

# Adoptive Expectations: Rising Son Tournaments in Japanese Family Firms

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## Abstract

A uniquely Japanese custom of adopting male heirs into business families allows family firms in Japan to overcome the constraint of sub-optimal succession faced by family firms elsewhere. Using a very large panel of exchange-listed firms from post-war Japan, we show that heir-managed firms perform at least as well, and in most cases better than, non-family firms in Japan. We further show that adopted heirs display superior performance compared with direct descendants, with both groups outperforming non-family firms. Keiretsu-affiliated non-family firms stack at the bottom of the group in terms of performance as well as valuation. Adopted heirs, perhaps not surprisingly, have superior educational qualifications compared with direct descendants, who in turn are better educated than founders. The average tenure of adopted heirs is 18 years in the top executive's position, very similar to descendent heirs, and significantly longer than the tenure of professional CEOs (7 years).

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