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Family firms, management and productivity in an ESG world. What lessons for policy?

Giorgio Barba Navaretti,
University of Milano, CEPR and Centro Studi Luca d'Agliano

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Bottomline

The link between shareholders and managers is crucial in explaining the inefficiencies of family firms....but things may change in an ESGs focussed policy environment

Are family firms less efficient than other firms?

- Yes, consistent evidence in most countries, of family firms being less efficient than non family ones,
- especially when managed by family descendants of the founder.

Italy, Inapp panel, 2010-2015

	TFP OLS	TFP IV	LAB PROD (VA)	LAB PROD (REV)
	Panel A			
Family ownership	-0.357***	-0.288***	-0.374***	-0.113
	(0.068)	(0.069)	(0.068)	(0.164)
Observations	26,966	26,966	27,334	27,685
R-squared	0.218	0.215	0.178	0.255
	Panel B			
Management and ownership coincide	-0.286***	-0.240***	-0.307***	-0.288***
	(0.058)	(0.062)	(0.062)	(0.071)
Observations	26,997	26,997	27,364	27,715
R-squared	0.210	0.210	0.170	0.259

Source: **Andretta, Brunetti, Rosso,2021**

Why?

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Core: Ownership and Management

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Are family managers lazy?

Do they work fewer hours (Bandiera et al. 2018) ?

NO: much more at stake

YES: wealthier and they value leisure more

Table 1
Differences in time use between family and professional CEOs

Summary Statistics

CEO use of time	(1) All	(2) Family CEOs	(3) Professional CEOs	(4) Difference (3)-(2) (t-statistic)
Total weekly hours worked - Recall measure	51.[illegible]19	49.147	52.749	3.602***
	(10.1[illegible]5)	(10.727)	(9.665)	(4.46)
Total weekly hours worked - Diary measure	52.009	48.378	54.543	6.165***
	(11.026)	(10.504)	(10.674)	(9.55)
Total weekly hours worked excluding activities <15 min, personal & travel	41.439	37.415	44.249	6.834***
	(10.035)	(9.740)	(9.258)	(11.87)
Number of days at work	5.356	5.303	5.393	0.0898*
	(0.695)	(0.639)	(0.729)	(2.13)
Beginning of work day (hour)	8.826	9.260	8.524	−0.736***
	(1.161)	(1.213)	(1.019)	(−10.96)
End of work day (hour)	18.270	18.239	18.291	0.0511
	(1.566)	(1.383)	(1.682)	(0.54)
Share of time spent in personal activities	0.101	0.123	0.086	−0.0379***
	(0.099)	(0.113)	(0.084)	(−6.42)
Number of observations	1,114	458	656	

The table shows summary statistics (means, standard deviation in parentheses in Columns 1–3; differences and *t*-statistic in parentheses in Column 4) of time use for the sample CEOs. Family CEOs are those who own the firm or belong to the family that owns the firm. All variables were collected in the CEO time use survey.

Source: Bandiera et al. 2018:survey data Brazil, India, Germany, UK, France, US

Lazy managers lower TFP?

Table 2
CEO hours worked and firm performance

	(1)	(2)	(3)	(4)
Dependent variable	log(sales)		Olley-Pakes TFP residual	
Family CEO	−0.190***	−0.155**	−0.257***	−0.203***
	(0.071)	(0.074)	(0.073)	(0.077)
log(Hours worked)		0.338**		0.584***
		(0.140)		(0.183)
log(Employment)	0.555***	0.549***		
	(0.041)	(0.041)		
log(Capital)	0.336***	0.333***		
	(0.031)	(0.031)		
Observations	1,415	1,415	1,383	1,383
Number of firms	617	617	603	603

Source: Bandiera et al. 2018

Yes but?

- Type of firms or type of managers?
  - There is no difference in the performance of professional managers in family and non family firms => type of manager is the real issue

- All firms?
  - The difference between family and non family lower the larger the firm
  - and the more competitive is the industry LESSON 1

Table 5
Firm size and competition

Dependent variable	(1)	(2)	(3)	(4)
	log(Hours worked)			
Family CEO	−0.298***	−0.292***	−0.167***	−0.123***
	(0.078)	(0.093)	(0.043)	(0.030)
log(Employment)	0.011	0.020**	0.024***	0.026***
	(0.008)	(0.009)	(0.007)	(0.006)
Family CEO*log(Employment)	0.034***			
	(0.012)			
log(Sales)		−0.001		
		(0.008)		
Family CEO*log(Sales)		0.021**		
		(0.009)		
Lerner index			0.028	
			(0.017)	
Family CEO*Lerner index			0.059**	
			(0.026)	
Family CEO*Import penetration (OECD)				0.044**
				(0.018)
R-squared	0.353	0.357	0.350	0.276
Number of firms	1,107	1,089	1,020	1,006
Country by industry dummies	y	y	n	n
Country dummies	n	n	y	y
Industry dummies	n	n	y	y
CEO characteristics	y	y	y	y
Firm characteristics	y	y	y	y
Noise controls	y	y	y	y

Source: Bandiera et al. 2018:survey data Brazil, India, Germany, UK, France, US

Succession Critical Juncture

– US: Firms that appoint family CEOs significant underperform relative to firms that promote unrelated CEOs: operating return on assets is 14 (16) percent lower within three years of a transition. (Perez Gonzales 2006 US)

– Denmark: Family successions are significantly negatively correlated with firms performance around CEO succession: family CEOs cause an average decline in firm profitability on assets of at least four percentage points. (Bennedsen at al. 2007)

Focus on Succession: LESSON 2

TABLE IV
CEO Succession Decisions and Firm Performance Around CEO Transitions

Part A. Dependent Variable: Industry-Adjusted Operating Return on Assets (OROA)

		Type of succession		
	All (1)	Family (2)	Unrelated (3)	Difference (4)
Before	−0.0032	0.0077	−0.0085	0.0162***
	(0.0016)	(0.0024)	(0.0020)	(0.0031)
	[5,334]	[1,776]	[3,558]	
After	0.0053	0.0067	0.0046	0.0021
	(0.0016)	(0.0026)	(0.0020)	(0.0033)
	[5,334]	[1,776]	[3,558]	
Difference	0.0084***	−0.0010	0.0132***	−0.0141***
	(0.0018)	(0.0028)	(0.0023)	(0.0036)

Source: Bennedsen at al. 2007

Errare humanum est…..as far as you know what you are doing

- If this is the evidence, why dynastic management?
- Willingness to keep control? But why if it implies lower efficiency, profits or growth?
  - *Other things matter*…Objectives between ownership and management not necessarily alligned (Burkart, 2003)
    - ⇒ Shareholders may wish to *pursue amenities and non pecunary private benefits*
      - ⇒ Reputation/Prestige of the family
      - ⇒ Avoiding excessive risk
      - ⇒ Good relationship with workers and local communities
    - ⇒ In essence: fear of expropriation of investors by managers;

Crucial issue of legal protection of outside shareholders from expropriation by the insiders LESSON 3

Clashing Objectives Ownerhip and Managers

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Example: Young CEOs prefer growth of sales, not shareholders
Barba Navaretti, Castellani, Pieri, 2021:

Young CEOs, Firms' Growth, concentrated vs. dispersed ownership, several EU countries 2009-14 Quantile regression, depedent variable: yearly growth rate of sales

Concentrated ownership (1)	p50	p50	p50	p75	p90
CEO (<45 y.o.)	0.0066***	0.0057**	0.0067	0.0159**	0.0306***
	(0.0025)	(0.0025)	(0.0046)	(0.0068)	(0.0082)
1st shareholder (>=50%)		0.0027	0.0028	0.0024	0.0096**
		(0.0024)	(0.0026)	(0.0027)	(0.0038)
CEO (<45 y.o.)*(1st shareholder >=50%)			-0.0014	-0.0048	**-0.0241*** **
			(0.0056)	(0.0077)	**(0.0092)**
Constant	0.0613***	0.2192***	0.2195***	0.1989***	0.2366***
	(0.0171)	(0.0178)	(0.0178)	(0.0173)	(0.0210)
Firm- and CEO-level controls	Yes	Yes	Yes	Yes	Yes
N	5613	5374	5374	5374	5374
Statistical tests					
Young/dispersed = Young/concentrated (p-value)			0.7754	0.7289	**0.0918**
Young/concentrated = Old/concentrated (p-value)			0.0866	0.0008	0.1804

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Errare humanum est perseverare autem diabolicum

- Even when choosing outside managers, family firms may choose wrong managers
  - Seniority in management reflects intensity of relationship rather than quality (Lippi and Schivardi, 2014)
  - For family firms tenure negatively related to TFP
  - Volpin 2002 on Italy evidence of lower turnover of managers; Bandiera et al. 2009 and Kramartz Thesmar 2013 evidence of negative effects of social networks

TABLE 3. TFP and share of senior executive relationship by control type.

	Dependent Variable: log TFP					
	(1)	(2)	(3)	(4)	(5)	(6)
ϕ	0.11***	0.02	0.08*	0.09**	0.11**	0.12***
	(0.04)	(0.03)	(0.04)	(0.04)	(0.04)	(0.04)
$\phi \cdot$ foreign	−0.03	0.01	0.02	−0.05	0.02	−0.02
	(0.06)	(0.05)	(0.07)	(0.06)	(0.07)	(0.07)
$\phi \cdot$ family	−0.17***	−0.10**	−0.17***	−0.13**	−0.11**	−0.13**
	(0.05)	(0.04)	(0.05)	(0.05)	(0.05)	(0.05)
$\phi \cdot$ government	−0.47***	−0.32***	−0.42***	−0.37***	−0.34***	−0.29**
	(0.09)	(0.07)	(0.11)	(0.09)	(0.11)	(0.12)
Observations	5875	5943	4897	6840	5136	5136
R-squared	0.47	0.49	0.45	0.47	0.53	0.54

Note: The variable ϕ is the share of senior executives who have been with the firm at least 5 years in columns (1), (2), (5), and (6), at least 7 years in column (3), and at least 3 years in column (4). All regressions are weighted with sampling weights with the exception of column (2), which is unweighted. All regressions include control type dummies, year dummies, and two-digit sector dummies. Column (5) also includes firm size (log of the number of employees), firm age (log), the average age of the workforce (log), and the share of executives, of white collar workers, and of male workers as a fraction of the total workforce. Column (6) includes the same additional controls as in column (5) interacted with ownership dummies. Robust standard errors are given in parentheses. Significance levels for the null hypothesis of a zero coefficient are labelled with asterisks: * is 10%, ** is 5%, and *** is 1%.

Source: Lippi and Schivardi, 2014; matched employer- employees data, Italy

And also wrong incentive schemes

- Family owners that prefer non pecuniary private benefits at the expense of profits may dislike high powered profit based remuneration schemes, as these increase the stake of managers in profits and they may oppose pursuing amenities (Bandiera et al 2015)
- Second generation family CEOs less likely to adopt core managerial practices (Lemos and Scur, 2018)

=> Hence family firms less attractive for talented managers and and consequent lower profiits and productivity

Adoption of incentive based remuneration schemes

Table 4
Firm Ownership and Personnel Policies

	Incentive Index	
	(1)	(2)
Family or founder ownership	−.640***	−.527***
	(.164)	(.186)
Other ownership	−.203	−.240
	(.194)	(.216)
MNE		.836***
		(.159)
50–100 employees		−.220
		(.199)
100+ employees		−.035
		(.172)
Constant	2.910***	.196
	(.129)	(2.556)
Controls	No	Yes

Source: Bandiera et al. 2015. Italy service sector executives

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Revisiting the concept of amenity in an ESG world

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ESGs: social criteria

ESG DEFINITION FROM INVESTOPEDIA

Social criteria look at the company's business relationships. Does it work with suppliers that hold the same values as it claims to hold? Does the company donate a percentage of its profits to the local community or encourage employees to perform volunteer work there? Do the company's working conditions show high regard for its employees' health and safety? Are other stakeholders' interests taken into account?

ESGs and family firms: 2 issues

Pursuing ESGs means moving from a shareholder to a stakeholder economy

2 main issues:

1. Shareholders' benefits are profits and market value, precisely those that family firms are apparently less likely to achieve
   (Productivity is not necessarily profits or market value, but these are the metrics that the literature on family firms uses to evaluate their performance and as a proxy of efficiency)

2. Are amenities, fully private? Is it all «amoral familism» (Banfield, 1958) ? Or do they also benefit stakeholders?

   - Longer term approach
   - Loyalty to workers and local communities
   - Social objectives

ESGs Family Firms and Productivity A research agenda

Questions for a research agenda:

1. Is there evidence that *amenities* of family firms are ESG compatible?
2. Do family firms have a *comparative advantage* in achieving ESG goals?
3. Is pursuing amenities consistent with ESG goals still detrimental to productivity when *(i)* firms start operating in an ESG environment (e.g funds granted on the basis of ESG criteria) or *(ii)* in especially adverse conditions (e.g. Covid)?

Are amenities of family firms ESG consistent?

- *Lower wages/more Job security*
  - Sraer and Thesmar 2007 and Bassanini et al. 2013 using employer employee data for France: family firms pay lower wages but provide stable employment.
  - Bennedsen et al 2019 for 28 countries and 10 years: Family firms lower variation in employment levels in less regulated markets (indirect evidence of relationship grounded implicit contract)
  - Mueller Philippon, 2011: Family ownership more pervalent when labour relations hostile becuse long term links make workers more cooperative (but ….also because family managers can be tougher because of large ownership stake)

- *Long term innovation horizon*
  - Amore et al., 2021 compare family and non-family owned corporate venture capital deals and find that family control entails a mix of risk mitigation and longterm preferences beneficial for venturing activities.

- *Gender*
  - Khan, 2015: women in early 19th century France were extensively engaged in entrepreneurship and innovation, and that their commercial efforts were enhanced by association with family firms

Exceptional hardship
Do ESG consistent amenities make family firms better able to cope?

Exceptional conditions, Covid 19, Amore et al 2020 on Italian listed firms (CAPM adjusted exceptional returns).

Potential arguments for better investment performance of family firms:

- Higher attachment to the firm
- Higher employees satisfaction: coping with stress and alternative work arrangements; higher likelyhood of keeping the job
- Long term investment horizon

Arguments for worse investments performance:

- Reluctance to shed workers (which is in itself an implicit expropriation of minority investors)

Exceptional hard times
Do ESG consistent amenities make family firms better able to cope?

Table 7.

Difference-in-differences regressions of returns by CEO type

This table reports the results of a difference-in-differences estimation of daily abnormal returns during the first quarter of 2020. In Column 1 we include the *Post COVID* variable (i.e. a dummy variable equals to 1 for the time period from 24th February 2020 to 31st March 2020, and equals to 0 before this period), a dummy equal to 1 for family firms with a family CEO (and to 0 otherwise), a dummy variable equal to 1 for family firms with a professional CEO (and to 0 otherwise), and the interaction between the *Post COVID* dummy and the *Family firm with family CEO* and *Family firm with non-family CEO* dummies. In Column 2 we include firm fixed effects (thus removing the *Family firm with family CEO* and *Family firm with non-family CEO* dummies as they don't change within the considered time-frame). Finally, in Column 3 we also include day fixed effects. Standard errors (in parentheses) are clustered by firms (Column 1-3) and by both firms and days (Column 4). *, **, and *** denote significance at (respectively) the 10%, 5% and 1% level.

Dependent variable: Abnormal returns	(1)	(2)	(3)	(4)
Post COVID	-0.1375***	-0.1374***		
	(0.0489)	(0.0494)		
Family firm with family CEO	-0.1099**			
	(0.0488)			
Family firm with non-family CEO	-0.1144**			
	(0.0537)			
Post COVID×Family firm with family CEO	0.1869**	0.1872**	0.1862**	0.1862*
	(0.0753)	(0.0759)	(0.0756)	(0.1010)
Post COVID×Family firm with non-family CEO	0.1176	0.1187	0.1176	0.1176
	(0.0763)	(0.0771)	(0.0767)	(0.0875)
Firm fixed effects	No	Yes	Yes	Yes
Day fixed effects	No	No	Yes	Yes
Standard error clustering	Firm	Firm	Firm	Firm-day
Observations	30,160	30,160	30,160	30,160
Adjusted R^2	0.000	-0.005	0.055	0.055

Source: Amore et al. 2020

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Summing up policies

Primary goal productivity and growth

- What is the target?What Policies?
  - *Ownership ? Increase contestability?*
    - Inheritance taxes;
    - Reduce K market imperfections
  - *Governance?*
    - Legal protection of non executive shareholders (reduce risk of expropriation by managers)
    - Incentive to introduction of best practices (e.g fiscal incentives for profit linked remuneration)
    - Independent directors in board…

But as ESGs increasingly important policy and corporate objectives

Family firms may be well placed to react to this environment and reduce the discrepancy between the pursuit of private non pecuniary objectives and productivity growth

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