



The effects of family entrenchment and board independence on CEO turnover

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Received: 5 April 2024 / Accepted: 17 September 2025 / Published online: 29 October 2025
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Abstract

This study investigates the effectiveness of board monitoring in listed family firms, focusing on poorly-performing CEO turnover decisions. In family firms, CEO turnover-performance sensitivity (i.e., the likelihood to replace a CEO in response to poor performance) can be weakened by family owners prioritizing personal ties or long-term control over performance-based decisions. This study examines how the composition of the board, particularly the presence of family directors and independent-dominated boards, affects this sensitivity. The analysis is based on a sample of 891 firm-year observations from 91 Italian listed family firms over the period 2010–2020. We measure CEO turnover-performance sensitivity based on forced turnover events and accounting performance indicators, such as return on assets (ROA) and industry-adjusted ROA, both for the year preceding turnover events. Our findings reveal that family entrenchment is associated with weaker CEO turnover-performance sensitivity. Conversely, independent-dominated boards demonstrate stronger sensitivity, highlighting their role in counterbalancing family influence. These results contribute to the literature on corporate governance in family firms and provide policy implications for improving board monitoring mechanisms in concentrated ownership settings.

Keywords Family entrenchment · Board independence · Family firms · CEO turnover · Board monitoring · Agency conflicts

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1 Introduction

Internal control systems are a cornerstone of effective corporate governance, as they ensure that executives are held accountable for firm performance and that shareholders' rights, particularly those of minority investors, are protected (Weiss, 2014). In the wake of major financial scandals such as Enron and Parmalat, regulators and scholars have emphasized the importance of strengthening these mechanisms through improved board oversight and more rigorous monitoring practices (Aguilera, 2005; Ianniello, 2015; Zattoni & Cuomo, 2010). In response, governance reforms and updated codes have promoted the adoption of practices aimed at enhancing the board's ability to supervise management and intervene when performance deteriorates.

In Italy, where listed firms are mainly controlled by founding families, the effectiveness of internal control systems depends critically on the composition and functioning of the board of directors. Governance codes have sought to address the vulnerabilities of such ownership structures by promoting the presence of independent directors, whose task is to safeguard against "family opportunism" and ensure that managerial decisions are evaluated objectively and in the interest of all shareholders (Anderson & Reeb, 2004; Purkayastha et al., 2019; Schulze et al., 2001). Nonetheless, when families exert substantial influence over board appointments (Patelli & Prencipe, 2007), these safeguards may be undermined. The appointment of family members or not truly independent directors may impair the board's ability to act as an effective control body, especially when personal ties or legacy considerations take precedence over performance-based governance (Kellermanns et al., 2008; Mazzola et al., 2008; Sharma & Rao, 2000).

The literature on board effectiveness in mitigating agency problems in family firms offers mixed evidence (Moscariello et al., 2019). Some studies suggest that board independence enhances control even in family-dominated firms (e.g., Anderson & Reeb, 2004; Chen & Hsu, 2009), while others find that its effectiveness may be severely limited by entrenched family interests (Prencipe & Bar-Yosef, 2011). This ambiguity reflects the dual role of family members as both owners and decision-makers, which complicates the design and enforcement of effective internal control systems (Chen et al., 2020). In listed family firms, this role becomes even more critical, as the conflicts between majority and minority shareholders are exacerbated by the limited power of minority investors to influence governance decisions (Prencipe et al., 2014).

In this paper, we focus on CEO turnover-performance sensitivity—that is, the extent to which boards are likely to replace a CEO in response to poor performance—as a proxy for the effectiveness of internal control systems in family firms. This measure reflects the board's ability to evaluate managerial performance objectively and to take corrective action, when necessary (Chen et al., 2013; Umans et al., 2020; Weisbach, 1988). A board that promptly replaces an underperforming CEO demonstrates its capacity to safeguard shareholders' interests and to exert meaningful oversight over strategic, financial, and operational decisions (Huson et al., 2001). Conversely, the retention of a poorly performing CEO may signal a breakdown in internal control mechanisms, potentially undermining the firm's long-term prospects.

This issue becomes particularly salient in family firms, where CEO turnover decisions may be shaped by personal loyalties, emotional attachments, or succession dynamics rather than performance-based evaluations (Morck & Yeung, 2003; Rizzotti et al., 2017). Family owners often maintain significant control over board composition and may be reluctant to dismiss relatives or closely affiliated executives, even in the face of underperformance. As a result, the presence of family directors can impair the board's monitoring role (Mazzola et al., 2008; Sharma & Rao, 2000). On the other hand, when the board includes a substantial share of independent directors, it may be better positioned to uphold performance-based standards and protect the interests of minority shareholders (Anderson & Reeb, 2004; Prencipe & Bar-Yosef, 2011).

Thus, our research question is whether CEO turnover-performance sensitivity in family firms is affected by board composition—namely, whether it weakens when the board is dominated by family directors and strengthens when independent directors hold the majority.

To address this question, we analyze a sample of 891 firm-years observations from 91 Italian listed family firms covering the period 2010–2020.

The Italian context offers an ideal setting to investigate the monitoring role of the board of directors in family firms for several reasons. First, family ownership is predominant in Italy, with 73% of listed firms being family-controlled (Prencipe et al., 2014; Volpin, 2002). This prevalence allows for a comprehensive analysis of how family control interacts with governance mechanisms in CEO turnover decisions.

Second, Italian family owners typically retain majority stakes and maintain long-term control over their firms (Brunello et al., 2003; Prencipe et al., 2008). This embedded influence shapes both strategy and board dynamics, offering a rich context to examine whether family control moderates turnover-performance sensitivity. While long-term involvement may foster reputational concerns (Sharma & Manikuttu, 2005; Westhead et al., 2001), it also raises expropriation risks, especially given the family's ability to influence board composition and potentially weaken mechanisms such as the slate voting system mandated by law¹.

Third, minority shareholder protection remains weak despite regulatory reforms like the 1998 Draghi Law² (La Porta et al., 2000). Pyramidal ownership structures, limited takeover activity, and low institutional investor engagement (Brunello et al., 2003; Melis, 2000; Volpin, 2002) enhance the relevance of board monitoring in curbing family dominance and safeguarding investor interests.

Finally, corporate governance regulation in Italy has evolved to align with international standards, particularly regarding board independence (Moscariello et al., 2019). The Italian Code of Good Governance (*Codice di Autodisciplina*), introduced in 1999, incorporates OECD-endorsed principles (OECD, 2023) and recommends that independent directors comprise at least one-third of the board in concentrated ownership firms. These guidelines are especially pertinent for assessing whether independent boards are more likely to discipline underperforming CEOs in family firms.

¹ Law 262/2005.

² Legislative Decree 58/1998.

This study contributes to the literature in three main ways.

First, it contributes to the literature on governance mechanisms in family firms. While previous studies have mostly compared family and non-family firms (González et al., 2015; Li, 2018), and focused on CEO characteristics (e.g., Chen et al., 2013), the role of board composition remains underexplored. Our findings show that family entrenchment weakens performance-based turnover decisions, whereas independent-dominated boards enhance monitoring and responsiveness, thus offering a more complete understanding of governance dynamics within family firms.

Second, it adds to the research on board independence by providing evidence that, despite concerns about potential collusion between family owners and independent directors (Chen & Hsu, 2009; Prencipe & Bar-Yosef, 2011), board independence can serve as an effective governance mechanism even in family firms.

Third, the study has regulatory implications. Although reforms promoting board accountability (Duchin et al., 2010; Ianniello, 2015; Zattoni & Cuomo, 2010), our evidence suggests that there is still the need of raising the thresholds for independent directors and paying greater attention to the presence of family members in family-controlled firms.

The structure of the paper is as follows. Section 2 provides theoretical background and hypotheses development. Section 3 illustrates the research design. Section 4 reports the empirical results. Section 5 describes the robustness analyses. Section 6 provides a discussion of our findings. Finally, Section 7 concludes.

2 Theoretical background and hypotheses

2.1 Family entrenchment and CEO turnover

The board of directors is the main shareholders' control mechanism to mitigate managerial opportunism and ensure alignment with shareholders' interests (Jensen & Meckling, 1976; Weisbach, 1988). Shareholders delegate the board to monitor executives effectively, which includes evaluating the CEO's performance and promptly removing underperforming CEOs (Warner et al., 1988; Weisbach, 1988). Prior studies provide empirical evidence supporting this role. Coughlan and Schmidt (1985), Warner et al. (1988), and Weisbach (1988) document a negative relationship between firm performance and the likelihood of CEO turnover, suggesting that the board's reactivity to poor performance is a signal of a more effective monitoring.

In family firms, the presence of family ties and non-economic interests can compromise the objectivity of turnover decisions and the evaluation of executive performance, leading to potential distortions in the monitoring system (Chen et al., 2020).

For instance, family altruism, stemming from family relationships, may lead to a more indulgent evaluation of family-member CEOs (Schulze et al., 2001, 2003). This benevolence can result in the protection of underperforming CEOs who are part of the family (Chen et al., 2013; Jones et al., 2008; Rizzotti et al., 2017). Handler and Kram (1988) argue that the subjective perception of family executives can undermine objective assessments of CEO performance, causing boards to delay or avoid dismissals even in cases of poor firm performance.

Beyond altruism, family owners often prioritize maintaining long-term control of the firm, considered a private asset to be passed down to future generations (Berrone et al., 2010; Zellweger & Astrachan, 2008; Zellweger et al., 2011). This desire to retain control leads to decisions that favor family interests over financial performance (Rizzotti et al., 2017). A direct way to achieve control is through the entrenchment of family members or trusted managers in top executive roles (Gomez-Mejia et al., 2011, 2014; Morck & Yeung, 2003). These affiliated executives, who are loyal to the family, often bypass strict performance evaluations, further diminishing CEO turnover in response to poor results (Rizzotti et al., 2017; Young et al., 2008). Therefore, while the family's involvement in management reduces traditional owner-manager conflicts, it simultaneously creates other agency conflicts, particularly between family owners and minority shareholders (Ali et al., 2007; Villalonga & Amit, 2006). Family-controlled boards, instead of acting as objective monitors, may actually prioritize the interests of the controlling family, leading to weaker monitoring system. For instance, Chen et al. (2020) provide evidence that family involvement in the board structure is associated with weak internal controls, with severe consequences in terms of financial misstatements, frauds, and related party transactions.

Therefore, family directors may prioritize the interests of the controlling family rather than acting in the best interests of all shareholders. This misalignment can lead to a less rigorous evaluation of executive performance, which could result in a weaker CEO turnover-performance sensitivity.

According to these considerations, the following hypothesis is proposed:

H1: Compared to family firms with high family entrenchment in the board, those with low family entrenchment will have higher CEO turnover-performance sensitivity.

2.2 Board independence and CEO turnover

Agency theory recognizes board independence as a crucial feature to ensure board effectiveness and corporate accountability, because of a lower risk of collusion between independent directors and executives (Daily et al., 2003; Dalton et al., 1998; Fama & Jensen, 1983). Indeed, in the traditional agency framework, the effectiveness of board monitoring depends on the lack of ties between managers and board directors. Therefore, independent directors constitute the main shareholders' control device to exercise an effective monitoring on opportunistic executives (Fama, 1980).

Prior studies largely support the agency assumption, providing evidence that board independence is able to mitigate owners-managers conflicts (e.g., Beasley, 1996; Brickley & James, 1987; Chen et al., 2015; Dahya et al., 2002; Kosnik, 1990; Lee et al., 1992; Peasnell et al., 2005; Weisbach, 1988). With regard to the CEO turnover, for instance, Weisbach (1988) found that firms with outsider-dominated boards are more likely to remove an underperforming CEO than firms with insider-dominated boards. Dahya et al. (2002) found that in UK the negative relationship between the likelihood of CEO turnover and corporate performance was significantly higher after the adoption of the Cadbury Code.

In family firms, the conflicts between owners and managers are generally less pronounced, but a major agency issue arises from the misalignment of interests between family owners and minority shareholders (principal-principal conflicts). In fact, family owners often possess both the incentives and the power to expropriate the wealth of minority shareholders, through practices such as special dividends or asset diversion (e.g., Anderson & Reeb, 2004; Faccio & Lang, 2002; Morck et al., 2000; Morck & Yeung, 2003).

To mitigate such risks of expropriation, the protection of minority investors' rights primarily falls, again, to independent directors, whose role is to act on behalf of minority shareholders and prevent potential abuses by family owners (e.g., Anderson & Reeb, 2004; Miller & LeBreton-Miller, 2006; Park & Shin, 2004; Shleifer & Vishny, 1986, 1997), reducing information asymmetry and ensuring more transparent governance (Garcia-Ramos & Garcia-Ollala, 2011; Hillman & Dalziel, 2003). Thus, because they are independent from both executives and controlling family shareholders, independent directors are widely recognized as key actors in ensuring legal compliance and mitigating agency problems in family firms (Anderson & Reeb, 2004).

Board independence may reduce agency problems both directly and indirectly, by improving the effectiveness of other control devices able to protect minority's interests. For instance, focusing on Italian firms with concentrated ownership, Patelli and Prencipe (2007) find that board independence is positively associated with voluntary disclosure. These two control mechanisms reinforce each other, helping to improve the safeguard of small shareholders.

However, some recent studies have questioned the effectiveness of board independence in family firms (Dahya et al., 2008; Di Pietra et al., 2008; Gutiérrez & Sáez, 2013; Pizzo, 2013; Prencipe & Bar-Yosef, 2011). Di Pietra et al. (2008) highlight that, in institutional settings in which principal-principal conflicts are likely to arise, the call for the inclusion of independent directors might be only formally carried out by closely-held companies, since, practically it is highly difficult to evaluate the independence in mind of outside directors. Similarly, Dahya et al. (2008) suggest that large shareholders interested in consuming perquisites are likely to appoint weak directors in order to enhance their influence over the firm's decisions. Prencipe and Bar-Yosef (2011) hypothesize that family owners use their power to influence the board compositions, by appointing directors whom lack independence in substance. Consistently, they find that the impact of board independence on earnings management is weaker in family firms than non-family firms.

From the above it is clear that, although it is widely believed that greater board independence determines greater CEO turnover-performance sensitivity, doubts about such influence may arise in family firms, due to the possibility that the family appoints non-independent directors as "independent" ones. For this reason, it is interesting to verify, also in family firms, whether greater board independence is correlated with greater CEO turnover-performance sensitivity.

Thus, consistently with the prevailing literature on the relation between board independence and CEO turnover, we formulate our hypothesis as follows:

H2: Compared to family firms without independent-dominated board, those with independent-dominated board will have higher CEO turnover-performance sensitivity.

3 Research method

3.1 Sample

The empirical analysis is based on a sample of non-financial firms listed in the FTSE Italia All-Share. From the population of 230 listed firms in the *FTSE Italia All-Share*, as at January 2021, we exclude 50 financial firms and 3 football clubs, due to the non-comparability of their financial data and performance measures; 8 foreign-headquartered firms are excluded to ensure consistency with Italian financial and governance regulations; 4 suspended firms are excluded due to the lack of recent data. Additionally, we exclude 17 newly listed firms due to the unavailability of longitudinal data, and 16 firms with missing corporate governance reports, which are essential for our analysis.

Out of the 132 remaining firms, we excluded 41 non-family firms (firms with dispersed ownership and State-owned firms), in order to focus exclusively on family firms. This focus allows us to delve deeper into the CEO turnover-performance sensitivity *within* family firms, specifically examining how variations in governance configurations, such as board independence and the presence of family directors, shape these dynamics.

Adopting the definition proposed by the European Commission for listed companies, we classify a firm as family firm “if the person who established or acquired the firm (share capital) or their families or descendants possess 25% of the decision-making rights mandated by their share capital”³.

This provides a sample of 91 listed family firms and an unbalanced panel of 891 firm-year observations in the timespan 2010–2020. Table 1, Panel A summarizes the sampling process. Details on the distribution by year and by industry are presented in Table 1, Panel B, and Panel C, respectively. The yearly variation in firm-year observations, as reported in Table 1, Panel B, arises primarily from delisting, mergers, and acquisitions that occurred during the sample period, which affected the availability of complete governance data for certain firms in specific years.

We collect accounting information from Amadeus dataset, while corporate governance data are hand-collected from each firm’s governance report.

3.2 Variables

3.2.1 Dependent variable

The dependent variable in the analysis is *CEO_Turnover*, which is a dummy variable equal to 1 in cases of forced CEO turnover, and 0 otherwise (Coughlan & Schmidt,

³ <http://www.europeanfamilybusinesses.eu/family-businesses/definition>.

Table 1 Sample selection and distribution by year and industry

Panel A: Sample Formation

	# Firms
Firms listed in <i>FTSE Italia -All Shares</i> , as at January 2021	230
<i>less</i> Financial Sector Firms	50
<i>less</i> Football Clubs	3
<i>less</i> Foreign Headquartered Firms	8
<i>less</i> Suspended Firms	4
Initial Sample of Firms	165
<i>less</i> newIPO Firms (i.e., IPO in 2018, 2019, 2020)	17
<i>less</i> Firm not providing corporate governance report	16
<i>less</i> Non-Family Firms	41
Final Sample of Family Firms	91

Panel B: Sample Distribution by Year

Year	Number of Family Firm Year Observations	Percentage of Family Firm Year Observations
2010	71	7.97%
2011	73	8.19%
2012	77	8.64%
2013	80	8.98%
2014	80	8.98%
2015	83	9.32%
2016	84	9.43%
2017	90	10.10%
2018	91	10.21%
2019	86	9.65%
2020	76	8.53%
Total	891	100%

Panel C: Sample Distribution by Industry

Industry	Number of Family Firm Year Observations; 2010 to 2020	Number of Family Firms; 2010 to 2020	Percentage of Family Firm Year Observations; 2010 to 2020
Consumer Products And Services	301	30	33.78%
Manufacturing	331	36	37.15%
Oil and Gas	11	1	1.23%
Health	48	5	5.39%
Media	99	9	11.11%
Public Services	46	5	5.16%
Technology	44	4	4.94%
Telecommunication	11	1	1.23%
Total	891	91	100%

The initial sample consists of 230 Italian listed firms. We exclude 50 financial and insurance companies, 3 football clubs, 29 foreign headquartered, suspended, or new IPO firms, and 16 firms with missing corporate governance. Finally, we exclude 41 non-family firms. We classify a firm as family firm if the person who established or acquired the firm (share capital) or their families or descendants possess 25% of the decision-making rights mandated by their share capital. The final sample consists of 891 firm-year observations of 91 family firms, during the period 2010-2020

1985; Warner et al., 1988; Weisbach, 1988). In order to identify CEO turnover, we use information in firms' annual corporate governance reports. As first step, we classify all cases in which the CEO name at the end of year t is different from that at the end of year $t - 1$, as potential CEO turnover. Then, in order to ensure to capture only cases of forced turnover, we classify as voluntary turnover all cases that involve mergers, spinoffs, CEO deaths, and retirements. The remaining cases of turnover are classified as forced turnover if the financial press reports that the CEO is fired, forced out, or resigns due to policy differences or pressure. This classification is necessary since the CEOs are rarely openly dismissed from their positions (Jenter & Kanaan, 2015).

3.2.2 Independent variables

The main independent variable in the analysis is firm performance (*Performance*). Consistent with prior studies, we expect a negative relationship between the likelihood of CEO turnover and firm performance (Chen et al., 2013; Rizzotti et al., 2017). We measure firm performance with the Return on Assets (ROA) of the year before the CEO dismissal.

We focus on accounting performance rather than market performance for the following reasons.

First, the 2010–2020 period analyzed in this study follows the financial crisis that originated in the U.S. in 2008 and materialized with a delay in countries outside the U.S. Specifically, Minichilli et al. (2016) report that Italy faced its most severe economic contraction in 2009, with lasting effects that extended into the following years. This prolonged period of economic uncertainty impacted the real economy across sectors, including non-financial firms, and made accounting-based measures more stable and reflective of operational performance than market-based indicators.

Second, in a bank-oriented economy like Italy, stakeholders traditionally rely more on accounting-based measures of performance when evaluating managerial decisions. Accounting metrics, such as ROA, are less susceptible to volatility compared to market-based measures like stock prices, particularly during periods of economic distress (e.g., Brunello et al., 2003; Minichilli et al., 2016).

3.2.3 Control variables

Moving from prior studies, we control for a number of factors that may affect the likelihood of CEO turnover. The set of control variables includes CEO duality (*Duality*), CEO tenure (*Tenure*), CEO professional (*Professional_CEO*), firm size (*Size*) and the number of meetings of independent directors (*Indep_Meet*).

We also control for fixed effects at industry and year levels.

Duality is a dummy variable equal to 1 if the CEO is also the Chairman of the board, and 0 otherwise. We include CEO duality in order to control for the CEO's power, since prior findings suggest a negative relationship between the power of the CEO and the turnover decisions (e.g., Weisbach, 1988).

Tenure is the number of years the CEO has been at the current position. We control for CEO tenure because prior studies show that tenure is negatively associated with the likelihood of CEO turnover (e.g., Parrino, 1997).

ProfessionalCEO is a dummy variable equal to 1 if the CEO is not a family member, and 0 otherwise. We control for the presence of a non-family CEO because prior studies show that the existence of family ties between the owners and the CEO may affect the likelihood of CEO turnover (e.g., Chen et al., 2013).

Size is the natural logarithm of total assets. We control for firm size because prior research finds that it can affect the probability of CEO turnover (e.g., Huson et al., 2001).

Indep_Meet is the number of meetings of independent directors. We control for the independent directors' meetings as it relates to organizational complexity and board diligence (Liu et al., 2016).

All independent variables are measured in the year before the CEO turnover.

Two key predictors of CEO Turnover, namely Leverage and CEO age, are omitted in our model. Leverage is excluded due to its high correlation with firm size, which is already included in our model. CEO age is not available in our dataset and cannot be extracted from the data sources we used. However, we mitigate this limitation by including CEO tenure, which is closely correlated with CEO age and serves as a proxy for expertise.

3.3 Model

We test our hypotheses with the logit regression model in Eq. (1).

$$\begin{aligned} Pr(\text{Turnover}_t = 1) = & \beta_0 + \beta_1 \text{Performance}_{t-1} + \\ & \beta_2 \text{Duality}_{t-1} + \beta_3 \text{Tenure}_{t-1} + \beta_4 \text{ProfessionalCEO}_{t-1} \\ & + \beta_5 \text{Size}_{t-1} + \beta_6 \text{IndepMeet}_{t-1} + \text{Industry FE} + \text{Year FE} \end{aligned} \quad (1)$$

In order to test the first hypothesis, we estimate the level of family entrenchment (*FamEntrenchment*), as the ratio of the number of family member directors over the total size of the board (Arzubiaga et al., 2018; Randolph & Memili, 2018; Sciascia et al., 2013). To check for the director's family membership, we verify her/his identity through the firm's annual corporate governance report. In particular, we focus on the director's last name, and if it differs from that of the family, we carry out further research to identify potential kinship relationships.

Then, we run the model in two distinct subsamples, based on the degree of *FamEntrenchment*, i.e., above the median value (high *FamEntrenchment*) and below the median value (low *FamEntrenchment*). Since there is no universally agreed-upon standard for what constitutes "high" or "low" family presence, the use of the median threshold allows us to distinguish between firms with relatively higher or lower levels of family representation within the board, relative to the distribution observed in the sample.

If the presence of a high number of family directors weakens the CEO turnover-performance sensitivity, we expect β_1 to be significantly weaker (stronger) in the subsample of family firms with high (low) *FamEntrenchment*.

In order to test the second hypothesis, we run the model in two distinct subsamples, based on whether the board of directors is independent (at least half of the directors are independent) or not.

This threshold aligns with established practices in corporate governance literature, where boards with more than half of their members being independent directors are often considered sufficiently independent to exert a meaningful monitoring role and ensure the effectiveness of board oversight. For instance, Cheng and Courtenay (2006), Linck et al. (2008), Kang et al. (2007), and Fich and Shivdasani (2006) adopt a similar majority-based threshold to identify independent boards. Additionally, the concept of “majority independent” aligns with governance codes, such as the G20/OECD Principles of Corporate Governance (2023), which emphasize the importance of a majority of independent directors in enhancing board effectiveness.

To identify independent directors, we rely on the disclosure provided by listed firms in their corporate governance reports. These reports identify which board members meet the independence requirement, based on the definition of independence outlined in the Corporate Governance Code (2018). Specifically, independent directors are defined as non-executive directors who do not have, nor have had in recent years, direct or indirect relationships of an economic, professional, or personal nature with the company or its key representatives that could compromise their independence of judgment. The assessment of independence must consider both substantive and formal elements and is conducted by the board of directors following their appointment and annually thereafter⁴.

If an independent board strengthens the CEO turnover-performance sensitivity, we expect β_1 to be significantly stronger (weaker) in the subsample of family firms with high (low) *BoardIndependence*.

4 Results

4.1 Descriptive statistics

Panel A of Table 2 reports descriptive statistics for the full sample of family firms.

The average ratio of family directors over total board size is 27.5%, while the average ratio of independent directors is 39.4%. CEO turnover occurs in 7.8% of firm-year observations (70 cases of turnover out of 891 total observations), while the mean value of firm performance is 4.4%.

With respect to control variables, CEO duality is observed in 42.2% of cases. The average CEO tenure is 10.34 years. In 46.2% of the observations, the CEO is a professional manager; therefore, in the remaining 53.8%, the CEO belongs to the controlling family.

The average firm size (log of total assets) is 13.017 and the average number of board meetings attended solely by independent directors is 0.737, suggesting that,

⁴ The 2018 Corporate Governance Code is available at <https://www.borsaitaliana.it/comitato-corporate-governance/codice/2018clean.pdf>.

Table 2 Summary statistics

Panel A: Descriptive Statistics - Full Sample

	Mean	Median	10%	90%	SD
FamEntrenchment (t-1)	0.275	0.273	0.091	0.462	0.161
BoardIndependence (t-1)	0.394	0.375	0.231	0.600	0.154
CEO_Turnover (t)	0.078	0.000	0.000	0.000	0.269
Performance (t-1)	0.044	0.044	-0.042	0.129	0.075
Duality (t-1)	0.422	0.000	0.000	1.000	0.494
Tenure (t-1)	10.343	8.000	2.000	23.000	8.436
ProfessionalCEO(t-1)	0.462	0.000	0.000	1.000	0.499
Size (t-1)	13.017	12.912	11.174	15.096	1.344
IndepMeet (t-1)	0.737	0.000	0.000	2.000	1.207

Panel B: Descriptive Statistics – High vs Low FamEntrenchment

	High FamEntrenchment (n.obs. 418)				Low FamEntrenchment (n.obs. 386)				t-test (<i>p</i> - value)
	Mean	Median	10%	90%	Mean	Median	10%	90%	
FamEntrenchment (t-1)	0.389	0.375	0.273	0.556	0.148	0.143	0.000	0.250	31.8 (0.000)
BoardIndependence (t-1)	0.348	0.333	0.200	0.556	0.446	0.444	0.267	0.625	-9.65 (0.000)
CEO_Turnover (t)	0.049	0.000	0.000	0.000	0.111	0.000	0.000	1.000	-3.40 (0.001)
Performance (t-1)	0.050	0.045	-0.021	0.132	0.037	0.042	-0.067	0.121	2.25 (0.025)
Duality (t-1)	0.544	1.000	0.000	1.000	0.288	0.000	0.000	1.000	8.2 (0.000)
Tenure (t-1)	12.652	11.000	2.000	27.000	7.785	5.000	1.000	17.000	8.75 (0.000)
ProfessionalCEO(t-1)	0.298	0.000	0.000	1.000	0.644	1.000	0.000	1.000	-10.85 (0.000)
Size (t-1)	12.942	12.857	11.174	14.914	13.101	12.983	11.174	15.297	-1.72 (0.087)
IndepMeet (t-1)	0.678	0.000	0.000	2.000	0.801	1.000	0.000	2.000	-1.51 (0.133)

Panel C: Descriptive Statistics – Low vs High IndepBoard

	Low IndepBoard (n.obs. 575)				High IndepBoard (n.obs. 202)				t-test (<i>p</i> - value)
	Mean	Median	10%	90%	Mean	Median	10%	90%	
FamEntrenchment (t-1)	0.310	0.300	0.125	0.500	0.190	0.182	0.000	0.364	13.30 (0.000)
BoardIndependence (t-1)	0.328	0.333	0.214	0.455	0.555	0.556	0.509	0.714	-33.81 (0.000)
CEO_Turnover (t)	0.062	0.000	0.000	0.000	0.120	0.000	0.000	1.000	-3.40 (0.001)
Performance (t-1)	0.045	0.044	-0.039	0.131	0.042	0.042	-0.048	0.117	-0.45 (0.639)

Table 2 (continued)

Duality (t-1)	0.464	0.000	0.000	1.000	0.322	0.000	0.000	1.000	5.65 (0.000)
Tenure (t-1)	10.859	8.000	2.000	24.000	9.097	8.000	1.000	18.000	5.50 (0.000)
ProfessionalCEO(t-1)	0.422	0.000	0.000	1.000	0.559	1.000	0.000	1.000	-7.35 (0.000)
Size (t-1)	12.927	12.816	11.174	15.009	13.234	13.388	11.174	15.202	-10.00 (0.000)
IndepMeet (t-1)	0.656	0.000	0.000	2.000	0.932	1.000	0.000	2.000	-3.75 (0.000)

Table 2 reports descriptive statistics for the variables used in the analysis. Panel A refers to the full sample of family firms; Panel B presents statistics for subsamples with high and low family entrenchment, based on a median split; Panel C reports statistics for subsamples with high and low board independence, where firms with at least 50% of independent directors are classified as High IndepBoard. The variables are defined as follows: *FamEntrenchment* is the ratio of family directors over the total number of board members; *Board Independence* is the ratio of the independent directors over the number of board members; *CEO Turnover* is a dummy variable equal to 1 for firm-years with CEO forced turnover; *Performance* is the firm's ROA, measured as the percentage of net income divided by total assets; *Duality* is a dummy variable equal to 1 if the CEO is also the Chairman of the board, and 0 otherwise; *Tenure* is the number of years the CEO has been at the current position; *ProfessionalCEO* is equal to 1 if the CEO is a non-family CEO and 0 otherwise; *Size* is the natural logarithm of total assets; *IndepMeet* is the number of meetings of independent directors

on average, family firms do not hold even one meeting per year, as would be recommended by corporate governance codes.

Panel B of Table 2 presents descriptive statistics for the subsamples of firms with high and low family entrenchment (*FamEntrenchment*). Firms in the high family entrenchment group show, on average, a proportion of family directors equal to 38.9%, compared to 14.8% in the low family entrenchment group. The average board independence is significantly lower in highly family entrenched firms (34.8% vs. 44.6%, $p < 0.001$). CEO turnover is also significantly lower in high family entrenched firms (4.9% vs. 11.1%, $p = 0.001$), while firm performance is slightly higher (5.0% vs. 3.7%, $p = 0.025$).

High family entrenchment firms show a greater prevalence of CEO duality (54.4% vs. 28.8%, $p < 0.001$) and longer board tenure (12.65 vs. 7.79 years, $p < 0.001$). Only 29.8% of CEOs in high entrenchment firms are professionals, compared to 64.4% in the low entrenchment group ($p < 0.001$). Differences in firm size are weakly statistically significant ($p = 0.087$). The number of board meetings attended solely by independent directors is slightly lower in high entrenchment firms, although the difference is not statistically significant ($p = 0.133$).

Panel C of Table 2 reports descriptive statistics for the subsamples of firms with high and low board independence (*IndepBoard*), based on whether independent directors constitute the majority of the board. Firms with high board independence exhibit, on average, a lower proportion of family directors (19.0%) compared to firms with low board independence (31.0%, $p < 0.001$). As expected, the mean value of the BoardIndependence variable is significantly higher in the high independence group (55.5% vs. 32.8%, $p < 0.001$).

CEO turnover is more frequent in firms with high board independence (12.0% vs. 6.2%, $p = 0.001$), while firm performance does not differ significantly across the two

groups ($p=0.639$). CEO duality and tenure are both significantly lower in the High IndepBoard subsample (32.2% vs. 46.4% and 9.97 vs. 10.86 years, respectively; both $p<0.001$). The share of professional CEOs is higher in high-independent board firms (55.9% vs. 42.2%, $p<0.001$). Firms with more independent boards also tend to be larger (mean size 13.234 vs. 12.927, $p<0.001$) and hold more meetings attended solely by independent directors (0.932 vs. 0.656, $p<0.001$).

4.2 Empirical results

Table 3 reports correlations among the main variables, which summarily confirms our predictions. Actually, we find a strong negative correlation between firms' performance and the likelihood of CEO turnover.

Consistently with the first hypothesis, we find a negative correlation between the probability of CEO turnover and the level of family entrenchment.

Table 3 Correlation matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6) (7)	(8)	(9)	
(1) FamEntrenchment (t-1)	1.000	-0.409	-0.091	0.040	0.306	0.281	-0.418	-0.035	-0.109
		(0.000)	(0.009)	(0.258)	(0.000)	(0.000)	(0.000)	(0.313)	(0.002)
(2) BoardIndependence (t-1)	-0.434	1.000	0.103	-0.052	-0.213	-0.085	0.171	0.109	0.247
	(0.000)		(0.003)	(0.139)	(0.000)	(0.016)	(0.000)	(0.002)	(0.000)
(3) CEO_Turnover (t)	-0.092	0.094	1.000	-0.082	-0.100	-0.101	0.146	-0.012	0.085
	(0.008)	(0.007)		(0.019)	(0.004)	(0.004)	(0.000)	(0.739)	(0.015)
(4) Performance (t-1)	0.036	-0.039	-0.114	1.000	0.031	0.024	-0.004	0.170	0.085
	(0.306)	(0.265)	(0.001)		(0.379)	(0.500)	(0.903)	(0.000)	(0.015)
(5) Duality (t-1)	0.322	-0.213	-0.100	0.037	1.000	0.387	-0.616	-0.155	-0.162
	(0.000)	(0.000)	(0.004)	(0.291)		(0.000)	(0.000)	(0.000)	(0.000)
(6) Tenure (t-1)	0.281	-0.108	-0.089	0.010	0.385	1.000	-0.483	0.102	-0.023
	(0.000)	(0.002)	(0.010)	(0.772)	(0.000)		(0.000)	(0.004)	(0.514)
(7) ProfessionalCEO(t-1)	-0.419	0.170	0.145	-0.036	-0.622	-0.491	1.000	0.011	0.111
	(0.000)	(0.000)	(0.000)	(0.311)	(0.000)	(0.000)		(0.752)	(0.002)
(8) Size (t-1)	-0.073	0.109	-0.018	0.142	-0.169	0.157	0.005	1.000	0.190
	(0.037)	(0.002)	(0.609)	(0.000)	(0.000)	(0.000)	(0.887)		(0.000)
(9) IndepMeet (t-1)	-0.082	0.159	0.049	-0.006	-0.039	0.013	-0.009	0.092	1.000
	(0.018)	(0.000)	(0.161)	(0.869)	(0.260)	(0.714)	(0.785)	(0.009)	

Table 3 reports the correlation analysis for the variables of the analysis. Pearson correlation coefficients are reported below the diagonal, while Spearman correlation coefficients are shown above the diagonal. The p-values, indicating the statistical significance of the correlations, are provided in parentheses. The variables are defined as follows: *FamEntrenchment* is the ratio of family directors over the total number of board members; *Board Independence* is the ratio of the independent directors over the number of board members; *CEO Turnover* is a dummy variable equal to 1 for firm-years with CEO forced turnover; *Performance* is the firm's ROA, measured as the percentage of net income divided by total assets; *Duality* is a dummy variable equal to 1 if the CEO is also the Chairman of the board, and 0 otherwise; *Tenure* is the number of years the CEO has been at the current position; *ProfessionalCEO* is equal to 1 if the CEO is a non-family CEO and 0 otherwise; *Size* is the natural logarithm of total assets; *IndepMeet* is the number of meetings of independent directors

Consistently with the second hypothesis, we find that the likelihood of CEO turnover is higher in firms with independent boards.

Moreover, CEO turnover is negatively correlated with CEO duality and CEO tenure, and positively correlated with the presence of a professional CEO.

The correlation analysis shows the existence of significant correlations between some of the predictors. In order to face concerns of multicollinearity, we run the VIF analysis. The results, available upon request, show that the analysis is not affected by multicollinearity problem (VIF values of the predictors are all lower than 5.0).

Columns (1) and (2) of Table 4 report the empirical results concerning the test of H1. Our model's Pseudo-R² values are consistent with prior research in this field. For instance, Bushman et al. (2010) report a Pseudo-R² of 0.054 (5.4%) in their study on risk and CEO turnover, demonstrating that even lower values are frequently observed in this domain. Burns et al. (2023) report a range of Pseudo-R² values between 0.13 (13%) and 0.28 (28%), depending on the institutional context examined. When focusing on family firms, González et al. (2015) report Pseudo-R² values ranging from 0.148 (14.8%) to 0.266 (26.6%) in Colombian family firms, while Chen et al. (2012) report Pseudo-R² values of 0.03 (3%) and 0.04 (4%) in their analysis.

Results show a negative association between the likelihood of CEO turnover and firm performance only in the subsample of firms with a low degree of family directors. In the subsample of family firms with a high degree of family directors, instead, the likelihood of CEO turnover seems to depend on the existence of family ties with the CEO, rather than other CEO's or firm's characteristics. This result suggests that boards with a high presence of family members do not provide an effective monitoring in disciplining an underperforming CEO.

To verify statistical differences in CEO turnover-performance sensitivity across high vs. low levels of *Family Entrenchment*, we conducted Hausman test on the *Performance* coefficients in the respective subsamples⁵.

The Hausman test yielded a χ^2 -value of 93.03 (p -value < 0.001), confirming a significant difference in the *Performance* coefficient between boards with high and low family entrenchment. This supports our first hypothesis that CEO turnover-performance sensitivity is heightened in firms with low family entrenchment into the board of directors.

Table 5 reports the empirical findings concerning the test of H2. Results in Columns (1) and (2) show a negative association between the likelihood of CEO turnover and firm performance in both subsamples. However, consistently with our second hypothesis, the CEO turnover-performance relationship is stronger in the subsample of firms with independent boards (Low IndepBoard: *Performance*, $\beta = -4.636$; p -value = 0.059; High IndepBoard: *Performance*, $\beta = -5.908$; p -value = 0.042).

To verify statistical differences in CEO turnover-performance sensitivity across the two subsamples, we run the Hausman tests which yielded a χ^2 -value of 40.15 (p -value = 0.002), indicating a statistically significant difference in the *Performance*

⁵The Hausman test is widely used to assess the stability of coefficient estimates across different subsamples or model specifications (Hausman, 1978; Wooldridge, 2010). This test aligns with our research design, as it allows us to formally assess whether the sensitivity of CEO turnover to firm performance differs systematically across subsamples defined by the level of Family Entrenchment and Board Independence.

Table 4 Family entrenchment and CEO turnover-performance sensitivity

	(1)	(2)	(3)	(4)	(5)	(6)
CEO Turnover (t)	High FamEntrenchment	Low FamEntrenchment	High FamEntrenchment	Low FamEntrenchment	High FamEntrenchment	Low FamEntrenchment
Performance (t-1)	1.539 (3.95)	-7.267*** (2.048)	1.676 (3.63)	-10.725*** (2.882)	8.119 (7.82)	-4.253* (2.274)
Duality (t-1)	0.110 (0.746)	-0.066 (0.532)	0.494 (0.829)	0.294 (0.787)	15.671*** (1.439)	1.417*** (0.383)
Tenure (t-1)	-0.018 (0.038)	0.029 (0.039)	-0.010 (0.036)	0.108** (0.047)	0.002 (0.080)	0.035 (0.031)
Professional-CEO (t-1)	1.726** (0.702)	0.643 (0.465)	2.312** (0.903)	1.246* (0.745)	25.199*** (2.902)	-0.756* (0.394)
Size (t-1)	-0.162 (0.179)	0.115 (0.149)	-0.087 (0.175)	0.131 (0.224)	0.518 (0.508)	0.087 (0.110)
IndepMeet (t-1)	0.231* (0.133)	0.103 (0.095)	0.075 (0.133)	-0.044 (0.18)	0.355 (0.384)	0.132 (0.116)
Constant	-3.181 (2.668)	-3.297 (2.109)	-3.464 (2.923)	-3.664 (3.135)	-31.878*** (9.594)	-2.722* (1.553)
Observations	418	386	349	256	299	434
Industry Fixed Effects	YES	YES	YES	YES	YES	YES
Year Fixed Effects	YES	YES	YES	YES	YES	YES
Pseudo-R2	16.61	12.29	17.81	22.42	67.62	10.74
Hausman χ^2 (p-value)	93.03 (0.000)		27.82 (0.047)		23.91 (0.067)	

Table 4 provides the results concerning the test of H1. Specifically, Columns (1) and (2) report the results for the two subsamples of family firms characterized by high and low family entrenchment, according to whether the ratio of family directors to the total board size (*FamEntrenchment*) is above or below the median value. Columns (3) and (4) present the results using an alternative definition of family firms, where a firm is considered a family firm if the person who established or acquired it (or their family/descendants) holds at least 25% of the decision-making rights, and either the CEO or the board chair is a family member. Columns (5) and (6) report the results using an alternative measure of family entrenchment, classifying firms as highly entrenched when both the CEO and the chair of the board are family members. The variables are defined as follows: *CEO_Turnover* is a dummy variable equal to 1 for firm-years with CEO forced turnover; *Performance* is the firm's ROA, measured as the percentage of net income divided by total assets; *Duality* is a dummy variable equal to 1 if the CEO is also the Chairman of the board, and 0 otherwise; *Tenure* is the number of years the CEO has been at the current position; *ProfessionalCEO* is equal to 1 if the CEO is a non-family CEO and 0 otherwise; *Size* is the natural logarithm of total assets; *IndepMeet* is the number of meetings of independent directors. For the significance test of differences, the Hausman χ^2 and corresponding p-value are reported in the table. The symbols ***, **, * denote significance at 99, 95, 90 level, respectively. Robust standard errors are reported in parentheses

coefficient between boards with high and low levels of independence. This supports our second hypothesis that CEO turnover-performance sensitivity is heightened in independent-dominated boards.

Table 5 Board independence and CEO turnover-performance sensitivity

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
CEO_Turnover (t)	Low Indep-Board	High Indep-Board	Low In-depBoard	High In-depBoard	Low Indep-Board	High Indep-Board	Low Indep-Board	High Indep-Board
Performance (t-1)	-4.636*	-5.908**	-5.444**	-8.687**	-3.750	-	-3.363	-
	(2.453)	(2.902)	(2.612)	(3.654)	(3.107)	4.887**	(2.860)	6.375***
Duality (t-1)	0.478	-0.693	0.495	-0.400	0.581	-0.590	0.416	-0.623
	(0.516)	(0.584)	(0.749)	(0.824)	(0.578)	(0.546)	(0.550)	(0.677)
Tenure (t-1)	-0.006	0.055	0.018	0.084*	-0.017	0.049	0.002	0.057
	(0.032)	(0.042)	(0.030)	(0.051)	(0.041)	(0.035)	(0.034)	(0.043)
Professional-CEO (t-1)	1.486**	0.637	2.174***	0.881	1.491**	0.889*	1.615**	0.194
	(0.607)	(0.471)	(0.786)	(0.803)	(0.700)	(0.465)	(0.644)	(0.466)
Size (t-1)	-0.089	-0.166	-0.144	-0.293	-0.264	0.049	-0.267*	0.165
	(0.151)	(0.166)	(0.168)	(0.230)	(0.193)	(0.131)	(0.160)	(0.167)
IndepMeet (t-1)	0.079	0.291*	0.054	0.162	0.125	0.150	0.110	0.108
	(0.103)	(0.161)	(0.120)	(0.200)	(0.152)	(0.099)	(0.109)	(0.119)
Constant	-2.601	-0.529	-2.46	1.133	-0.670	-3.341*	-1.271	-3.43
	(2.013)	(2.425)	(2.338)	(3.014)	(2.324)	(2.016)	(2.189)	(2.534)
Observations	575	202	494	156	437	377	434	299
Industry Fixed Effects	YES	YES	YES	YES	YES	YES	YES	YES
Year Fixed Effects	YES	YES	YES	YES	YES	YES	YES	YES
Pseudo-R2	13.81	11.64	19.02	14.61	15.58	9.73	13.49	12.92
Hausman χ^2 (p-value)	40.15 (0.002)		10.29 (0.047)		19.78 (0.478)		37.03 (0.012)	

Table 5 provides the results concerning the test of our H2. Specifically, Columns (1) and (2) report the results for the two subsamples of family firms characterized by high and low board independence, according to whether the ratio of independent directors to the total board size (*BoardIndependence*) is higher or lower to the 50% threshold. Columns (3) and (4) present the results using an alternative definition of family firms, where a firm is considered a family firm if the person who established or acquired it (or their family/descendants) holds at least 25% of the decision-making rights, and either the CEO or the board chair is a family member. Columns (5) and (6) present the results based on an alternative measure of board independence, where firms are classified as having high or low independence according to whether the percentage of independent directors is above or below the sample median. Columns (7) and (8) present results for the two subsamples where firms are classified as having high or low independence according to whether board independence is above the median and family entrenchment is below the median. The variables are defined as follows: *CEO_Turnover* is a dummy variable equal to 1 for firm-years with CEO forced turnover; *Performance* is the firm's ROA, measured as the percentage of net income divided by total assets; *Duality* is a dummy variable equal to 1 if the CEO is also the Chairman of the board, and 0 otherwise; *Tenure* is the number of years the CEO has been at the current position; *ProfessionalCEO* is equal to 1 if the CEO is a non-family CEO and 0 otherwise; *Size* is the natural logarithm of total assets; *IndepMeet* is the number of meetings of independent directors. For the significance test of differences, the Hausman χ^2 and corresponding p-value are reported in the table. The symbols ***, **, * denote significance at 99, 95, 90 level, respectively. Robust standard errors are reported in parentheses

Interestingly, results also show that the existence of family ties between controlling owners and the CEO affects the likelihood of CEO turnover in firms with inside-dominated boards (Low IndepBoard subsample), but not in firms with independent-dominated boards (High IndepBoard subsample). Finally, evidence show a positive relationship between the likelihood of CEO turnover and the number of independent directors' meeting only in firms with an independent board.

Overall, these results suggests that independent-dominated boards provide a more effective monitoring in disciplining an underperforming CEO.

5 Robustness tests

To ensure the robustness and reliability of our findings, we conducted robustness analyses using alternative measures for the key variables in our study, i.e., family firm definition, firm performance, family entrenchment, and board independence. These robustness checks aim to validate the consistency of our results across different specifications and operationalizations.

5.1 Alternative definition of family firms

We broadened the definition of family firms to classify a firm as a family firm if “the person who established or acquired the firm (share capital), or their families or descendants, possess at least 25% of the decision-making rights mandated by their share capital” and either the chair of the board or the CEO is a family member. This definition aligns with prior studies and provides a more comprehensive view of family involvement by incorporating both ownership and control dimensions (Prencipe et al., 2014; Salvato & Moores, 2010). The results, reported in Columns (3) and (4) of Table 4, confirm the negative association between performance and the likelihood of CEO turnover only in firms with low family entrenchment. This is consistent with our original findings and supports H1. Similarly, the results in Columns (3) and (4) of Table 5 confirm that the CEO turnover–performance sensitivity is stronger in firms with more independent boards, thus supporting H2.

5.2 Alternative measure for firm performance

Following prior studies (e.g., Engel et al., 2003; Jenter & Kanaan, 2015; Kaplan & Minton, 2012), we recalculated the performance measure by adjusting the Return on Assets (ROA) for industry averages. Specifically, we computed the industry-adjusted ROA (AROA) by subtracting the average ROA for each industry (based on the NACE one-digit code) from the firm's individual ROA. Using this alternative performance measure, our results, presented in Table 6, remained consistent, further supporting our hypotheses.

Specifically, Columns (1) and (2) show that the performance is statistically significant only in firms with low family entrenchment (*Performance*, β : -6.696 ; $p < 0.01$), while no such relationship is observed in the high entrenchment group (*Performance*, β : 1.377 ; $p > 0.10$). This finding is consistent with our first hypothesis (H1). Further-

Table 6 CEO turnover-performance sensitivity using alternative measurement of performance

	(1)	(2)	(3)	(4)
CEO_Turnover (t)	High FamEntrenchment	Low FamEntrenchment	Low IndepBoard	High IndepBoard
Performance (t-1)	1.377 (4.074)	-6.696*** (2.098)	-4.057 (2.552)	-5.692** (2.804)
Duality (t-1)	0.109 (0.747)	-0.090 (0.525)	0.469 (0.513)	-0.694 (0.585)
Tenure (t-1)	-0.018 (0.038)	0.029 (0.038)	-0.006 (0.032)	0.053 (0.042)
ProfessionalCEO (t-1)	1.729** (0.702)	0.624 (0.461)	1.478** (0.605)	0.613 (0.472)
Size (t-1)	-0.161 (0.177)	0.090 (0.146)	-0.098 (0.151)	-0.176 (0.165)
IndepMeet (t-1)	0.230* (0.134)	0.101 (0.095)	0.077 (0.104)	0.288* (0.160)
Constant	-3.086 (2.658)	-3.351 (2.113)	-2.742 (2.051)	-0.726 (2.415)
Pseudo R2	0.166	0.115	0.134	0.115
Hausman χ^2 (p-value)	94.83 (0.000)		37.10 (0.005)	
Observations	418	386	575	202
Industry Fixed Effects	YES	YES	YES	YES
Year Fixed Effects	YES	YES	YES	YES

Table 6 reports the results using industry-adjusted ROA as an alternative performance measure. Specifically, Columns (1) and (2) report the results for the two subsamples of family firms characterized by high and low family entrenchment, according to whether the ratio of family directors to the total board size (*FamEntrenchment*) is above or below the median value. Columns (3) and (4) report the results for the two subsamples of family firms characterized by high and low board independence, according to whether the ratio of independent directors to the total board size (*BoardIndependence*) is higher or lower to the 50% threshold. The variables are defined as follows: *CEO_Turnover* is a dummy variable equal to 1 for firm-years with CEO forced turnover; *Performance* is the firm's ROA, measured as the percentage of net income divided by total assets; *Duality* is a dummy variable equal to 1 if the CEO is also the Chairman of the board, and 0 otherwise; *Tenure* is the number of years the CEO has been at the current position; *ProfessionalCEO* is equal to 1 if the CEO is a non-family CEO and 0 otherwise; *Size* is the natural logarithm of total assets; *IndepMeet* is the number of meetings of independent directors. For the significance test of differences, the Hausman χ^2 and corresponding p-value are reported in the table. The symbols ***, **, * denote significance at 99, 95, 90 level, respectively. Robust standard errors are reported in parentheses

more, the Hausman test confirms that the coefficients in Columns (1) and (2) are statistically different ($\chi^2 = 94.83$; $p=0.000$), further strengthening the evidence in support of H1.

Moreover, Columns (3) and (4) show that performance is statistically significant in firms with high board independence (*Performance*, $\beta = -5.692$; $p < 0.05$), while no such relationship is observed in the low board independence group (*Performance*, $\beta = -4.057$; $p > 0.10$). This finding is consistent with our second hypothesis (H2). Furthermore, the Hausman test confirms that the coefficients in Columns (3) and (4) are statistically different ($\chi^2 = 37.10$; $p=0.005$), further strengthening the evidence in support of H2.

5.3 Alternative measure for family entrenchment

To capture family entrenchment, we developed an alternative measure based on “Family Duality” (Braun & Sharma, 2007; Oswald et al., 2009; Randolph & Memily, 2018). Specifically, we classified a firm as exhibiting high family entrenchment if both the CEO and the chair of the board are family members. This measure captures instances where family control is deeply embedded in top leadership roles. Results reported in Columns (5) and (6) of Table 4 are consistent with our main findings. Specifically, the performance is statistically significant only in firms with low family entrenchment (*Performance*, $\beta = -4.253$; $p < 0.10$), while no such relationship is observed in the high entrenchment group (*Performance*, $\beta = 8.119$; $p > 0.10$). The Hausman test confirms that the coefficients in Columns (5) and (6) are statistically different ($\chi^2 = 23.91$; $p = 0.067$), further strengthening the robustness of our conclusions to alternative measures of family entrenchment.

5.4 Alternative measure for board independence

We explored an alternative measure for board independence by using the median value of board independence to divide our sample. Firms with a percentage of independent directors above or equal to the median value were classified as having a high degree of independence (*High IndepBoard*), while those below the median were classified as having a low degree of independence (*Low IndepBoard*). The results, reported in Columns (5) and (6) of Table 5, are not consistent with our main findings and do not support H2. The coefficient for firm performance is not statistically significant in Column (5) (*Performance*, $\beta = -3.750$; $p > 0.10$), while it is significant in Column (6) (*Performance*, $\beta = -4.887$; $p < 0.05$). However, the Hausman test comparing these two subsamples yields a χ^2 statistic of 19.78 ($p = 0.478$), indicating that the difference in coefficients is not statistically significant. These results do not provide clear support for H2.

This inconsistency may be explained by the limitations of the median-based measure, which provides a sample-dependent definition and may underestimate the level of independence required for directors to exert effective oversight (Prencipe & Bar-Yosef, 2011).

To address this issue, we refined our classification by combining board independence with family entrenchment. Specifically, we redefined the *High IndepBoard* subsample to include firms with board independence equal to or above the median value and family entrenchment below the median value. Conversely, the *Low IndepBoard* subsample included firms with board independence below the median value, as well as firms with above-median board independence but high family entrenchment. This refined classification ensures a clearer distinction between boards where independent directors are more likely to exercise meaningful influence and those where family control may override formal board independence. Results reported in Columns (7) and (8) of Table 5 show that the CEO turnover-performance sensitivity is significantly stronger in the *High IndepBoard* subsample compared to the *Low IndepBoard* subsample. Specifically, under this stricter definition, the coefficient on performance is not significant in Column (7) (*Performance*, $\beta = -3.363$; $p > 0.10$), but it is highly

significant in Column (8) (*Performance*, $\beta = -6.375$; $p < 0.001$). Moreover, the Hausman test confirms a statistically significant difference across subsamples ($\chi^2 = 37.03$; $p = 0.012$), providing support for H2.

5.5 Additional robustness checks

As an additional robustness check, we estimated a unified model that includes both interaction terms: *Performance* \times *FamEntrenchment* and *Performance* \times *IndepBoard*. Results show that the interaction between firm performance and family entrenchment is statistically significant and aligned with our original findings (H1), whereas the interaction involving board independence is not statistically significant, thus failing to support H2. We believe this divergence may be attributed to the distributional properties of the moderating variables. While family entrenchment is based on a median split and results in two balanced groups, board independence is defined as a binary variable equal to one when independent directors constitute more than 50% of the board. This threshold, although grounded in the literature, leads to unbalanced group sizes in family firms, where independent-dominated boards are relatively rare. As noted in prior studies (Aiken & West, 1991; Gelman & Hill, 2007; McClelland & Judd, 1993), interaction effects involving unbalanced binary moderators are more likely to suffer from inflated standard errors and reduced statistical power, increasing the risk of Type II errors.

Moreover, to address potential concerns regarding serial correlation or unobserved firm-level heterogeneity over time, we conducted additional untabulated estimations using clustered standard errors at the firm level in place of robust standard errors, while maintaining industry and year fixed effects. The results are fully consistent with those obtained in the main analyses, confirming the robustness of our findings.

6 Discussion

The effectiveness of internal corporate governance mechanisms, particularly those aimed at monitoring managerial performance and ensuring accountability, is crucial in mitigating agency problems (Weiss, 2014). In family-controlled firms, however, such mechanisms are often intertwined with the structure and dynamics of the board, which represents the primary locus of internal control.

Our findings suggest that the strength of these mechanisms is not uniform across family firms, but rather depends on the degree of family involvement and the presence of independent oversight within the board (Huson et al., 2001). In particular, empirical results show that the entrenchment of the family in the governance positions weakens the effectiveness of the board's monitoring. This finding is consistent with the idea that the controlling family may be willing to sacrifice firm value and to keep on affiliated-managers, even in the case of poor performance (Morck & Yeung, 2003; Rizzotti et al., 2017). Therefore, when a high number of family members sits in the board, the safeguard of small investors' interests could be compromised, because of the lower professionalization of the board and the lower quality of the managerial control systems. This finding is particularly relevant in those contexts character-

ized by cultural traits that lead controlling shareholders to give priority to personal relationships rather than competencies. For instance, in the Italian context, a *fidelity model* system is well established, in which the family owners select managers on the basis of personal ties, rather than talent and meritocracy (Prat et al., 2010). Therefore, the decision to keep or replace him/her is less affected by the firm's performance, and largely depends by the need to keep a faithful CEO (Rizzotti et al., 2017).

Moreover, empirical results show that the effectiveness of the board to ensure the dismissal of the CEO after poor performance is affected by the presence of independent directors. Findings show that independent-dominated boards are likely to exert a stronger monitoring, ensuring a prompt replacing of poorly-performing CEO. These findings stress the need of a power balancing within the board of family firms and show that it can be achieved through the independence of the board of directors, which ensures adequate oversight of the CEO's performance, also through effective managerial control systems and performance measurement tools.

While this result is consistent with the agency predictions, it is not trivial in the setting of family-controlled firms, especially in those institutional contexts characterized by a weak protection of small investors' rights, as the Italian financial market is (La Porta et al., 1997; Melis, 2005). Indeed, the Italian context is generally depicted as an example of poor corporate governance, because of the ineffectiveness of both external governance devices, such as the market for corporate control, and the internal ones, such as the board of directors. Nevertheless, our findings support the path of governance improvement of Italian listed firms, driving companies to increase their commitment toward a stronger reputation and legitimacy (D'Onza & Rigolini, 2017).

This study offers three main contributions to the existing literature.

First, this study contributes to the literature on governance mechanisms in family firms by advancing the understanding of how board composition affects its effectiveness. While prior research has predominantly focused on differences between family and non-family firms (e.g., González et al., 2015; Li, 2018) and emphasized the role of CEO-specific characteristics such as founder status, tenure, or succession (Chen et al., 2013), the role of board structure remains relatively underexplored in the context of intra-family heterogeneity. Our findings suggest that board composition may serve as an informative signal of underlying governance quality and potential minority shareholders' risks. Boards dominated by family members may reflect a lack of effective counterweights to controlling interests, thereby increasing the risk of entrenchment or expropriation. While the absence of independent oversight does not necessarily imply poor performance, particularly in closely held or founder-led firms where alignment of interests may be high, it nevertheless raises legitimate concerns about the transparency of decision-making processes. Analysts and investors may therefore consider board structure not only as a reflection of current governance arrangements but also as a forward-looking indicator of firm-level risk exposure.

Second, this study contributes to the literature on board independence by showing that, even in family firms, where the risk of symbolic independence and alignment with controlling shareholders is particularly high, independent directors can still exert an effective monitoring role. In settings characterized by concentrated ownership, such as family-controlled firms, the dominant shareholder often retains the power to influence the appointment and removal of board members, raising con-

cerns about the true autonomy of formally independent directors (Chen & Hsu, 2009; Prencipe & Bar-Yosef, 2011). This dynamic has led to skepticism about the ability of independence to translate into meaningful oversight. Our findings disprove this view by demonstrating that board independence remains an effective governance mechanism, especially when independent directors represent the majority of the board. In such configurations, the balance of power is more likely to shift in favor of impartial oversight, reducing the influence of family ties on strategic decisions like CEO dismissal. This result emphasizes also the importance of professionalism and expertise that independent directors can bring to the boardroom (Cattaneo & Bassani, 2020). This is particularly relevant in family firms, where emotional attachments and loyalty-based appointments may otherwise compromise objectivity in performance assessment (Rizzotti et al., 2017).

Third, the study has regulatory relevance, as it offers empirical grounding for governance reforms aimed at protecting minority shareholders in contexts of concentrated ownership, particularly family firms (Gutiérrez & Sáez, 2013). Our findings suggest that regulators should consider complementing existing independence requirements with more explicit guidelines or thresholds concerning the presence of family-affiliated directors on corporate boards. Regulatory frameworks should evolve to address both dimensions, fostering board structures that combine independence with a reduced risk of family dominance, in order to enhance transparency, accountability, and investor protection.

7 Conclusion

This study investigates the effect of board composition on the CEO turnover-performance sensitivity in family firms. Moving from agency theory, we hypothesize and find that, in family firms, the CEO turnover-performance sensitivity is lower when family members are highly entrenched into governance positions, but it is higher in firms with independent-dominated boards.

These findings offer valuable insights for policymakers, emphasizing the need for a regulatory framework that prioritizes the protection of minority shareholders' rights while maintaining the governance flexibility crucial to the unique dynamics of family firms.

Policymakers could strengthen non-binding guidelines or “soft laws” to promote transparent and accountable governance practices, equipping governance bodies with effective tools to fulfill their monitoring responsibilities. For instance, more formalized standards could be introduced to encourage comprehensive board evaluations, assessing board independence, decision-making effectiveness, and overall governance quality (Minichilli et al., 2007). In this perspective, adopting transparent and formalized performance evaluation systems becomes critical. While family involvement in governance fosters trust and long-term commitment (Campopiano et al., 2014; Miller & Le Breton-Miller, 2021; Pinelli et al., 2024), it can compromise the objectivity of performance evaluations, especially when CEO decisions prioritize family interests over firm performance. To address this, firms should implement systems based on objective performance metrics, industry benchmarks, and advanced

control tools (Manzi et al., 2025). Such systems help minimize subjective biases, strengthen board monitoring, and ensure that turnover decisions align with strategic objectives rather than familial preferences (Cattaneo & Bassani, 2020).

Moreover, clear guidelines for CEO succession planning are essential to mitigate the challenges posed by family entrenchment. Family-controlled firms often face delays in leadership transitions due to the presence of family members in key governance roles (Bertschi-Michel et al., 2020). Formal succession plans that incorporate clear, objective performance criteria and forward-looking evaluation frameworks can empower independent directors to make merit-based decisions, enhancing organizational stability and governance effectiveness while balancing family control with accountability and meritocracy.

While our study provides valuable insights into the role of board composition in CEO turnover-performance sensitivity, it is not without limitations. Firstly, as is common in studies focusing on CEO turnover, we rely on financial performance metrics to evaluate board's monitoring effectiveness. However, CEO turnover decisions often involve complex considerations that go beyond short-term financial performance, such as strategic alignment or long-term goals (Gentry et al., 2021). For instance, Huson et al. (2001) emphasize that CEO turnover decisions are frequently influenced by a combination of financial indicators and unobservable factors, including strategic considerations. Similarly, Fisman et al. (2014) highlight the importance of power dynamics and broader strategic contexts in understanding CEO turnover decisions. Future research could complement quantitative analyses with qualitative approaches, such as board meeting minutes or interviews, to better capture these underlying dynamics.

Secondly, while we examine the influence of board structure, specifically family entrenchment and board independence, on CEO turnover, we do not account for how these factors might interact with other governance mechanisms, such as the presence of institutional investors. Helwege et al. (2012) highlight the critical role of institutional investors in influencing CEO turnover decisions by enhancing board accountability and governance effectiveness. Specifically, they show that, in contexts characterized by dispersed ownership, institutional investors exert active monitoring through the sale of their shares (as a signal of dissatisfaction with performance) and direct pressure on corporate governance bodies. This oversight improves board effectiveness and facilitates the replacement of underperforming CEOs. Future research could explore how institutional ownership interacts with board structure in family firms, particularly examining whether the presence of institutional investors mitigates the effects of family entrenchment.

Finally, our reliance on quantitative data limits our ability to fully explore non-observable factors that may influence board decisions, such as the role of risk in CEO performance evaluation. Our study assumes that the board can objectively assess the CEO's performance; however, prior research demonstrates that systematic risk, i.e., external factors affecting all firms, can introduce noise, making it difficult for the board to distinguish between performance driven by the CEO's managerial ability and that influenced by external market conditions (Bushman et al., 2010). For instance, during periods of economic downturn or industry-wide shocks, declines in firm performance may not necessarily reflect the CEO's poor management, but

rather broader external forces beyond their control. This misattribution of performance can compromise the board's decision-making effectiveness regarding CEO turnover. Future research could explore how the effectiveness of performance evaluation systems impacts CEO turnover decisions in family firms, particularly examining whether the introduction of formal mechanisms may reduce the influence of family entrenchment.

Funding Open access funding provided by Università degli Studi di Catania within the CRUI-CARE Agreement.

Declarations

Conflict of interest The authors declare that they have no conflict of interest.

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