

The Corporate Governance of Family Firms Succession

Randall Morck

IESE-ECGI Corporate Governance Conference
Madrid, March 16th 2026



For the uplifting of the whole people

Succession: Economic Cost-benefit Analysis

Burkart, Mike, Fausto Panunzi & Andrei Shleifer. 2003. Family firms. *Journal of Finance* 58, 2167-2202.

What is the next generation to do?

Cash out

- Sell the family's shares in the family firm
Advantage = free of burden of governing the family firm
Disadvantage = lose power, status & perks from family firm
- Invest the money in a diversified portfolio
Advantage = diversification dramatically reduces risk
Disadvantage = rely on other firms' good governance

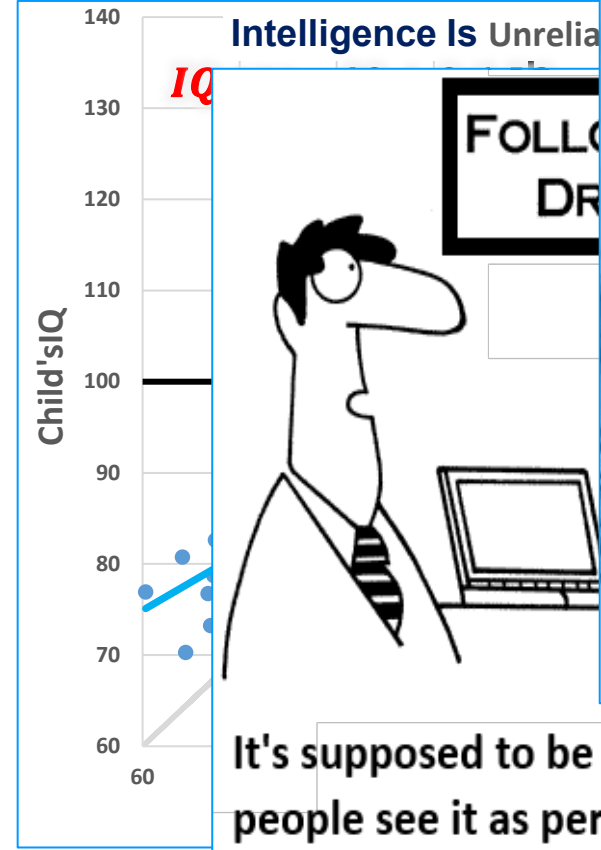
Retain control

- Retain the family control block in the family firm
Advantage = keep power, status & perks from firm
Disadvantage = burden of governing the family firm
- Family's money is committed to family firm
Advantage = safe from other people's poor governance
Disadvantage = all eggs in one basket

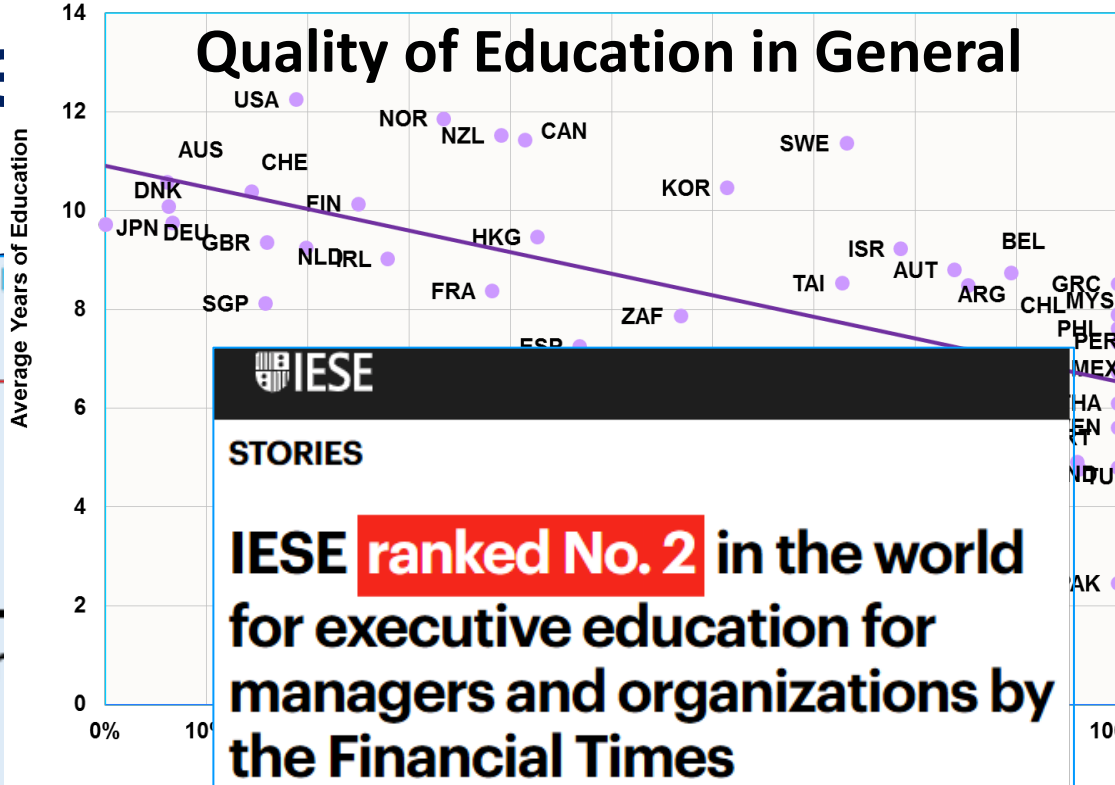
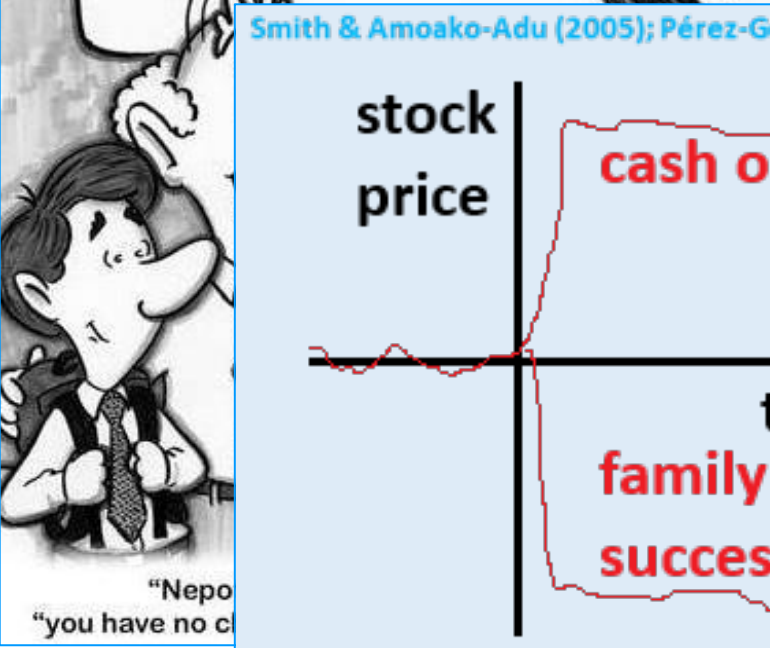
Financial Calculation

Succession: Economic Cost-benefit

Burkart, Mike, Fausto Panunzi & Andrei Shleifer



THIS IS MY NEPHEW SKIPPY. HE'S YOUR NEW BOSS.



IESE

STORIES

IESE ranked No. 2 in the world for executive education for managers and organizations by the Financial Times

The FT ranking consolidates IESE's position as one of the world's leading business schools for executive education

Executive Education

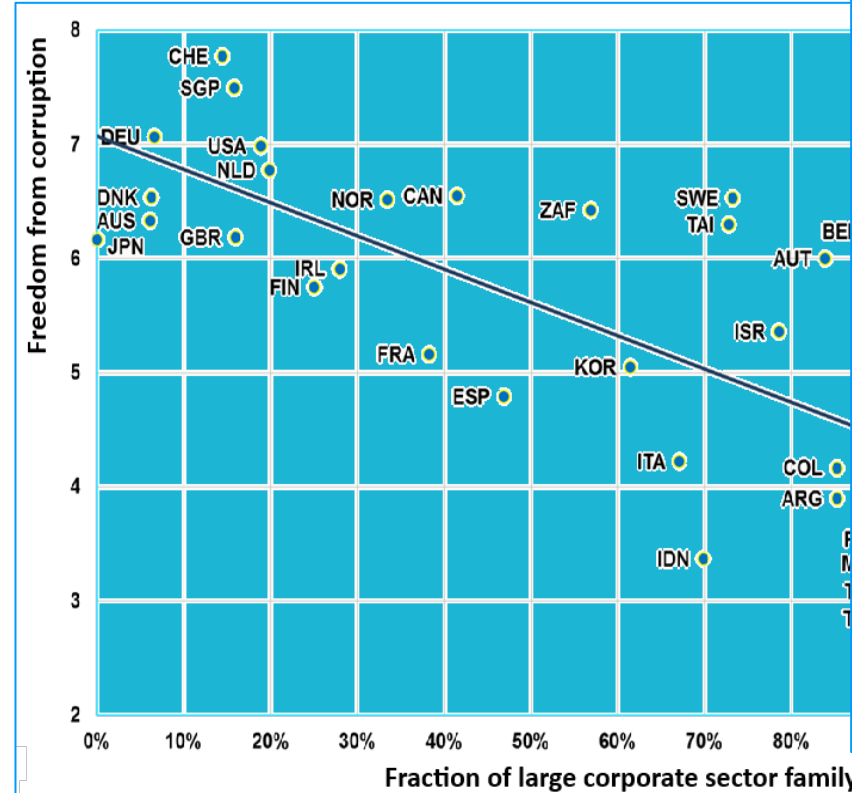
The British publication's annual rankings of Open and

Advantage
free of burden
of governing
the family
firm

- Is anyone in the family up to the job?
- Does anyone in the family who is up to the job actually want the job?
- Does anyone in the family who is clearly not up to the job really! really! want the job?
- Would the stock sell for more if the firm were free of the family?
- Talent in the family? Would a top MBA graduate run the firm better?

Succession: Economic

Burkart, Mike, Fausto Panunzi & Andrei Shleifer. 2003. Family firm

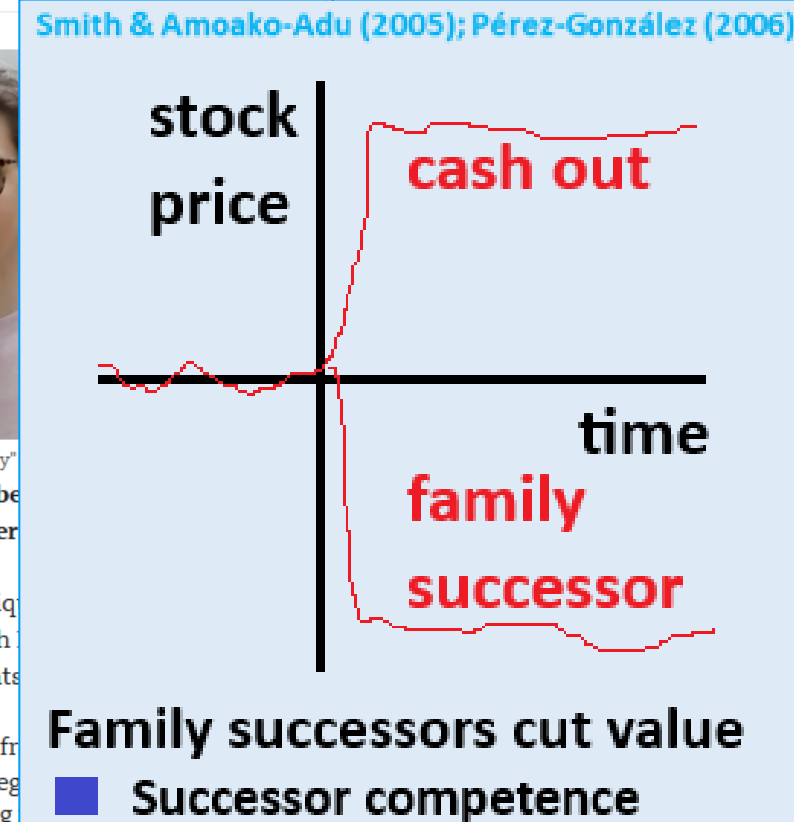


BBC

Nxivm: Seagram heiress Clare Bronfman jailed in 'sex cult' case

30 September 2020

Clare Bronfman said she was "deeply sorry" and nine months in prison for her role in a sex trafficking group. Bronfman, heir to the Seagram liquor empire, was a benefactor of Nxivm leader Keith Raniere. She was taken into custody to begin her sentence immediately after the sentencing.



How big a deal is each of these?

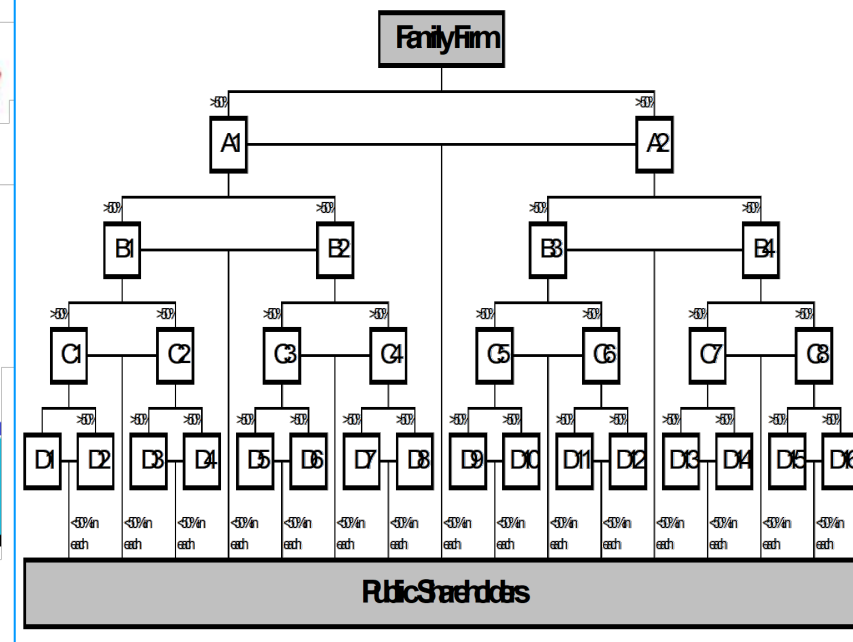
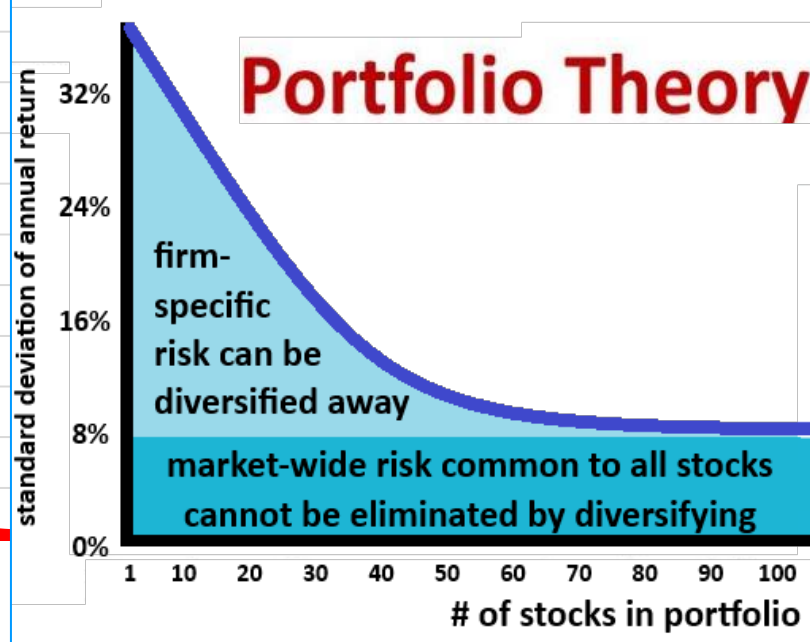
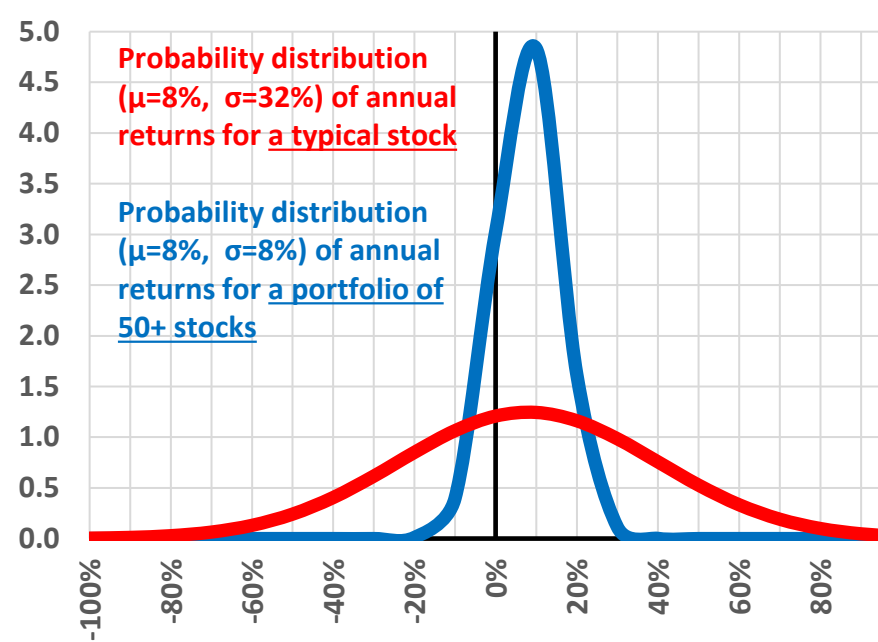
Disadvantage
lose power, status & perks from family firm

- Can portfolio wealth buy power, status & perks as easily as corporate power can?
- How durable are corporate power, status, perks, ...
- How wisely would the family use continued power, status, perks?
- How much would continued power, status, perks cost?

Succession: Economic Cost-benefit Analysis

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What is the next generation to do?

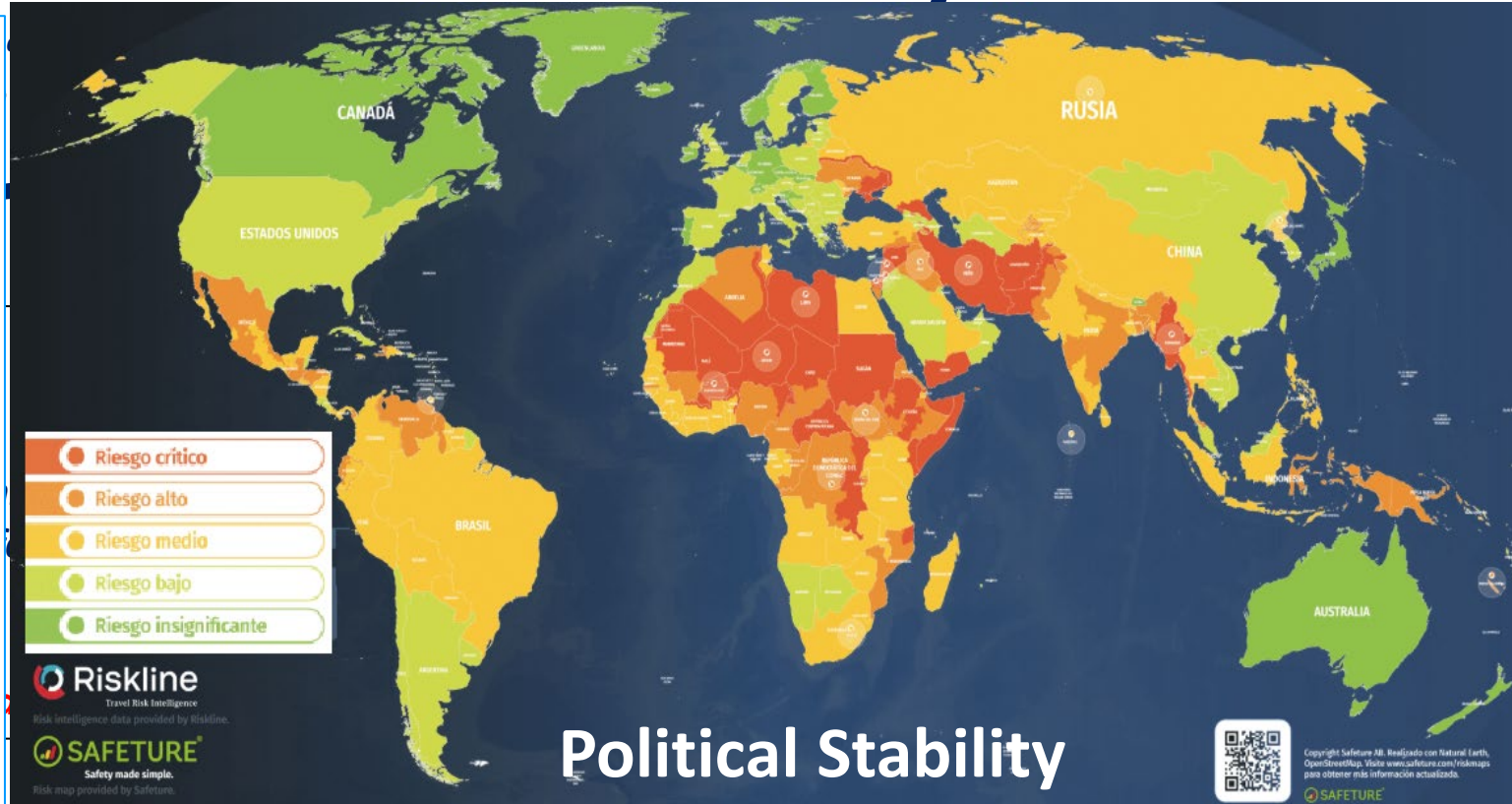
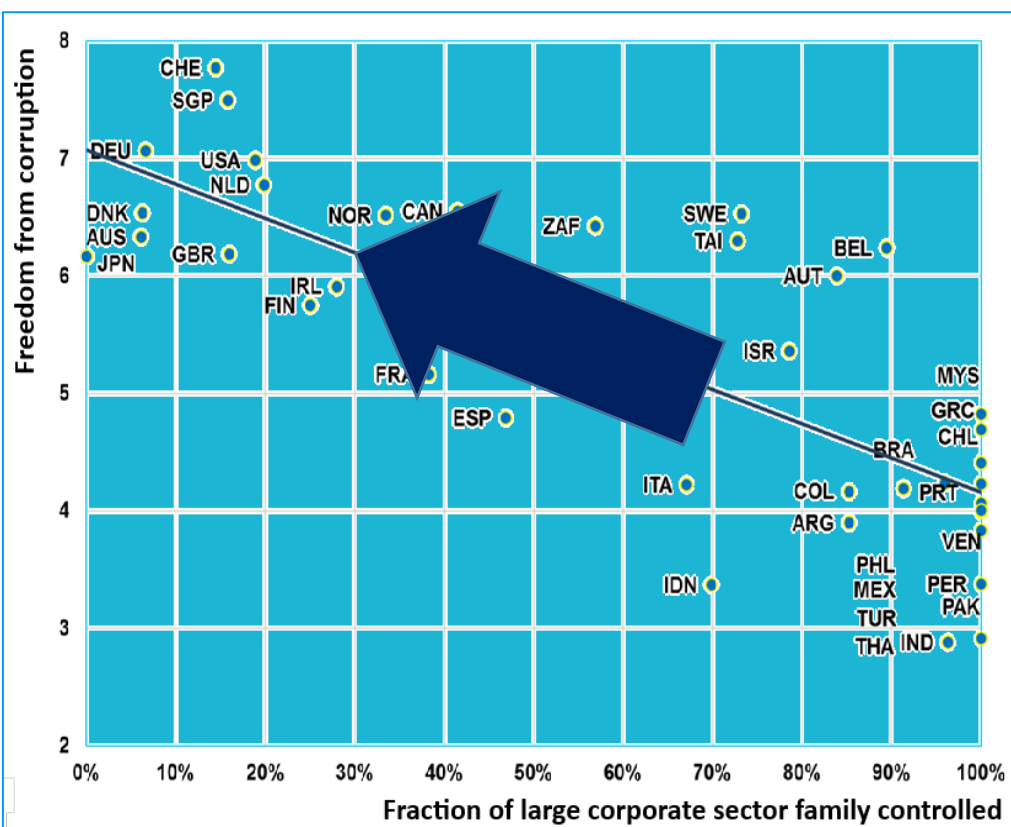


How big a deal is each of these?

Advantage
diversification
dramatically
reduces risk

- A diversified portfolio is dramatically safer than having all your money in one company
- A diversified portfolio is dramatically safer than having all your money in a few companies
- To match the safety of a diversified portfolio, a family firm empire would have to consist of a company in every industry

Succession: Economic Cost-benefit Analysis



***Disadvantage
rely on other
firms' good
governance***

If corporate governance by professional managers is poor, either because there's a shortage of well trained people or because there's a national culture of corruption

- ❑ Cashing out generates less money because share buyers expect worse from professional managers
- ❑ A diversified portfolio of domestic stocks exposes the family to common poor governance risk and esp to common political risk
- ❑ Move money abroad and diversify internationally to take advantage of better professional corporate governance and less political risk

Succession: Economic Cost-benefit Analysis

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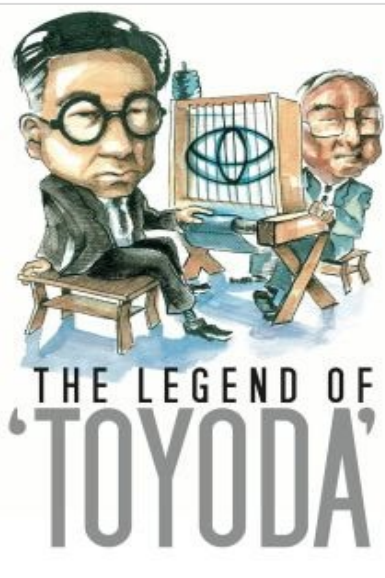
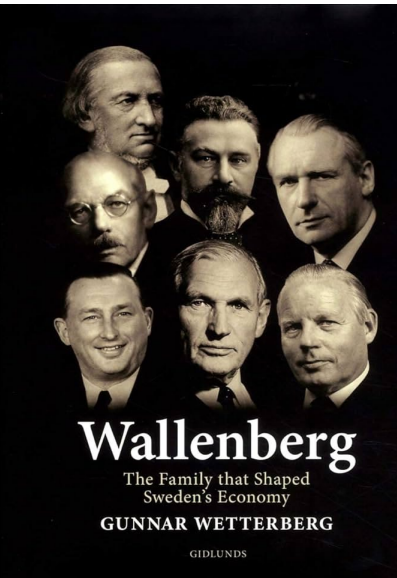
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Social Calculation
Financial Calculation

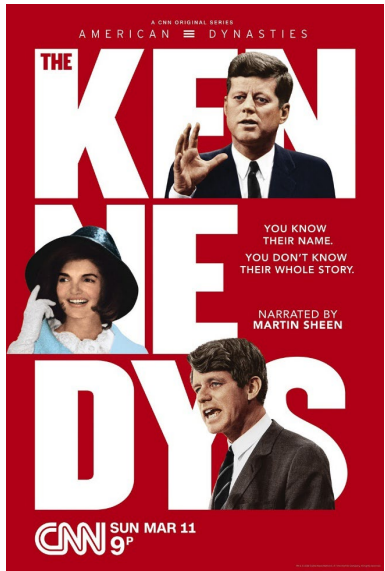
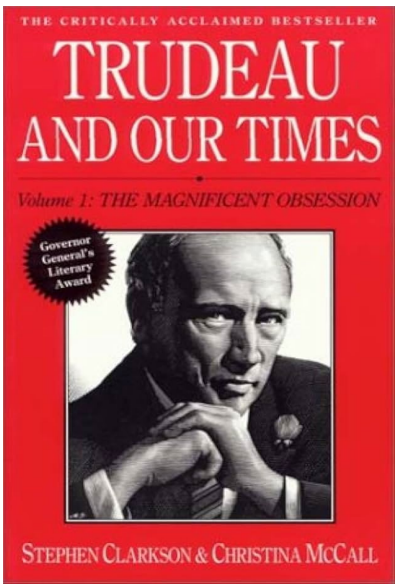
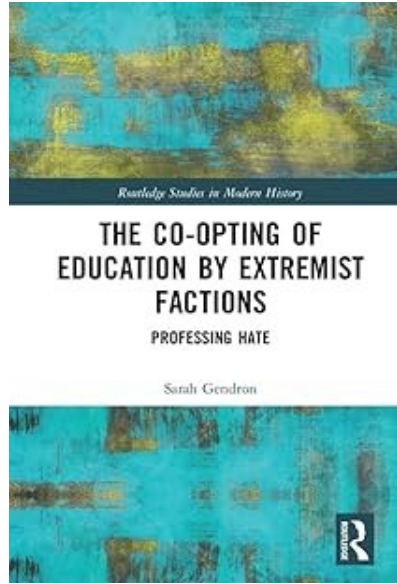
What To Do With All the Money? To the Next Generation?



Keep running the family's firms?

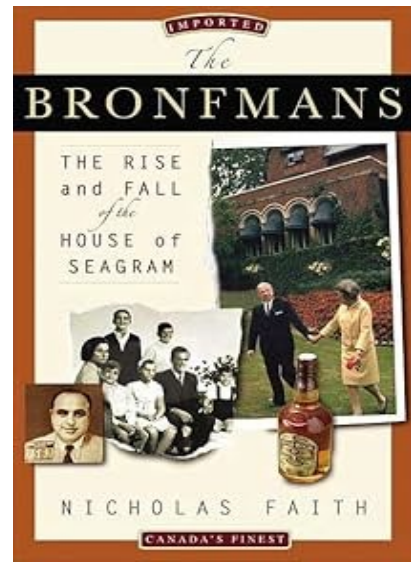
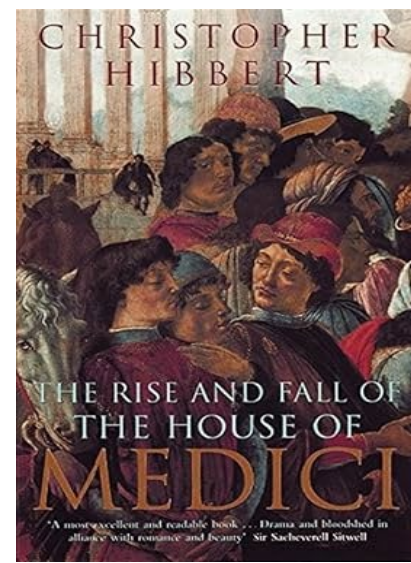
Cash out & fund NGOs?

Keep running the family's firms, go into politics, find religion and cash in?



Cash out & go into politics?

Find/fund religion?



What To Do With All the Money? Improved Heirs?

Andrew Carnegies' *Gospel of Wealth*

Vast inherited wealth ruins children because ... unless

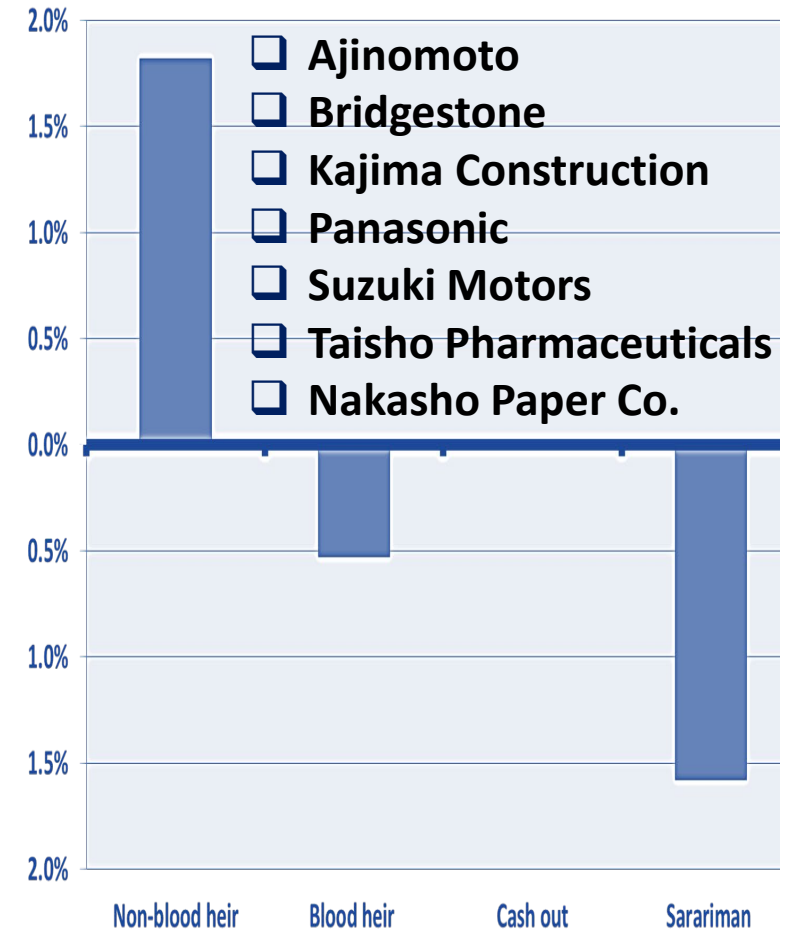
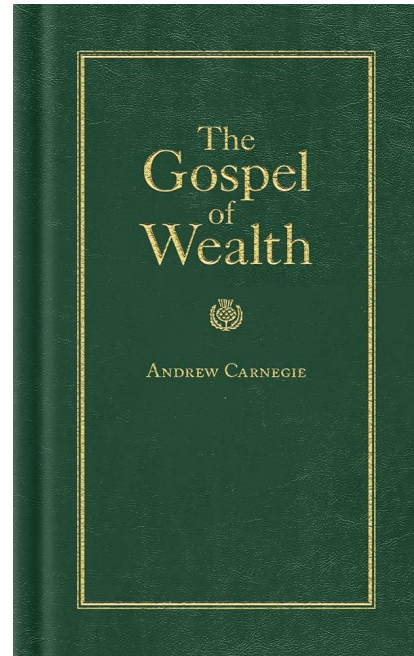
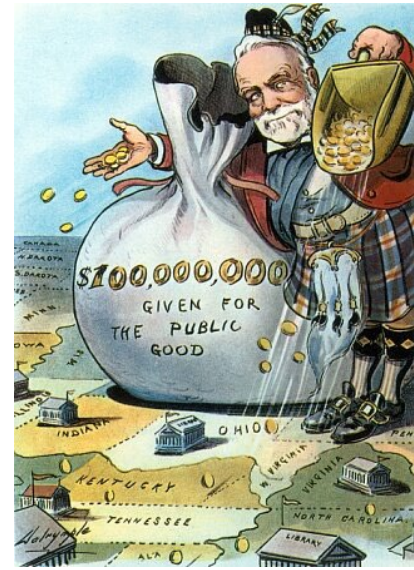
- Wealth dulls initiative
- Wealth makes self-improvement unnecessary
- Wealth keeps people from understanding true human nature

- ← Fear of being replaced spurs initiative
- ← Must be better than likely replacement
- ← Understand true human nature

Japanese adoption statistics

	All Adoptions <i>yōshi engumi</i>	Special adoptions <i>tokubetsu</i>	Ordinary adoptions of <i>miseinen yōshi</i>	Total adoptions of minors	Total adoptions of adults
1955	101,963	0	26,983	26,983	74,980
1965	82,176	0	15,018	15,018	67,158
1975	86,844	0	6,771	6,771	80,073
1985	91,186	0	2,804	2,804	88,382
1990	82,007	738	1,502	2,240	79,767
1995	79,381	521	1,111	1,632	77,749
2000	80,790	362	994	1,356	79,434
2002	85,674	350	960	1,310	84,364
2004	83,505	332	998	1,330	82,175

Sources: Tokubetsu yōshi and Child Adoptions Approved by the Court: Supreme Court of Japan. shihôtôkeinenpô Kajihen are from issues of the *Annual Report of Judicial Statistics* (Table 3 of Volume 3, Family Cases). Adoptions registered by Koseki offices are from issues of the Ministry of Justice Annual report (*Hōmu nenkan*).



What To Do With All the Money? Give It all Away?

Andrew Carnegies' *Gospel of Wealth*

Vast inherited wealth ruins children because

- Wealth dulls initiative
- Wealth makes self-improvement unnecessary
- Wealth keeps people from understanding true human nature

Carnegie's advice

- A man who dies rich dies disgraced
- Success in business has two stages
 1. Work hard to become very rich
 2. Work even harder to give your money away to make the world better
- Leave your children enough so they can become whatever they want, but not so much that they can become nothing worthwhile

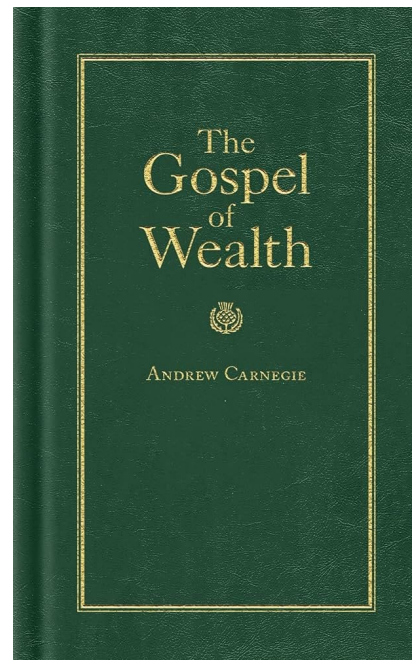
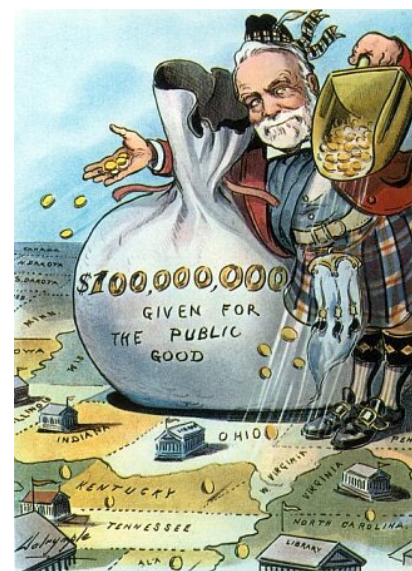
Carnegie's legacy

- Thousands of municipal public libraries
- Carnegie Hall
- Carnegie-Mellon University
- Carnegie Endowment

Aging US tycoons pledge to “give all their money away” instead of giving it to their children

“It's like thinking the best way to get Olympic teams is to get grandchildren of winners sixty years ago to play — it doesn't work that way”

- Bill Gates



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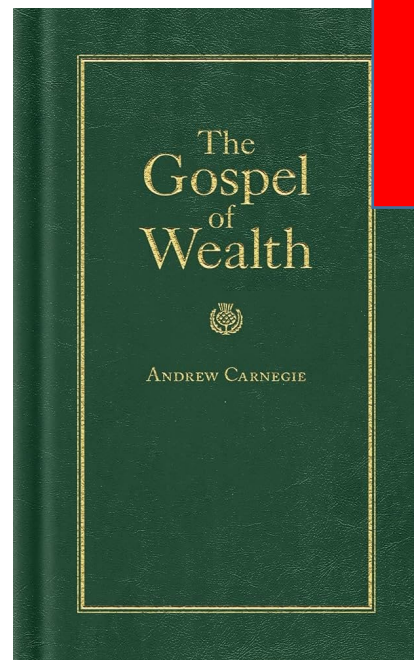
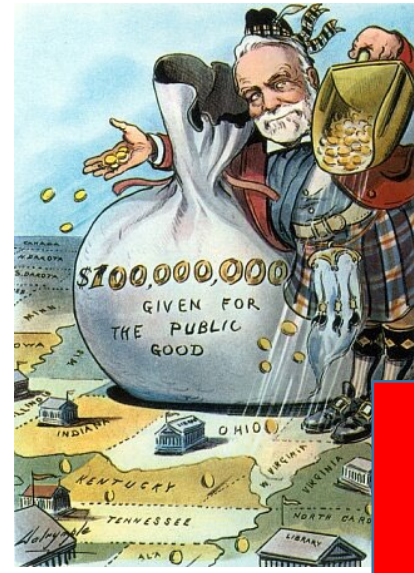
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Is NGO activism deepening political polarization?

- Leave your children enough so they can be whatever they want, but not so much that they can become nothing worthwhile

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The New York Times



Matt Chase

BILLIONAIRE BOOM

The Billionaire Backlash Against a Philanthropic Dream

The Giving Pledge, once trendy among the world's richest, has come upon hard times.

Listen · 14:59 min

By Theodore Schleifer

March 15, 2026

Just a few months after Warren Buffett convened a series of high-end dinners across America to collect signatures for something called the Giving Pledge, he was feeling optimistic about his new idea for philanthropy.

Consult Experts? The Economics of Experts

Johnson K, J Ehrlinger J & J Kruger. 2003. Why people fail to recognize their own incompetence. *Current directions in psychological science* 12(3)83-87
Sanchez C & Dunning D. 2018. Overconfidence among beginners: Is a little learning a dangerous thing? *Journal of Personality and Social Psychology* 114.1
Dunning D. 2012. *Self-Insight: Roadblocks & Detours on the Path to Knowing Thyself*. Psychology Press
Dunning D, Heath C & Suls JM. 2004. Flawed self-assessment: Implications for health, education & the workplace. *Psych sci in the public interest* 5(3)69-106

Dunning-Kruger Effect & related phenomena

- ❑ Less expert experts are more confident about their expertise
- ❑ People with less expertise gauge experts' expertise worse
- ❑ More expert experts are less likely to give advise
- ❑ Higher IQ experts are better at rationalizing, not more rational
- ❑ Experts “herd” because they need to impress other experts, which can induce a false consensus, which most experts privately find questionable (but dare not question)
- ❑ Experts cultivate conspicuous convictions: Highlight & broadcast fashionable convictions to attain & retain social status – esp. among experts

Explanation

- ❑ Regression to the mean in estimated or self-estimated expertise

$$E[\varphi] = b\varphi + (1 - b)\tilde{\varphi} + e$$



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- 2nd & later generations do good or ill?
- Social welfare impacts
 - Wealthy business family heirs are often unhelpful politicians*
 - Giving money away usefully is hard work*
 - Giving money to NGOs & activist organizations may not promote genuine progress*
 - Andrew Carnegie aimed local by funding municipal libraries, concert halls, universities, supporting artists, ...*

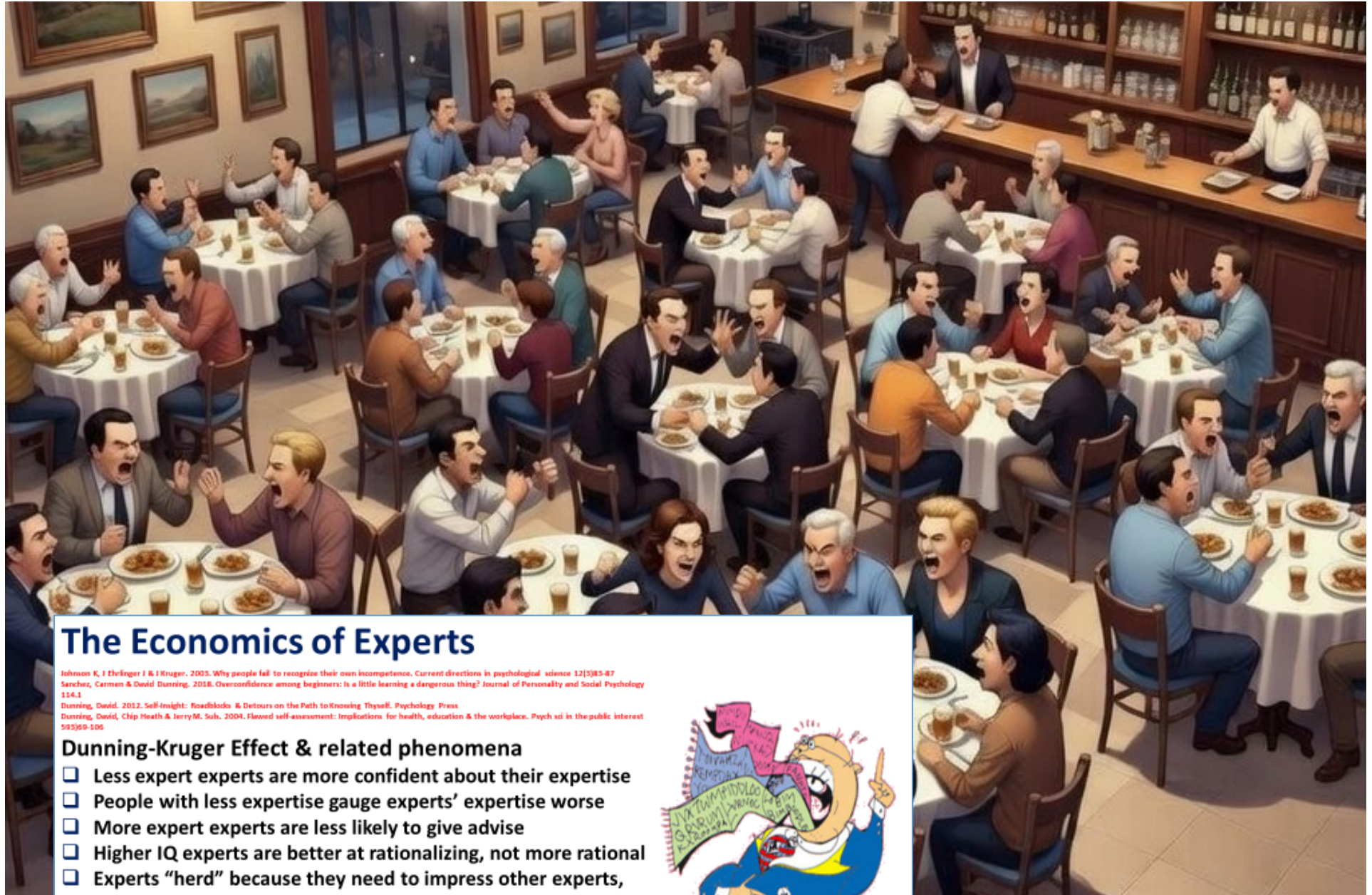
Retain control

- 2nd & later generations run firm better or worse?
- Externalities (impacts on firm's other stakeholders)
 - Generation 2nd + family firm are not clearly run better*
 - Generation 2nd + family firms are not clearly better job creators*
 - Generation 2nd + family firms are not clearly more socially motivated*
 - Generation 2nd + family firms do CSR, ESG, DEI, etc. may not be more effective or beneficial*
 - Generation 2nd + family firms are not clearly better at developing productivity-improving innovations*

People (especially people in families) disagree about what the social good is

Gracias

“This must be a family restaurant, everyone is arguing.”



The Economics of Experts

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