The Revelation of a Trade-Off

A Case Study of CEO succession in a Swedish Family Firm

Abstract

This case study explores the presence of a competence trade-off contingent on company needs when choosing a CEO successor in a family firm. This is done through the guidance of our research question: *What is the trade-off between formal and cultural competence in a family firm when choosing a CEO successor?* Our purpose is to contribute to the literature by building further on findings that challenge the traditional understanding of CEO succession in family firms. The research was conducted using a qualitative method in the context of the Swedish family firm, Lyko Group AB. The primary data was collected through six semi-structured interviews with former and current board members of the firm. Three different CEO transitions are isolated, analyzed, and thematically categorized in a chronological manner, using theory and previous research. Our findings illuminate the importance of incorporating cultural competence in the analysis of CEO succession through the force of example. The findings fortify existing research challenging the dominant view on professional management. Further, the study extends the understanding of CEO succession in family firms by emphasizing the sociocultural dynamics.

Acknowledgments

First and foremost, we would like to express our most sincere gratitude and appreciation to Gabriel Fitzgerald and the board of Lyko for generously taking their time to provide us with invaluable insights. Moreover, we would like to sincerely thank our supervisor, Kai Krauss, for his expertise and continuous guidance. Finally, we thank our tutoring group for their feedback.

Claud Henze

Joakim Edlund

Bachelor Thesis

Stockholm School of Economics 2021

Table of Contents

1. Introduction

One of the most prominent issues facing family firms is the selection process of a new CEO (Bennedsen et al., 2007; Nordqvist et al., 2013). This process is vital for the future performance of the family firm (Le Breton-Miller et al., 2004), mainly due to the essential role that the CEO will play with regards to his or her strategic decision-making behavior (Bennedsen et al., 2007; Hambrick, 2007).

The involvement of a non-family CEO in family firms is becoming increasingly common (Bennedsen et al., 2007; Waldkirch, 2020). Which of the children to choose as the managerial successor used to be one of the most significant concerns of family firms (Calabrò et al., 2018; Calabrò, Vecchiarini et al., 2018). However, in the last decade, an increasing share of family firms are willing to professionalize by hiring non-family CEOs (PwC, 2016). Today, criteria like birth order and gender seem to be subordinate compared to, for example, integrity and business commitment (Chrisman et al., 1998; McMullen & Warnick, 2015). Through this, it is evident that the selection process of a CEO has changed over time.

In order to address an increasingly complex company environment, growing family firms may opt for a non-family CEO as they tend to bring superior managerial skills (Lin & Hu, 2007). Mergers and acquisitions are regarded as one of the most complex business activities an organization can undertake (Deloitte, 2019). Furthermore, Faleye (2007) argues that family IPO firms can be regarded as complex organizations. On the other hand, some scholars argue that family CEOs are superior to non-family CEOs in family firms within areas such as firm knowledge and commitment to long-term goals (Sciascia & Mazzola, 2008; Zellweger 2007).

Hence, we observe a discrepancy in the literature regarding the advantages of family CEOs vis-à-vis non-family CEOs, often inclined toward establishing the superiority of non-family management. The argument of superiority is manifested through concepts of management talent, industry experience, and expertise (Bloom & Van Reenen, 2006, 2007; Miller et al., 2014; Chrisman et al., 2014).

An exception to the body of literature suggesting family firm professionalization based on formal competence is Hall & Nordqvist (2008), who challenge this dominant view. The authors argue that it is "too simplistic and insensitive to the sociocultural dynamics of family firms" (Hall & Nordqvist, 2008, pp. 51) based on a review of key literature. Hall & Nordqvist (2008) provide insightful findings on the sociocultural dynamics of professional management in family firms by conceptualizing cultural competence and stressing its importance. They suggest that cultural competence is equally important as formal competence for professional management in family firms. Although the literature has discussed both cultural and formal competence, there seems to be a bias toward the latter. Hence, we argue that the literature underestimates the importance of cultural competence.

We contribute to the literature by extending the understanding of CEO succession in family firms by emphasizing the sociocultural dynamics. This is done by the guidance of our research question: *What is the trade-off between formal and cultural competence in a family firm when choosing a CEO successor?*

By synthesizing existing theoretical perspectives on CEO succession in family firms, we shed new light on the trade-off between formal and cultural competence when choosing between a family and non-family CEO. Empirically, our findings are supported by an in-depth, qualitative case study to illustrate the trade-off through the force of example. Interviews serve as the primary source of empirical data. The scope of our study is limited to three selected events that exhibit the dynamics of CEO succession in a family firm. The events are chronologically and thematically separated in order to isolate the different dynamics. This facilitates comparison, contrasting, and pattern identification in our analysis.

The case study illustrates the trade-off between a family and non-family CEO as contingent on competence needs. In fact, it illuminates the importance of cultural competence to the degree that a family firm, after having professionalized its CEO position, chose to revert back to a family CEO. Moreover, the reversion takes place despite the firm operating in an environment of increased complexity. Our findings fortify the work of Hall & Nordqvist (2008) and build further on their research.

1.1 Lyko Group AB

Lyko Group AB (Lyko, henceforth) is a company that specializes in hair care and beauty. The company was early to introduce online retail stores, which today generate about 84 percent of the total revenue. Lyko was founded in 1952 by Frans Lyko, an ex-prisoner who survived the Nazi concentration camp Sachsenhausen thanks to his ability to cut the guards' hair. He arrived in Vansbro, Dalarna, after nearly seven years in captivity. There, he founded a hair salon which he operated for 43 years. Ever since its founding, the family members of Lyko have been an integral part of the firm's top management. Today, the firm is publicly traded, listed on Nasdaq First North Premier at a valuation close to 5 billion SEK. Lyko has 641 employees and operations in all the Scandinavian countries as well as Finland, Germany, Poland, Austria, and the Netherlands. The family still holds a majority stake in the firm, with headquarters located in Vansbro (Lyko, 2021).

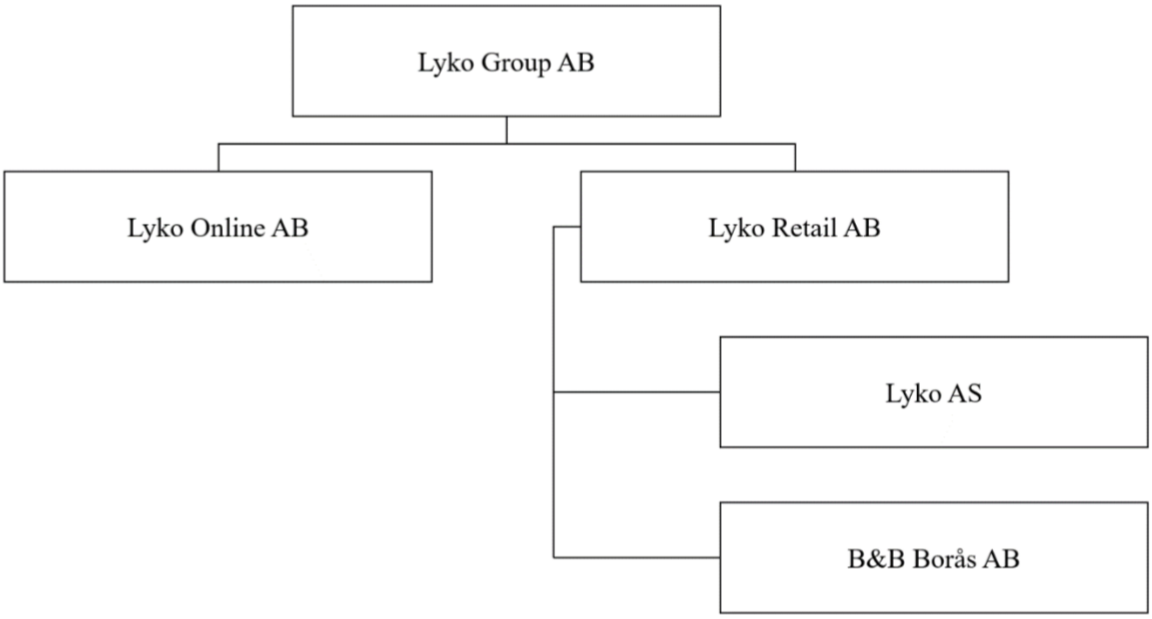

Figure 1: Organizational Structure

2. Purpose and Research Question

Given the literary bias that has been identified on the topic of professional management and CEO succession in family firms, we are concerned that the literature does not fully recognize the importance of sociocultural dynamics. Hence, the purpose of this study is to build further on the findings of Hall & Nordqvist (2008) that challenge the traditional understanding of professional management by applying them to the context of CEO succession. Specifically, in an attempt to contribute toward the extended understanding, we analyze the trade-off in CEO succession in a family firm by isolating three separate events. This is done through the guidance of our research question: *What is the trade-off between formal and cultural competence in a family firm when choosing a CEO successor?*

3. Literature review

3.1 Family Firms versus Non-Family Firms

It has been well documented that family firms are ubiquitous in Western Europe, Latin America, Middle East, and East and South Asia. Worldwide it is the most common form of business organization (Fahlenbrach, 2009; Anderson & Reeb, 2003). As research on family firms has discerned unique characteristics compared to other organizational forms (Daily & Dollinger, 1992), it is common to distinguish family firms from other forms of business organizations. Family firms are controlled by their founders, founders' families, relatives, or heirs (Burkart et al., 2003). Furthermore, a key difference is that family businesses often aspire to maintain personal control over the firm with a centralized decision-making process. This originates in the founding family's pursuit of retaining control over the firm and avoiding dissension (Dyer, 1989). Related to the desire to maintain control, studies show that family firms, to a greater extent, avoid external sources of financing (Daily & Dollinger, 1992).

3.2 Family Firms and Professionalization

The CEO of a family firm can be either a member of the family, a family CEO, or recruited from the labor market, a non-family CEO. The core meaning of professionalization in studies of family firms is often hiring non-family employees with the delegation of managerial authority (Chittoor & Das, 2007; Gedajlovic et al., 2004). This is substantiated by Zahra et al. (2009) stating that the transition from family to non-family management is often described as professionalization of family businesses. Further, Chang & Shim (2015) argue that appointing a non-family CEO is regarded as a decision of paramount importance for family firms since the owner family must relinquish significant control.

Scholars suggest that family CEOs, since recruited from a small pool of talent, may not possess the required managerial capabilities, which in turn will have a negative impact on the performance of the firm (Bennedsen et al., 2007; Lin & Hu, 2007; Bloom & Van Reenen, 2006, 2007; Miller et al., 2014). The requisites of such managerial capabilities may arise from changes in environments toward increased complexity. Characteristics of complexity are described as, for example, more employees and levels of hierarchy, an increased number of departments, and the necessity for more formal routines (Miller et al., 2013).

In order to address increasingly complex company environments, growing family firms may opt for a non-family CEO as they tend to bring superior managerial skills (Lin & Hu, 2007). Studies by Royer et al. (2008) indicate that when experiencing a greater need for technical, industry-specific knowledge, family firms are more likely to appoint a non-family CEO.

This is substantiated by Claessens et al. (2002). The authors argue that as the needed expertise may not be found in the restricted pool of family candidates, family firms tend to look externally. Selection is then based on expertise alone, which by Hall & Nordqvist (2008) is referred to as selecting based on formal competence. Hall & Nordqvist (2008) describe formal competence as formal education, training, qualifications, and experience.

3.3 A Competence Trade-Off

Hall & Nordqvist (2008) argue that the proposed superiority of non-family CEOs is insensitive to the sociocultural dynamics of family firms. The authors bring forth the argument that formal competence alone is not sufficient for top management to be effective. Instead, a second component, cultural competence, must be recognized. Cultural competence is defined as "*an understanding of the family's goals and meanings of being in business, that is, the values and norms underlying the reason for the family to be in business*" (Hall & Nordqvist, 2008, pp. 58). They further suggest that cultural competence is equally important to formal competence and that non-family CEOs may lack the former, providing an explanation as to why their early departure is often common. It is said that family members, being both socially and culturally embedded in the family, are advantageous regarding cultural competence. This is also discussed by Sciascia & Mazzola (2008). They find that in terms of commitment toward the family firm, long-term goals, and values, family CEOs often demonstrate a higher degree of dedication than non-family CEOs.

When family CEOs run family firms, they benefit from lower agency costs stemming from goal alignment and minimal information asymmetry (Chrisman et al., 2004; Jensen & Meckling, 1976). However, this positive effect may be offset if hired professionals are better managers than members of the family (Caselli & Gennaioli, 2013; Burkart et al., 2003).

Although, there is a risk that non-family CEOs, as agents, will maximize their own monetary and non-monetary rewards by overstressing short-term goals at the expense of long-term goals and firm value. However, this risk is not universal to all non-family CEOs, as some may integrate well into the family firm (Miller et al., 2014).

There is a body of literature suggesting family firm professionalization by pointing to the advantages of non-family CEOs. On the other hand, some scholars find that family CEOs may be advantageous in areas concerning the sociocultural dynamics of family firms.

4. Theoretical Framework

4.1 Five Stages of Growth in Small Business

To facilitate the analysis of our empirics with regards to the research question, the growth model developed by Scott & Bruce (1987), "*Five Stages of Growth in Small Business*", is applied. The model was developed with the purpose of identifying and separating the different stages a company moves through as it grows and is based on Greiner's growth model. The model is applicable to businesses that meet the following definition presented by Scott & Bruce (1987):

- Management is independent. Usually the managers are also owners.
- Capital is supplied and ownership is held by an individual or small group.
- Area of operations is mainly local. Workers and owners are in one home community, *but markets need not be local.*

The stages that Scott & Bruce (1987) have identified are; inception, survival, growth, expansion, and maturity. In order to move to the next stage, Scott & Bruce (1987) argue that change is required. Change comes in the form of crisis that, if successfully handled, enables the transition. Hence, four stages of crisis are included in the model. The model is intended to facilitate the identification of which stage the company is operating in at a certain point in time.

This study aims to isolate and analyze specific events in Lyko in chronological order. Therefore, the whole growth model will not be used. Instead, only the stages considered to provide structure, clarity, and value in terms of explaining and understanding the causal divers leading up to the events of interest will be used. Furthermore, to describe and analyze the different stages of Lyko, the descriptive nature of the model as well as the tools provided are used to determine the firm's characteristics over time. The model is illustrated below.

	Stage 1. Inception	Stage 2. Survival	Stage 3. Growth	Stage 4. Expansion	Stage 5. Maturity
Stage of industry	Emerging, fragmented	Emerging, fragmented	Growth, some larger competitors, new entries	Growth, shakeout	Growth/shakeout or mature/declining
Key issues	Obtaining customers, economic production	Revenues and expenses	Managed growth, ensuring resources	Financing growth, maintaining control	Expense control, productivity, niche marketing if industry declining
Top management role	Direct supervision	Supervised supervision	Delegation, co-ordination	Decentralization	Decentralization
Management style	Entrepreneurial, individualistic	Entrepreneurial, administrative	Entrepreneurial, co-ordinate	Professional, administrative	Watchdog
Organization structure	Unstructured	Simple	Functional, centralized	Functional, decentralized	Decentralized functional/product
Product and market research	None	Little	Some new product development	New product innovation, market research	Production innovation
Systems and controls	Simple bookkeeping, eyeball control	Simple bookkeeping, personal control	Accounting systems, simple control reports	Budgeting systems, monthly sales and production reports, delegated control	Formal control systems, management by objectives
Major source of finance	Owners, friends and relatives, suppliers leasing	Owners, suppliers, banks	Banks, new partners, retained earnings	Retained earnings, new partners, secured long-term debt	Retained earnings, long-term debt
Cash generation	Negative	Negative/breakeven	Positive but reinvested	Positive with small dividend	Cash generator, higher dividend
Major investments	Plant and equipment	Working capital	Working capital, extended plant	New operating units	Maintenance of plant and market position
Product-market	Single line and limited channels and market	Single line and market but increasing scale and channels	Broadened but limited line, single market, multiple channels	Extended range, increased markets and channels	Contained lines, multiple markets and channels

Figure 2: A Model of Small Business Growth (Scott & Bruce, 1987, pp. 48)

4.2 Agency Theory

Jensen & Meckling (1976) define the agent relationship as "a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent" (Jensen & Meckling, 1976, pp. 333). For example, an agency problem (Macintosh, 1994) occurs when a non-family CEO has divergent interests from those of the founding family, creating an information gap (Chang & Shim, 2015). Family management in family firms reduces, and can even eliminate, agency problems (Caselli & Gennaioli, 2013; Burkart et al., 2003). Consequently, to study and analyze the CEO succession in Lyko, it is appropriate to consider the problems that may arise with the principal-agent relationship.

4.3 Signaling Theory

The argument could be made that in the case of CEO succession, there are two different parties to take into consideration. The first being the top management of the firm appointing the CEO. The second party consists of those receiving information about the CEO succession but lack the top management's level of insight. Naturally, information asymmetry exists between the two parties, and the information conveyed by choice of CEO profile can be thought of as signaling. For example, the appointment of an external CEO is regarded as a signal of professionalization (Dekker et al., 2013; Tabor et al., 2018). Hence, signaling theory is considered useful for gaining a better understanding of CEO succession in Lyko.

5. Research Methodology

5.1 Research Design

5.1.1 Qualitative Research

Given the purpose and research question of our study, a qualitative research methodology has been applied. The qualitative study is designed with in-depth interviews as well as relevant company documentation and articles. The primary purpose of the qualitative methodology is to gain an understanding rather than provide an explanation. Great emphasis is put on words instead of illustrating quantification (Bryman & Bell, 2011). An advantage of the qualitative methodology is that the number of surveys does not have to be as large and that each opportunity can offer a more profound study. This means that each interview opportunity can provide a more detailed and nuanced discussion (Jacobsen, 2002).

5.1.2 Abductive Approach

The study uses an abductive research approach, as we partly consider theoretical material and thus set theory against empirical data. The abductive approach is related to both the inductive and deductive approach but adds new and unique elements of relevance (Alvesson & Sköldberg, 2008).

5.1.3 Exploratory Character

It is usually difficult to generalize in an exploratory thesis as it maps out and identifies phenomena raising new hypotheses rather than answers already made questions (Robson, 2007). Moreover, this study is not intended to contribute to theory development on its own but may do so together with further research (Alvesson & Sköldberg, 2008). Hence, the study is of exploratory character.

5.1.4 Delimitations of the Selected Sample

This study has been conducted during a limited period of time, the spring of 2021. The scope of our study is isolated to the CEO succession in Lyko. The focus of the interviews has been around three different CEO transitions and their respective competence profiles.

For the purposes of this study, competence is categorized as either formal or cultural in accordance with the definition presented by Hall & Nordqvist (2008) presented in the literature review of this thesis. Further, as stated by the authors, professional management as a notion is considered to be indifferent to family membership but rather contingent on the possession of both competencies. However, in the thesis, the term "professionalization" is used synonymously with selecting a non-family CEO as established in previous literature.

The transitions are chronologically presented and thematically categorized in the empirical section of the thesis. Through this structure, we have been able to contrast, compare and analyze the trade-off prevalent in each transition. No other CEO transitions in any other company are studied in this paper.

The choice of conducting a single-case study is two-fold. Firstly, it is motivated by the high level of uniqueness and complexity characterizing the circumstances in Lyko. Secondly, to fully understand the underlying drivers of the choices that each CEO transition was based upon, in-depth interviews have been essential. Considering the above, along with the given time frame, the conclusion was drawn that a single-case study was the optimal structure for the thesis.

The board of Lyko has been interviewed in full, except for the current chairman, Kenneth Bengtsson. Bengtsson was not part of the board during the events of interest in this study. Thus, his unavailability to participate is not of particular significance. Apart from interviewing Håkan Håkasson in the capacity of a Lyko board member and for the purpose of enriching the empirical data with different perspectives, we also interviewed him in the capacity of a former CEO of Lyko. During his time as CEO, Håkansson was subject to one of the transitions studied. To gain further insight into the events of interest, the former board member Gabriel Fitzgerald has also been interviewed. Fitzgerald served as member of the board during all the CEO transitions studied. The interviewees are presented in the table below.

Name	*Role*
Erika Lyko	Board Member
Gabriel Fitzgerald	Former Board Member
Håkan Håkansson	Board Member and Former CEO
Lovisa Hamrin	Board Member
Marie Nygren	Board Member
Rickard Lyko	CEO

Table 1: Interviewees

5.2 Research Approach

Our thesis is structured as a longitudinal single-case study based on in-depth interviews, relevant company documentation, and articles. The combination of empiric sources overcomes the weaknesses of the different methods, provides even richer material, and increases the credibility of our conclusions. Applying case research provides insight through rich detail (Pettigrew, 1997), which is appropriate for generating extended theory of complex social phenomena (Eisenhardt, 1989; Yin, 2009). Furthermore, a single-case study is useful to describe and understand a setting as well as develop conceptual insights (Dyer & Wilkins, 1991). The purpose of such research is to contribute to existing theory through the force of example rather than statistical generalization (Flyvbjerg, 2006).

5.3 Data collection

The basis for our empirics consists of information received from the board members of Lyko. The information has been gathered through interviews, which represent the primary source of data. With regards to the current situation of the coronavirus pandemic, all interviews were held in a virtual form. The sample objects were chosen based on their level of insight into the CEO succession of Lyko.

5.3.1 Primary data

To gain insight into Lyko and the CEO succession, the interviews were conducted in a semi-structured way. This means that the interview questions were determined in advance but generally formulated and thus open to follow-up questions (Bryman & Bell, 2011). An advantage of this structure is that it circumvents the risk of steering the respondent in any certain direction, which could pose limitations to the study's exploratory nature. Despite tailoring some questions to the specific interviewee, general questions were asked to gain an understanding of the interviewee's role and responsibilities in the company. As interviews were held over an extended period of time, we were able to explore interesting themes that were brought up not only through follow-up questions but also in later interviews with other respondents. This enabled a more nuanced picture of the themes that were subject to our analysis.

Furthermore, both researchers have been present during the interviews to ensure that the responsibility of taking notes and leading the interviews was reasonably distributed. This allowed for more rewarding sessions in terms of extracted data. All interviews were continuously transcribed verbatim following each session. The average duration of an interview session was one hour.

Specifically, for the process of conducting interviews, the guidelines of Gillham (2005) were used. The preparation phase included an introduction of ourselves and a presentation about the purpose of our thesis and the interviews. This information was communicated at the beginning of every interview and preceded by an explanation via email when reaching out. Furthermore, we asked every respondent for their permission to record the interviews and informed them about their right to be anonymous. In the initial contact phase, interviewees were asked to introduce themselves, elaborate on their role and responsibilities and their tenure at the firm. The orientation phase then involved the open-ended questions related to our research question. Follow-up questions occurred in the following substantive phase. Lastly, at the end of every session, we encouraged the interviewees to bring up any questions or comments that they may have had.

5.3.2 Secondary data

Apart from first-hand empirical data, second-hand data has been used for complementary purposes. Such secondary sources have included annual reports, press releases, and articles. From the secondary sources, information about board changes, statements regarding long-term strategies and goals, and financial data were extracted.

5.4 Data Analysis

The empirics have been analyzed using our theoretical framework. The Scott & Bruce (1987) growth model has enabled the mapping of empirics into phases in a chronological manner. This, in combination with the remainder of our theoretical framework, has provided the necessary tools to be able to organize, interpret and analyze our empirical data.

The development of our theoretical framework remained dynamic, where an abductive method was used when conducting the study. The development of our theoretical framework was partly contingent on the interviewees' answers to ensure adequate interpretation and analysis of the empirical findings. Every interview session was followed by a discussion between the researchers concerning how the information collected relates to the theoretical framework. The subsequent transcription process was conducted instantly after each interview. The significance of the transcription process is motivated by King et al. (2019) as an important step for the researchers to become familiar with the data. The interviews have been transcribed to approximately 60 pages for the purpose of pattern identification. Some of the interviews were conducted in Swedish. Hence, we have had to translate the interviews into English ourselves.

The thematic analysis has been conducted in accordance with Ryan & Bernard (2003) by looking for repetition, similarities and differences in the answers of the respondents. By structuring similar and recurring opinions, we were able to find key themes as well as eliminate superfluous data. Investigating differences in the respondents' answers enabled a more holistic analysis by including several perspectives.

5.5 Quality of Research

As researchers in the capacity of conducting a qualitative study, we can not ensure complete objectivity. The findings of this study are contingent on our narrative and how we choose to present and analyze the collected data. Although, creating validity and reliability for the reader has been a focus throughout the study.

External reliability refers to the possibility for other researchers to reach conclusions in line with ours using the same methods as described, would the study be replicated. The intention is to reduce the risk of potential errors and bias (Yin, 2009). The researchers being in agreement with what has been said during interviews is what is referred to as internal reliability (Flick, 2018). Gillham's model (2005) was used when designing the interviews in an attempt to increase the internal reliability of our study.

All interviews were conducted in accordance with GDPR, which included each interviewee's consent to record the session. The recordings simplified the transcription process and enabled us to relate to and analyze the responses in their entirety. Reproducing the information in a correct and truthful manner is an essential factor contributing to the quality of our research. Therefore, we listened through each interview several times and proofread the transcriptions. However, translating interviews implies subjectivity in terms of word selection (Bryman et al., 2013). To manage potential errors, such transcriptions were first conducted on an individual basis, then compared and finally merged into one. Further, all quotes from our interviews used in this thesis have been approved by the respondent of concern.

Discussions between the researchers have taken place directly after each interview to ensure that what was said can be considered reasonable. Consequently, each interview's applicability with regards to the theoretical framework has been determined in coherence between the authors, and potential errors have been countered. However, as the method of choice for gathering empirical data is based on semi-structured interviews with open-ended questioning, circumstances change continuously, and therefore perfect reliability can not be ensured (Fidel, 1984).

Furthermore, interviews are also subject to each respondent's individual beliefs and opinions, which potentially could pose a threat with regards to replication. In order to achieve an accurate overview of the problem, all interviews have been recorded to strengthen the internal validity, as suggested by Maxwell (2013). In terms of external validity, the common problem of a case study refers to the focus of generalization in a social context. However, the fact that this is a single-case study prohibits sufficient generalization. Hence, we encourage researchers to replicate the study using the same methods with more extensive samples of family firms with similar characteristics as Lyko, as this study, on its own, is not intended for the use of generalization (Silverman, 2011).

6. Empirical Findings and Analysis

"It is important to do the homework: a thorough assessment of what competencies the firm needs" (Nygren, M., 2021).

In the following section, the empirical findings are presented in chronological order. The empirics begin with a summary of the background leading up to the events of interest. They are then divided into two separate phases, categorized thematically. The first phase is characterized by growth and expansion, deducing the need for formal competence. The second phase portrays the increased need for cultural competence. Each phase includes a description of the company situation and the subsequent competence requisites. This is followed by a presentation of the actions taken with regards to the respective competence needs of each phase. The phases are analyzed continuously using our theoretical framework.

6.1 Background and Growth

In 2008, Rickard Lyko returns to his hometown Dala-Järna, Vansbro Municipality, and is appointed CEO of the family firm Lyko that has a turnover of 4 MSEK. He is early to realize the potential of e-commerce and begins investing heavily in Lyko's online platform as well as in advertising and marketing campaigns. Rickard Lyko explains that investment decisions are mainly based on the importance of being perceived as the largest actor. This, as the industry is growing and becoming increasingly competitive, with H&M and Kicks being large competitors. In an interview with Fredrik Widing on the 12th of February, Rickard Lyko describes his mindset during this time by saying, "early to bed early to rise, work like hell and advertise" (Retailpodden, 2020).

Any profit generated is reinvested into Lyko and used to either build a stronger brand name or increase inventory to expand the product offering. The latter is done in small volumes due to a lack of resources as Lyko depends solely on internal sources of financing. Hence, Lyko's bargaining power is low against suppliers. Rickard Lyko says that "it was always super tight with cash flow" (Retailpodden, 2020). He continues by explaining that during this time, Lyko constantly receives invoices, yet the balance on the accounts is always zero.

In accordance with the growth model developed by Scott & Bruce (1987), Lyko can be classified as a small business. The owners and management of Lyko are family members, and the company depends on internal financing. Lyko is operated locally, however, their e-commerce platform implies markets are not. The stage of the industry is much in line with the *Growth* stage, as e-commerce is growing and there are some more prominent competitors. Furthermore, the heavy investing into working capital, to the point where liquidity becomes a problem, along with the small-scale expansion of product range due to a lack of resources, aligns well with how the growth model describes a small business in the *Growth* stage. Scott & Bruce (1987) argue that in some cases, a firm currently in the *Growth* stage might be offered the possibility to sell itself before reaching stage *Expansion*.

This is precisely what happens to Lyko, as Rickard Lyko is approached by the private equity firm Fidelio Capital. At the time, Fidelio Capital had recently acquired Bellbox, a retail company operating about 30 physical stores equipped with hair salons. Bellbox has a strong presence in the brick-and-mortar space of the industry but lacks an e-commerce platform. Hence, Bellbox offers to purchase Lyko (Fitzgerald, G., 2021). However, Rickard Lyko states that the family is not motivated by monetary factors, and therefore, they decline the offer to sell (Lyko, R., 2021). Nygren clarifies this by saying that Lyko is a values-driven company proudly preserving its socioemotional wealth. This includes the firm's long-term orientation, culture, and history (Nygren, M., 2021).

6.2 The Professionalization Phase

6.2.1 From Growth to Expansion

In 2014, Lyko has a revenue of ~200 MSEK, corresponding to a year-over-year top-line growth of more than 90 percent since the firm began investing in e-commerce in 2008. Despite Lyko's performance in e-commerce, Rickard Lyko does recognize the potential synergies of a merger with Bellbox. Therefore, after nearly a year of discussions and negotiations, Lyko acquires the competitor in November 2014, an industry leader in the retail space with a revenue of ~200 MSEK (Fitzgerald, 2021). The acquisition is in line with the "crisis" labeled as "*The demands of expansion into new markets or products"* (Scott & Bruce, 1987, pp. 50), as expanding implies stretching managerial and financial resources. At this point, the small business may transition from the *Growth* stage to the *Expansion* stage if the crisis is successfully managed. The main issues with the crisis are financing and maintaining control, the latter being at risk as a less centralized management style is argued for (Scott & Bruce, 1987).

In an article by Valentum, Bellbox is presented as an important acquisition for Lyko from a strategic perspective since it enables the firm to expand into the brick-and-mortar space of the industry (Tengzelius, J., n.d.). Rickard Lyko describes Bellbox as being of major value to Lyko with a lot of synergies and highly complementary as the retail space had previously been a weak spot for the firm. Thus, the acquisition not only strengthens the Lyko brand name and market presence from a local perspective but also increases the firm's bargaining power against suppliers. It enables new partnerships with brands that require physical presence. "The only problem being, we still had zero cash" (Retailpodden, 2020). This is solved by a vendor note where Fidelio Capital provides Lyko with financing (Fitzgerald, G., 2021). This implies a major change in sources of financing, yet is only one of many changes that the acquisition brings.

The acquisition has several implications for the organization. One of the more obvious is the increased complexity of the firm, suggesting the need for formal competence. Rickard Lyko is interviewed about this and summarizes it as "everything that was simple before becomes much more complex when done on a larger scale" (Retailpodden, 2020). A factor that adds an additional layer of complexity to the integration process of the two companies is the organizational structure of Bellbox.

Unlike Lyko, which is structured as a centralized organization with a very entrepreneurial management style, Bellbox is decentralized at a store level. The firm is organized across various functions with a clear governance model. Delivering value to the customer and building a strong culture at a store level from a distance is very different from how Lyko operated, where it could all be done from under the same roof (Håkansson, H., 2021).

At this stage, the organizational structure tends to move toward decentralization and professionalization (Scott & Bruce, 1987). In order to cope with the crisis and maintain control of operations, Scott & Bruce (1987) state that "for the first time a professional rather than entrepreneurial approach may be necessary" (Scott & Bruce 1987, pp. 50).

The firm's business model has drastically changed as a consequence of the merger. Currently half of the total revenue is coming from retail stores. Therefore, and in line with the growth model, it is clear to everyone that formal competence is required to cope with the crisis and integrate the two companies successfully. This degree of formal competence is not to be found within the pool of family candidates. Hence, it is decided that Rickard Lyko is to be replaced for the first time since being appointed CEO in 2008 (Fitzgerald, G., 2021). However, this implies a trade-off. As explained by Nygren, there are benefits of having a family CEO in terms of understanding company values and history as it facilitates goal congruence (Nygren, M., 2021). Although, considering the degree of complexity and crisis that the merger implies, the need for more formal competence is undeniable. Consequently, cultural competence is now to be traded for formal competence.

6.2.2 An External CEO

Leading up to the acquisition, Håkan Håkansson was the CEO of Bellbox. Håkansson has an extensive background in finance, having previously worked at, for example, the investment banking division at Goldman Sachs and in private equity at TA Associates (Håkansson, H., 2021). Given Håkansson's background in finance, along with his previous industry experience as the CEO of Bellbox, he fills the need for formal competence. Therefore, he is appointed CEO of Lyko in November 2015. "Considering the technical competence needs, it was quite an obvious choice for everyone to pick him" (Fitzgerald, G., 2021). Also, from a theoretical perspective, the change toward professionalization is in line with Scott & Bruce (1987) as a way to cope with the stretching of managerial resources.

During Håkansson's time as the CEO of Lyko, a successful integration of the two businesses takes place. This involves the rebranding of Bellbox, identifying and realizing synergies, and improving the customer offering (Fitzgerald, G., 2021). Håkansson explains that growth remains an important variable, stating that "we set out a target that within 3-4 years we should be able to hit that 1 billion mark" (Håkansson, 2021). The firm continues to grow, both organically and through smaller acquisitions. In addition, Lyko's operations continue to develop and expand in Sweden and Norway on both the e-commerce and retail side, such as introducing new product segments and concepts (Lyko, 2017).

At this point, it is clear that the *Growth stage* of Lyko has passed. The crisis of stretching managerial and financial resources as a result of the merger was solved. This was done through the successfully managed merger carried through by Håkansson and the vendor note issued by Fidelio Capital. By professionalizing the CEO position, and thereby bringing in formal competence, the issue of managerial stretching was resolved. By taking out a vendor loan, and thereby introducing a professional equity partner, the issue of stretching financial resources was resolved. This enabled Lyko's expansion into the brick-and-mortar space of the industry and marks the transition from the previous *Growth* stage to the next stage of *Expansion* (Scott & Bruce, 1987). The introduction of a professional equity partner as well as the professionalized management is in line with how the growth model depicts the *Expansion* stage. Furthermore, the appointment of a non-family CEO is regarded as being on the basis of skills and hence, signals professionalism (Nygren, M., 2021). Consequently, Lyko is able to signal a higher level of professionalism. This constitutes the inception of the professionalization phase.

In 2017, the decision is made that the firm is ready to go public. The implications of an Initial Public Offering (IPO, henceforth) are two-fold. On the one hand, going public gives Lyko a new source of financing, more attention, airtime, and a larger platform. This enables the firm to communicate its product offering to a bigger audience compared to when operating in a private environment. On the other hand, it means that the firm is under a lot more scrutiny and stress, partly from operating in the public eye but also with regards to all the regulatory requirements added - requirements for which the CEO is held ultimately responsible that the business is compliant with.

Moreover, a new group of stakeholders, namely a broad group of investors, have to be managed and taken into account by Lyko's top management. Most noticeably, by regularly communicating the performance of Lyko through, for example, quarterly reports, analyst and investor presentations, and press releases. Considering the implications of going public, Håkansson decides to leave Lyko in October 2017. Håkansson further explains that when taking everything into account, being CEO of a listed company is not something that he feels passionate about (Håkansson, H., 2021).

The growth model suggests company politics may be a source of conflict as a professional manager "will not have the same commitment to the business" (Scott and Bruce 1987, pp. 50) as those who have been with the firm through earlier stages. A lack of commitment is related to agency theory and problems concerning adverse selection (Macintosh, 1994). Håkansson is the agent who has been appointed by the board of Lyko, i.e., the principal. Considering theory, Håkansson's decision to leave the firm, based on the implications of being CEO for a public company, can be an indication of being less committed in line with Scott & Bruce (1987) and Macintosh (1994).

In line with the professionalization of Lyko and as the firm is preparing to enter into a more complex environment, discussions and conclusions are similar to the ones that took place when Lyko acquired Bellbox (Håkansson, H., 2021). The benefits of reverting back to a family CEO that is high in cultural competence are considered secondary, as the firm needs "replenishment of other competencies" than what could be found within the family at the time (Nygren, M., 2021). Hence, a headhunter is appointed to find an external successor CEO to Håkansson.

Essential qualities that the CEO successor needs to possess include a high level of industry knowledge and well-developed leadership skills. This is needed in order to manage the listing on Nasdaq First North Premier successfully and to continue the firm's strong momentum (Fitzgerald, G., 2021). This results in Joanna Hummel being appointed CEO as she possesses the formal competence that the firm needs. "The fact that Hummel had a CFO background ensured a successful listing" (Nygren, M., 2021).

Prior to joining Lyko, Hummel had gained a deep insight into the beauty and cosmetics industry as well as developed strong financial acumen, having been the CFO of Kicks for nearly seven years. Kicks operates more than 250 stores and is the leading beauty retailer in the Nordics, with a large e-commerce presence as well as physical stores (Kicks, 2021), making it one of Lyko's main competitors. Hummel also has previous experience from the multinational, leading accounting firm Ernst & Young and has held several positions within Axstores (Lyko, 2017).

Appointing external CEOs has several implications for Lyko. In comparison to other organizations, family firms have an additional dimension consisting of passion, care and accountability that is deeply rooted in its culture and operations. This dimension has been evolved and preserved in Lyko for three generations. Further, a family CEO like Rickard Lyko is likely to be more aware of this dimension and attached to the company. His family connection makes it harder for him to just move on to the next firm than what it may be for a non-family CEO like Håkansson, who lacks the connection. The high dedication of a family CEO can permeate the whole organization and consequently, benefits can be reaped (Hamrin, L., 2021). Despite the benefits stemming from a family CEO's cultural competence and long-term orientation, Lyko chose to professionalize.

To conclude, in the professionalization phase, it is evident that a trade-off of competencies takes place. The empirics indicate that Lyko values formal competence over cultural competence. This stems from the increased complexity when merging and, later on, listing the company. However, another factor is also at play, being the signals conveyed to external parties as a result of the chosen CEO competence profile. Hence, the trade-off favors formal competence.

6.3 The Reversion Phase

6.3.1 Growing Complexity and Goal Incongruence

During Hummel's time as CEO of Lyko, the company continues to grow and expand, becoming an increasingly complex business. According to Rickard Lyko, it partly stems from the higher regulatory requirements and more formalized routines as a result of the IPO and company growth (Lyko, R., 2021). The idea of growing complexity in Lyko is then further corroborated by Fitzgerald. He elaborates on the increasing size of Lyko in terms of sales, number of stores, levels of hierarchy, employees, and the corresponding demands put on the firm's top management thereof (Fitzgerald, G., 2021). In 2018, Lyko has 575 employees and operates the websites Lyko.se and Lyko.no as well as 39 physical stores with associated salons. Lyko also enters the Finnish market through the online launch of Lyko.fi in line with the developed growth strategy, which also includes significant investments in brand strengthening activities. Furthermore, the sales within the online segment increase by 45 percent in 2018, with over 30 million visits on the company website (Lyko, 2019).

Lyko is still characterized by growth through booming online sales, constant new establishments of stores, more formalized routines, and an increasing employee base. This suggests that Lyko, during Hummel's time as the CEO, is still in what Scott & Bruce (1987) label the *Expansion* stage. That Lyko is in a stage of expansion is also evident through their increasing market scope. The firms is entering new geographies and channels, for example, with the online launch in the Finnish market. Furthermore, Hummel herself is a symbol of professionalized leadership due to her formal competence and the fact that she has no connection to the Lyko family. This professionalization also points to the *Expansion* stage (Scott & Bruce, 1987).

However, in a press release on the 30th of September 2018, Lyko announces that Hummel resigns from her CEO position after only one year (Lyko, 2018). Hummel leaves behind a continuously expanding company that, after the listing, has around 4000 new shareholders, including large institutional investors such as Swedbank Robur and Länsförsäkringar (EFN, 2017). In the press release, Rickard Lyko emphasizes Hummel's fantastic job with the IPO in 2017 as well as having implemented important investments and changes.

Although, Rickard Lyko explains further that the board has made the assessment that a new leadership is the best way forward for Lyko (Lyko, 2018). Fitzgerald elaborates on the reasons for the decision to replace Hummel by explaining that she had different visions and goals for Lyko's future than what the family had (Fitzgerald, G., 2021). This is substantiated by Rickard Lyko, "she had different views on how we should take the company forward", a statement given in an interview with Market (Norman, D., 2018). A primary reason for the replacement was the incongruence between the goals and visions of the Lyko family and those of Hummel's, rather than a lack of performance on her side.

To conclude, it is evident that the decision to replace Hummel is not based on formal competence, as her performance in terms of financials is to the satisfaction of Lyko. Instead, Hummel's departure as CEO points toward a lack of cultural competence as her visions and goals are not aligned with those of the family. The principal-agent relationship between the Lyko family and the non-family CEO gives rise to agency problems, implying the presence of agency costs. Furthermore, Hummel's departure was negatively received by the press, where Lyko was criticized as an employer due to the non-family CEOs' short tenures at the position. This results in negative signaling value to the firm. For example, in an article published by Breakit on the 3rd of October, the firm is described as turbulent, unstable, and acting irrationally. The article equates the CEO position in Lyko to an ejection seat (Lundell, S., 2018).

6.3.2 Reverting Back to Family Roots

For the new leadership in Lyko, the firm seeks a long-term candidate who can shoulder the role of CEO in a fast-growing company and, more importantly, who understands the Lyko family's culture and vision (Fitzgerald, G., 2021). In a press release, it is announced that Rickard Lyko is once again appointed CEO of Lyko. (Lyko, 2018).

Following the professionalization due to the several triggers of complexity, Lyko still decides to revert back to a family CEO. This emphasizes the importance of cultural competence. Further, the reversion is not in line with the *Expansion* stage of the growth model but rather the *Growth* stage of an entrepreneurial management style. Apart from this, Lyko as a whole is operating in line with the *Expansion* stage (Scott & Bruce, 1987).

The aforementioned growing complexity in Lyko, along with the evident geographical expansion of the firm, spoke for appointing a top-tier CEO possessing a high degree of formal competence. Even though Rickard Lyko did remain operationally active following the CEO succession in 2014, acquiring more formal competence (Lyko, E., 2021), the deciding factor in the selection of him as CEO is the trade-off favoring cultural competence. Fitzgerald brought forward the benefits of Rickard Lyko's long-term orientation, clear understanding of family beliefs, and commitment in the capacity of a family CEO. He explains that Rickard Lyko probably feels more dedication toward the firm than an external CEO would. The reason being his family ties, early involvement, and the building of a family legacy that is strongly committing him toward creating something truly successful (Fitzgerald, G., 2021). This strengthens the view that involving a professional manager does not equate to as high of a commitment to the business (Scott & Bruce, 1987) and cultural competence as it does with Rickard Lyko.

Erika Lyko further explains that long-term orientation is central to Lyko and the Lyko family. She underlines that the visions and goals of an internal CEO are more likely to be aligned with those of the family (Lyko, E., 2021). On several occasions, Rickard Lyko himself has expressed the importance of preserving the family's socioemotional wealth. In an article by Chef, published on the 11th of June, Rickard Lyko says: "We as a family are not in this to earn a lot of money. That is not the driving force". "We want to push this and see how far we can take it" (Hammarkrantz, S., 2020).

Rickard Lyko is described as a long-term oriented candidate (Hamrin, L., 2021) that does not "care that much about short-term discussions in the market" (Fitzgerald, G., 2021). This idea is further reinforced by the previously mentioned decline of the Bellbox acquisition proposal. Instead, Lyko acquired Bellbox and kept the family name for the company. The importance of keeping the family connection is also evident in Lyko's annual report. It is stated that the third generation of the Lyko family working in key operational roles in the company as well as being part of the board provides continuity and a long-term perspective within the company (Lyko, 2019).

On this topic, Nygren states that Rickard Lyko has an advantage as a CEO candidate in terms of the family's and board's confidence in him. His understanding of Lyko's history and culture serves as the foundation to this confidence. "Rickard is Lyko, in the same way that Ingvar Kamprad was IKEA" (Nygren, M., 2021). There is a trade-off between choosing an external CEO or someone from the family that could be integrated quickly and already understands the family company's culture, history, and goals (Nygren, M., 2021). With Rickard Lyko as the CEO, it means that the company can move toward the non-monetary objectives of long-term survival and growth that are very important to the Lyko family (Lyko, E., 2021). Hence, the empirics suggest that a family CEO signals cultural competence, reducing the information asymmetry between the owner-family and the CEO. Consequently, potential agency costs in terms of goal incongruence can be avoided.

Furthermore, Fitzgerald illuminates other benefits of having a family CEO. Appointing Rickard Lyko is a strength as he is less afraid to admit his mistakes and can be open about the limitations of his capabilities. This stems from the fact that Rickard Lyko holds less risk of being replaced due to his family connection. Consequently, he is not afraid of surrounding himself with more skilled people and can be unpretentious and prestigeless about his skills and shortcomings. Rickard Lyko's openness is further substantiated by himself when stating that "I have made every mistake you can make" and that "The key to success is to be as open as possible" (Hammarkrantz, S., 2020). A non-family CEO may be more cautious about being outshined and could therefore lower the overall quality of the firm's management by not surrounding him- or herself with skilled people (Fitzgerald, G., 2021).

The empirics suggest that Rickard Lyko can be more confident in the CEO role as the risk of him being replaced is mitigated by his family connection. This confidence conveys information about his ability to be open and honest, reducing the information asymmetry between the family and the CEO, along with potential agency costs. Furthermore, the perceived long-term commitment of a family CEO from an external perspective implicates a signaling benefit (Nygren, M., 2021). Considering the negative signals in terms of turbulence associated with the frequency in CEO replacements within a short time frame, appointing Rickard Lyko signaled stability (Lyko, E., 2021).

Although, this is a two-fold phenomenon. When appointing an external CEO, it is normally on the basis of formal competence, building more confidence in terms of the candidate's technical suitability for the role (Fitzgerald, G., 2021). Thereby, professionalization can signal suitability and build confidence in the CEO from both an internal and external perspective. The internal perspective in terms of the principal-agent relationship between the Lyko CEO and the rest of the firm, "Appointing Joanna induced a sense of confidence within the firm, given her CFO background" (Nygren, M., 2021). The external perspective relates to the principal-agent relationship between Lyko and investors, conveying firm professionalization to shareholders.

Hence, the empirics suggest that a trade-off exists in Lyko in terms of signaling. On the one hand, appointing a family CEO conveys a higher degree of openness and honesty. On the other hand, selecting a non-family CEO signals formal competence and professionalism.

To conclude, in the reversion phase it is evident that a trade-off takes place. Having previously had a non-family CEO possessing a high degree of formal competence, Lyko chooses to revert back to a family CEO. This reversion stems mainly from a predominant need for cultural competence. Therefore, the firm seeks a CEO candidate who can be efficiently integrated with the culture, reduce the information asymmetry and mitigate the risk of goal incongruence. However, another factor is also at play. This being the signals conveyed to both internal and external parties as a result of the chosen CEO competence profile. Hence, formal competence is traded for cultural competence.

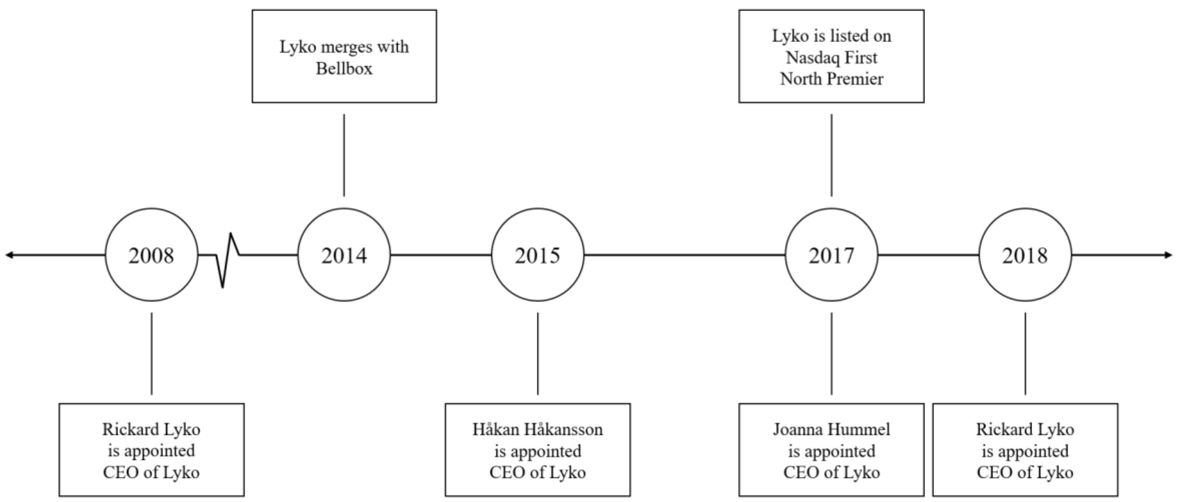

Figure 3: Timeline of Key Events in Lyko

7. Discussion

The purpose of this section is to further interpret and describe the observations we have made in relation to previous research on the topic of CEO succession in family firms. This enables us to determine the significance of our empirical findings and sheds light on new insights that have emerged as a result of the study.

The CEO succession in Lyko revolves around a pattern of trade-offs in terms of competencies contingent on company needs. One of the advantages of having a family CEO in Lyko is reduced information asymmetry, and that goal congruence is maintained. Rickard Lyko is the CEO of Lyko and maintains that role for several years. However, it is not until the complexity of Lyko reaches a certain point that an external CEO is appointed. The fact that the founding family initially avoids bringing in external industry expertise can be explained by its form of ownership. Daily & Dollinger (1992) argue that family businesses often strive to maintain family control in order to avoid goal misalignment. These dynamics are evident in the CEO reversion. Rickard Lyko is once again appointed CEO following the departure of Hummel, and the aforementioned intention to avoid goal misalignment is the main motivator.

Substantiating the above, Hall & Nordqvist (2008) argue that goal misalignment between the founding family and non-family CEOs may be related to a lack of cultural competence. Consequently, the early departure of non-family CEOs is common, as identified in Lyko. The empirics indicate that an internal CEO can reduce information asymmetry between the Lyko family and the CEO. This finding, suggesting that when firms are run by family executives, information asymmetry is minimized and goal alignment is achieved, thereby lowering agency costs, has been tested and confirmed by Chrisman et al., (2004).

On the other hand, one of the advantages of having a non-family CEO in Lyko is the benefits of professionalization. Faleye (2007) argues that family IPO firms can be regarded as complex organizations. Lyko, as a family IPO firm, possesses many of the characteristics of complexity that Miller et al. (2013) present. These factors are all related to an increased need for industry expertise, knowledge, and skills in order to manage the increased administrative complexity (Miller et al., 2013).

As the pool of family candidates is much more restricted than that of non-family members, Claessens et al. (2002) argue that complexity leads family firms to select non-family candidates based on expertise alone. The acquisition of Bellbox, as well as the IPO, are considered symptomatic triggers of complexity rather than uniquely characterized events. Both events result in increased complexity for Lyko, and the firm acts as scholars suggest by appointing non-family CEOs, Håkansson and Hummel, on the basis of formal competence. However, Lyko does the opposite when reverting back to Rickard Lyko, a family CEO, despite a continuing high degree of complexity. The identified discrepancy of actions taken by the firm, despite similarities of complexity, has not been thoroughly researched. However, these circumstances can be explained by our findings. In the reversion phase, the empirics reveal that the importance of cultural competence possessed by Rickard Lyko outweighs the formal competence possessed by Hummel.

Furthermore, Filatotchev & Bishop (2002) find that family firms considering an IPO benefit from signaling professionalism. This is further supported by Hall & Nordqvist (2008) who conclude that family executives, irrespective of background and education, are regarded as inherently less professional. Accordingly, Lyko appointed Hummel prior to the IPO. However, the departure of Hummel and increased frequency in CEO changes within a short time frame resulted in negative signaling value to the firm. Hence, we find that the appointment of Rickard Lyko can be considered a trade-off between signaling professionalism versus stability and long-term commitment.

Sciascia & Mazzola (2008) find that family CEOs are superior to non-family CEOs in terms of their higher level of commitment toward the family firm and the long-term goals. This is evident in Lyko, partly as Håkansson resigns due to a lack of passion for being the CEO of Lyko as a public company. It also becomes clear as Rickard Lyko is described as highly committed due to his family ties and the creation of a family legacy. Beyond the findings of Sciascia & Mazzola (2008), the empirics suggest that Rickard Lyko, a family CEO, is perceived as possessing a higher degree of openness.

8. Conclusion and Limitations

Most scholars depict the superiority of non-family CEOs in family firms, pointing toward the benefits of formal competence as firms mature and complexity increases (Claessens et al., 2002; Miller et al., 2013). In addition, the signaling benefits of professionalization are emphasized by Filatotchev & Bishop (2002) as family CEOs are regarded as inherently less professional (Hall & Nordqvist, 2008), stemming from the limited pool of family candidates. However, in line with the findings of Hall & Nordqvist (2008), we argue that the literature underestimates the importance of cultural competence.

This study explored the trade-off between formal competence and cultural competence in the context of CEO succession in a family firm. Curiously, the firm has chosen to switch not only from a family to a non-family CEO but also to revert back to a family CEO. Through the analysis of our empirics, findings that both support and extend the literature's understanding of CEO succession have been identified.

Firstly, we found that the competence trade-off in CEO succession is contingent on the needs of Lyko. The finding supports the importance of sociocultural dynamics as well as thoroughly assessing the company environment in order to accurately determine competence requisites. In fact, our finding illuminates the importance of incorporating cultural competence in the analysis of CEO succession through the force of example, having caused Lyko to revert back to a family CEO.

Secondly, we found that a higher degree of cultural competence can mitigate potential agency costs by reducing information asymmetry. This, as a CEO high in cultural competence will be more aligned with the Lyko family's willingness to preserve the socioemotional wealth in terms of their long-term vision, beliefs, and values. Hence, such a CEO is unhindered by frictions with the Lyko family as goal congruence is achieved.

Thirdly, we found that Lyko's choice of CEO also is a competence trade-off in terms of what the CEO profile conveys to internal and external parties. A non-family CEO signals formal competence and professionalization, reducing the information asymmetry between externals and the firm. A family CEO signals cultural competence and commitment, reducing the information asymmetry between internals and the CEO. Consequently, the competence trade-off implies an information asymmetry trade-off.

Our study contributes to the earlier research on CEO succession in family firms in several ways. First, this study contributes by exploring and documenting the underlying drivers of CEO succession in a family firm, considering both internal and external aspects. To the best of our knowledge, previous literature has not fully recognized the importance of cultural competence in the trade-off against formal competence when a family firm is selecting a CEO.

Specifically, the findings of our study fortify the research by Hall & Nordqvist (2008). We acknowledge their work on the importance of sociocultural dynamics by considering cultural competence in the context of CEO succession in a family firm. Thereby, we further extend the literature's perception of the importance of cultural competence by applying it in a new setting.

Finally, we acknowledge the limitation of this case study. Conducting a multi-case study was beyond the scope of our research. A single-case study is useful to describe and understand a setting and develop conceptual insights (Dyer and Wilkins, 1991). However, a development of our study is to investigate other family firms by the guidance of the same research question. This to further validate the importance of cultural competence in CEO succession and facilitate potential generalization.

9. References

9.1 Literature

Alvesson, A., & Sköldberg, K. (2008). *Tolkning och reflektion, vetenskapsfilosofi och kvalitativ metod.* Lund: Studentlitteratur.

Anderson, R., & Reeb, D. (2003). *Founding-Family Ownership and Firm Performance: Evidence from the S&P 500.* The Journal of Finance, 58, 1301–1327.

Bennedsen, M., Nielsen, M.K., Pérez-González, F., Wolfenzon, D. (2007). *Inside the family firm: The role of families in succession decisions and performance*. The Quarterly Journal of Economics, 122(2), 647–691.

Bloom, N., & Van Reenen, J. (2006). *Measuring and explaining management practices across firms and nations.* Center of Economic Performance Discussion Paper, 716.

Bloom, N., & Van Reenen, J. (2007). *Measuring and explaining management practices across firms and countries.* Quarterly Journal of Economics, 122, 1351–1408.

Bryman, A., & Bell, E. (2011). *Business research methods.* Oxford: Oxford University Press.

Bryman, A., Bell, E., Nilsson, B. (2013). *Företagsekonomiska forskningsmetoder.* 2nd ed., Stockholm: Liber.

Burkart, M., Panunzi, F., Shleifer, A. (2003). *Family firms.* Journal of Finance, 58(5), 2167–2201.

Calabrò, A., Minichilli, A., Amore, M.D., Brogi, M. (2018). *The courage to choose! Primogeniture and leadership succession in family firms*. Strategic Management Journal, 39(7), 2014–2035.

Calabrò, A., Vecchiarini, M., Gast, J., Campopiano, G., De Massis, A., et al. (2018). *Innovation in family firms: A systematic literature review and guidance for future research: Innovation in family firms*. International Journal of Management Reviews, 21(3), 317–355.

Caselli, F., & Gennaioli, N. (2013). *Dynastic management.* Economic inquiry, 51(1), 971–996.

Chang, S.J., Shim, J. (2015). *When does transitioning from family to professional management improve firm performance?* Strategic Management Journal, 36(9), 1297–1316.

Chittoor, R., & Das, R. (2007). *Professionalization of management and succession performance: A vital linkage.* Family Business Review, 20, 65–79.

Chrisman, J.J., Chua, J.H., Litz, R.A. (2004). *Comparing the Agency Costs of Family and Non–Family Firms: Conceptual Issues and Exploratory Evidence.* Entrepreneurship Theory and Practice, 28(4), 335–354.

Chrisman, J.J., Chua, J.H., Sharma, P. (1998). *Important Attributes of Successors in Family Businesses: An Exploratory Study.* Family Business Review, 11(1), 19–34.

Chrisman, J.J., Memili, E., Misra, K. (2014). *Nonfamily managers, family firms, and the winner's curse: The influence of noneconomic goals and bounded rationality.* Entrepreneurship Theory and Practice, 38(5), 1103–1127.

Claessens, S., Djankov, S., Fan, J.P.H., Lang, L.H.P. (2002). *Disentangling the incentive and entrenchment effects of large shareholdings.* The Journal of Finance, 57(6), 2741–2771.

Daily, C.M., & Dollinger, M.J. (1992). *An empirical examination of the ownership structure in family and professionally managed firms.* Family Business Review, 5(2), 117–136.

Dekker, C.J., Lybaert, N., Steijvers, T., Depaire, B., Mercken, R. (2013). *Family Firm Types Based on the Professionalization Construct: Exploratory Research.* Family business review, 26(1), 81–99.

Dyer, W.G. (1989). *Integrating Professional Management into a Family Owned Business.* Family Business Journal, 2(3), 221–235.

Dyer, W.G., & Wilkins, A.L. (1991). *Better stories, not better constructs, to generate better theory: A rejoinder to Eisenhardt*. The Academy of Management Review, 16(3), 613–619.

Eisenhardt, M.K. (1989). *Building Theories from Case Study Research.* The Academy of Management Review, 14(4), 532–550.

Fahlenbrach, R. (2009). *Founder-CEOs, Investment Decision, and Stock Market Performance.* Journal of Financial and Quantitative Analysis, 44, 439–466.

Faleye, O. (2007). *Does one hat fit all? The case of corporate leadership structure.* J Manage Governance, 11, 239–259.

Fidel, R. (1984). *The Case Study Method: A Case Study*. Library & Information Science Research, 6(3), 273–288.

Filatotchev, Igor & Bishop, Kate. (2002). *Board Composition, Share Ownership, and 'Underpricing' of U.K. IPO Firms*. Strategic Management Journal, 23, 941–955.

Flick, U. (2018). *An Introduction to Qualitative Research.* 6th ed., Thousand Oaks, CA: SAGE Publications.

Flyvbjerg, B. (2006). *Five Misunderstandings About Case-Study Research.* Qualitative Inquiry, 12(2), 219–245.

Gedajlovic, E., Lubatkin, M.H., Schulze, W.S. (2004). *Crossing the threshold from founder management to professional management: A governance perspective*. Journal of Management Studies, 41, 899–912.

Gillham, B. (2005). *Research Interviewing: The Range of Techniques.* Maidenhead: Open University Press.

Hall, A., Nordqvist, M. (2008). *Professional Management in Family Businesses: Toward an Extended Understanding.* Family Business Review, 21(1), 51–69.

Hambrick, C.D. (2007). *Upper echelons theory: An update.* The Academy of Management Review, 32(2), 334–343.

Jacobsen, I.D. (2002). *Vad, hur och varför? Om metodval i företagsekonomi och andra*. Lund: Studentlitteratur.

Jensen, C.M., & Meckling, H.W. (1976). *Theory of the firm: Managerial behavior, agency costs and ownership structure*. Journal of Financial Economics, 3(4), 305–360.

King, N., Horrocks, C., Brooks, J. M. (2019). *Interviews in Qualitative Research*, Los Angeles: SAGE Publications.

Le Breton-Miller, I., Miller, D., Steier, P.L. (2004). *Toward an integrative model of effective FOB succession.* Entrepreneurship Theory and Practice, 28(4), 305–328.

Lin, S., Hu, S. (2007). *A family member or professional management? The choice of a CEO and its impact on performance.* Corporate Governance an International Review, 15(6), 1348–1362.

Macintosh, N.B. (1994). *Management accounting and control systems: an organizational and behavioral approach.* Chichester: John Wiley & Sons.

Maxwell, J.A. (2013). *Qualitative Research Design: an interactive approach.* 3rd ed., Thousand Oaks: SAGE Publications.

McMullen, J.S., Warnick, B.J. (2015). *Article Commentary: To Nurture or Groom? The Parent–Founder Succession Dilemma*. Entrepreneurship Theory and Practice, 39(6), 1379–1412.

Miller, D., Le Breton-Miller, I., Minichilli, A., Corbetta, G., Pittino, D. (2014). *When do non-family CEOs outperform in family firms? Agency and behavioural agency perspectives.* Journal of Management Studies, 51(4), 547–572.

Miller, D., Minichilli, A., Corbetta, G. (2013). *Is family leadership always beneficial?* Strategic Management Journal, 34(5), 553–571.

Nordqvist, M., Wennberg, K., Hellerstedt, K. (2013). *An entrepreneurial process perspective on succession in family firms.* Small Business Economics, 1087–1122.

Pettigrew, A. (1997). *What is a processual analysis?* Scandinavian Journal of Management, 13(4), 337–348.

Robson, C. (2007). *How to do a research project: a guide for undergraduate students*. Malden, MA: Blackwell Pub.

Royer, S., Simons, R., Boyd, B., Rafferty, A. (2008). *Promoting family: A contingency model of family business succession.* Family Business Review, 21(1), 15–30.

Ryan, W.R. & Bernard, H.R. (2003). *Techniques to Identify Themes*. Fields Methods, 15(1), 85–109.

Sciascia, S., Mazzola, P. (2008). *Family Involvement in Ownership and Management: Exploring Nonlinear Effects on Performance*. Family Business Review, 21(4), 331–345.

Scott, M., & Bruce, R. (1987). *Five stages of growth in small business*. Long Range Planning, 20(3), 45–52.

Silverman, D. (2011). *Interpreting Qualitative Data: A Guide to the Principles of Qualitative Research.* 4th ed., London: SAGE Publications.

Tabor W, Chrisman J.J., Madison K, Vardaman J.M. (2018). *Nonfamily Members in Family Firms: A Review and Future Research Agenda.* Family Business Review, 31(1), 54–79.

Waldkirch, M. (2020). *Non-family CEOs in family firms: Spotting gaps and challenging assumptions for a future research agenda.* Journal of Family Business Strategy, 11(1), 100305.

Yin, R.K. (2009). *Case Study Research: Design and Methods*. 4th ed., London: SAGE Publications.

Zahra, A.S., Filatotchev, I., Wright, M. (2009). *How do threshold firms sustain corporate entrepreneurship? The role of boards and absorptive capacity*. Journal of Business Venturing, 24(3), 248–260.

Zellweger, T. (2007). *Time Horizon, Costs of Equity Capital, and Generic Investment Strategies of Firms.* Family Business Review, 20(1), 1–15.

9.2 Electronic Sources

Deloitte. (2019). *Mergers & Acquisitions. A smart way to grow.*
Available at:
https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Mergers-and-Acquisitions/gx-mergers-and-acquisitions-overview.pdf
(Accessed 2021-05-11)

EFN Ekonomikanalen AB. (2017). *Lyko: ”Vi ska växa med 15–20 procent”*. EFN, 12 December.
Available at:
https://www.efn.se/poster/lyko-vi-ska-vaxa-med-15-20-procent
(Accessed 2021-04-25)

Hammarkrantz, S. (2020). *Rickard Lyko: ”Jag har gjort alla misstag man kan göra”.* Chef., 11 June.
Available at:
https://chef.se/story/rickard-lyko-jag-har-gjort-alla-misstag-man-kan-gora/
(Accessed 2021-04-27)

Kicks Kosmetikkedjan AB. (2021). *Om KICKS.* Kicks.
Available at:
https://www.kicks.se/om-kicks
(Accessed 2021-04-06)

Lundell, S. (2018). *Vem vågar sätta sig i Lykos katapultstol efter Joanna Hummel?* Breakit, 3 October.
Available at:
https://www.breakit.se/artikel/15866/vem-vagar-satta-sig-i-lykos-katapultstol-efter-joanna-hummel
(Accessed 2021-04-04)

Lyko Group AB. (2019). *Lyko Annual Report 2018.* Lyko, 5 April.
Available at:
https://mb.cision.com/Main/16447/2781868/1020946.pdf?fbclid=IwAR0hugppgl7F_2ZhA7kZZkZ8cZn9nOI8R6TKF8tLHR0_99tu2kkYRfgU9NY
(Accessed 2021-05-10)

Lyko Group AB. (2018). *Rickard Lyko tar över som VD i Lyko - Kenneth Bengtsson ny tilltänkt ordförande*. Lyko, 30 September.
Available at:
https://mb.cision.com/Main/16447/2885945/1093415.pdf
(Accessed 2021-04-12)

Lyko Group AB. (2021). *Lyko Annual Report 2020*. Lyko, 1 April.
Available at:
https://mb.cision.com/Public/16447/3320419/a72b4ca27302c26c.pdf?fbclid=IwAR0ezO-2gjeFCxPFt_Y3tDPSqRrRiyEI8hczpTPYHcV9ND4-CHM9MHrCK_A
(Accessed 2021-05-10)

Norman, D. (2018). *Rickard Lyko ger vd:n sparken – och tar över själv: ”Olika syn på hur vi ska ta bolaget framåt”.* Market, 1 October.
Available at:
https://www.market.se/premium/rickard-lyko-ger-vdn-sparken-och-tar-over-sjalv-olika-syn-pa-hur-vi-ska-ta-bolaget-framat
(Accessed 2021-04-02)

PwC. (2016). *The 'missing middle': Bridging the strategy gap in family firms.*
Available at:
https://www.pwc.com/gx/en/family-business-services/global-family-business-survey-2016/pwc-global-family-business-survey-2016-the-missing-middle.pdf
(Accessed 2021-05-09)

Retailpodden. (2020). *Rickard Lyko - Våga för att lyckas!* Poddtoppen, 12 February.
Available at:
https://poddtoppen.se/podcast/1488593749/retailpodden/9-rickard-lyko-vaga-for-att-lyckas
(Accessed 2021-04-25)

Tengzelius, J. (n.d.). *Berättelsen om Lykos förvärv av Bellbox.* Valentum.
Available at:
http://valentum.se/2017/08/berattelsen-om-lykos-forvarv-av-bellbox/
(Accessed 2021-05-03)

9.3 Interviews

Erika Lyko, Board Member. Interview: 2021-04-29.

Gabriel Fitzgerald, Former Board Member. Interview: 2021-04-07.

Håkan Håkansson, Board Member and Former CEO. Interview: 2021-04-20.

Lovisa Hamrin, Board Member. Interview: 2021-05-12.

Marie Nygren, Board Member. Interview: 2021-05-10.

Rickard Lyko, CEO. Interview: 2021-04-13.