Family Members, Trusted Insiders and Outsiders: Clan Culture and Executive Selection in Family Firms

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Abstract

Clan culture, as a prominent institutional legacy of traditional Chinese society, may exert a profound influence on executive selection in the governance of family firms. Drawing on a sample of Chinese A-share listed family firms from 2008 to 2022, this study investigates how clan culture shapes executive selection. The results indicate that clan culture significantly increases the likelihood that family firms appoint internally cultivated executives. Further distinguishing executives by their relationship with the ultimate controller reveals that executive selection in Chinese family firms follows the differential mode of association, characterised by a hierarchy of family members, trusted insiders, and outsiders. Mechanism analyses suggest that clan culture influences executive selection primarily through two channels: increasing investment in talent development and fostering trust-based interpersonal networks. Moreover, the effect of clan culture is more pronounced in industries with lower competitive intensity and in firms where the ultimate controller has more descendants, whereas it is attenuated in high-technology industries and when the ultimate controller bears a common surname. As for the economic consequences, internally cultivated executives selected under the influence of clan culture help alleviate agency problems and improve operational efficiency. This study extends the literature on family firm governance and executive selection by highlighting the enduring role of traditional culture and provides new empirical evidence on the distinctive logic of executive selection in Chinese family firms.

Keywords: corporate governance; differential mode of association; human capital development; interpersonal trust; kinship