported the need of a significantly higher degree of innovativeness in the innovation scenario than in the maintenance scenario. Furthermore, participants showed a differentiated understanding about the required leadership skills in both strategic scenarios (please refer to the Appendix for detailed results of the two manipulation checks).

Family firm owners and recruiting consultants received different scenario descriptions and introductions to their respective DCEs. While we asked the family firm owners to imagine that their family firm was in the situation to appoint a successor candidate to the firm's management team, we provided the recruiting consultants with a scenario, in which they were required to recommend a successor candidate to their client (i.e. a family firm).

Pretest

We deployed a pre-test to validate the effectiveness of the DCE simulation. The pre-test validated that participants can make sense of the information and attributes presented (Sammer, 2007). The pre-test confirmed that the manipulation through the strategic challenges works effectively and that the number of choice sets as well as the number of characteristics of each successor candidate was manageable for all respondents (Rassenfosse & Fischer, 2016). The pre-test also helped identifying the most important firm- or individual-specific covariates that were part of the post-experiment questionnaire of the main DCE (Behrens *et al.*, 2014). It also enabled us to adjust the wording of the strategic challenge and leadership skill introduction and to make it as familiar and understandable as possible to the family firm owners.

Sample and data collection

The sample comprises family firm owners, who are working in German family firms and who are involved in decisions about their firm's future strategic direction (Behrens *et al.*, 2014), and German recruiting consultants as key decision-makers in family firm successor selection. We gathered data on the respondents and firms for which they work. Table 2 summarizes the descriptive statistics of the family firm owners and recruiting consultants in the sample.

Table 2 – Characteristics of the family firm owners and recruiting consultants

		Family firms[1]	Rec. Cons.[2]
Variable	**Description**	**Mean/SD**	**Mean/SD**
Individual characteristics			
No educational background	% of participants without education	0.25 (0.43)	0.07 (0.25)
Management education	% of participants with mgt. education	0.48 (0.50)	0.53 (0.50)
Technical education	% of participants with technical education	0.17 (0.37)	0.07 (0.25)
Miscellaneous education	% of participants with misc. education	0.09 (0.29)	0.31 (0.46)
Professional experience[3]	Professional pre-experience of participants	0.14 (0.35)	10.32 (6.65)
Firm-level characteristics			
Firm size	# of employees in the firm	306.86 (687)	95.14 (335)
Research-intensive industry[4]	% of firms in research-intense industry	0.06 (0.24)	0.12 (0.32)
Miscellaneous industry	% of firms in miscellaneous industry	0.44 (0.50)	0.18 (0.38)
Knowledge-intensive services	% of firms in knowledge-intense industry	0.06 (0.24)	0.13 (0.34)
Miscellaneous services	% of firms in miscellaneous industry	0.44 (0.50)	0.12 (0.32)
No specific industry / service	% of firms with no specific industry/service	-	0.43 (0.50)
Family firm idiosyncrasies			
Family ownership	% of ownership help by controlling family	0.95 (0.17)	-
Family firm age	Years of existence of the family firm	79.16 (58.03)	-
Family firm generation	# of generations in the family firm	3.05 (1.98)	-
Active family members	# of active family members in family firm	3.05 (2.75)	-
Succession pre-experience[5]	% of participants w/ prior succession exp.	0.41 (0.52)	0.72 (0.55)
Family firm pre-experience	% of participants w/ family firm experience	-	0.93 (0.75)

[1]64 participants; [2]59 participants; [3]Measured in pre-experience (y/n) for family firm owners and pre-experience (in yrs.) for recruiting consultants; [4]Measured as clients' sector focus for recruiting consultants; [5]Measured as succession planning for family firms

We identified the family firms of this sample via the online firm register *Dafne*, which is a database with financial information operated by *Bureau van Dyck*. Because the online firm register does not allow filtering for "family firms", we applied several filter conditions to correspond to the defining characteristics of family businesses (Chua *et al.*, 1999; Lichtenthaler & Muethel, 2012). We focused on firms, (1) which have an owner-manager with more than 50% equity, (2) which have a single shareholder with more than 25% equity, (3) which have at least two family members active in the management or board, and (4) which are located in Germany (Handelskammer Hamburg, 2013). Based on these filter conditions, we contacted 498 firms via phone and asked whether they perceive themselves as a family firm. Thereby, we correspond to the "essence-approach" concerning the definition of family businesses and included the self-perception as a family firm as minimum defining characteristic (Chua *et al.*,

1999; Llach & Nordqvist, 2010). A final question at the end of the DCE questionnaire confirmed the status of the participant as owner of a family firm.

Of the 498 firms contacted 143 indicated to be a family firm and willing to participate in the DCE. We explained the purpose of the experiment and sent them an e-mail with the link to the online survey. If they had not participated in the experiment after two weeks, we reminded them to please do so by e-mail (Behrens *et al.*, 2014). We offered each participant a customized report and personal advice as an incentive to participate. In total, 64 family firm owners participated, which represents a response rate of 13% of the firms contacted, and a response rate of 45% of the family firm owners interested. Considering that we were only interested in the participation of the family firms' owners, we consider the response rate to be encouraging in spite of the intensive and time-consuming acquisition method.

We used the same acquisition procedure for the recruiting consultants. Of 373 consultants contacted, 168 indicated to work as recruiting consultant and were willing to participate in the DCE. Altogether, 59 recruiting consultants responded, which represents a response rate of 16% of the consultants contacted, and a response rate of 35% of the consultants interested. With 64 family firm owners and 59 recruiting consultants, the two individual samples lie in the range of sample sizes utilized in comparable DCEs (Fischer & Henkel, 2013; Rassenfosse & Fischer, 2016).

Estimation method

In order to apply McFadden's (1974) conditional logit estimator, which is commonly utilized to analyze choice data, we decomposed, or "exploded", the results in a first step (Beggs *et al.*, 1981). Specifically, we decomposed the data of k ranks in one choice set into k-1 independent choices (Henkel & Fischer, 2013). Based on participants' choices of a most suitable and a least suitable candidate, we simulate a two-step selection process, in which there is one choice out of the three alternatives and one choice out of the two remaining alternatives (Rassenfosse & Fischer, 2016). Implicitly, the respondents of our DCEs perform twelve choices for each of the two strategic challenges: six choices, in which they select the most suitable successor out of three alternatives, and six subsequent choices, in which they express the second most suitable successor out of two alternatives.

Because the data of the DCEs is balanced and our major concern is exploring the main effects, the assumption of independence of irrelevant alternatives (IIA) should not be violated (Steiner & Atzmüller, 2006). Thus, since the IIA assumption appears plausible, we apply the conditional logit estimator by utilizing the *clogit* command in STATA (Long & Freese, 2006).

Since the coefficients cannot be interpreted in absolute terms, we focus on the post-estimated odds ratios for our interpretations (Sammer, 2007).

As a robustness check, we also draw on a rank-ordered logit model and a mixed logit model with random coefficients (Henkel & Fischer, 2013). To test the differentiated effects across levels, we dummy coded each characteristic of a successor candidate into two levels, indicating the deviation from the reference value (Rassenfosse & Fischer, 2016). We used the level with the (presumably) lowest value as the reference point for each characteristic (Rassenfosse & Fischer, 2016), comprising the levels (1) *no education*, (2) *no experience*, (3) *no leadership training* and (4) *non-family*. The results of the alternative model specifications confirm our findings from the main conditional logit.

Results

Table 3 reports the main DCE results of the conditional logit specification, obtained from the successor selection of the *family firm owners* and *recruiting consultants*. All coefficients related to the main effects of the successor characteristics are statistically significant. For all four successor characteristics, this implies that a deviation from the reference case, in which a characteristic is non-existing, significantly increases the likelihood that a candidate is chosen. This holds true for all choices performed by *family firm owners* (left-hand columns of Table 3) and for all choices made by *recruiting consultants* (right-hand columns of Table 3).

Table 3 – Coefficients of successor choice (*family firm owners/ recruiting consultants*)

	Family firm owners		Recruiting consultants	
	Maintenance	**Innovation**	**Maintenance**	**Innovation**
Educational background ***(base: no education)***				
General mgt education	2.464**	2.402**	1.848**	2.175**
Firm-specific technical edu.	2.710**	2.866**	1.753**	3.040**
Professional experience ***(base: no experience)***				
General outside experience	2.566**	2.772**	2.908**	4.294**
Firm-specific inside exp.	3.489**	2.778**	3.778**	4.071**
Leadership training (*base: no training)*				
General leadership training	.641**	1.077**	1.072**	1.175**
Firm-specific mentorship	1.043**	1.010**	1.453**	1.295**
Family status ***(base: non-family)***				
Extended family member	1.268**	.604**	.459**	.673**
Nuclear family member	1.813**	1.070**	.782**	.813**
Respondents / choices	64 / 1,920	64 / 1,920	59 / 1,770	59 / 1,770
Pseudo R2	.314	.286	.319	.379
LR chi2 / p-Value	757 / .00	690 / .00	707 / .00	842 / .00

*Note: **p<0.01; *p<0.05; †p<0.1; Covariates are included, but not shown (see Table 2 for descriptive data on covariates)*

The Pseudo R-squared values reported in Table 3 illustrate that the degree of explained variance is greater for the *recruiting consultants* than for the *family firm owners*. Thus, the successor characteristics are better able to predict the change in choices made by the *recruiting consultants*, implying that the *recruiting consultants* base their successor selection to a greater extent on the characteristics presented. The differences in *family firm owners'* and *recruiting consultants'* Pseudo R-squared values become particularly evident in the innovation strategy. This ample difference implies that the *recruiting consultants* rely particularly strongly on the four successor characteristics of our study when the family firm pursues an innovation strategy. The increase in the magnitude of the coefficients from the maintenance to the innovation strategy supports the argument that the relevance of the successor characteristics magnifies for the *recruiting consultants'* successor selection in the innovation strategy.

For *family firm owners*, it becomes evident from Table 3 that the relative importance of a successor's family status diminishes in the case of the innovation challenge, whereas the overall relevance of having an education, experience, and leadership training seems to be un-

affected by the specific strategic situation of the family firm. For the *recruiting consultants*, the overall relevance of having a leadership training appears to be unaffected by the strategic context of the family firm. However, the coefficients' relative magnitude in the maintenance and in the innovation challenge suggests that the overall relevance of a candidate's education, experience, and family status rises in the case of the innovation strategy.

Comparing the coefficients' relative magnitude between the successor characteristics suggests that a successor candidate's education and experience plays the greatest role for the selection taken by *family firm owners* and *recruiting consultants*. Correspondingly, the leadership training and family affiliation seem to play a subordinate role for both groups of participants. However, contrasting the relative magnitude of the coefficients associated with a successor's family status between family firm owners and recruiting consultants shows that the *recruiting consultants* tend to place less emphasis on a successor's family status than *family firm owners* do. In contrast, the *recruiting consultants* focus more on a candidate's leadership training than *family firm owners* do. Hence, the pecking order related the relevance of leadership training and family status seems to reverse for both groups of participants.

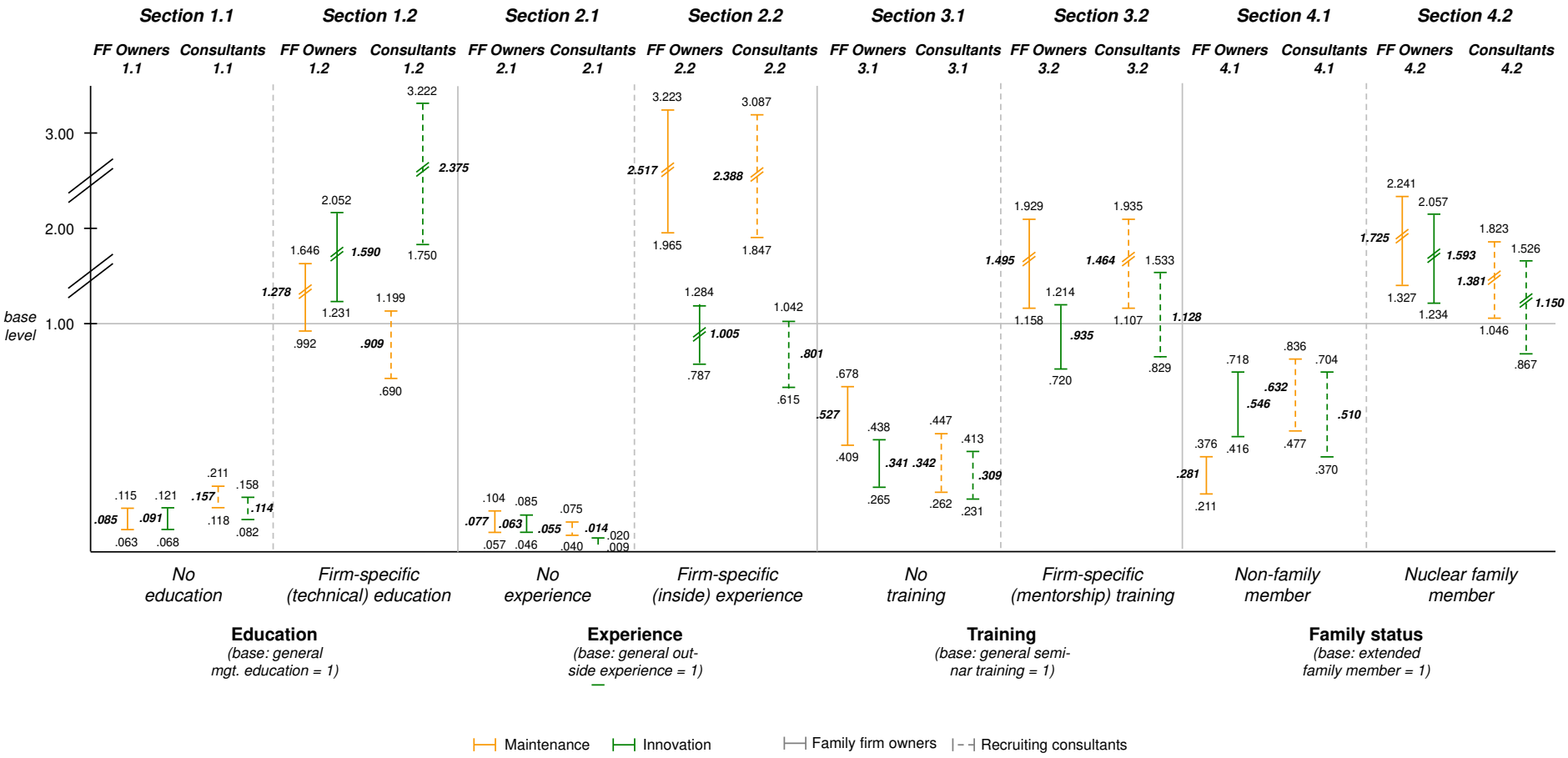
Since the above coefficients cannot be interpreted in absolute terms (Sammer, 2007), we draw on the post-estimated odds ratios for our interpretations. As our hypotheses compare a general and firm-specific level of each successor characteristic (see Table 1 for an overview of the characteristics and levels), we adapted the base case accordingly to test our hypotheses. Figure 1 presents the odds ratios with confidence intervals (CIs) for both participant groups and both strategic scenarios.

Odds ratios with a lower-bound (upper-bound) CI above (below) 1 can be interpreted as statistically significantly different from the base case. If a CI is significantly different from 1, the corresponding mean scores are reported. In addition, the DCE method allows us to investigate three types of differences, including (1) differences between the successor characteristics, (2) differences between the two groups of participants, and (3) differences between the two strategic scenarios. For all three types of differences, non-overlapping CIs indicate that the difference in the respective odds ratios is statistically significant.

According to the four successor characteristics, Figure 1 is divided into four sections. Each section has two levels (e.g. Section 1.1, Section 1.2) that are compared to the base level of each successor characteristic. The shape of the bars (solid vs. dotted line) corresponds to the type of participant, including family firm owners (FF owners) and recruiting consultants (Consultants) (e.g. FF Owners 1.1 and Consultants 1.1). The color of the bars represents the type of strategic context.

In the maintenance strategy, FF Owners 1.2 shows that *family firm owners* are not significantly more likely to select the successor with firm-specific (technical) education than the candidate with a general (management) education (CI from <1 to >1). Likewise, Consultants 1.2 reveals that *recruiting consultants* have no significant preference for a successor with a firm-specific (technical) education. Accordingly, the results on the successor's education suggest rejecting H1.

Figure 1 – Odds ratios of successor choice (*family firm owners & recruiting consultants*)



Note: The graph displays the mean odds ratios and the lower-bound as well as upper-bound confidence intervals for the successor selections of family firm owners and recruiting consultants

In the innovation strategy, FF Owners 1.2 illustrates that *family firm owners* favor the firm-specific (technical) education. The probability that *family firm owners* select a successor with firm-specific (technical) education rather than a candidate with general (management) education is 59% higher. Consultants 1.2 confirms that the successor with firm-specific (technical) education is preferred in the innovation strategy to the candidate with general (management) education (2.36 times higher). Comparing the bars in Consultants 1.2 reveals that the *recruiting consultants* are significantly more likely to select a candidate with firm-specific (technical) education in the innovation than in the maintenance strategy. Thus, we need to reject H2.

In the maintenance strategy, FF Owners 2.2 displays that *family firm owners* prefer a successor with firm-specific (inside) experience to the candidate with general (outside) experience. The *family firm owners* are 2.52 times more likely to select the successor with firm-specific (inside) experience. Accordingly, Consultants 2.2 reveals that *recruiting consultants* are 2.39 times more likely to choose the successor with a firm-specific (inside) experience. Thus, H3 is supported.

In the innovation strategy, FF Owners 2.2 shows that *family firm owners* are not significantly more likely to select a successor with general (outside) experience than a candidate with firm-specific (inside) experience. Consultants 2.2 also shows that *recruiting consultants* have no significant preference for a successor with general (outside) experience, rejecting H4.

In the maintenance strategy, FF Owners 3.2 indicates that *family firm owners* prefer a successor with firm-specific (mentorship) training to a candidate with general (seminar) training. The *family firm owners* are 50% more likely to select a successor who completed a mentorship program rather than the candidate who passed through a general leadership seminar. Consultants 3.2 confirms that *recruiting consultants* prefer the candidate with a firm-specific (mentorship) training (46% greater probability). Consequently, we accept H5.

In the innovation strategy, FF Owners 3.2 illustrates that *family firm owners* are not significantly more likely to select the successor with general (seminar) training than a candidate with firm-specific (mentorship) training. Accordingly, Consultants 3.2 highlights that *recruiting consultants* are indifferent with respect to the leadership training of the successor in the innovation strategy. Therefore, we need to reject H6.

In the maintenance strategy, FF Owners 4.1 shows that *family firm owners* have a significant preference for a family member as successor. The *family firm owners* select a non-family candidate over an extended family member only in 28% of cases. In other words, *family firm owners* are 3.56 times more likely to select an extended family member over a non-family candidate. FF Owners 4.2 highlights that *family firm owners* are also more likely to select a nuclear family member instead of an extended family member (73% greater probabili-

ty). Thus, the results imply that the stronger the family affiliation of the candidate, the more likely s/he is to be chosen by the *family firm owner* in the maintenance strategy. Accordingly, Consultants 4.1 shows that the *recruiting consultants* select the non-family candidate over an extended family member in 63% of cases. Also, Consultants 4.2 displays that *recruiting consultants* prefer the nuclear family member to the extended family member (38% greater likelihood to select the former). Thus, we accept H7.

In the innovation strategy, FF Owners 4.1 shows that *family firm owners* are significantly more likely to select a family to a non-family candidate (83% higher probability). FF Owners 4.2 shows that the *family firm owners* are also more likely to choose the nuclear over the extended family member (59% higher probability). Thus, we accept H8a. Accordingly, Consultants 4.1 displays that *recruiting consultants* have a significant preference for a family successor. The *recruiting consultants* are 96% more likely to choose an extended family member rather than a candidate outside of the family. Therefore, we need to reject H8b.

Figure 1 also reveals that the strategic context has a significant impact on the decision-makers' preferences for the experience or family status of the successor. The non-overlapping CIs in both FF Owners 2.2 and in Consultants 2.2 imply that *family firm owners'* and *recruiting consultants'* likelihood to select the successor with general (outside) experience over the candidate with firm-specific (technical) experience is significantly higher in the innovation than in the maintenance strategy. The non-overlapping CIs in FF Owners 4.1 highlight that *family firm owners* are significantly more likely to select a non-family member in the innovation than in the maintenance strategy.

Figure 1 also illustrates that the two decision-makers differ in their preferences for the family status of the successor. In the maintenance strategy, comparing FF Owners 4.1 with Consultants 4.1 reveals that the *recruiting consultants* are significantly more likely than the *family firm owners* to select a candidate from outside the family. However, in the innovation strategy, the overlapping CIs in FF Owners 4.1 and Consultants 4.2 suggest that these distinct preferences fade and the choices of the *family firm owners* and *recruiting consultants* converge in this strategic situation.

Discussion

Research on successor development suggests that *insider* successors, who have acquired firm-specific knowledge, should be preferred to *outsider* successors, who have acquired general knowledge (Becker, 1975; Cater & Justis, 2009). Accordingly, family firm scholars claim that successors who have completed firm-specific career development stages are more likely to

develop into effective leaders and change agents than the candidates who have passed through a general career development stages (Block, 2011; Sardeshmukh & Corbett, 2011).

We extend the recent literature by examining if these propositions are valid in distinct strategic situations of a family firm (Minichilli *et al.*, 2014). We identify that decision-makers (i.e. family firm owners as well as consultants) prefer *insider* successors to *outsider* candidates in the strategic context, in which continuity of the business (i.e. maintenance strategy) is the firm's overarching goal. Therefore, our findings corroborate prior succession research in family firms or in other organizational types, which stressed that firm-specific knowledge is perceived as more valuable than general knowledge for the successor candidate (Karaevli, 2007; Sardeshmukh & Corbett, 2011). If the decision-maker aims primarily at guaranteeing continuity of the firm, the transfer and exploitation of the firm's tacit know-how and network structures appears to be of utmost importance (Bidwell, 2011; Cabrera-Suárez *et al.*, 2001). The decision-maker may prefer an *insider* candidate, since s/he might be better able to retain a family firm's critical tacit knowledge and trust in critical relationships with employees, customers, and suppliers (Nordqvist *et al.*, 2013). In particular, a firm-specific (inside) work experience can help successors familiarize with the family business and gain credibility or acceptance from these key stakeholders (De Massis *et al.*, 2016a).

We find that the strategic context has a major influence on the successor selection of the decision-makers. Specifically, the decision-makers' preference for *insider* successors diminishes in the strategic context, in which renewal of the business (i.e. innovation strategy) is the firm's principal concern (Gruehn *et al.*, 2017; Williams *et al.*, 2017). Consistent with the suggestions of general human capital theorists (Becker, 1975; Campbell *et al.*, 2012), we reveal that the likelihood, to which a decision-maker chooses an *outsider* over an *insider* successor, increases in the innovation strategy. The results suggest that decision-makers value the contributions from an *outsider* candidate more in the innovation strategy than in the maintenance strategy (Bidwell, 2011). Since the innovation strategy is likely to necessitate new capabilities for the firm, decision-makers seem to appreciate the complementary perspective and external knowledge typically offered by external candidates (Brumana *et al.*, 2015; Gruehn *et al.*, 2017; Campbell *et al.*, 2012).

However, in contrast to the strategic management literature, the results received from the decision-makers suggest that an *outsider* candidate may not necessarily be perceived as better agent of change and ongoing renewal (Williams *et al.*, 2017). Although the decision-makers are less likely to choose an *insider* candidate in the innovation than in the maintenance strategy, the *insider* candidate remains the preferred candidate in the innovation strategy. This implies that the family firm's organizational context, in which firm-specific skills

are highly valued (Duran *et al.*, 2016), outweighs the strategic context, which should entail a stronger demand for general knowledge (Becker, 1975; Williams *et al.*, 2017). Our findings indicate that factors such as the idiosyncrasy of the firm's main technology or strong degree of interdependence with others (Bidwell & Keller, 2014) might make firm-specific skills indispensible, even though the successor is supposed to initiate major strategic renewal of the family firm. In line with Hall and Nordqvist (2008), the decision-makers seem to question the successor's ability as an agent of change if s/he lacks the firm knowledge to successfully implement major renewal of the family firm.

We also extend recent research by exploring the role of a successor's *insiderness* and *outsiderness* from a more holistic perspective on important successor characteristics (Kotey & Folker, 2007). The results suggest that the distinction between the successor's *insiderness* and *outsiderness* should not be taken on only one successor characteristic, such as experience or education (Sardeshmukh & Corbett, 2011; Wang *et al.*, 2016; Williams *et al.*, 2017). With regard to a successor's education, our results confirm findings from Boeker (1997), who identified that a top manager's R&D background is positively related to new product development and innovation. To implement a strategic renewal and create a long-term competitive advantage, the decision-makers may believe that successors need to invest in specialized skills (Karaevli, 2007). A firm-specific education of the successor may be seen as an effective means to generate an understanding of the technical knowledge involved, enabling a successor to ask the right questions and to evaluate the answers (Wang *et al.*, 2016). Accordingly, we extend the findings of Sardeshmukh and Corbett (2011), by suggesting that a successor's education (in addition to his or her work experience) can also be viewed as an appropriate means to acquire firm-specific knowledge rather than general knowledge in family firms.

Lastly, our study yields theoretical implications for the recent research on family firm professionalization (Chrisman *et al.*, 2014; Salvato *et al.*, 2012; Schlepphorst & Moog, 2014). We extend the works of prior family firm researchers, who based their analyses on the importance of a successor's family affiliation relative to other observable indicators for competence (Cucculelli & Micucci, 2008; Pérez-González, 2006). Instead of interpreting revealed choices from a post-succession perspective, which tends to neglect a potential lack of alternative successor candidates, we use a DCE that enables us to scrutinize stated choices and also the successors who were *not* chosen. We find that the successor's education and experience determines the choices of the family firm owners more strongly than the candidate's family status. Though family status plays a subordinate role, family firm owners are significantly more likely to prefer family successors to non-family ones. This confirms the findings of De Massis *et al.* (2016), who point towards high emotional costs associated with giving up family control.

Practical implications for family firms

In light of the upcoming successor selections in many countries (e.g. in Germany, ca. 30,000 family firms per year need to select a next-generation leader (Schlepphorst & Moog, 2014)), this study yields some important managerial implications. Our findings suggest that the type of strategic situation dominating in a succession period has a strong influence on a decision-maker's successor selection. For instance, the recruiting consultants are more likely in the innovation strategy to recommend selecting a successor with *outside* experience rather than the candidate with *inside* experience. Accordingly, family firm owners should not consider a lack of firm-specific (inside) experience as K.O. criterion for a successor. Instead, our results urge family firm owners to broaden their consideration set and scrutinize candidates beyond the boundaries of their firms, including candidates who have (yet) not worked for the family firm. To do so, family firm owners need to evaluate and determine the strategic situation dominating in a succession period. This requires that family firm owners assess if their firms operate in a dynamic and rapidly changing market environment (Gruehn *et al.*, 2017; Karaevli, 2007). This also requires that family firm owner evaluate if their firms are able to adapt to quickly to changes in their market environment (Lichtenthaler & Muethel, 2012). Taking account of the strategic circumstances in a succession context may then increase the number of family firms that may be regarded as best practice examples in the sense of Deloitte's (2016) *Axia Award*.

Further, we recommend practitioners to acknowledge that a unique competence framework can be applied in family firms. As an unexpected finding, we identify that the recruiting consultants are significantly more likely to choose a family successor rather than a non-family candidate in both strategic situations. The results indicate that the recruiting consultants consider the *formal* competence of the successor candidates but also emphasize their *cultural* competence. Family successors are likely to be more sensitive to the family values and face fewer difficulties than non-family candidates to internalize the norms and guiding vision of the firm (Cabrera-Suárez, 2006). Lacking an understanding of the specific socio-cultural context can make a successor an ineffective leader in family firms (Hall & Nordqvist, 2008).

Limitations and Suggestions for Further Research

Since we performed our study in an explicit setting, there are some limitations with regards to the generalizability of our findings. While a broad perspective on several successor development stages is facilitated by the use of a DCE, the depth of our analyses and interpretations is limited. Indeed, we cannot infer from the choices of the two groups of decision-makers if they

necessarily select the 'best' successor (Handler & Kram, 1988) or the successor candidate who will eventually be the most successful one.

To make the experiment as realistic and understandable as possible for the family firm owners, our experiment asked the participants to imagine that the successor selection would take place in their current firms. This guaranteed that family firm owners apply their genuine judgment, but it also increased the risk that the respondents use criteria in addition to those presented (Fischer & Henkel, 2013). For instance, the DCE was based on four successor characteristics at three levels, which represents a simplification of a more complex successor selection process (Behrens *et al.*, 2014). Though we paid specific attention to counteract this limitation (e.g. use of various successor characteristics, pre-test, detailed briefing prior to experiment), participants may not have been able to keep all other characteristics equal (Rassenfosse & Fischer, 2016). Applying the holistic perspective on the successors' characteristics in an analysis of real-life post-succession choices could be an interesting extension to this DCE.

Further, we designed the sampling and data collection process to focus on family firms that are active in a high-technology environment. This warranted that participants could make sense of the information provided and could reasonably use their individual firm context as a reference case. Though many family firms tend to operate in a high-technology environment (Astor *et al.*, 2016), the specific sample of our study may limit the findings' relevance in low-technology sectors. Future research could test if a firm-specific (technical) education plays a similarly critical role for the successor development in a low-technology environment. Relatedly, the sample of our study is limited to German family firms and recruiting consultancies. Further studies could determine if our findings might be generalizable across countries.

Although the results obtained from the recruiting consultants reveal some unexpected and interesting findings, the findings need to be interpreted in light of a potential conformity bias. For instance, the recruiting consultants may have selected a family successor over a non-family one, since they anticipated less resistance and a (faster) consensus with the family firm owners. Future scholars might want to capitalize on a similar benchmark sample and apply a research method, which offers more detailed analyses and interpretations (e.g. questionnaires or interviews). This could contribute to the recent research on family firm professionalization (Salvato *et al.*, 2012; Schlepphorst & Moog, 2014), by advancing our understanding about the extent of non-economic objectives in family firm succession (Chrisman *et al.*, 2014) and by specifying the competence framework applied in family firms (Hall & Nordqvist, 2008).

Though our DCE approach provides an alternatives lens on the successor selection by avoiding the endogeneity bias related to revealed choices and post-succession outcomes, we ignore any demand-side conditions (Rassenfosse & Fischer, 2016). Since many family firms

lack a broad pool of capable successor candidates, it may be an interesting extension of this DCE to investigate the characteristics that affect the likelihood, to which the successor candidate chooses a specific employer (Hauswald *et al.*, 2016). By reversing the research setting of our study, future scholars could integrate a firm's "family status" as an organizational characteristic and shed light on the relative importance of an employer's family status from the perspective of a potential successor (Parker, 2016).

Conclusion

This study recognizes that succession and successor selection in family firms brings unique challenges to these businesses. Building on recent strategic management and entrepreneurship research, we test if the firm's strategic context (i.e. *maintenance* strategy vs. *innovation* strategy) affects a decision-maker's choice of an *insider* or an *outsider* successor. We use discrete-choice-experiments (DCEs) with family firm owners and recruiting consultants. The results indicate that a decision-maker's demand for an *insider* successor (rather than an *outsider* successor) is significantly lower if the family business pursues an innovation strategy instead of a maintenance strategy. However, the idiosyncratic organizational context of a family business, in which knowledge of an *insider* successor is highly valued, outweighs the strategic context, which should entail a stronger demand for knowledge of an *outsider* candidate.

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Appendix

Table 5 – Test of manipulation checks (two-sample t-test)[1]

	Strategy Innovativeness[2]			Leadership Skills[3]			
	Sensing	**Seizing**	**Transform**	**Cognitive**	**Interpers.**	**Business**	**Strategic**
Family Firm Owners							
Maintenance strategy	5.542	5.531	4.867	21.641	27.734	25.281	25.343
	(0.026)	(0.030)	(0.030)	(0.155)	(0.198)	(0.183)	(0.185)
Innovation strategy	5.990	5.911	5.750	22.828	23.656	24.031	29.484
	(0.027)	(0.025)	(0.029)	(0.171)	(0.165)	(0.185)	(0.169)
t-value	-11.791	-9.852	-21.165	-5.149	15.844	4.802	-16.549
Significance value	.000	.000	.000	.000	.000	.000	.000
Respondents / choices	64 / 3,840	64 / 3,840	64 / 3,840	64 / 3,840	64 / 3,840	64 / 3,840	64 / 3,840
Recruiting consultants							
Maintenance strategy	5.311	5.428	5.055	23.559	28.136	24.576	23.729
	(0.028)	(0.029)	(0.031)	(0.170)	(0.204)	(0.208)	(0.190)
Innovation strategy	6.237	6.308	6.095	24.746	23.475	22.119	29.661
	(0.024)	(0.022)	(0.025)	(0.208)	(0.239)	(0.167)	(0.176)
t-value	-24.696	-24.215	-26.114	-4.419	14.832	9.215	-22.869
Significance level	.000	.000	.000	.000	.000	.000	.000
Respondents / choices	59 / 3,540	59 / 3,540	59 / 3,540	59 / 3,540	59 / 3,540	59 / 3,540	59 / 3,540

*Note: **p<0.01; *p<0.05; †p<0.1;*

Table 6 – Description of characteristic levels and level operationalization

Characteristic level	Level operationalization
Education	
No education	-
General (mgt.) education	3 yrs of mgt. education (e.g. business)
Family firm-specific (technical) education	3 yrs of technical edu. (e.g. engineering)
Experience	
No experience	-
General (outside) experience	6 yrs of experience outside firm & industry
Family firm-specific (inside) experience	6 yrs of experience inside firm & industry
Leadership training	
No training	-
General (seminar) training	1 year of external program (e.g. MBA)
Family firm-specific (mentorship) training	1 year of internal program (e.g. mentor)
Family affiliation	
Non-family	-
Extended family	Part of wider family circle (e.g. cousin)
Nuclear family	Part of close family core (e.g. son)