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The Impact of Nepotism in the Boardroom on Family-controlled Firm Value

Extended Abstract

This paper examines the impact of board nepotism on firm value. Due to the cultural emphasis on kinship in Asian societies, appointing individuals with blood ties to the board of directors or supervisors enhances power consolidation. The study aims to address four research questions. First, what is the impact of board nepotism on firm value? Second, Is the negative relationship between board nepotism and firm value more pronounced in family-controlled firms? Third, Do firms with strong corporate governance mitigate the negative relationship in family and non-family-controlled firms? Fourth, what are the notable characteristics of relative board members that affect firm value?

The empirical results reveal a negative relationship between board nepotism and firm value, which is more pronounced in family-controlled firms. Moreover, the quality of corporate governance can mitigate the negative impact of nepotism on firm value in both family and non-family-controlled firms. Specifically, for family-controlled (non-family-controlled) firms with weaker corporate governance, attendance problems (longer tenure) within relative board members have a significant negative effect on firm value. Surprisingly, in non-family-controlled firms, a higher proportion of dominant or affiliated relative board members with an accounting education or background is associated with a negative impact on firm value, even with a well-established governance structure.