

Conflicts in Private Family Firms*

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March 2022

Abstract

We use Norwegian household-level data and full structures of family relationships to understand how family firm ownership is transferred when the family has multiple potential heirs. We argue that the decision on whether the family firm is bequeathed to one or a few heirs is influenced by the potential of future family conflicts. We find that anticipated heir disagreement is related to a higher likelihood of a single heir, and this consideration also defines how long the firms remain in the family's hands, their investment, and their growth. Our identification strategy is based on the observation that heir conflicts are more likely if a founder has experienced a divorce or a separation in the past. We instrument such founder's divorce with the divorces by the founder's first cousins that arguably make the founder's divorce more socially acceptable.

Keywords: Family Firms, Corporate Governance, Ownership Structures, Divorce

JEL Classification: G32, G34

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