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Abstract

This paper investigates the impact of family CEOs on firm organizational choices and the causes and consequences of these decisions. We focus on second-generation (dynastic) family firms, collect new data on CEO successions for over 900 firms in Latin America and Europe and merge it with unique data on organizational choices, specifically, structured management practices. We use variation in the gender composition of the outgoing CEOs' children for identification. There is clear preference for male heirs: conditional on number of children, having at least one son is correlated with a 30pp higher likelihood of dynastic family succession. As the gender composition of the outgoing CEO's children is unlikely to affect decisions on mid-level managerial practices, we use it as an instrumental variable for family succession. Dynastic CEO successions lead to almost one standard deviation lower adoption of structured management practices, with an implied productivity decrease of about 10%. We rationalize this finding with a new conceptual framework that accounts for the importance of implicit employment commitments to employees of dynastic firms in determining the adoption of monitoring technologies. We find empirical evidence that, controlling for lower levels of knowledge and skills of family CEOs, concerns for reputation and "family name" can play a role in constraining investment in structured management practices. Overall, our empirical results shed new light on dynastic firms' persistent performance deficit and apparent lag in the adoption of structured management practices.

JEL Classification: D22, M11, M12

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The ties that bind:
implicit contracts and management practices in family-run firms

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Abstract: This paper investigates the impact of family CEOs on firm organizational choices and the causes and consequences of these decisions. We focus on second-generation (dynastic) family firms, collect new data on CEO successions for over 900 firms in Latin America and Europe and merge it with unique data on organizational choices, specifically, structured management practices. We use variation in the gender composition of the outgoing CEOs children for identification. There is clear preference for male heirs: conditional on number of children, having at least one son is correlated with a 30pp higher likelihood of dynastic family succession. As the gender composition of the outgoing CEOs children is unlikely to affect decisions on mid-level managerial practices, we use it as an instrumental variable for family succession. Dynastic CEO successions lead to almost one standard deviation lower adoption of structured management practices, with an implied productivity decrease of about 10%. We rationalize this finding with a new conceptual framework that accounts for the importance of implicit employment commitments to employees of dynastic firms in determining the adoption of monitoring technologies. We find empirical evidence that, controlling for lower levels of knowledge and skills of family CEOs, concerns for reputation and "family name" can play a role in constraining investment in structured management practices. Overall, our empirical results shed new light on dynastic firms' persistent performance deficit and apparent lag in the adoption of structured management practices.[1]

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1 Introduction

Family ownership and control is the predominant type of firm governance structure across the world.[2] *Dynastic* family firms — where members of the founding family own a controlling share of the voting rights and have appointed a family member to serve as the CEO — account for up to a quarter of mid-sized manufacturing firms across countries. Although there is mixed evidence on whether dynastic family *ownership* is beneficial to firm outcomes (Bertrand and Schoar, 2006; Villalonga and Amit, 2006), the weight of the evidence suggests that dynastic family *control* — that is, appointing a family CEO — is detrimental to productivity (Bennedsen et al., 2007; Bertrand et al., 2008; Cai et al., 2013; Caselli and Gennaioli, 2013; Morck et al., 2000; Perez-Gonzales, 2006). In this paper we propose that lack of structured management practices is one of the channels leading to the under-performance of dynastic family firms, and explore what drives the internal organizational choices of these firms. We develop a new survey to collect detailed data on firm ownership and CEO succession in private manufacturing firms across 13 countries, and combine it with unique datasets on firm-level management structures and on firm outcomes that allow for a deeper understanding of the consequences of dynastic family control.

Our analysis has two parts. First, we focus on the question of *whether* firms adopt structured management practices and present the first causal evidence that dynastic family firms adopt fewer of these practices. We start with documenting the relatively poorer performance of dynastic firms in terms of productivity and also lower adoption of structured management practices in our sample. Further, we show there is a positive relationship between structured management practices and productivity in both family and non-family firms. We address the endogeneity of CEO appointments in dynastic control successions using data on the family characteristics of the outgoing CEOs for 912 firms that had at least one succession across 13 countries. We exploit exogenous variation in the gender composition of the outgoing CEO's children as an instrument for dynastic CEO succession. Our results suggest that outgoing CEOs who, conditional on number of children, have at least one son are approximately 30 percentage points more likely to hand down the firm to a family member than those who had no male children. The IV results suggest that a succession to a family CEO leads to 0.96 standard deviations lower adoption of structured management practices relative to firms with successions to non-family CEOs. Such management practices have been widely shown to positively affect productivity (Bloom et al., 2013, 2018; Bruhn et al., 2018; Gosnell et al., 2016), implying the magnitude of the effect is akin to a productivity deficit of about 10%. Prior OLS estimates of this relationship were half as large, (Bloom et al., 2014; Bloom and Van Reenen, 2007) suggesting the impact of family control succession on adoption of management practices has been underestimated.

[2] See (Faccio and Lang, 2002; La Porta et al., 1999, 1997) for a summary.

The second part of our analysis addresses the puzzle of *why* dynastic firms adopt fewer structured management practices, despite the clear link between these practices and higher productivity. We take prior theoretical and empirical results on the owner's choice between a family CEO and a professional CEO as given, (Bandiera et al., 2015; Burkart and Panunzi, 2006) and, starting from the point where family CEOs exist in equilibrium, we ask why family CEOs choose to adopt fewer structured management practices.[3]

Two mechanisms most often ascribed to the difficulty in implementing organizational change in family firms relate to (a) lower levels of skill of family CEOs (Bennedsen et al., 2007; Bloom et al., 2013; Perez-Gonzales, 2006), and (b) lack of awareness of managerial underperformance (Gibbons and Roberts, 2013).[4] However, neither of these mechanisms reflect characteristics specific to family CEOs, or that may help explain systematic differences between the incentive structure of family and non-family CEOs. One well-established difference between firms run by each type of CEO is the strength of implicit employment commitments with workers. There is mounting empirical evidence that family firms treat their workers differently: they provide better job security as a compensating differential for lower wages (Bach and Serrano-Velarde, 2015; Bassanini et al., 2010), fare better in difficult labor relations settings (Mueler and Philippon, 2011) and provide more within-firm wage insurance (Ellul et al., 2014). We interpret these findings from the literature as "implicit employment commitments" present in family firms, and explore how they may affect the incentives for adoption of structured management practices in dynastic family firms. We propose a new conceptual framework to organize the discussion of the empirical evidence on this mechanism, relying on theoretical results from the managerial attention and relational contracts literature as a base (Baker et al., 1994, 2002b; Chassang, 2010; Halac and Prat, 2016).

In our framework, we have two types of CEOs: family and non-family. All CEOs face an industry-specific cost of disciplining workers (such as high unionization rates), but we assume family CEOs face an additional cost stemming from implicit long-term employment commitments to the workers of their firms, where employees do not expect to be disciplined (for example, sanctioned or fired). We see this as part of a *relational contract* that is specific to family firms and their employees.[5] There are two types of workers — high and low ability — who choose high or low effort. High ability workers exert high effort only when monitored (otherwise exerting low effort), while low ability workers always exert low effort. We let structured management be analogous to adopting

[3]The literature shows that family firms are utility-maximizing, and family owners often place a high premium on the private benefit of control. Thus, unlike the prediction of Berle and Means (1932), family owned and run firms exist in equilibrium. Further, we use "professional" simply to mean that the CEO's relationship to the firm is *exclusively* professional and she has no stake in the family private benefit.

[4]Bennett et al. (2015) show that skills and awareness alone fail to explain the full management gap in founder CEO firms, and we find a similar pattern when looking at dynastic family CEOs.

[5]For more on relational contracts, see Baker et al. (1994, 2002b).

an improved monitoring technology that allows the CEO to observe a worker's effort choice. Halac and Prat (2016) show that managers can invest in "attention" to motivate employees by recognizing good performance, but that there are deteriorating dynamics unless the attention and monitoring is used to recognize bad performance. Instead, we consider the monitoring technology investment to be intangible capital (as in Bloom et al. (2015b)) observable by the employees, who respond to this investment in their effort choice.

Our novel insight is linking this higher cost of disciplining workers to the family CEO's (dis)incentive to adopt structured management practices. In particular, we challenge the notion that family CEOs are not necessarily behaving optimally when choosing to adopt fewer structured management practices. Rather, the objective function of a family CEO includes maximizing the longevity of the firm, as well as personal and family utility (Gomez-Mejia et al., 2011; Villalonga and Amit, 2006). Thus, analyses that fail to consider threats to private benefit of control, especially relating to employees push-back of implementing structured management practices, lead to inaccurate conclusions about this unique, yet predominant, group of firms. We take our framework to the data to provide the first empirical evidence on this mechanism. We build proxies for the key parameters using data from a large firm-level data provider, BvD Orbis, the World Management Survey (WMS) and RAIS, the Brazilian employer-employee matched dataset. In particular, we use eponymy — whether the firm bears the family name — as a proxy for firm-specific "reputation exposure",[6] and industry unionization rates as a proxy for industry-level (common) costs of disciplining workers.

The framework delivers two key predictions relevant for this paper. First, family firms with high reputation exposure will adopt fewer structured management practices: this is because the reputation exposure makes it relatively more costly for family firms to discipline workers and reduces the motivation to invest in structured management. Second, industries with higher costs of disciplining workers (i.e. higher labour power) will have fewer firms under both types of CEOs adopting structured management practices. We find empirical evidence supporting these predictions.

Related literature This paper contributes to the literature on firm organization heterogeneity and its link to firm outcomes. First, we add to the studies on the importance of family firms in the global economy. Beyond the cross-country works of La Porta et al. (1999, 1997), other studies have also documented the share of family firms in Europe (Claessens et al., 2000; Faccio and Lang, 2002; Iacovone et al., 2015), Asia (Cai et al., 2013), and the US (Anderson and Reeb, 2003). We overcome the common limiting factor of data availability for private firms by hand-collecting new data and building first links

[6] Belenzon et al. (2017) used eponymy as a measure of reputation for first-generation (founder-run) firms.

across multiple rich datasets and show that dynastic family firms make up a substantial share of mid-sized manufacturing firms across the world. We also add to the limited evidence of causal effects of dynastic family succession.[7] Evidence points to CEO "style" being important (Bertrand and Schoar, 2003) and the weight of the evidence suggests a negative relationship between dynastic family CEOs and firm outcomes (Bandiera et al., 2012; Bertrand et al., 2008; Bertrand and Schoar, 2006; Cai et al., 2013; Claessens et al., 2002; Perez-Gonzales, 2006; Villalonga and Amit, 2006). Closest to our study is Bennedsen et al. (2007), where the authors use a similar IV strategy to show a causal relationship between a succession to a family CEO and lower productivity in Denmark. We add to these results by considering the effect of dynastic CEO succession on the adoption of structured management practices, and also collecting the first such family characteristics data for firm managers of non-Scandinavian countries.

Second, we contribute to the literature on understanding choices in organizational structures — such as structured management practices — and productivity. Our paper bridges two sets of findings on the under-performance of family-run firms and the relationship between structured management and productivity: we suggest that the lower productivity outcomes of dynastic family firms could stem partially from their under-adoption of these management process innovations. A number of papers find large variations in management practices across firms are strongly associated with differences in performance (Bloom et al., 2013, 2015b; Bloom and Van Reenen, 2007, 2010; Giorcelli, 2019), and also that there are large differences in the quality of management across firms and CEO types (Bandiera et al., 2012, 2017; Bertrand and Schoar, 2003; Black and Lynch, 2001; Ichniowski et al., 1997; Kaplan and Sorensen, 2017).[8] We add to correlational evidence in Bloom and Van Reenen (2007) of this under-performance in dynastic family firm management by presenting the first causal estimates of the effect of a dynastic family CEO succession.

Third, we bridge the largely theoretical literature on managerial attention and relational contracts with the empirical results in the family firms literature. We go beyond the current hypotheses that the under-performance of family-run firms is a result of mainly CEOs' skill shortage (Bennedsen et al., 2007; Bennett et al., 2015; Bloom et al., 2013),[9] and propose that the implicit long-term employment commitments in these firms matter because they

[7] More generally, the literature on family ownership, rather than control, offers mixed evidence: Demsetz and Villalonga (2001) finds of no relationship, Morck et al. (1988) finds an inverse-u relationship Caselli and Gennaioli (2013); Miller et al. (2007); Morck et al. (2000, 2005) find a negative relationship (Anderson and Reeb, 2003; Claessens and Djankov, 1999; Khanna and Palepu, 2000; Sraer and Thesmar, 2007) find a positive relationship.

[8] Further, Alexopoulos and Tombe (2012) estimates the effect of managerial process innovations on the economy and find a significant positive relationship between a managerial shock and aggregate output and productivity. In fact, they suggest that these innovations are "generally as important as non-managerial ones" in the macro context.

[9] While we find evidence that family CEOs do have less formal education, this difference fails to fully explain family-run firms' under-performance.

act as a reputational constraint on the adoption of better management practices.

The remainder of this paper is organized as follows: Section 2 describes the two key datasets used: the Ownership Survey and the World Management Survey. Section 3 presents the motivating set of descriptive statistics on management and productivity separately for family and non-family firms, and reports the empirical results of the causal relationship between a dynastic family CEO succession and adoption of structured management practices. Section 4 rationalizes this finding with a conceptual framework that accounts for the "reputation exposure" of dynastic CEO firms, then presents new empirical evidence supporting the predictions of the framework. Section 5 concludes.

2 Data

2.1 Ownership and Control History data: The Ownership Survey

We designed and implemented a new survey to collect data on the full history of ownership and control changes in a firm from its inception — the Ownership Survey (OS).[10] For those firms that were founded by a single founder or founding family, we also collect information on their family characteristics and the family's involvement in the management of the firm; the first such detailed data for non-Scandinavian countries. To determine ownership, the interviewees are asked to describe who ultimately owns the firm, and the interviewer is instructed to probe enough to find out who the single largest shareholding is and whether they own more than 25% of the controlling shares.[11] In short, if the founder or the descendants of the founder own the firm and a family member is the CEO, we classify the firm under "family control".[12] If the shares of the firm are owned by one or many individuals and the CEO is not related to them, we classify the firm as "non-family control." If a firm is owned by a family but has a non-family CEO, we classify them under the "non-family control."

The sampling frame of the OS was the sample of firms interviewed in the World Management Survey (WMS), a cross-country data collection project described below. The sampling frame includes manufacturing firms with more than 50 employees. The OS pilot

[10] Existing M&A databases, such as Zephyr and SDC Platinum only collect data on changes in *ownership* rather than changes in control. Fons-Rosen et al. (2008) have created a combined panel dataset using Zephyr data, and Bena et al. (2008) also developed an algorithm to create a Pyramid Ownership Structures dataset. Beyond the Scandinavian matched census datasets, however, there are no datasets that we are aware of that collect data on successions of *control* (rather than simply ownership), and include family characteristics of CEOs. More information on www.ownershipsurvey.org.

[11] We use the "25% of voting shares" threshold for majority ownership following what other firm surveys such as the World Management Survey and the Executive Time Use survey have done, though it is a higher bar than La Porta et al. (1997) set at 10%. Table C2 gives an overview of the ownership categories.

[12] Likewise, if a firm was sold to another entity (person or another family), and that entity (the new owner or a family member of the new owner) holds the CEO position, the firm would also be classified under "family control", though there were only two instances of this.

survey was carried out in 2013, and since then we have applied a portion of the questions alongside the 2014, 2015 and 2018 waves of the World Management Survey (WMS). We also hand-collected additional data and codified as many of the CEO information for previous waves of the WMS as possible. In the combined dataset, we have CEO information for 2710 firms across 18 countries, 1711 of which are not first-generation founder firms and have had at least one succession of control. Out of these firms, a total of 912 firms have had at least one succession that originated from a founder or family CEO as well as full information on the family history of the outgoing CEOs (920 succession points in total). This latter sample is the one we use for the IV analysis.

Starting from the full WMS sample of over 10,000 firms, Figure 1 presents a description of ownership structures in mid-sized firms across 36 countries. Two key observations emerging from this graph are: (i) middle- and low-income countries have a much higher share of family firms; (ii) when looking at mid-sized firm range, the firm size distribution is not particularly different across countries, as evidenced by the similar circle sizes representing median firm size. Figure 2, in turn, uses only data from founder- and family-owned firms and disaggregates the share of firms controlled by each of three types of CEOs: first generation founder CEOs, second generation dynastic family CEOs and non-family CEOs. Nearly 70% of firms in Asia and Africa are first-generation, while the share is lower in Latin America and much lower in OECD countries. In the latter two regions there is a higher share of dynastic family CEO firms, with such firms accounting for 42% and 52% of firms in each region respectively. Non-family CEOs are not common in family firms, but they tend to appear more in European and Anglo-Saxon firms than elsewhere, as predicted by Burkart and Panunzi (2006).

[Figure 1 about here.]

2.2 Organizational data: the World Management Survey

The World Management Survey is a unique dataset that includes levels of structured management practices from over 10,000 manufacturing firms collected from 2004 to 2018 across 36 countries. The WMS methodology uses double-blind surveys to collect data on firms' adoption of structured management practices and focuses on medium- and large-sized firms, selecting a sample of firms with employment of between 50 and 5,000 employees.[13] The median firm size across countries ranges between 200 and 300 employees.

[Figure 2 about here.]

[13]The WMS methodology was first described in Bloom and Van Reenen (2007). Survey instrument available at `www.worldmanagementsurvey.org`.

The WMS uses an interview-based evaluation tool, initially developed by an international consulting firm, that defines and scores a set of 18 basic management practices on a scoring grid ranging from one ("little/no formal practices") to five ("best practice"). A high score represents a best practice in the sense that a firm that adopts the practice will, on average, increase their productivity. The combination of many of these indicators reflects "good formal structured management practices" as commonly understood, and our main measure of management in this paper represents the average of these 18 scores. The tool can be interpreted as measuring the level of structured managerial practices in three broad areas: operations and monitoring, target-setting and people management practices.

The survey measures the extent to which these managerial structures are implemented in the firm, asking managers to describe their practices through open-ended questions rather than inviting their opinion. Analysts then independently evaluate these practices systematically on a set scale. Thus, the survey captures the degree of adoption and usage rather than the manager's opinions and abstracts from possible mood influences of individual managers. Beyond the key measure of managerial structures at the plant level, the survey also collects a wealth of information on the firm, including firm location, size, and other organizational features. While the WMS does not collect performance data, it has firm identifiers that allow for matching with external databases such as Bureau van Dijk (Orbis and Amadeus), Compustat and individual statistical agencies. A more thorough description of the WMS is provided in Appendix B.1.

To build the management index we follow the original paper with this data Bloom and Van Reenen (2007) and create z-scores for each of the 18 ordinal management practices, then take the average across them and again take the z-score of this sum to proxy for level of structured management practices. We refer to this variable as "z-management" in all our regression tables and interpret the coefficients in terms of standard deviations of management.[14] The standard deviation of the full WMS sample is approximately 0.66 points.

3 Dynastic CEOs, productivity and management practices

3.1 Management and productivity in family firms: descriptive evidence

We start with documenting that structured management practices are important for explaining variation in productivity of family firms as much as in non-family firms. The best evidence to date that covers a similar set of management topics we use in this paper is the experimental study in Bloom et al. (2013) with firms in India, all of which were family

[14] We have tested the results using the Principal Component in place of the average, and the results are robust.

firms. The authors find that the treated firms who adopted a set of management structures recommended by an international consulting firm improved their productivity by 17% in the first year, and improved likelihood of expansion.[15] To supplement these experimental findings from India, we present evidence on the correlational relationship between ownership and firm performance for a cross-sectional sample of over 6000 primarily European firms as well as a panel sample of over 500 Brazilian firms.

[Table 1 about here.]

Table 1 reports the conditional correlation of dynastic firms, management and log of sales per employee. Column (1) shows the baseline relationship between firm performance and dynastic family control. The coefficient of -0.365 suggests that having a dynastic CEO is correlated with 37% lower sales, relative to a non-family private firm (reference category). Column (2) includes a series of firm controls, including measures of log of capital, log of labor, log of firm age, an indicator for multinational status, as well as country and industry fixed effects. The gap reduces substantially to -0.08, though remains significant. Column (3) includes our standardized measure of management practices, which absorbs a substantial portion of the variation captured by the dynastic family CEO indicator. The coefficient on the management measure suggests a one standard deviation increase in management practices is associated with approximately 6% higher firm sales. We explore whether structured management practices matter more (or less) for family firms. We include an interaction term between management and the dynastic family CEO indicator in column (4). The result shows a small and insignificant relationship. In columns (5) and (6) we break the sample into family and non-family firms and show that the conditional correlation between our measure of management and log of sales is similar across the two sub-samples.

Given all the inherent issues with estimating OLS production functions,[16] we take all these results as merely indicative that the correlation between management and productivity is not likely to be absent for family firms. That is, we take the combined evidence to suggest that improvements to the management structures we measure here are, in fact, expected to improve firm performance — even in family firms. This should appease concerns that there is something happening within the organization of family firms that makes such practices irrelevant. Rather, we suggest that the lower adoption of these structured management practices could explain the poor productivity performance of family firms vs. non-family firms documented elsewhere in the literature.

[15] For a look at the long-term impacts, see Bloom et al. (2018)

[16] See the Appendix for a slightly better treatment.

3.2 Dynastic CEOs and management structures: descriptive evidence

Figure 3 shows the cumulative distribution of management quality for family firms led by a family CEO, family firms led by a non-family CEO and non-family firms. The Kolmogorov-Smirnov test of equality of distributions suggests that the distribution of management quality in non-family firms is not statistically different from the distribution of management quality in family owned firms led by a non-family CEO. The test also suggests that both distributions are statistically different from the family-owned and -run distribution of management. A number of factors could be driving this relationship. For example, if only the worst firms have family CEOs because nobody except a family member would accept running the firm, we would see this pattern but it would not be caused by the family CEO. To overcome this limitation of a simple correlational analysis, in this section we use an instrumental variables approach to explore the question of whether worse management is indeed a consequence of a succession to a family CEO.

[Figure 3 about here.]

For this part of the analysis, we use the firms in our Ownership Survey sample that have had at least one succession of control and were founded by a family. Table 2 shows the main descriptive statistics of the sample of firms used, and the difference in means between family and non-family firms. As the literature suggests that the "family behind the family firm" drives important differences in firm governance (Bertrand et al., 2008; Bertrand and Schoar, 2006), we turn first to the family characteristics of the outgoing CEO. We see evidence that the characteristics of the former CEO's children in family vs. non-family firms are significantly different from each other. On average, outgoing CEOs of firms that switched to non-family control are likely to have fewer children and likely to have fewer sons. However, conditional on the first child being male, the average number of children (family size) is not statistically different between the two groups.

[Table 2 about here.]

We first use the full World Management Survey dataset and run the OLS model below, and subsequently restrict our sample to only firms that have had at least one succession of control and use an IV approach. We report this exercise to be explicit about the sample we use in our dynastic firm analysis relative to the full random sample of firms in the WMS. The OLS results are reported in Table 3.

$$M_{isc} = \alpha + \boldsymbol{\beta_1'}\mathbf{Family_{isc}} + \boldsymbol{\beta_2'}\mathbf{NonFamily_{isc}} + \boldsymbol{\theta'}\boldsymbol{V_i} + \omega_s + \delta_c + u_{isc} \tag{1}$$

where M_{isc} is the z-scored management index for firm i in industry s in country c. $\mathbf{Family_{isc}}$ and $\mathbf{NonFamily_{isc}}$ are vectors of dummy variables indicating five ownership

and control categories broken down as follows: family firms are subdivided into "dynastic (2+ gen) family CEO" and "founder (1st gen) CEO," while non-family firms are subdivided into "privately owned, professional CEO" and "family owned, professional CEO."[17] The reference category omitted here is "dispersed shareholders". $\mathbf{V_i}$ is a vector of controls for firm i, including the log of the number of employees, log of firm age and a dummy variable for multinational status. The survey noise controls are a set of interviewer dummies, manager's tenure, day of week, survey year and interview duration. We also include country and industry fixed effects.

[Table 3 about here.]

Columns (1) and (2) use the full WMS sample. Column (1) shows the baseline relationship between the sub-categories and management excluding all controls, while Column (2) includes industry, firm and noise controls. The industry controls only slightly reduce the coefficients, but firm and noise controls account for a more substantial share of the variation. The estimates in Column (2) suggest that the average family owned, family CEO firm has 0.269 standard deviations worse management than the average dispersed shareholder firm. The average founder owned, founder CEO firm has 0.326 standard deviations worse management than the average dispersed shareholder firm. We also observe that firms with non-family CEOs, either family or privately owned, are also worse managed than dispersed shareholder firms but better managed than firms with family CEOs.

We include a parameter test of the equality of coefficients within and between the two broader categories of firm control and provide results at the bottom of the table. We first test the equality of the coefficients within each category of control, that is, a comparison of (i) dynastic family CEO and founder CEO; and of (ii) family owned, non-family CEO and privately owned, non-family CEO, showing that much of the difference between professionally-managed firms is accounted for by firm and industry controls. There are still significant differences, however, between family-run firms and non-family-run firms.

Columns (3) is restricted to only the countries that are also used in the IV analysis below, and Column (4) uses only the firms within these countries that are included in the IV specification. The sample we use for our IV approach is based on there being at least one *change in CEO* (or, succession of control) and also for which we have enough family history data (that is, data on our instrumental variables). All considered, our final dataset is a cross-section of 920 successions from 912 firms, where we have information on the outgoing CEO's family characteristics (that is, a $t-1$ family information).

[17] We refer to non-family CEOs as professional CEOs not to discredit family CEOs who are also professional CEOs, but rather to be clear about what we are considering the primary identity of each firm leader.

The coefficients in Column (4) are similar to those in Column (3). The exception is that the coefficient on family owned, non-family CEO firms is no longer significantly different from dispersed shareholder firms, though this might be reflecting a noisier estimate as a result of the lower number of this type of firm in the particular subset of countries we study.

The purpose of this exercise is to show that the pattern of lower adoption of structured management practices in dynastic family CEO firms is persistent across several subsamples of the data. The coefficient in Column (4) suggests that family-controlled firms in our analysis sample have, on average, 0.23 standard deviations worse management than dispersed shareholder firms. This is equivalent to about 35% of the standard deviation in the full management dataset.

3.3 Dynastic CEOs and management structures: causal evidence

It is not clear ex-ante which direction the OLS bias could run. On the one hand, if the firm is able to stay alive as a family controlled firm in a competitive environment, there is likely some positive productivity shock that both drives CEO choice and their choice of management practices. On the other hand, if only the worst firms are passed down to family CEOs because no non-family CEO would accept taking the job, we would expect a negative bias. There could also be reverse causality, as different control structures — say, less concentrated control — could lead firms to adopt more structured management practices, but it is also possible that more structured management in turn allows firms to transition to control structures with, say, less concentration of control at the top. In short, it is difficult to pin down the real effect of family control on firm performance and organization from an OLS analysis.

Thus, we explore the gender composition of the children of the outgoing owner-CEO of dynastic firms as a source of variation in family control that is exogenous to the adoption of management practices. We use three main variations of this instrument: (a) a dummy variable for whether there was at least one son among the children, conditional on the number of children (b) the number of sons, conditional on number of children, and (c) a dummy variable for whether the first child was male. The rationale is that if the owner-CEO has a male child they are more likely to keep the firm under family control. The gender of the first child instrument has been used by Bennedsen et al. (2007) with Danish data of family firms CEOs, for example. In the context of the countries in our sample where larger families are the norm, however, whether the first child is male or female is less predictive of family succession than whether at least one child out of the full set of children is male.

By design, this IV strategy requires that at least one succession of power has taken place.

Essentially, we are comparing "stayers" with "switchers": the "stayers" are firms that stay in family control, while the "switchers" are firms that were founded by a founder/founding family, but have since "switched" into non-family control (where the CEO is not related through family ties to the majority shareholders of the firm). We use the measure of managerial structures adopted that is contemporaneous with the CEO presiding during that time, and the information on the gender of the preceding CEO's children as the identifying variation.

The dependent variable of the first stage of our two stage least squares (2SLS) strategy is $FamilyCEO_i$, a dummy variable that takes a value of 1 when the firm has a dynastic family CEO and 0 when it does not. The first instrument, $HADSONS_i$ is a dummy variable that takes a value of 1 if the outgoing CEO had at least one son. The second instrument, $SONS_i$ is the number of sons the outgoing CEO had, entered as a step function. The third instrument, $FIRSTSON_i$, is a dummy variable that takes a value of 1 if the outgoing CEO had a male first child and 0 if not. $\boldsymbol{X_i}$ is the vector of firm controls. The first stage equations are as follows:

$$\begin{aligned} FamilyCEO_i &= \alpha_A + \rho_A HADSONS_i + \vartheta_A children_i + \boldsymbol{\eta'_A X_i} + \nu_{A,i} \\ FamilyCEO_i &= \alpha_B + \sum_{j=1}^{3} \rho_j SONS_j + \vartheta_B children_i + \boldsymbol{\eta'_B X_i} + \nu_{B,i} \\ FamilyCEO_i &= \alpha_C + \rho_C FIRSTSON_i + \boldsymbol{\eta'_C X_i} + \nu_{C,i} \end{aligned} \tag{2}$$

The second stage regression of the effect of dynastic family succession on the adoption of structured management practices is:

$$M_i = \alpha_D + \beta_D \widehat{FamilyCEO_i} + \vartheta_D children_i + \boldsymbol{\phi' X_i} + \epsilon_i \tag{3}$$

where M_i is a measure of managerial structures in the firm, $\widehat{FamilyCEO_i}$ is the predicted value from the first stage regression and $\boldsymbol{X_i}$ is the set of firm-level controls. The coefficient of interest is β_D: the effect of dynastic family control on the adoption of structured management practices. Table 4 shows a summary of the OLS and IV results. Column (1) repeats the OLS regression in Table 3 for ease of exposition. Column (2) shows the reduced form using the instrument from our preferred IV specification.

[Table 4 about here.]

The bottom panel of table 4 shows the first stage results for the three main instruments we use in Columns (3) to (5), and repeats the results for the instrument with the most straightforward interpretation — whether there was at least one son, conditional on number of children — in Columns (6) to (8). Column (3) of Table 4 suggests that, controlling for

number of children, a firm is approximately 30 percentage points more likely to have a succession to a family CEO if the previous CEO had at least one son. The Kleibergen-Paap Wald F-statistic test for weak instruments is 23.78, well above the Stock and Yogo (2005) 10% maximal IV size critical value (reported in the table for comparison). This suggests that the largest relative bias of the 2SLS estimator relative to OLS for our preferred specification is 10%.[18]

Column (4) shows the results of using the number of sons as an IV, entered as a step function with a dummy variable for each number of sons. The coefficients and significance levels are similar to those of the "had sons" IV in Column (3), predicting an approximate 29 percentage points likelihood of a firm staying in the family if there is exactly one son in the family, and similarly for higher numbers of sons. Because we have multiple instruments here we report the Sargan-Hansen test of over-identifying restrictions resulting Hansen's J statistic (because of the clustered standard errors) and corresponding p-value. We cannot reject the joint null hypothesis that the instruments are valid. However, this specification seems to have weaker instruments than our preferred specification as suggested by the lower Kleibergen-Paap Wald F-statistic of approximately 8.3.

In Column (5) we use the gender of the first child as the instrument. The coefficient suggests that having a male first child is associated with an approximately 15 percentage points higher probability of the firm remaining under the control of a family CEO. Considering the weak instruments test, the Kleibergen-Paap statistic sits between the specifications in Columns (3) and (4) with a statistic of 19.97. Although the gender of the first child would, in principle, be the most "random" instrument of our set, it is less informative than the other instrument sets because the majority of outgoing CEOs in our sample had multiple children (Table 2). Thus, our preferred specification is the one in Column (3), where we argue that, conditional on the number of children the outgoing CEO had, whether at least one was a son is as good as random. We expand on this argument below.

Turning to the top panel of table 4 shows the second stage results, along with the OLS results and reduced form. The results in Column (3) suggest that a succession to a family CEO leads to 0.96 standard deviations worse management practices, significant at the 5% level. The coefficients of the different iterations of the IVs are similar to each other, and not statistically different. Although the coefficient in Column (5) is not significant, the sign and magnitude of the coefficient are broadly consistent with that of the other iterations of the instrument, albeit quite imprecisely estimated.

In Columns (6) to (8) we break down the WMS management score into its three main

[18]The Kleibergen-Paap Wald statistic (Kleibergen, 2002; Kleibergen and Paap, 2006) is the heteroskedasticity-robust analogue to the first-stage F-statistic, and we report this value because we use clustered standard errors at the firm level. Although there are no critical values specifically for the K-P statistic, Baum et al. (2007) suggests that the Stock and Yogo (2005) critical values for the Cragg-Donald Wald F-statistic could be used and thus we report them here to facilitate comparison.

components, including operations and monitoring, target setting and people management. We see that the coefficients are broadly consistent with the overall management measure, suggesting the negative relationship between a family succession of control and management is not likely to be driven by any one particular sub-area of management, but rather is a more general effect. Table C4 in the Appendix repeats the analysis including sampling weights and different functional forms of the instrumental variables; the results are broadly consistent in terms of coefficient magnitude and direction of sign.

3.3.1 Instrument informativeness

The results from the first stage are economically meaningful and statistically significant, suggesting our instruments are informative. The strongest instrument we have is the dummy variable for whether the outgoing CEO had at least one son, conditional on the total number of children. In contrast to prior literature, we find that in the countries that we study, the gender of the *first child* is not as strong a predictor of family succession, with a male first child predicting only a 15 percentage points higher chance of family control. Figure 4 breaks down the firm control succession by the number of sons of the former CEO, providing a "visual first stage" and reinforcing the idea that outgoing CEOs who had at least one son are more likely to pass control of the firm dynastically.

[Figure 4 about here.]

3.3.2 Exclusion restriction

The identifying assumption is that the gender of the CEO's children is not directly related to any part of our measure of adoption of structured management practices. In our preferred specification, one concern is that CEOs who preferred male heirs could continue having children until they "successfully" had a son to pass the firm to. The exclusion restriction would not hold if this desire for a male heir led both to a larger family (more sons) and also to systematically more (or fewer) managerial structures. We address this potential issue in two ways.

First, we consider the relationship between desire for a male child and total number of children. At the time of data collection, all CEOs had completed their family size choices, which allows us to consider whether there is evidence of gender-picking in the sample. If the founders in our sample made family size decisions based on a desire to have at least one son, we could expect family sizes to be smaller if the first child was "successfully" male. Figure 5 plots the distribution of number of children conditional on the first child being male or female and shows that selectivity of family size based on the gender of the children is not much of a concern in the historically catholic countries studied here (the p-value of

the Kolmogorov Smirnov test of equality of distributions is 0.955).[19]

[Figure 5 about here.]

Second, we argue that the level of managerial structures is not directly vulnerable to biases related to higher effort. It is plausible that founders who were determined to conceive a male heir to take on the family business may also put in more effort in their business. This could be a problem when looking at outcomes that could be affected more directly by a CEO's higher effort (i.e. time spent) to leave a legacy to their children — such as sales or profits. Management, however, is an outcome that simple CEO effort or sheer determination has a much less straightforward effect on, as drivers of better management are not as simple as spending more time at work. Although it could be that more devoted CEOs also spend more time to increase their own levels of education — noted in Bloom et al. (2014) as one of the drivers of structured management — it is unclear it would yield large enough changes in the short run that would upset the validity of our IV.[20]

As additional evidence, we can exploit a set of firms in the WMS for which there is panel data covering a change in ownership and control between survey waves. Figure 6 uses data only for firms that had a change from founder ownership and control into either a dynastic or non-dynastic succession. Panel A ($t = 0$) shows that the management score for both types of ownership changes were not statistically different when they were founder controlled. Panel B ($t = 1$) shows that firms which had a non-dynastic succession improved their management score by more than twice as much as firms with the dynastic succession. This suggests that founders are not likely to be putting in differential effort into their management structures relative to the future succession decisions.

[Figure 6 about here.]

4 Mechanisms: why do dynastic family firms adopt fewer best practices?

The result that dynastic family CEO firms adopt fewer productivity-enhancing management structures leaves us with a puzzle. If the management structures we study lead to

[19] See (Bassi and Rasul, 2017) for evidence on faith-based fertility decisions in Brazil, for example. For a sub-sample of families, we have the order of the gender of the children and could run a model to check for stopping rules: that is, whether the probability of the last child being male or female was related to the first child being male or female. We do not find evidence of stopping rules in this sample. In terms of the IV specification using the gender of the first child, this is rather "purely" random since the countries we are including in the analysis do not have histories of selective abortion or infanticide.

[20] See Bandiera et al. (2012) for evidence on CEO time use. New evidence in *Lemos, (mimeo)* suggests that the effect of quality and quantity of tertiary education on management is significant, but small. Bloom et al. (2013) note that one of the reasons firm owners in their Indian experiment were not adopting better management practices was lack of information — they simply did not know that they were poorly managed or how to adopt these practices.

better firm performance, why are firms not adopting them? The two general mechanisms that are often ascribed to family firms — lower levels of skill and lack of awareness of managerial under-performance — fail to explain the full gap in the adoption of structured management.[21]

The WMS includes two relevant measures of awareness and skills. The first proxy variable comes from a self-scoring question asked at the end of the WMS interview: "On a scale of 1 to 10 and excluding yourself, how well managed do you think the rest of your firm is?" The answer is then re-scaled to match the 1 to 5 scale of the WMS. The second proxy variable is an indicator for whether the manager has a college degree. The results suggest that although both proxy variables are correlated with better management, both fail to explain much of the gap in management quality in dynastic family firms.

However, neither of these potential mechanisms reflect fundamental characteristics of family CEOs that may help explain systematic differences between the incentive structure of family and non-family CEOs. In this section we explore how implicit long-term employment commitments in family-run firms may affect their incentives to adopt structured management practices.

4.1 Conceptual framework: dynastic CEOs and reputation exposure

We base our framework on two established literatures: (1) on relational contracts, where, as a result of incomplete contracts, the relationship between principals and agents matters for continued production (Baker et al., 2002a; Barron and Powell, 2019; Chassang, 2010; Halac and Prat, 2016); and (2) on managerial attention, where, for example, Halac and Prat (2016) show that managers can invest in "attention" to motivate employees by recognizing good performance, but that there are deteriorating dynamics unless the attention and monitoring is used to recognize bad performance. We rely on the theoretical results from this work and offer a conceptual framework to guide the empirical exploration of our proposed mechanism.

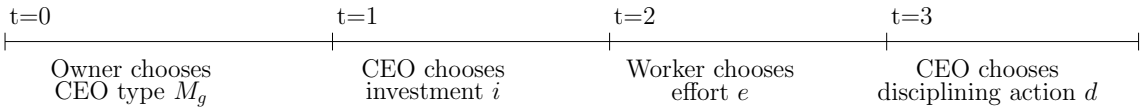
Consider a setting with a firm owner, a CEO and a set of workers. There are two types of CEOs: a family CEO and a non-family, "professional" CEO. The owner chooses between the two types: $Mg \in \{FAM, PRO\}$. A CEO has two choices to make: an investment choice, i, and a disciplining choice, d. The investment choice is a binary investment choice $i \in \{i_y, i_n\}$, where i_y denotes investment in the monitoring technology (i.e. adopting structured management practices) and i_n denotes no investment. The disciplining choice is also a binary choice $d \in \{D_n, D_y\}$, where D_n denotes keeping the worker, and D_y denotes

[21] For arguments relating to family CEOs' lower levels of skill see Bennedsen et al. (2007); Bloom et al. (2013); Perez-Gonzales (2006). For arguments relating to lack of awareness of managerial under-performance see Gibbons and Roberts (2013); Rivkin (2000). For empirical evidence from founder CEO firms see Bennett et al. (2015).

laying off (disciplining) the worker.[22] An action for the worker is a binary effort choice, $e_w \in \{\overline{e_w}, \underline{e_w}\}$, where $\overline{e_w}$ denotes high effort and $\underline{e_w}$ denotes low effort. The worker is hired by the CEO and is not a family member.

Workers can be of high or low ability: high ability workers have low cost of effort and will opportunistically choose to exert low effort (shirk) depending on the chance of getting caught. Low ability workers have high cost of effort and will never choose high effort.[23] For any given industry, there is a share of workers η of high ability, and a share of workers $(1-\eta)$ of low ability.

The timeline of the order of the actions is presented below. The owner moves first, at $t = 0$, to choose a CEO type. At $t = 1$, the appointed CEO chooses whether to invest in a monitoring technology or not. At $t = 2$ the workers decide whether to exert effort. At $t = 3$ production is realized and total profits generated. The CEO then decides whether to keep or fire workers and final payoffs are realized.



All decisions by the owner and the CEOs are public information. The worker's effort choice is observable by the CEO only if the CEO invested in the monitoring technology, otherwise the worker's decisions are private. Individual worker ability is private information, but within each industry the share of workers who are high ability, η, is public information.

Although investing in monitoring technology allows the CEO to observe the worker's effort level, the technology has a fixed cost and it is only worth adopting if the CEO uses the information to discipline the low-effort workers. All CEOs incur a fixed "industry cost" of disciplining workers, but the family CEO also has an implicit commitment with their workers that implies an additional cost of disciplining. We do not assume that professional CEOs are of higher ability than family CEOs, distinguishing this framework from others such as Burkart and Panunzi (2006). We purposefully allow CEOs to be of similar ability to consider alternative explanations behind the observed lower levels of profitability under the assumption that they are making rational and informed choices.[24] Here, profits are a function of worker effort and are higher when CEOs invest in monitoring because it induces higher worker effort.[25]

[22]The most extreme form of discipline is a layoff, so we use layoff going forward for ease of exposition. However, the concept would also apply to disciplining more generally, as long as it is considered "harsh."

[23]An alternative way to view this is that, even if low ability workers try to exert effort, it will never appear to be high effort and thus cannot be recognized as such.

[24]Conceptually, the model includes a cost of adoption of the management technology, m that is assumed to be equal across family and non-family CEOs. If we allow m to have a distribution that differs across CEO types, it is possible to take into account skills as well. It would only exacerbate the results of the model, rather than change the direction of the effects.

[25]This framework does not preclude family firm workers from having higher intrinsic motivation, as

4.1.1 Set up

Workers The payoff of a worker is a function of effort $e_w \in [\underline{e_w}, \overline{e_w}]$, wages, W, and the disciplining decision of the CEO, $d \in [D_n, D_y]$, detailed below. Let the utility function for the worker be:

$$u_w = \begin{cases} W - c_e(e_w) & \text{if} \quad d = D_n \\ W - c_e(e_w) \quad -c_d & \text{if} \quad d = D_y \end{cases} \tag{4}$$

where $c_e(e_w)$ is the cost of effort as a function of exerted effort, and c_d is the fixed utility cost of being disciplined.

CEOs Let the cost of disciplining workers that is common to all CEOs be exogenously set at ℓ. CEOs decide whether to invest in the monitoring technology $i \in [i_n, i_y]$, at a fixed cost m. The cost of adopting the monitoring technology m is personally incurred by CEO (both professional and family) as she is the executive in charge of pushing changes through. Let firm profits be a function of worker effort: $\pi(e_w)$.

Professional CEO: Professional CEOs are paid a share of profits, $\lambda\pi(e_w)$, as their compensation.[26] The utility function of a professional CEO is as follows:

$$u_{pro} = \begin{cases} \lambda\pi(e_w) \quad - [\ m \mid i = i_y\ ] & \text{if} \quad d = D_n \\ \lambda\pi(e_w) \quad - [\ m \mid i = i_y\ ] \quad - \ \ell & \text{if} \quad d = D_y \end{cases} \tag{5}$$

Family CEO: Family CEOs incur a cost of effort of running the firm $R \in [0, 1]$ but also accrue a private utility benefit from controlling their family firm, $B \in [0, 1]$. Let Γ be the net utility cost of control: $\Gamma = R - B$. $\Gamma \in [-1, 1]$.[27]

Because of implicit long-term employment commitments to employees, the family CEO incurs an additional cost of disciplining workers, $c_f(f)$ that is a function of the firm's reputation exposure f. For example, if the firm is a major employer in the region and would face a large backlash for reneging on implicit commitments to employees, such as cutting benefits or imposing mass layoffs. The total cost of disciplining workers for family CEOs is then $\ell + c_f(f)$ The utility function of a family CEO is as follows:

suggested by Bennedsen et al. (forthcoming), where they find evidence that workers in Danish family firms have lower absenteeism. An alternative way to think about the effort choices of workers is that low ability workers are simply not able to exert the high level of effort, despite wanting to or trying to.

[26] As contract design is not the focus of the model, we will take λ as given.

[27] The professional CEO's cost of effort in running the firm is embedded in the contract, and thus not made explicit.

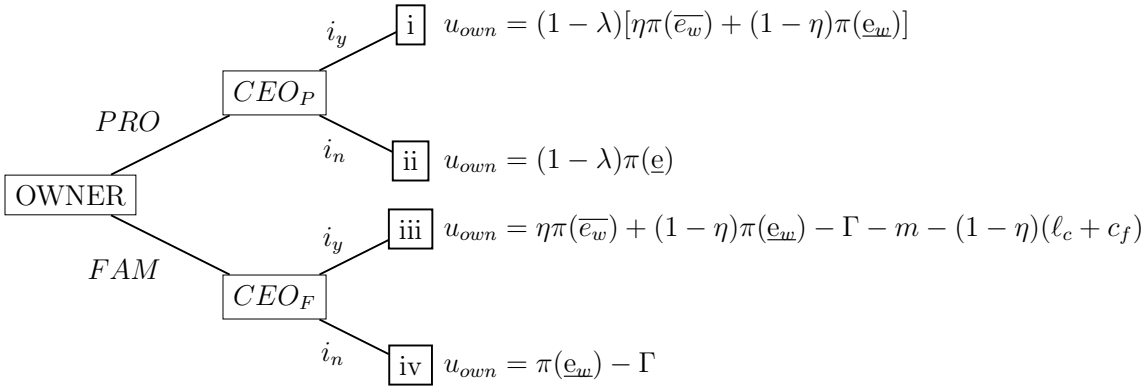
$$u_{fam} = \begin{cases} \pi(e_w) - [\, m \mid i = i_y \,] - \Gamma & \text{if} \quad d = D_n \\ \pi(e_w) - [\, m \mid i = i_y \,] - \Gamma - \ell - c_f(f) & \text{if} \quad d = D_y \end{cases} \tag{6}$$

In short, the two types of CEOs face the same payoff structure, but family CEOs have a value of $\lambda = 1$, and professional CEOs have $f = 0$ (implying $c_f(0) = 0$ and $\Gamma = 0$).

Owner The utility of the owner is equal to the family CEO's if the firm is family managed or the share of leftover profits if the owner chooses a professional $Mg = PRO$.[28]

$$u_{own} = \begin{cases} u_{fam} & \text{if } Mg = FAM \\ (1-\lambda)\pi(e_w) & \text{if } Mg = PRO \end{cases} \tag{7}$$

Equilibrium outcomes In equilibrium, there will be four types of firms. The individual decision criteria is detailed in the diagram below. For a given set of environment parameters (η, λ, ℓ, m and f), a firm will have one of four possible outcomes: (i) Professional CEO, adopts monitoring; (ii) Professional CEO, does not adopt monitoring; (iii) Family CEO, adopts monitoring; (iv) Family CEO, does not adopt monitoring. Imposing $\eta = 0.5$ and $\lambda = 0.3$ yields the solution depicted in Figure 7.[29]



[Figure 7 about here.]

4.2 Mechanisms: discussion and empirical evidence

The owner's choice between family or professional management has been the subject of a large body of research. Chami (2001) suggests owners choose family management because

[28] The implicit simplification here is that this is the extreme case where the family CEO yields the entire profit to the "family pot". We choose this simplification because the focus of the framework is not on the owner's choice of family or professional CEO but rather the choices of the CEOs. The owner would still opt for family management for a share of profit as long as the total share of profit is larger than what they would earn from a professional CEO.

[29] This implies half of the workforce is high ability and the share of profits that need to be paid in wages to the professional CEO is 30%.

within-family trust mitigates costly moral hazard problems, Bhattacharya and Ravikumar (2001) suggest that owners only hire outsiders after they surpass a threshold of firm size, that in turn depends on the strength of the context's capital markets. Burkart and Panunzi (2006) focus on the probability and cost of expropriation by an outsider as the key mechanism keeping firms "in the family", and identify the strength of legal systems as an important factor in the appointment of outside managers. We base our framework on these models and take the theoretical and empirical result that, in equilibrium, both family and non-family CEOs run family-owned firms. The focus of our framework is on the organizational decisions of each type of CEO: the choice of whether to invest in monitoring technology (management practices) or not.

This framework yields the following relevant predictions:

Prediction 1: *Family CEO firms with high reputation exposure will adopt fewer structured management practices.*

Prediction 2: *Both family and non-family CEOs in industries with higher overall disciplining costs will adopt fewer structured management practices.*

Corollary: *Family CEO firms with high reputation exposure in higher overall disciplining cost industries will adopt even fewer structured management practices.*

4.2.1 Building empirical proxies

We consider whether these predictions are consistent with empirical evidence using a combination of the WMS, BvD Orbis and the Brazilian employer-employee datasets. In this section we describe the data used to build proxies for the main parameters in the framework.

Family cost of discipline: reputation exposure. We propose that family firms offer a stronger, albeit informal, *long-term employment commitment* to their employees. While *all* family firms can be exposed to punishment if they renege on this commitment, we propose that *eponymous family firms* — that is, firms that bear the founding family's name — are more exposed. There is evidence that eponymy in family firms is linked to both reputation benefits and costs (Belenzon et al., 2017), and there are myriad accounts in the news media of eponymous firms being particularly singled out for worker-related decisions, as in Saltzman (2018). Thus, we proxy reputation exposure in our framework with eponymy, assigning a value of 1 to the indicator when the firm's name includes the CEO's last name. The assumption is that eponymous firms have higher c_f as a result of their reputation exposure f.

[Figure 8 about here.]

To validate this measure, we match the WMS firms to the Brazilian employer-employee dataset (RAIS), which includes the full roster of formal employment in the country. RAIS records the reason for separation for each job spell, allowing us to differentiate between workers who quit and those who were fired. If eponymy is a good proxy for firm reputation exposure, we would expect eponymous family firms to respond less to a negative shock, that is, fire fewer workers. Using the 2009 recession as a shock, Figure 8 shows the different firing rates for eponymous and non-eponymous firms pre- and post-recession. While eponymous firms do not change their firing rates significantly, non-eponymous family firms do significantly increase their firing rates post-recession. We do not claim this is causal evidence, but simply that the pattern corroborates the anecdotal evidence that eponymy is a reasonable proxy for f. It is worth noting that the firms in the sample are medium-sized firms employing approximately 200 employees. Thus, these firms are not solely employing their family members and the implicit employment commitment should be seen as one between non-family members.

Common cost of disciplining workers: unionization Our framework includes a common cost of disciplining workers that applies to both types of CEOs. Conceptually, this is akin to costs related to high union power within a particular industry, and we proxy for this cost with a WMS measure of 2-digit industry-level unionization rates.[30]

Adoption of monitoring practices We use the WMS sub-index of people management to proxy for the adoption of monitoring practices. We repeat the exercise with the average management score and the results are robust. However, we choose to focus on the set of questions that deal with personnel practices as the primary argument in our conceptual framework speaks to the relationship between managers and workers. The people management score measures the adoption of practices relating to monitoring, selection and reward of workers within the firm.

4.2.2 Empirical evidence for the predictions

Prediction 1: *Family CEO firms with high reputation exposure will adopt fewer structured management practices.*

[Figure 9 about here.]

[30]Stringent labor laws are another example of such common costs. While an alternative view could be that highly unionized environments have a greater need for "paperwork" in order to fire a worker and thus more monitoring, the concept is that even with more monitoring it would still be expensive to discipline workers — to the point that it is no longer profitable to invest in monitoring.

We expect to see family CEO firms with relatively higher reputation exposure investing less in monitoring relative to family CEO firms with higher reputation exposure.

We show the cumulative distribution function for people management for eponymous and non-eponymous family firms in Figure 9. The CDF for non-eponymous firms stochastically dominates the distribution for eponymous firms (Kolmogorov-Smirnov test of equality has a p-value of 0.0105), suggesting eponymous firms have fewer people management practices, consistent with the prediction.

Table 5 summarizes the empirical support for this prediction. Columns (1) and (2) show the reduced form results of a dynastic family firm dummy on overall management practices, and columns (4) and (5) and (7) and (8) repeat the exercise for only the people management index and the operations management index.[31] Column (1) shows that a dynastic family firm adopts 0.14 standard deviations fewer structured management practices, and the coefficient barely moves when the skills and knowledge proxies are included. In Column (3) we split the dynastic firm dummy into two: *eponymous* dynastic firms and *non-eponymous* dynastic firms. The results suggest that the negative relationship between the adoption of overall structured practices is being driven by the eponymous dynastic firms. Though both are negative and statistically significant, the eponymous dynastic firms coefficient is significantly different from the non-eponymous dynastic firms coefficient at the 10% level (p-value 0.066).

[Table 5 about here.]

Considering the people management and operation management components, Column (6) suggests that the lower adoption of structured people management practices is driven by eponymous dynastic firms. The non-eponymous coefficient is not significant, and is statistically different from the eponymous coefficient at the 10% level (p-value 0.075). Finally, we also see a difference between eponymous and non-eponymous coefficients in operations management, though they are marginally not statistically different from each other at the 10% level (p-value 0.103).

Prediction 2: *Both family and non-family CEOs in industries with higher overall disciplining costs will adopt fewer structured management practices.*

[Figure 10 about here.]

Figure 10 reports the local linear regression (lowess) plot of the negative relationship between share of unionized workers and the firm's score in people management. This is the case for both family and non-family CEO firms, consistent with the framework.

[31] Note that for this analysis we use the full WMS dataset, though only include firms for which we could match CEO/board member names to the firm names from BvD Orbis.

Corollary: *Family CEO firms with high reputation exposure in higher overall disciplining cost industries will adopt even fewer structured management practices.*

[Figure 11 about here.]

A corollary is that there is an additive effect of the common costs of disciplining, such as unionization rates, and reputation exposure: even if an industry faces low unionization rates, firms with high reputation exposure will adopt fewer management practices. To illustrate the marginal effects, we use a continuous measure of unionization — log of industry unionization — and plot the marginal effect at each level of unionization rates for eponymous and non-eponymous firms in Figure 11. While both types of firms have a negatively sloping relationship, the slope of the firms with higher reputation exposure (eponymous firms) is steeper. Taken together, the descriptive evidence in this section provides empirical support for the arguments proposed in the conceptual framework.

5 Conclusion

The core economic question in this paper relates to the determinants of organizational choice within firms and the consequences of these decisions. More specifically, we explore the case of dynastic family firms to estimate the effect of dynastic family succession on their organization and performance, and provide a novel take on what might be behind the under-adoption of productivity-enhancing structured management practices. Given the dearth of data for private and family firms, particularly for emerging economies, we collect a rich new dataset on the history of ownership and control successions for a sample of firms in Latin America and Europe, and match it with a unique dataset on firm organizational structure and managerial practices. We go beyond the correlational findings of Bloom and Van Reenen (2007, 2010) and, using an instrumental variables approach, provide the first estimates of a causal relationship of dynastic CEO succession and lower adoption of structured management practices. We exploit the gender of the outgoing CEO's children as exogenous variation, and our OLS and IV-2SLS results suggest that there is a statistically significant negative effect of family control, with estimates of -0.234 (OLS result) and -0.959 (IV result) standard deviations lower adoption of structured management practices.

Relying on the body of work that has provided evidence on the strong relationship between managerial practices and firm performance, we suggest that this under-adoption is likely a reason behind dynastic family firms' documented lower levels of productivity. We add to the correlational evidence on the relationship between management practices and performance by presenting estimates focusing on family firms specifically. Combining this with our IV results suggests an implied productivity decrease up to 10%. This result

is within the same range as the main productivity deficit results of dynastic family firms in Denmark (Bennedsen et al., 2007).

We then consider the possible mechanisms behind this under-adoption of structured management in family firms, despite the productivity benefits of such practices. We first explore the often-cited reason of lower levels of skill among family CEOs and, although managers in family firms are less aware of the true nature of their quality of management and tend to have lower skill levels, we find that these factors do not fully explain their gap in investment in good management practices. We propose that the implicit employment commitments of family firms that have been previously documented in the literature may affect the incentives of family CEOs to adopt better management practices. We build a conceptual framework to help organize the discussion of the empirical evidence on this aspect, and take it to the data where we find support for the predictions.

Our framework assumes family CEOs have implicit long-term employment commitments to the workers of their firms, and thus incur a higher cost of disciplining workers relative to non-family CEOs. The framework's predictions rest on two key parameters that affect the motivation for investing in a structured management technology: the family reputation exposure c_f, the industry-level cost of disciplining workers ℓ_c. This framework helps explains why we might see the distribution of management practices present in the data, where both family CEO firms and professional CEO firms have high and low adoption of management across the distribution, but the distribution of management adoption in professional CEO firms stochastically dominates the family CEO distribution. A key difference in this conceptual framework relative to previous ones is that we do not need to assume that family CEOs are of lower ability, but rather that they are simply responding to differential costs of investing in a type of monitoring technology (here, managerial practices) because of the unique structure of implicit commitments with their employees. We find empirical support for the predictions of the model.

There is a rich theoretical literature on relational contracts and organizational design, and also a rich empirical literature on the measurement and adoption of organizational practices. However, the two rarely overlap. This paper bridges the two literatures by borrowing the insights from the theoretical work and including a serious treatment of implicit contracts in considering the barriers to adoption of otherwise-optimal management practices. There are important policy implications from this work. As family firms make up a large share of mid-sized firms, which in turn make up a large share of employment, improving productivity in these firms is a key policy goal. Process innovation such as improved managerial practices has been shown to be an important driver of aggregate productivity but, naturally, only if firms and organizations adopt the innovative processes. Thus improving such practices as well as increasing their adoption rates can be an important lever to improving productivity. To the best of our knowledge, this is the first piece of work to show

causal evidence of this negative effect of dynastic family control on *internal organization of the firm*. Although a naive solution could be that all family firms hire professional CEOs, that would be an unrealistic prescription. There are binding institutional constraints that bar many firm owners in emerging economies from pursuing this avenue — for example, when rule of law is wanting and the risk of expropriation is too high to be worth appointing a professional CEO — and also owner-managers preferences for being their own boss. If we accept family control is the necessary (or preferred) control structure for many firms, it is thus crucial to understand what may be the barriers to adoption of better management practices *within family firms*. Implicit commitments between family managers and their workers should factor into both how management upgrading projects are presented to prospective firm managers as well as into the expected take-up and long-term adherence of such improvements.

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Tables

Table 1: Management and firm performance in dynastic family firms: descriptive evidence using public accounts data (Orbis)

	(1) ln(sales)	(2) ln(sales)	(3) ln(sales)	(4) ln(sales)	(5) ln(sales)	(6) ln(sales)
Ownership and control categories						
Private firms (reference category)						
Dynastic family CEO	-0.365***	-0.080**	-0.038	-0.036		
	(0.060)	(0.033)	(0.034)	(0.034)		
Management variables						
z-management			0.057***	0.063***	0.087***	0.052***
			(0.014)	(0.017)	(0.031)	(0.017)
z-management x Dynastic family CEO				-0.005		
				(0.029)		
Firm controls		✓	✓	✓	✓	✓
Industry FE		✓	✓	✓	✓	✓
Survey noise controls			✓	✓	✓	✓
Observations	6125	6125	6125	6125	895	4465
R^2	0.275	0.776	0.780	0.780	0.799	0.782
Sample:	**All WMS firms**	**All WMS firms**	**All WMS firms**	**All WMS firms**	**Family WMS firms**	**Non-family WMS firms**

* $p < 0.1$, ** p < 0.05, *** $p < 0.01$. Standard errors in parentheses.

Note: Regressions estimated by OLS. Standard errors clustered by firm. Sales, employment and tangible assets (capital) data from Orbis Bureau van Dyjk (public accounts data). Includes only data from the WMS that could be matched to sales data from BvD. Management data from the World Management Survey. z-management is the plant-level standardized average management score (18 practices). Firm controls include country dummies, log of employment, log of capital, log of firm age, and whether the firm is a multinational. Industry fixed effects are at the 3-digit SIC level. Survey noise controls include analyst dummies, year of survey, day of week, and manager tenure.

Table 2: Difference in means: family vs. non-family succession

	Family Mean	Non-family Mean	Diff in means	T Stat	Family N	Non-family N
Family characteristics						
Of outgoing founder						
First child = male	0.76	0.62	-0.14***	-3.62	725	176
Had at least one son	0.95	0.79	-0.16***	-5.05	732	180
# children	3.14	2.53	-0.61***	-4.43	732	180
# children | first = boy	3.13	2.97	-0.15	-0.85	554	109
# boys	2.01	1.48	-0.53***	-5.61	729	179
Firm characteristics						
# employees	451.23	580.57	129.33	1.83	732	180
Firm age	50.91	45.99	-4.92*	-2.03	732	180
% of managers with degrees	54.56	67.43	12.87***	4.55	732	180
Multinational = 1	0.12	0.42	0.30***	7.82	732	180
Share in low tech industries	0.46	0.37	-0.09*	-2.22	732	180
Levels between CEO and shopfloor	3.20	3.50	0.31**	2.81	732	180
# direct reports to plant manager	7.23	7.19	-0.04	-0.10	732	180
Avg hrs/wk, manager	48.34	47.98	-0.36	-0.66	729	180
Avg hrs/wk, non-manager	42.67	42.78	0.11	0.35	728	180
# production sites, total	2.48	3.23	0.76	1.20	732	180
# production sites, abroad	0.50	1.37	0.88	1.48	732	180

Table 3: Ownership and control structures on quality of management: regressions using full WMS sample and sample used in the IV analysis

	(1) z-management	(2) z-management	(3) z-management	(4) z-management
Dispersed shareholders (reference category)				
Family CEO				
Family owned, family CEO	-0.544***	-0.269***	-0.277***	-0.234**
	(0.025)	(0.023)	(0.032)	(0.106)
Founder owned, founder CEO	-0.789***	-0.326***		
	(0.024)	(0.024)		
Non-family CEO				
Family owned, professional CEO	-0.355***	-0.117***	-0.100**	0.125
	(0.035)	(0.031)	(0.041)	(0.205)
Privately owned, professional CEO	-0.265***	-0.116***	-0.117***	-0.237*
	(0.021)	(0.019)	(0.028)	(0.134)
Observations	15960	15960	6596	920
R^2	0.148	0.363	0.284	0.254
Noise controls		✓	✓	✓
Firm controls		✓	✓	✓
Industry controls	✓	✓	✓	✓
Sample used:	**Full WMS**	**Full WMS**	**IV countries**	**IV firms only**
Tests of equality (p-values)				
Family CEOs	0.000	0.017		
Non-family CEOs	0.009	0.996	0.663	0.086
Family vs non-family CEOs	0.000	0.000	0.000	0.051

* $p < 0.1$, ** p < 0.05, *** $p < 0.01$. Standard errors in parentheses.

Note: All columns estimated by OLS with standard errors clustered by firm. All data comes from the World Management Survey. z-management is the plant-level standardized management score. General controls include firm-level controls for average hours worked and the proportion of employees with college degrees (from the survey), plus a set of country dummies. Noise controls include a set of interviewer dummies, the seniority and tenure of the manager who responded, the day of the week the interview was conducted, the time of day the interview was conducted and the duration of the interview. The base category here is firms with dispersed shareholder ownership.

Table 4: IV-2SLS results for the effect of family control on firm managerial structures

	OLS	**Reduced Form**	**IV Second Stage results**					
	(1) z-mgmt	(2) z-mgmt	(3) z-mgmt	(4) z-mgmt	(5) z-mgmt	(6) z-ops/monitor	(7) z-targets	(8) z-people
Family CEO = 1	-0.234**		-0.959**	-0.877**	-0.531	-0.782*	-0.925**	-0.836**
	(0.106)		(0.431)	(0.424)	(0.465)	(0.451)	(0.428)	(0.419)
Had at least 1 son		-0.274**						
		(0.126)						
# Firms			912	908	902	912	912	912
K-P Wald F-statistic			23.78	8.287	19.97	23.78	23.78	23.78
Stock-Yogo 10% CV			*16.38*	*16.38*	*16.38*	*16.38*	*16.38*	*16.38*
Stock-Yogo 15% CV			*8.96*	*8.96*	*8.96*	*8.96*	*8.96*	*8.96*
Stock-Yogo 20% CV			*6.66*	*6.66*	*6.66*	*6.66*	*6.66*	*6.66*
Hansen's J statistic				1.158				
Hansen's J p-value				0.561				
			IV First Stage results					
Excluded instruments								
Had at least 1 son			0.300***			0.300***	0.300***	0.300***
			(0.061)			(0.061)	(0.061)	(0.061)
1 son				0.285***				
				(0.063)				
2 sons				0.305***				
				(0.064)				
3+ sons				0.338***				
				(0.069)				
First child = male					0.149***			
					(0.033)			
Control for family size: linear	✓	✓	✓	✓		✓	✓	✓
# Firms	912	912	912	908	902	912	912	912
# Observations	920	920	920	916	909	920	920	920
R^2	0.333	0.346	0.061	0.066	0.029	0.061	0.061	0.061

* $p < 0.1$, ** p < 0.05, *** $p < 0.01$. Standard errors in parentheses.

Note: Columns (1) and (2) estimated by OLS with standard errors clustered by firm. Columns (3) through (8) are estimated by IV-2SLS using Stata's `ivreg2` command. Management data comes from the World Management Survey. z-management is the plant-level standardized management score. Ownership and family history data comes from the Ownership Survey. General controls include firm-level controls for average hours worked, whether the firm is listed on the stock market, plus a set of country dummies. Noise controls include a set of interviewer dummies, the seniority and tenure of the manager who responded, the day of the week the interview was conducted, the time of day the interview was conducted and the duration of the interview.

Table 5: Mechanisms: higher cost of firing (eponymy)

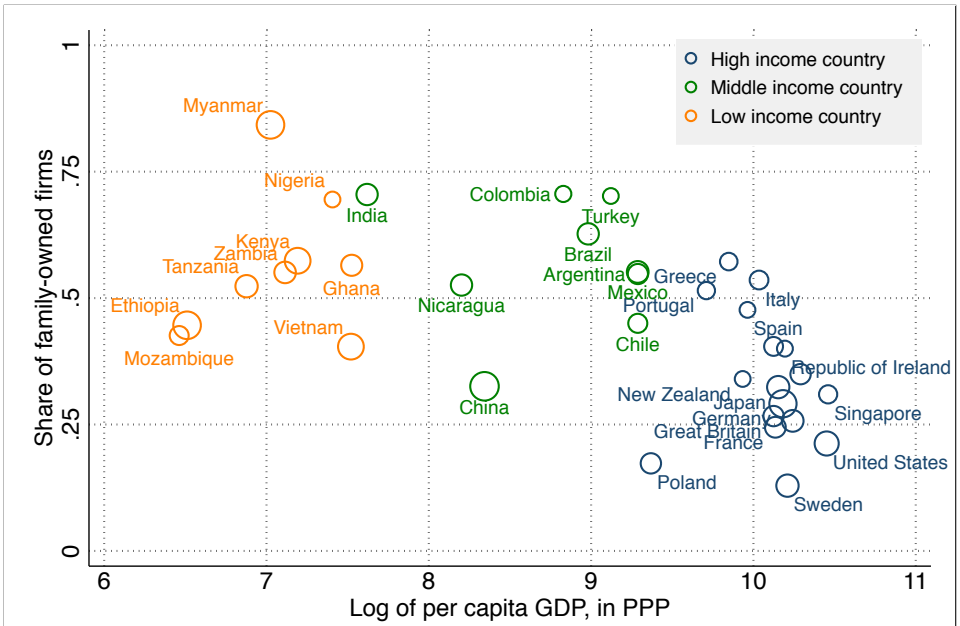
	Overall management			**People management**			**Operations maangement**		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Private firms (reference category)									
Dynastic family firm	-0.135***	-0.134***		-0.093***	-0.092***		-0.140***	-0.139***	
	(0.028)	(0.027)		(0.029)	(0.028)		(0.029)	(0.028)	
Family: eponymous			-0.147***			-0.121***			-0.144***
			(0.046)			(0.046)			(0.046)
Family: non-eponymous			-0.059**			-0.035			-0.064**
			(0.028)			(0.030)			(0.029)
Skills control		✓	✓		✓	✓		✓	✓
Knowledge control		✓	✓		✓	✓		✓	✓
Noise and firm controls	✓	✓	✓	✓	✓	✓	✓	✓	✓
Observations	8465	8465	8465	8465	8465	8465	8465	8465	8465
# Firms	6104	6104	6104	6104	6104	6104	6104	6104	6104
R^2	0.282	0.323	0.322	0.234	0.276	0.275	0.268	0.299	0.298
Tests of equality (p-value)									
Eponymous x non-eponymous			0.066			0.075			0.103

* $p < 0.1$, ** p < 0.05, *** $p < 0.01$. Standard errors in parentheses.

Note: Excludes founder firms. Firm controls include: firm employment, firm age, multinational status, unionization rate. Noise controls include: analyst dummies, day of week of interview, manager tenure in the company, duration of the interview. Dynastic family firm is an indicator taking a value of 1 if the firm is a second generation (onwards) family firm (descendants of the founder). Family (eponymous) is an indicator variable taking the value of 1 if the firm is named after the founding family. Skills (degree) is the log of the share of employees with college degrees in the firm. Knowledge is the management score the manager attributed to the firm at the end of the WMS interview. z-mgmt is the average management score (18 topics), z-people is the average of the people management questions (6 topics) and z-ops is the average of all non-people management questions (12 topics). All regressions include inverse probability weights to account for the family firms we did not have director information for.

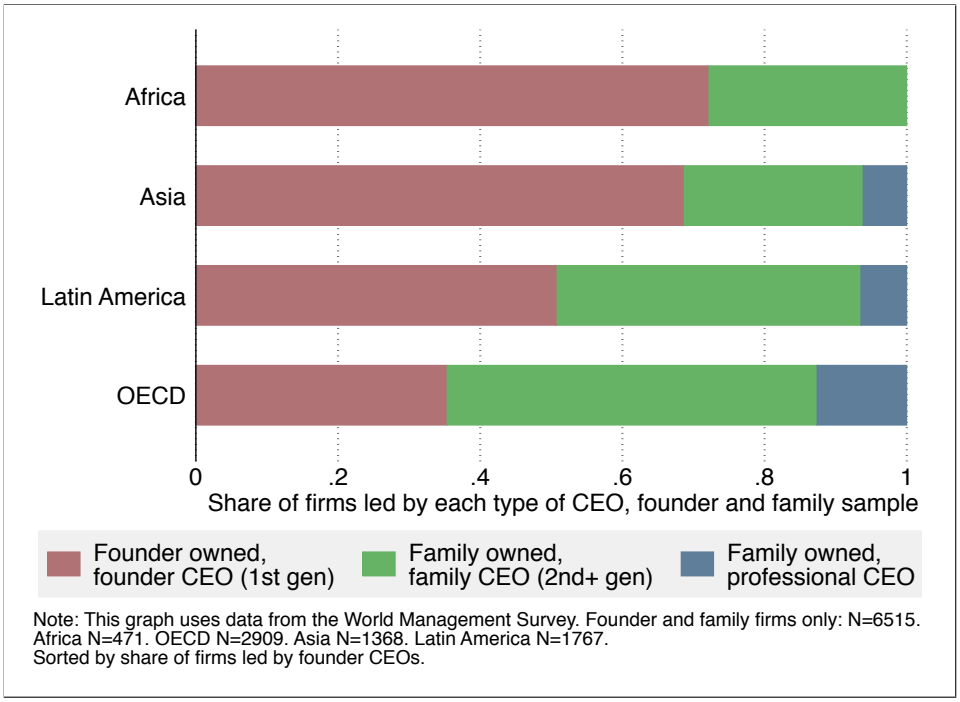
Figures

Figure 1: Share of family or founder firms across the world, manufacturing



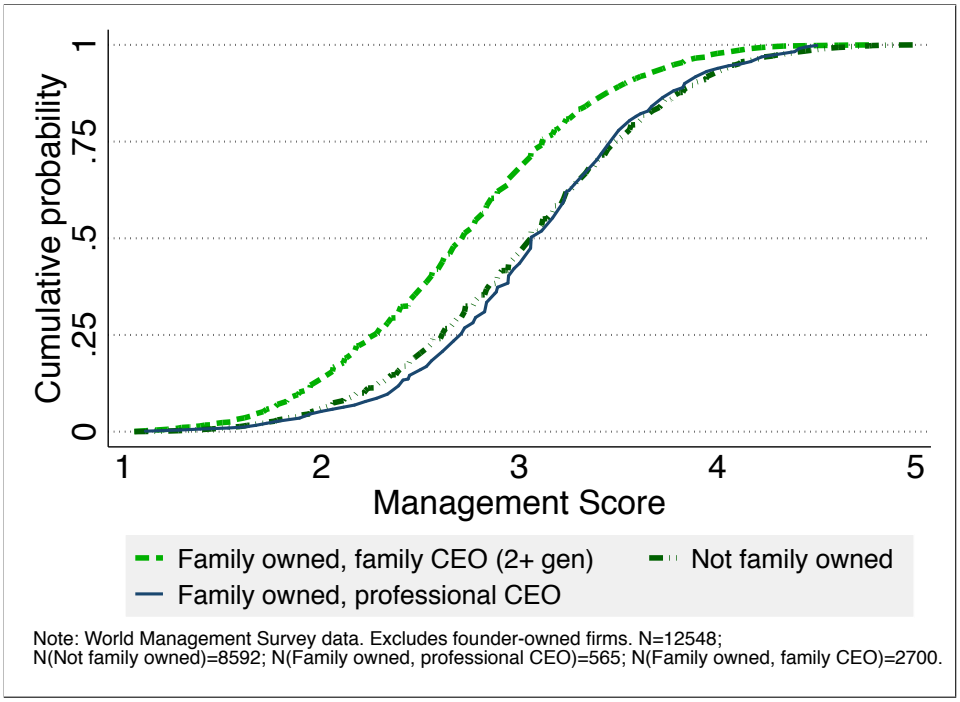
Note: Circle sizes represent median firm size. Data from the World Management Survey (2004-2014). Firms are classified as 'family owned' if the family members of the founding family own over 25% of the share

Figure 2: Share of CEO type leading family or founder firms



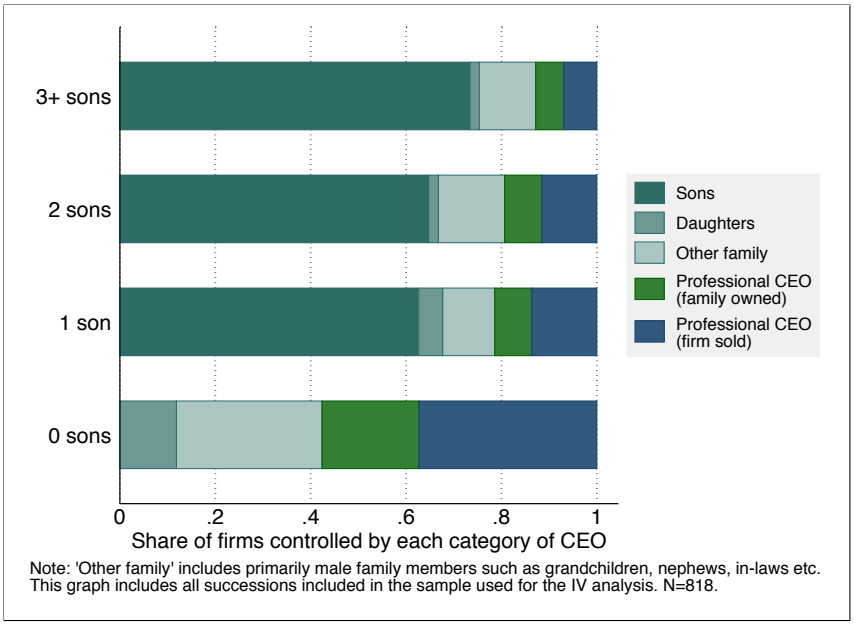
Note: This graph uses data from the World Management Survey. Founder and family firms only: N=6515. Africa N=471. OECD N=2909. Asia N=1368. Latin America N=1767.
Sorted by share of firms led by founder CEOs.

Figure 3: Quality of management practices, by type of ownership



Note: World Management Survey data. Excludes founder-owned firms. N=12548;
N(Not family owned)=8592; N(Family owned, professional CEO)=565; N(Family owned, family CEO)=2700.

Figure 4: Successions from founder or family control, by number of sons of the outgoing CEO



Note: 'Other family' includes primarily male family members such as grandchildren, nephews, in-laws etc. This graph includes all successions included in the sample used for the IV analysis. N=818.

Figure 5: Distribution of family size (number of children) conditional on gender of the first child

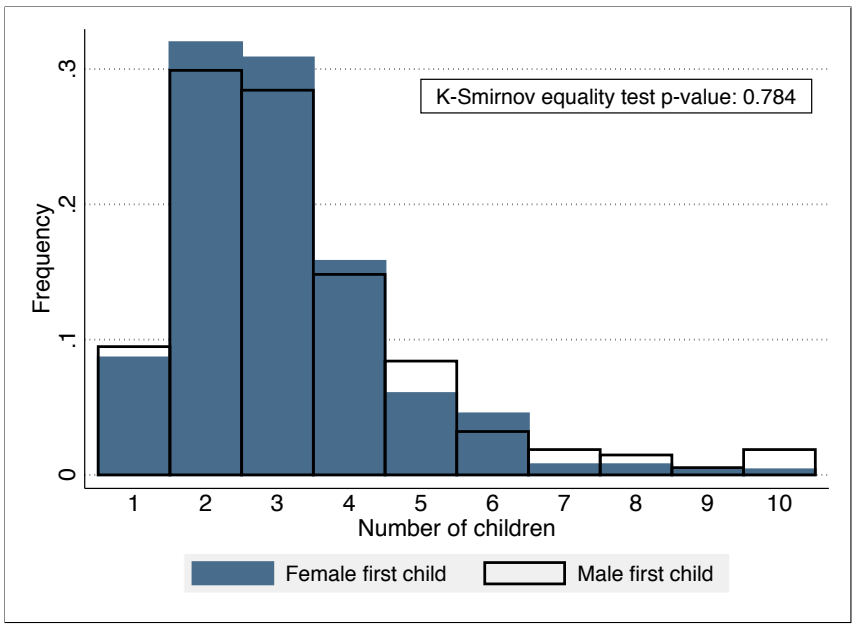


Figure 6: Quality of management practices, by type of ownership

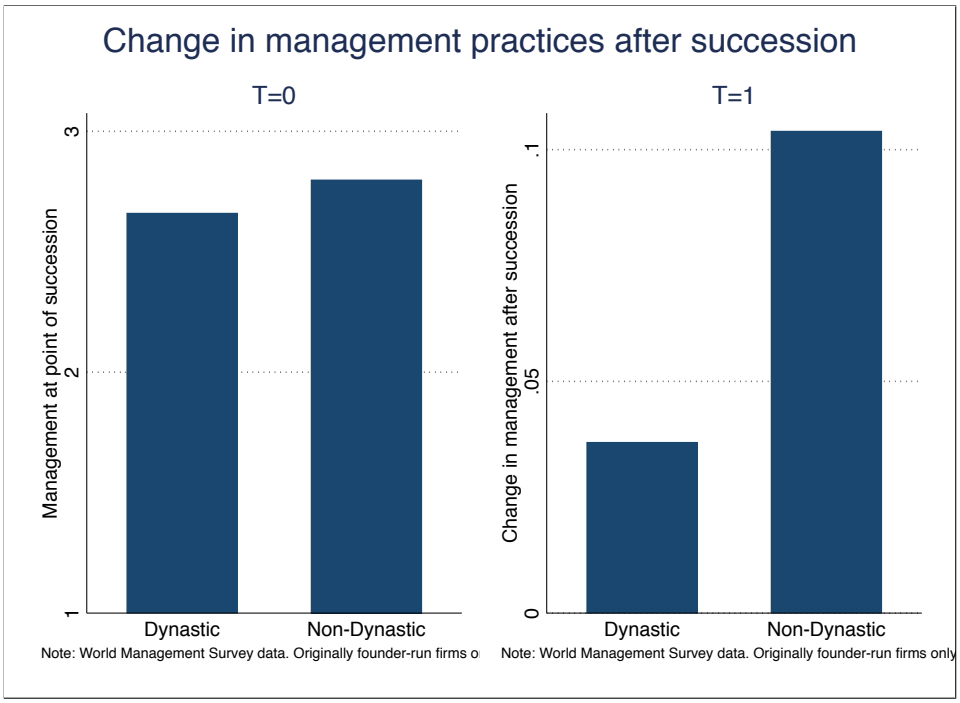


Figure 7: Parameters determining the four equilibria space, for $\eta = .5$

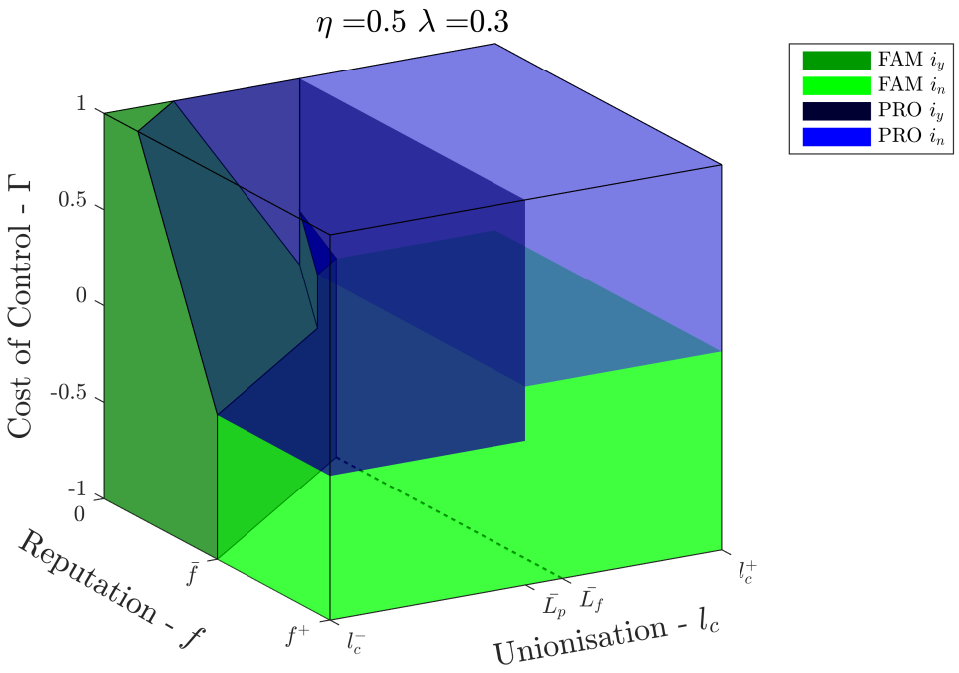


Figure 8: Validating reputation proxy: eponymous firms fire fewer workers

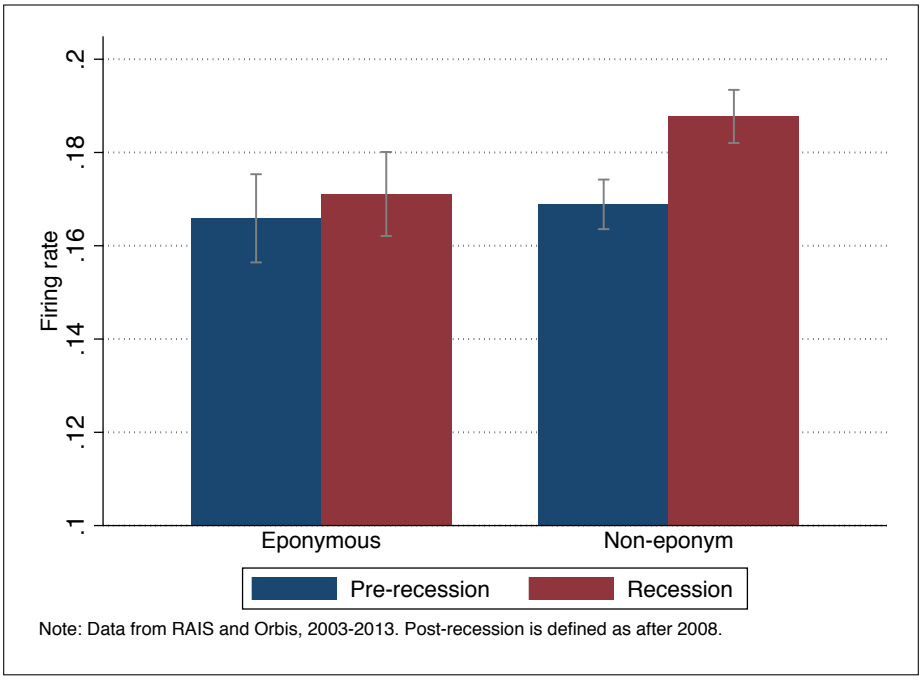
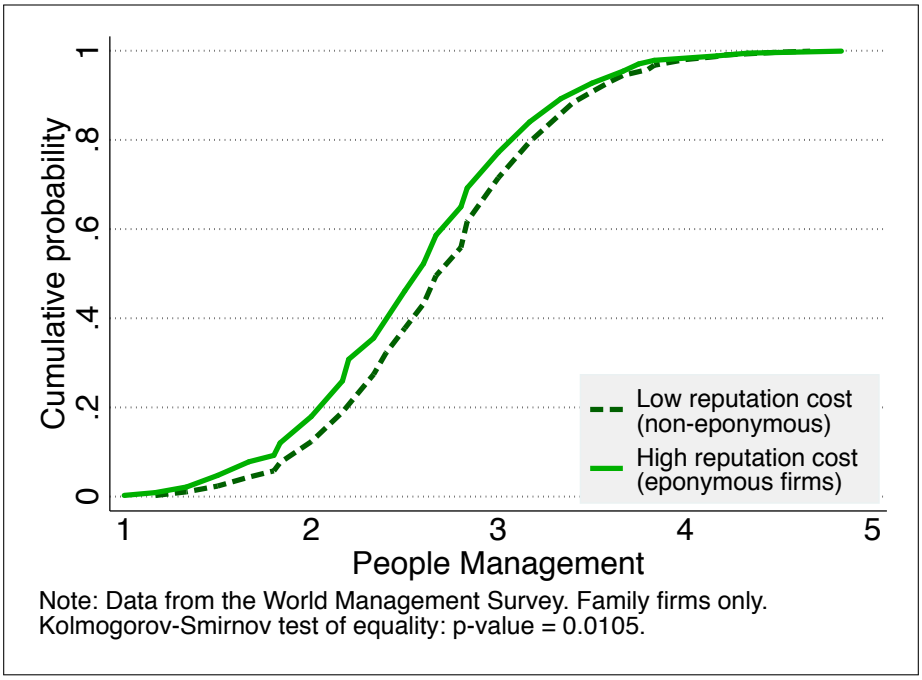


Figure 9: Prediction 1: firms with higher reputation costs (f) vs management



Note: Data from the World Management Survey. Family firms only.
Kolmogorov-Smirnov test of equality: p-value = 0.0105.

Figure 10: Prediction 2: common firing costs ℓ and investment in management

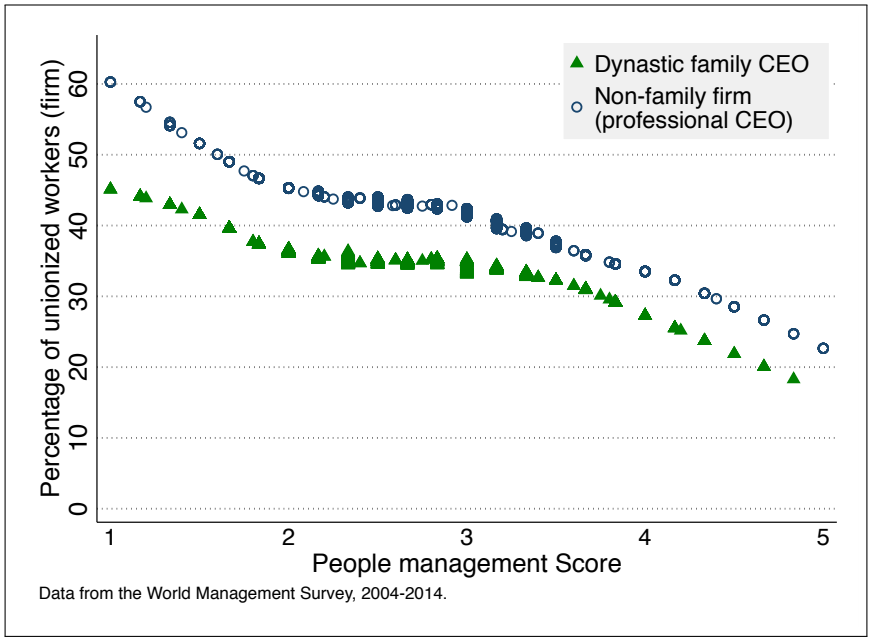
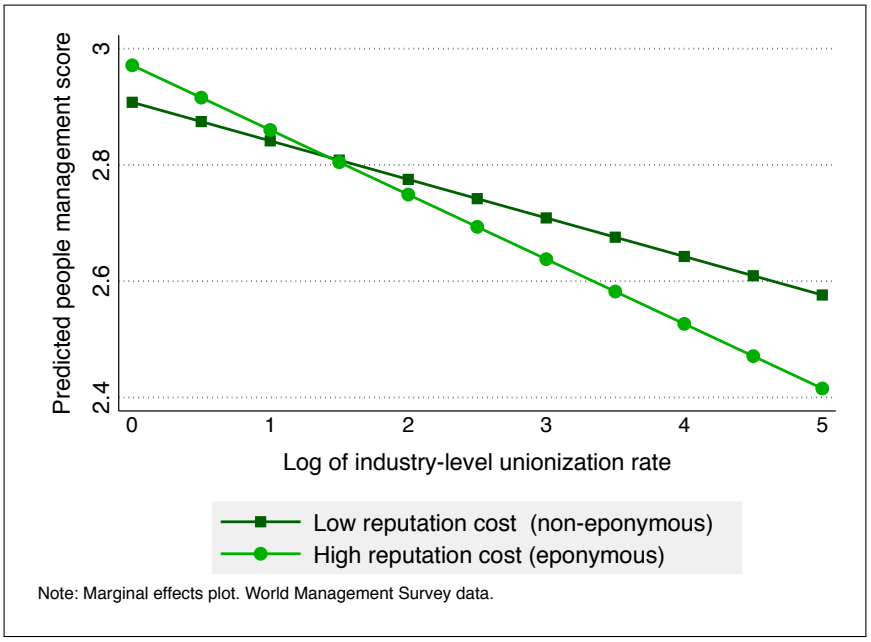


Figure 11: Corollary: investment in management and the interaction of common firing costs ℓ_c and reputation costs f



Appendices

A Data

A.1 Family firms and productivity

The performance data used in this section comes from two sources: first, we use production data from the Bureau van Dijk's Orbis database, one of the most comprehensive databases of public and private firm information available. This database aggregates information from public accounting data in corporate annual reports, and is most comprehensive for European countries because of the relatively more stringent private firm reporting requirements in the continent. Nearly 80% of the matched sample in this section comes from European and Anglo-Saxon countries[32] with the remaining 17% from Asia[33] and 3% from Latin America.[34] In total, 6,125 firms from the WMS sample match with production data from Orbis and include information on gross sales, employment and capital (tangible fixed assets). Second, we use the Brazilian Industrial Census (PIA) data from 1999 to 2014 and match it to over 500 Brazilian firms covered in the WMS. The census includes measures of firm gross sales, firm value added, a measure of capital and of intermediate inputs.[35]

As a result of data limitations, the analysis presented in the main body of the paper focuses primarily on developed countries and is limited to a cross-sectional data. As family firms are particularly ubiquitous in emerging economies, we present further descriptive results from matched data from one large emerging economy: Brazil. We argue that Brazil is an ideal context in which to study family firm management for three main reasons. First, it is a large and economically important country in a developing region and also has a large proportion of family firms (compared to the US/UK where only 20-30% of firms are founder or family owned). Second, it is one of the countries for which we have the largest number of data points for ownership and firm organization, and third, the data both exists and is accessible. As the Brazilian Census data has both panel data available as well as more detailed measures of intermediate inputs, we run both a Cobb-Douglas OLS specification as well as a Levinsohn and Petrin (2003) specification, using inputs to control for unobservables. There is a vast literature on estimating production functions and a number of papers that use the Brazilian industrial census.[36] In contrast, our focus

[32] Countries include: Australia, France, Great Britain, Germany, Greece, Ireland, Italy, Northern Ireland, New Zealand, Poland, Portugal, Sweden, United States.

[33] Countries include: China, India and Japan.

[34] Countries include: Argentina, Brazil, Chile and Mexico.

[35] The capital variable is not part of the census survey but has been constructed by *Instituto de Pesquisa Econômica Avançada* (IPEA), a Brazilian economic research institute and provided to us by request in the Brazilian confidential data use room.

[36] For a summary, see Marc-Andreas Muendler's website at http://econweb.ucsd.edu/muendler/html/brazil.html

here is on the coefficient on the management variable and we use two methods to estimate the correlation between management and productivity.

[Table 6 about here.]

Table C1 reports the descriptive results of this additional exercise. For the Brazilian WMS sample, a standard deviation is 0.647 points. Turning first to the OLS models in columns (1) through (4), we use only the cross-section of data that is contemporaneous to the 2008 WMS Brazilian survey. The results suggest that the correlation between management and value added is strong and substantial for the Brazilian firms in our sample. Column (1) suggests that one standard deviation higher management quality is associated with 12% higher value added for family firms, and 18% higher value added for non-family firms. The results are slightly lower in terms of sales, suggesting a bump of 5% higher sales for family firms and 9% for non-family firms. Columns (5) through (6) repeat the exercise but take advantage of the panel structure of the Brazilian industrial census and include data from 1999 to 2014 to run a Levinsohn and Petrin (2003) model. The relationship between management and productivity in both family and non-family firms remains robust to using a different model specification.

[Figure 12 about here.]

A.2 Ownership categories and additional summary statistics

The variables we are collecting include a full history of ownership and control from the time of foundation and dates of these changes. For firms that at the time of inception were family firms, we ask whether the founder had children. If yes, then we ask for the gender of the first child, how many children the founder-CEO had in total and the gender of all the children. For each succession we also ask who the control was transferred to, in terms of family relationship. With this information we can ascertain whether the founder had children at all, whether the first child was male, the ratio of male to female children, and who control of the firm was passed on to within the family.

Our survey is specifically concerned with *controlling shares of ownership*, similar to how Bureau van Dijk's datasets are compiled. Thus, by more than 25% of the controlling shares we mean more than 25% of the "voting shares" or equivalent terminology. We exclude government firms from our analysis. The interviewees for the Ownership Survey are one of the following: firm CEO or executive assistant to the CEO, head of administration, or if the firm was recently sold, the longest tenured employee at the managerial level. For the WMS, the interviewees are usually the plant manager. In 2011 the WMS team conducted a follow-up project that looked to cross-check the survey information with external data sources, such as Bureau van Dijk's data, online research through company documents and

websites and call-backs. The ownership structure data from the survey was correct over 75% of the time, and was amended otherwise.

Table C2 describes the definition of ownership and control structures used in this paper. We differentiate between *combined* ownership and control, which we refer to generally as "family firms" (for ease of exposition) and *separate* ownership and control "non-family firms."

[Table 7 about here.]

Our survey also allows us to document family involvement in managerial positions within family firms across regions. As our focus is on dynastic firms, we calculate the average family involvement for family owned firms with either a dynastic family CEO or a non-family CEO within each global region, and present the averages relative to the involvement in first-generation founder firms. The pattern in Figure B3 suggests that when firms "professionalize" the top tiers of management, they also do so throughout the managerial ranks. Firms owned by families but who have non-family CEOs have substantially lower average involvement of family members in management relative to the average for founder CEO firms in the region. Firms owned by families with a family CEO, however, either retain the same average number of family members involved (Anglo-Saxon and European countries) or increase it (African, Asian and Latin American countries). Figure B2 shows the average number of family members involved by region.

[Figure 13 about here.]

[Figure 14 about here.]

[Table 8 about here.]

A.3 Robustness checks

We have carried out a series of robustness checks of our main results. Table C4 reports the results for our specifications from Table 4 using two different sets of sampling weights in Columns (1) to (3) and (4) to (6), and the results for two different functional forms of the number of sons IV, in Columns (7) and (8). The sampling weights in the first set of columns were calculated within each country, while the second set were calculated for the full sample including country fixed effects. The results are qualitatively similar to those in the main results table. The two different functional forms of the IV that we are exploring as a robustness check are:

$$
\begin{aligned}
FamilyCEO_i &= \alpha_{fs} + \sum_{j=2}^{3} \rho_j SON_j + \vartheta_1 SON_1 + \vartheta_2 children_i + \boldsymbol{\eta'} \boldsymbol{X_i} + \nu_i \\
FamilyCEO_i &= \alpha_{fs} + \sum_{j=1}^{3} \rho_j SON_j + \sum_{j=1}^{3} \vartheta_j children_j + \boldsymbol{\eta'} \boldsymbol{X_i} + \nu_i
\end{aligned}
\tag{8}
$$

In Column (7), we attempt to address the possible concern that number of sons is endogenous because families have multiple children until they "finally get a son." Here we input the dummy variable for "exactly one son" as a *control* rather than an IV. The rationale for this is to test whether the result was being driven by a family having *the first boy* - that is, we control for the "first boy effect," by pulling it out of the IV set and adding it to the set of controls. Given that the second stage results are not statistically different, this serves as evidence that the effect is not wholly driven by having exactly one boy. Column (8) shows the number of sons IV controlling for family size (number of children) also as a step function - that is, including number of children dummies instead of the single variable. We lose efficiency by including an extra set of dummy variables, but the coefficients are not statistically different from the other two iterations of this IV.

[Table 9 about here.]

A.4 Family firms and wages: evidence from Brazil

We matched 613 firms from the Brazilian WMS sample (over 70%) and use RAIS data from 2008, matching the survey year of the majority of the matched firms. We merged in the governance structure information to consider the relationship between ownership structure and wages. Similar to evidence from France Bach and Serrano-Velarde (2015); Bassanini et al. (2010) and Italy Ellul et al. (2014), we find that family firms in Brazil pay lower wages. Table C5 reports the correlation between each type of governance structure and log of monthly wages relative to Dispersed Shareholder firms for Brazilian firms. Column (1) includes industry and basic firm controls (firm size, firm age and MNE status) and industry fixed effects and suggests that dynastic firms pay 34% lower wages relative to dispersed shareholder firms. Including worker characteristics (race, education, occupation) in Column (2) reduces the coefficient to -0.236. Column (3) includes the worker "person effect" estimated using an AKM model Abowd et al. (1999) which proxies for individual worker ability.[37] The coefficients suggest that dynastic family firms pay wages that are 13% lower relative to other non-family firms. Other non-family firms — private firms and family firms with professional CEOs — pay wages that are not statistically different from

[37]The Abowd et al. (1999) AKM person effect was estimated in a separate project, with Ian Schmutte and Chris Cornwell.

those of dispersed shareholder firms.

[Table 10 about here.]

B Survey details

B.1 World Management Survey

One of the binding constraints for growth and development in emerging economies and low income countries is a lack of capital, both tangible and intangible. Investments in tangible capital such as better machines or other hard technology are relatively straightforward and often enacted by governments because of their greater visibility and ease of procurement, but there are large costs associated with such tangible capital upgrading programs. Investment in intangible capital such as organizational capital (ie. management practices) can often yield similar returns with lower levels of investment. For example, substantial improvements to organizational practices in firms can yield a return that could be comparable to increasing the workforce by 15% or capital by 40%.[38] In education, a one standard deviation improvement in the quality of management in a school is associated with better student outcomes in year-end exams to the order of 0.2-0.4 standard deviations.[39]

The idea that *management matters* dates at least as far back as 1887, when Francis Walker wrote the following in the first volume of the Quarterly Journal of Economics: "It is on account of the wide range [of management quality] among the employers of labor, in the matter of ability to meet these exacting conditions of business success, that we have the phenomenon [...] of some employers realizing no profits at all, while others are making fair profits."

Since then, a large literature has developed around the idea of management and productivity, and universities have even launched a whole new set of professional schools focused on producing graduates of business administration. Empirical evidence on management practices, however, had been generally presented in the form of case studies, until Bloom and Van Reenen (2007) pioneered the use of a new survey tool to systematically measure the quality of management in manufacturing firms across countries. This new research finds that large variations in the quality of management across firms and countries are also strongly associated with differences in performance. For example, better managed firms tend to have significantly higher productivity, higher profitability, faster growth, higher market value (for quoted firms) and higher survival rates (see Bloom et al. (2014) for a survey).

The WMS is a unique dataset that measures the quality of management practices of firms via over 15,000 one-hour, structured phone interviews with plant managers. The data currently spans waves between 2002 to 2014, and includes 35 countries. The management survey methodology, first described in Bloom and Van Reenen (2007), uses double-blind surveys to collect data on firms' use of operations management, performance monitoring,

[38] World Management Survey team (2015)
[39] Bloom et al. (2015a)

target setting and talent management in their day-to-day runnings. The WMS focuses on medium- and large-sized firms, selecting a sample of firms with employment between 50 and 5,000 workers. The project is among a significant surge of emerging research on this subject, which has attempted to move beyond selective case studies and collect systematic and reliable data to empirically test management theories.

To measure management practices, the WMS uses an interview evaluation tool based on the questionnaire McKinsey & Co. uses in their baseline client evaluations. The tool was then adapted for research purposes and enhanced to include insights from the management literature that would be important for researchers to measure. For example, the WMS tool measures practices similar to those emphasized as relevant in earlier work in the management literature, by for example Ichniowski et al. (1997) and Black and Lynch (2001). The tool was piloted in 2002 and further refined, and since the first major wave in 2004 it has remained largely the same. The tool defines a set of 18 basic management practices and scores each practice on a scale from one ("worst practice") to five ("best practice") on a scoring grid.[40] A high score represents a best practice in the sense that firms adopting the practice will, on average, see an increase in their productivity. The combination of many of these indicators reflects "good management" as commonly understood, and the main measure of management practices represents the average of these 18 scores.

Conceptually, the scores suggest a gradual increase in formalization and usage of the management practices being followed. A score of 1 indicates little to no formal processes in place, and suggests the firm deals with day to day activities in a very ad-hoc manner. A score of 2 suggests that there are some informal processes in place, though they are enacted by the acting manager and not part of the "official" day to day running of the firm. If the manager was not in the plant for any reason, the practices would not be followed. A score of 3 indicates that a firm has some formalized management processes in place, though they have some weaknesses such as the process is not regularly reviewed or it is not often used properly. If the manager was away, however, the process could be picked up by a stand-in manager as it would be known as "normal running" of the firm by most staff. A score of 4 suggests that firms have good and flexible processes in place, that are routinely reviewed and are well-known to at least all managers in the firm. A score of 5 suggests that the firm not only has "best-practice" processes in place, but that these processes are deeply embedded in the corporate culture and have substantial employee buy-in, from the shopfloor, through middle management and up to the C-suite. It is considered that firms scoring under 2 are very badly managed firms, and those scoring over 4 are well-managed firms.

The survey measures management practices in three broad areas:

[40]The full instrument is available at www.worldmanagementsurvey.org

1. *Operations management & performance monitoring practices*: testing how well lean (modern) manufacturing management techniques have been introduced, what the motivation and impetus behind changes were, whether processes and attitudes towards continuous improvement exist and lessons are captured and documented, whether performance is regularly tracked with useful metrics, reviewed with appropriate frequency and quality, and communicated to staff, and whether different levels of performance lead to different process-based consequences.

2. *Target setting practices*: testing whether targets cover a sufficiently broad set of metrics, including short and long-term financial and non-financial targets, and whether these targets are based on solid rationale, are appropriately difficult to achieve, are tied to the firm's objectives, are well cascaded down the organization, are easily understandable and are openly communicated to staff.

3. *Talent management practices*: testing what emphasis is put on overall talent management within the firm and what the employee value proposition is, whether there is a systematic approach to identifying good and bad performers and rewarding them proportionately or dealing with bad performers.

This methodology is uniquely useful because the types of questions asked ensure the survey is capturing how management practices are implemented in the firm, rather than how the managers feel or what their opinions are about management. The survey questions ask managers to describe their practices including several examples, and the interviewer independently evaluates the responses systematically on a pre-set scale. Thus, the WMS captures the degree of usage rather than the superficial adoption of these practices and abstracts from possible mood influences of individual managers. Beyond the key measure of management practices at the plant level, the WMS also collects a wealth of information on the firm, including firm location, size and ownership structure.

The management data has been collected in waves over 12 years with cross-section of firms in new countries added every wave as well as panel data for selected countries. The US, UK, France, Germany, Italy and Greece were surveyed in 2004, 2006, 2010 and 2014. China, Japan, Poland, Portugal, and Sweden were surveyed in 2006 and 2010. India was surveyed in 2006, 2008 and 2010. Brazil was surveyed in 2008 and 2013. Canada and Ireland were surveyed in 2008. Australia and New Zealand were surveyed in 2009. Chile was surveyed in 2009 and 2013. Argentina and Mexico were surveyed in 2010 and 2013. Singapore was surveyed in 2012. Colombia, Ethiopia, Ghana, Kenya, Mozambique, Nicaragua, Nigeria, Spain, Tanzania, Turkey and Zambia were surveyed in 2013. Myanmar, Vietnam were surveyed in 2014.

B.2 WMS topics

Practices	What is the WMS measuring
Operations Management and Performance Monitoring	
Introducing Lean (modern) Techniques	Measures how well lean (modern) manufacturing management techniques have been introduced
Rationale for introducing Lean (modern) Techniques	Measures the motivation/impetus behind changes to the operational processes, and whether a change story was well communicated turning into company culture
Continuous Improvement	Measures attitudes towards process documentation and continuous improvement
Performance Tracking	Measures whether firm performance is measured with the right methods and frequency
Performance Review	Measures whether performance is reviewed with appropriate frequency and follow-up
Performance Dialogue	Measures the quality of review conversations
Consequence Management	Measures whether differing levels of firm performance (not personal but plan/process based) lead to different consequences
Target Setting	
Target Balance	Measures whether targets cover a sufficiently broad set of metrics and whether financial and non-financial targets are balanced
Target Interconnection	Measures whether targets are tied to the organization's objectives and how well they cascade down the organization
Time Horizon of Targets	Measures whether the firm has a '3 horizons' approach to planning and targets
Target Stretch	Measures whether targets based on a solid rationale and are appropriately difficult to achieve
Clarity and Comparability of Targets	Measures how easily understandable performance measures are and whether performance is openly communicated to staff
People Management	
Managing Talent	Measures what emphasis is out on overall talent management within the organization
Rewarding High Performers	Measures whether there is a systematic approach to identifying good and bad performers and rewarding them proportionately
Removing Poor Performers	Measures how well the organization is able to deal with underperformers
Promoting High Performers	Measures whether promotion is performance-based and whether talent is developed within the organization
Retaining Talent	Measures whether the organization will go out of its way to keep its top talent
Creating a Distinctive Employee Value Proposition	Measures the strength of the employee value proposition

C Model

C.1 Equilibrium: preliminary analysis

We can rule out some actions as never optimal, and replace them with their sub-game perfect equilibrium outcomes. The actions are as follows:

1. The CEO will never discipline a worker who she observes exerting effort, since disciplining workers is a costly action. Thus, D_n is chosen when:
   - the CEO chooses not to invest monitoring and thus cannot observe effort ($i = i_n$)

     or
   - the CEO chooses to invest monitoring ($i = i_y$) and the worker exerts effort ($e_w = \overline{e_w}$).
2. The worker will not exert effort unless the cost of effort is lower than the cost of being disciplined. Workers choose low effort ($e_w = \underline{e_w}$) when:
   - the CEO chooses not to invest monitoring and thus cannot observe effort ($i = i_n$),

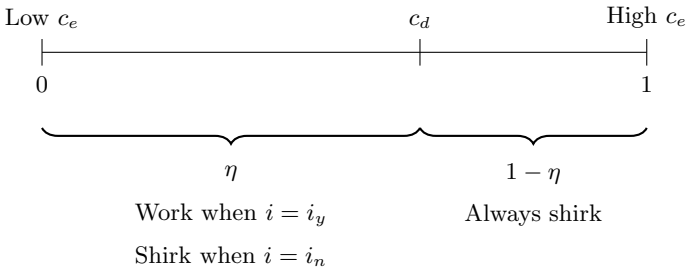
     or
   - the worker is of low ability.

Therefore, eighteen out of thirty two possible outcomes can be replaced by their sub-game perfect equilibria. Imposing these results yields the game tree in Figure B7.

We can make further simplifications. The key choice that we seek to understand with this framework is the investment choice of each CEO. The first choice of the game determining whether the owner will be a family CEO or choose to hire a professional CEO is a choice that has been explored in the literature before, and here is simply a function of the size of the private benefit of control. As both CEO types face the same set of choices with slightly different payoff functions, the focus the backward induction exercise is on determining the subgame equilibria for each CEO type and discuss the owner's choice last.

C.1.1 Equilibrium: comments on modelling choices

Worker's effort choice Let workers have a cost of effort $c_e \sim U(0,1)$. There is a share of workers, η, for which the cost of effort is below the fixed cost of being disciplined c_d, such that $c_e \leq c_d$. These workers will choose to exert effort if they have a chance of being disciplined, and will choose not to exert effort if they have no chance of being disciplined. There is a share of workers $1-\eta$ for which the cost of effort is above the cost of being disciplined, such that $c_e > c_d$. These workers will never exert effort, regardless of the chance of disciplined. A way to interpret this setup is to think of employees as being of high or low ability and a share of them who have high ability (η) can choose to work as it is not too costly, whereas a share $1-\eta$ has low ability and always find it too onerous to work.



Professional CEO compensation $\lambda\pi(e_w)$ is the executive's compensation. The CEO is assumed to not have enough capital to purchase the firm outright and thus has to be employed. λ is assumed to be exogenous and represents the CEO net wages, taking into account the manager's cost of effort of running the firm. The λ here could also include any profit appropriation that may happen because of low legal oversight, as in Burkart and Panunzi (2006). This payoff is assumed to be larger than their outside option, such that there is at least one professional CEO who always agrees to manage the firm if the contract is offered.

CEO costs of control Γ is the net cost of control. It is representing the cost of effort that a CEO has to expend to run a firm, net of any private benefit of control he may accrue from doing so. Intuitively, the variable setup suggests that if the private benefit of control is relatively low, the family CEO would compare the cost of effort to the financial cost of hiring a professional CEO. If the family CEO gains a very high level of private benefit from control relative to how onerous it is for him to manage the firm, the utility cost would be "negative".

$\Gamma = 0$ for professional CEO is a simplification to make the model tractable. Conceptually, the professional CEO would also incur a cost of effort for their work, but this cost would be included into the $\lambda\pi(e_w)$ payoff bundle. We are implicitly assuming that this cost is equal for professional CEOs and family CEOs — that is, in a sense we are assuming the same level of ability for both CEO types. This is a departure from the usual assumption in previous models, but one that can be relaxed at a later time.[41]

CEO firing costs All CEOs incur a common cost of firing workers, $\ell \in \{\ell^-, \ell^+\}$, where ℓ^- denotes the lowest cost possible across all industries and ℓ^+ denotes the highest. In the game, this cost is exogenously set in each industry. Conceptually, we can interpret this cost as, say, an industry with higher rates of unionization than the average having an ℓ closer to ℓ^+, or a country with lax labour laws relative to the average country having ℓ closer to ℓ^-.[42] The industry for each firm and worker is determined before the game.

Family CEOs incur an additional firm reputation utility cost, $c_f(f)$ if they have to discipline workers (regardless of effort). This is a function of their reputation exposure, f and reflects how emotionally important the firm's standing in the community is for the family CEO, and is consistent with the idea that family firms are held to a higher "moral standard" than faceless corporations: for example, if a family firm CEO fires workers they can suffer a backlash from the wider community the firm is located in. For professional CEOs, it is always the case that $f = 0$.

For each CEO, there will be a threshold $\overline{L}$ at which the cost of disciplining workers is too high to be worth investing in monitoring. Because the cost is increasing in both ℓ and c_f, this implies that the total cost of firing workers will always be higher for the family CEO, except in the case where $f = 0$ for the family CEO.

C.2 Backward induction

Figure B6 shows the game tree outlining the possible decisions of the CEO, already including the results from the preliminary analysis in place of the full set of choices wherever possible. The utility functions shown as the payoffs next to each terminal node specify the utility functions for the family and professional CEOs and for the worker. Note that it only specifies the owner's payoffs as a family CEO, as we address

[41] For example, Burkart and Panunzi (2006) assume professional CEOs have higher ability.
[42] In a dynamic model, there would be a cost of recruitment for the next period.

the owner's choice last accounting for the payoffs under a professional CEO as well. β, ν and δ inside the nodes or dashed lines label the information sets.

Fourth mover (last) — CEO: The last actor to make a decision is the CEO. He chooses whether he will fire the worker ($d = D_y$) or keep the worker ($d = D_n$). This is the CEO's second action choice; the CEO's first action choice is the investment choice ($i \in \{i_y, i_n\}$).

CEO Strategy: The CEO has only one rational choice at the information sets δ_B and δ_C: D_n (to keep the worker). The action chosen at δ_A depends on the world and firm reputation costs of firing workers, $\ell + c_f$. Recall there is a threshold at which firing costs become too high — say, $\overline{L}$, and for each industry, there is a share η of workers who will work and a share $(1 - \eta)$ who will shirk and could be fired.

Thus, the CEOs strategies at $\{\delta_A, \delta_B, \delta_C\}$ are:

1. $H_C = \{D_n, D_y, D_n\}$ if $\ell + c_f > \overline{L}$
2. $H_C = \{D_n, D_y, D_n\}$ if $\ell + c_f \leq \overline{L}$

In his disciplining choice, he will choose to fire a worker under the following conditions:

(a) the worker shirks ($e_w = \underline{e_w}$)
and
(b) the CEO invested in monitoring ($i = i_y$)
and
(c) the costs of firing workers is below the threshold: $(\ell + c_f) \leq \overline{L}$.

If any of these three conditions is violated, the CEO will keep the worker ($d = D_n$). We discuss the firing choice in context of the investment decision after describing the investment decision for the second mover.

Third mover — worker: Moving backwards, the second-last actor to make a decision is the worker. Workers naturally prefer to exert low effort and not be fired. However, they make their effort decision conditional on what they expect the response of the CEO will be, and on their own type.

Worker strategy: The worker has only one rational choice at the information sets ν_B, ν_C and ν_D: $e_w = \underline{e_w}$, since effort will not be observed at these nodes. The action chosen at ν_A depends on worker type. For each worker, if they are of low ability type ($c_e > c_d$), the action at all nodes will be $\underline{e_w}$. If they are of high ability type ($c_e \leq c_d$), the action at information set ν_A will be $\overline{e}$. In summary, the worker has two strategies:

1. $H_{W,L} = \{\underline{e_w}, \underline{e_w}, \underline{e_w}, \underline{e_w}\}$ if $c_e > c_d$ (low ability type)
2. $H_{W,H} = \{\overline{e_w}, \underline{e_w}, \underline{e_w}, \underline{e_w}\}$ if $c_e \leq c_d$ (high ability type)

For a given industry with share η of workers of high ability type, we expect that η share of workers will choose the second strategy and $(1 - \eta)$ will choose the first strategy.

In summary, workers will exert effort ($e_w = \overline{e_w}$) under the following conditions:

(a) the worker is of high ability type ($c_e \leq c_d$)
and
(b) the CEO invests in monitoring ($i = i_y$).

Second mover — CEO: The CEO knows how workers make their choices, and also knows η and ℓ in her industry. This is the CEO's first action choice, before the second action choice of disciplining $d \in \{D_n, D_y\}$). The CEO will choose to invest in monitoring iff the additional expected profits (and utility) are larger than the expected costs incurred. Formally, the expected utility for each CEO type under $i = i_y$ is:

$$\begin{array}{rlllll} \text{Family CEO:} & \eta[\pi(\overline{e_w})] & +(1-\eta)[& \pi(\underline{e_w}) & -(\ell + c_f) \quad] & -m - \Gamma \\ \text{Professional CEO:} & \eta[\lambda\pi(\overline{e_w})] & +(1-\eta)[& \lambda\pi(\underline{e_w}) & -\ell \quad\quad\quad] & -m \end{array}$$

The equivalent expected utility under $i = i_n$ is:

$$\begin{array}{rll} \text{Family CEO:} & \pi(\underline{e_w}) & -\Gamma \\ \text{Professional CEO:} & \lambda\pi(\underline{e_w}) & \end{array}$$

CEO STRATEGY: Let $\Delta\pi = \pi(\overline{e_w}) - \pi(\underline{e_w})$. At information set β each type of CEO will choose $i = i_y$ and invest in the monitoring technology iff the following conditions hold:

$$\begin{array}{rllll} \text{Family CEO:} & \eta\Delta\pi & \geq & (1-\eta) \quad (\ell + c_f) & +m \\ \text{Professional CEO:} & \lambda\eta\Delta\pi & \geq & (1-\eta) \quad (\ell) & +m \end{array}$$

For each representative CEO type, let $\overline{L}$ generally be the threshold at which it becomes optimal for any CEO to invest in monitoring. Let the threshold be $\overline{L_f}$ for the family CEO and let the threshold be $\overline{L_p}$ for the professional CEO. Rearranging the terms in the conditions above yields the following thresholds:

$$\text{Family CEO:} \quad \overline{L_f} \leq \frac{\eta\Delta\pi - m}{(1-\eta)}$$

$$\text{Professional CEO:} \quad \overline{L_p} \leq \frac{\lambda\eta\Delta\pi - m}{(1-\eta)}$$

Conceptually, these conditions suggest that the professional CEO will only invest if the cost of firing is less than or equal to the added profit they can expect the firm to make minus the cost of investment, multiplied by the inverse of the share of low ability workers. Notably, this threshold is relatively lower for the professional CEO as they only get a share of the profits: the first term on the numerator of the condition is $\lambda\eta\Delta\pi$ for the professional CEO and $\eta\Delta\pi$ for the family CEO. Thus, $\overline{L_f} > \overline{L_p}$.

Figure B4 shows the two-dimensional space of ℓ and c_f for each CEO type. The darker colours indicate investment in monitoring and the lighter colours indicate no investment and are divided along the L thresholds for each type. Each graph also includes a dotted line with the threshold of the other CEO type for ease of comparison.

[Figure 15 about here.]

The CEOs full strategies at $\{\beta, \delta_A, \delta_B, \delta_C\}$ are:

1. $H_C = \{i_n, D_n, D_n, D_n\}$ if $\ell + c_f > \overline{L_f}$ (family) or if $\ell > \overline{L_p}$ (professional)
2. $H_C = \{i_y, D_n, D_y, D_n\}$ if $\ell + c_f \leq \overline{L_f}$ (family) or if $\ell \leq \overline{L_p}$ (professional)

First mover – owner: Finally, the owner's choice depends on the utility he would get if he acted as family CEO, versus the utility he would get from receiving the profits achieved by the professional CEO. Figure B5 shows the owner's payoffs at each terminal node if we substitute the game for the subgame perfect equilibrium at that node.

[Figure 16 about here.]

The owner's decision depends on whether he would choose investment or not given a set of parameters, as well as his opportunity cost, which depends on whether the professional CEO would have invested or not. There are four possible set of parameters that determine the space for four equilibria:

Case 1: Both CEOs choose to invest in monitoring. Both CEOs would choose to invest, $i = i_y$, if $\ell \leq \overline{L_p}$ and $\ell + c_f \leq \overline{L_f}$. The owner's choice is based on the following utilities:

- $u_{own}(PRO, i_y) = (1-\lambda)[\eta\pi(\overline{e_w}) + (1-\eta)\pi(\underline{e_w})]$
- $u_{own}(FAM, i_y) = \eta\pi(\overline{e_w}) + (1-\eta)\pi(\underline{e_w}) - \Gamma - m - (1-\eta)(\ell_c + f)$

The owner will choose $Mg = PRO$ when both CEOs opt for $i = i_y$ iff his utility from doing so is higher than his utility from running the firm himself,[43] otherwise, he will choose $Mg = FAM$:

$$(1-\lambda)[\eta\pi(\overline{e_w}) + (1-\eta)\pi(\underline{e_w})] > \eta\pi(\overline{e_w}) + (1-\eta)\pi(\underline{e_w}) - \Gamma - m - (1-\eta)(\ell_c + f)$$

The conditions specifying where each equilibrium lies are as follows:

$$Mg = PRO, i = i_y \quad \text{if:} \quad \ell_c + f + \frac{\Gamma}{1-\eta} > \overline{\Gamma} + \overline{L_p}$$

$$Mg = FAM, i = i_y \quad \text{if:} \quad \ell_c + f + \frac{\Gamma}{1-\eta} \leq \overline{\Gamma} + \overline{L_p}$$

Case 2: Both CEOs choose not to invest in monitoring. Both CEOs would choose not to invest, $i = i_n$, if $\ell_c > \overline{L_p}$ and $\ell_c + f > \overline{L_f}$. The owner's choice is based on the following utilities:

- $u_{own}(PRO, i_n) = (1-\lambda)\pi(\underline{e_w})$
- $u_{own}(FAM, i_n) = \pi(\underline{e_w}) - \Gamma$

The owner will choose the CEO following the same logic, and the conditions for the key parameters are as follows:

$$Mg = PRO, i = i_n \quad \text{if:} \quad \ell_c + f + \frac{\Gamma}{1-\eta} > \overline{\Gamma} + \overline{L_p}$$

$$Mg = FAM, i = i_n \quad \text{if:} \quad \ell_c + f + \frac{\Gamma}{1-\eta} \leq \overline{\Gamma} + \overline{L_p}$$

[43] Rearranging the terms provides an intuitive interpretation: the wage he expects to pay the professional CEO is smaller than the costs he will face if he chooses to manage the firm himself: $\lambda[\eta\pi(\overline{e}) + (1-\eta)\pi(\underline{e})] < \Gamma + m + (1-\eta)(\ell_c + f)$

Case 3: Only professional CEO chooses to invest. The professional CEO would choose to invest, $i = i_y$, while the family CEO would not, $i = i_n$ if: $\ell_c \leq \overline{L_p}$ and $\ell_c + f > \overline{L_f}$. The owner's choice is then based on the following utilities:

- $u_{own}(PRO, i_y) = (1-\lambda)[\eta\pi(\overline{e_w}) + (1-\eta)\pi(\underline{e_w})]$
- $u_{own}(FAM, i_n) = \pi(\underline{e_w}) - \Gamma$

The owner will choose the CEO following the same logic, and the conditions for the key parameters are as follows:

$$Mg = PRO, i = i_y \quad \text{if:} \quad \frac{\Gamma}{1-\eta} > \overline{\Gamma} + \overline{L_p} - \overline{L_f}$$

$$Mg = FAM, i = i_n \quad \text{if:} \quad \frac{\Gamma}{1-\eta} \leq \overline{\Gamma} + \overline{L_p} - \overline{L_f}$$

Case 4: Only family CEO chooses to invest. The family CEO would choose to invest, $i = i_y$, while the professional CEO would not, $i = i_n$ if: $\ell_c > \overline{L_p}$ and $\ell_c + f \leq \overline{L_f}$. The owner's choice is then based on the following utilities:

- $u_{own}(PRO, i_n) = (1-\lambda)\pi(\underline{e_w})$
- $u_{own}(FAM, i_y) = \eta\pi(\overline{e}) + (1-\eta)\pi(\underline{e_w}) - \Gamma - m - (1-\eta)(\ell_c + f)$

The owner will choose the CEO following the same logic, and the conditions for the key parameters are as follows:

$$Mg = PRO, i = i_n \quad \text{if:} \quad \ell_c + f + \frac{\Gamma}{1-\eta} > \overline{\Gamma} + \overline{L_f}$$

$$Mg = FAM, i = i_y \quad \text{if:} \quad \ell_c + f + \frac{\Gamma}{1-\eta} \leq \overline{\Gamma} + \overline{L_f}$$

[Figure 17 about here.]

[Figure 18 about here.]

[Figure 19 about here.]

Tables

Table C1: Management and firm performance in dynastic family firms: descriptive evidence using Brazilian Industrial Census data

	Model: OLS				**Model: Levinsohn-Petrin**			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	ln(va)	ln(va)	ln(sales)	ln(sales)	ln(va)	ln(va)	ln(sales)	ln(sales)
z-management	0.115***	0.179***	0.050***	0.090***	0.129***	0.194***	0.057***	0.080***
	(0.029)	(0.031)	(0.011)	(0.018)	(0.038)	(0.038)	(0.01)	(0.013)
Firm controls	✓	✓	✓	✓	✓	✓	✓	✓
Industry FE	✓	✓	✓	✓	✓	✓	✓	✓
# Observations	213	290	213	291	3000	3595	3269	3963
# Firms	213	290	213	291	213	290	213	291
Sample	**Family**	**Non-family**	**Family**	**Non-family**	**Famiy**	**Non-family**	**Family**	**Non-family**

* $p < 0.1$, ** p < 0.05, *** $p < 0.01$. Standard errors in parentheses.

Note: Each column of regressions is estimated by either OLS or by the Levinsohn and Petrin (2003) method as identified in the table. OLS models cluster standard errors by firm. Firm value added, capital measures and industry codes come from the Brazilian Industrial Survey (PIA). Data from 1999 to 2014. z-management is the plant-level standardized average management score (18 practices). Firm controls include country dummies, log of employment, log of capital, log of firm age, and whether the firm is a multinational. Industry fixed effects are at the 3-digit SIC level. Survey noise controls include analyst dummies, year of survey, day of week, and manager tenure.

Table C2: Data categories - The Ownership Survey

Ownership category	**Ownership & control**	
	Non-family	Family
Founder or family owned		
Founder owned, founder CEO		✓
Founder owned, professional CEO	✓	
Family owned, family CEO		✓
Family owned, professional CEO	✓	
Privately owned (non-founding family owners)*		
Single owner, owner CEO		✓
Single owner, professional CEO	✓	
Many owners, owner CEO		✓
Many owners, professional CEO	✓	
*Dispersed shareholders***	✓	

** For the category of Privately owned, at least one entity owns more than 25% of voting shares, and they are not members of the founding family.*
*** For the category of Dispersed shareholders, no one entity owns more than 25% of voting shares.*

Table C3: Sample of firms: country level

Country	WMS sample N	Ownership Survey sample N	Response Rate %	Potentially eligible (non-founder)	IV analysis sample N	Inclusion Rate* %
Latin America						
Argentina	249	164	66%	128	94	73.4%
Brazil**	814	554	68%	329	230	69.9%
Chile	239	103	43%	81	38	56.8%
Colombia	170	65	38%	46	31	67.4%
Mexico	281	142	51%	104	62	59.6%
Latin American total	**1753**	**1028**	**59%**	**688**	**455**	**66.1%**
Africa* **						
Ethiopia	131	116	89%	84	-	-
Ghana	108	79	73%	55	-	-
Kenya	185	158	85%	103	21	20.4%
Mozambique	109	43	39%	72	-	-
Nigeria	118	118	100%	52	-	-
Tanzania	150	74	49%	99	-	-
Africa total	**801**	**588**	**73%**	**465**	**21**	**20.4%**
Europe						
France	206	141	68%	126	31	24.6%
Great Britain	390	296	76%	281	44	15.7%
Germany	136	77	57%	71	23	32.4%
Italy	320	318	99%	285	120	42.1%
Netherlands	143	124	87%	222	102	45.9%
Portugal	101	99	98%	74	37	50.0%
Turkey	332	163	49%	83	79	95.2%
Europe total	**1628**	**1218**	**76%**	**1142**	**436**	**43.4%**
Total	**4182**	**2834**	**68%**	**1933**	**912**	**47.1%**

Note: Notes: The pilot of the Ownership Survey was carried out immediately following the 2013 World Management Survey (WMS) wave, and a portion of the survey was also applied during the 2014 WMS European wave. First column shows the the total number of firms interviewed in the 2013/14, and the second column shows the number of firms for which we also collected data for the Ownership Survey.

* We use a more conservative definition of response rate here, referring to "full response rate". That is, there were some firms for which we had a positive response to part of the survey, but not all the information we needed to be able to include the firm in our IV sample. The rates shown here refer only to these "full information" firms, rather than all firms that responded to the survey at least in part.

** The inclusion rate for Brazil is higher than the number of firms in the 2013/14 sample because we also contacted firms in the 2008 wave of the World Management Survey for Brazil to expand the sample in Brazil in particular.

*** The sample for Africa in the Ownership Survey is included in the stylized facts section of the paper, but only Kenya is used in the IV analysis because the sample of firms that had *at least one succession* from the founder was too small to be included. Only Kenya passed the minimum threshold sample of 20 observations and thus is the only country included while the others are noted as zeroes. Although we have some data for these countries, we report here only the data points used in the analysis.

Table C4: IV-2SLS results, robustness checks

	Sampling weights: by country			**Sampling weights: overall**			**IV functional forms unweighted**	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Family CEO = 1	-1.360**	-1.151**	-0.425	-1.202**	-0.997*	-0.501	-0.584	-0.824*
	(0.591)	(0.553)	(0.420)	(0.555)	(0.522)	(0.435)	(0.474)	(0.425)
# Firms	912	908	902	912	908	902	805	908
K-P Wald F-statistic	15.49	5.436	22.48	16.40	5.789	21.40	4.839	12.41
Stock-Yogo 10% CV	*16.38*	*16.38*	*16.38*	*16.38*	*16.38*	*16.38*	*16.38*	*16.38*
Stock-Yogo 15% CV	*8.96*	*8.96*	*8.96*	*8.96*	*8.96*	*8.96*	*8.96*	*8.96*
Stock-Yogo 20% CV	*6.66*	*6.66*	*6.66*	*6.66*	*6.66*	*6.66*	*6.66*	*6.66*
Hansen's J statistic		4.054			3.843		1.201	0.291
Hansen's J p-value		0.132			0.146		0.548	0.589
					IV First Stage results			
Excluded instruments								
Had at least 1 son	0.269***			0.271***				
	(0.068)			(0.067)				
First child = male			0.170***			0.163***		
			(0.036)			(0.035)		
1 son		0.253***			0.254***		0.285***	0.285***
		(0.071)			(0.069)		(0.080)	(0.063)
2 sons		0.283***			0.286***		0.297***	0.305***
		(0.072)			(0.070)		(0.083)	(0.064)
3+ sons		0.295***			0.297***		0.332***	0.338***
		(0.076)			(0.075)		(0.088)	(0.069)
1 child							0.079	
							(0.118)	
2 children							0.074	
							(0.113)	
3+ children							0.132	
							(0.116)	
Control for family size: linear	Yes	Yes	No	Yes	Yes	No	No	Yes
# Firms	912	908	902	912	908	902	805	908
# Observations	920	916	909	920	916	909	813	916

Table C5: Family firms and wages

	(1) ln(monthly wage)	(2) ln(monthly wage)	(3) ln(monthly wage)
Family run firms			
Family owned, family CEO	-0.335***	-0.236***	-0.133***
	(0.086)	(0.061)	(0.047)
Founder owned, founder CEO	-0.304***	-0.223***	-0.129***
	(0.084)	(0.060)	(0.047)
Non-family run firms			
Family owned, professional CEO	-0.122	-0.101	-0.073
	(0.140)	(0.102)	(0.070)
Privately owned, professional CEO	-0.110	-0.064	-0.016
	(0.086)	(0.056)	(0.043)
Dispersed Shareholders (reference category)			
Observations	183,898	183,898	183,838
# Firms	613	613	613
R^2	0.337	0.576	0.786
Firm controls	✓	✓	✓
Industry controls	✓	✓	✓
Worker characteristics	✓	✓	✓
Sample used:	**WMS-RAIS (BR)**	**WMS-RAIS (BR)**	**WMS-RAIS (BR)**
Tests of equality			
Family (controlled) firm	0.488	0.725	0.896
Non-family (controlled)	0.925	0.705	0.383
Family vs non-family (controlled)	0.000	0.001	0.002

* $p < 0.1$, ** p < 0.05, *** $p < 0.01$. Standard errors in parentheses.

Note: All columns estimated by OLS with standard errors clustered by firm. All data comes from the World Management Survey. z-management is the plant-level standardized management score. General controls include firm-level controls for average hours worked and the proportion of employees with college degrees (from the survey), plus a set of country dummies. Noise controls include a set of interviewer dummies, the seniority and tenure of the manager who responded, the day of the week the interview was conducted, the time of day the interview was conducted and the duration of the interview. The base category here is firms with dispersed shareholder ownership.

Figures

Figure B1: Brazilian firms: value added, by type of ownership

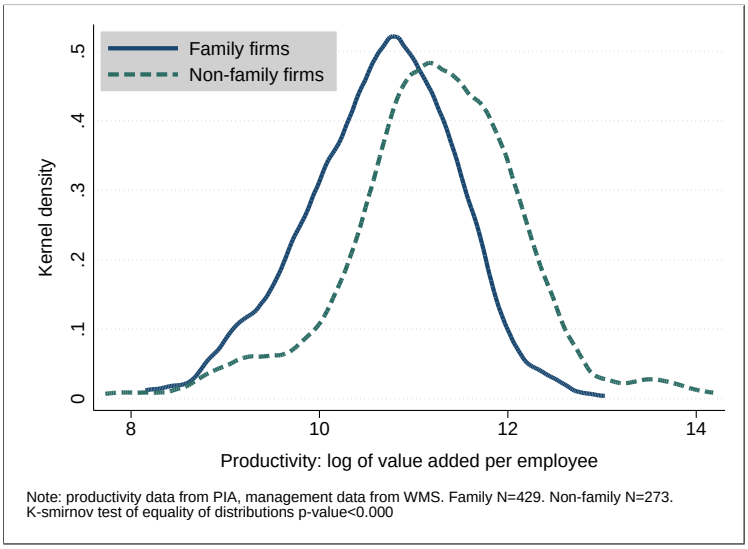


Figure B2: Average number of family members involved in the management of family or founder firms, by global region

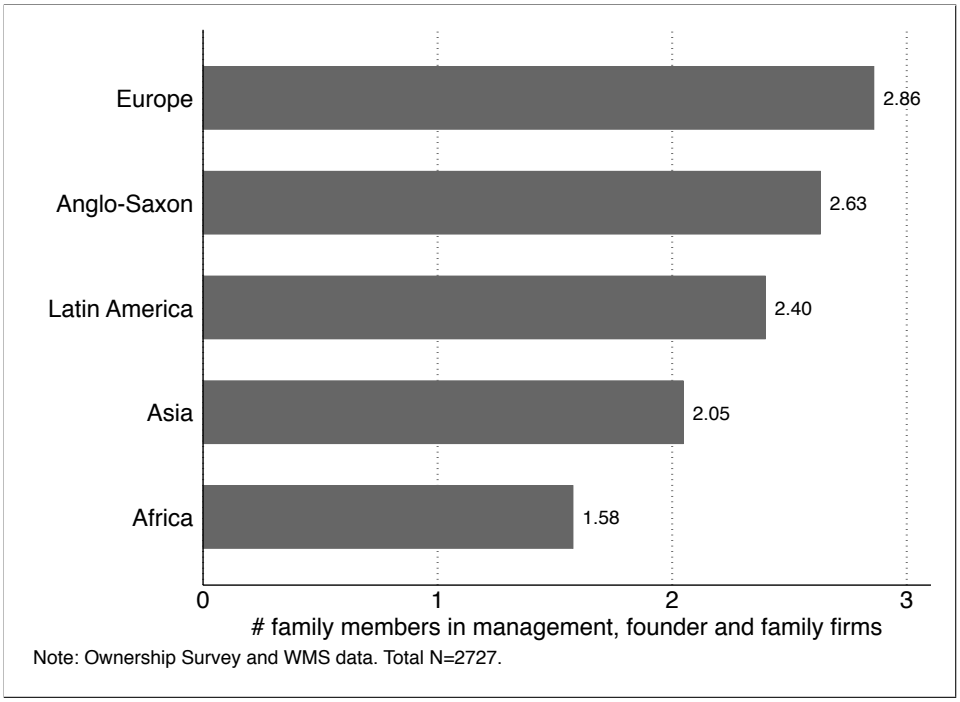
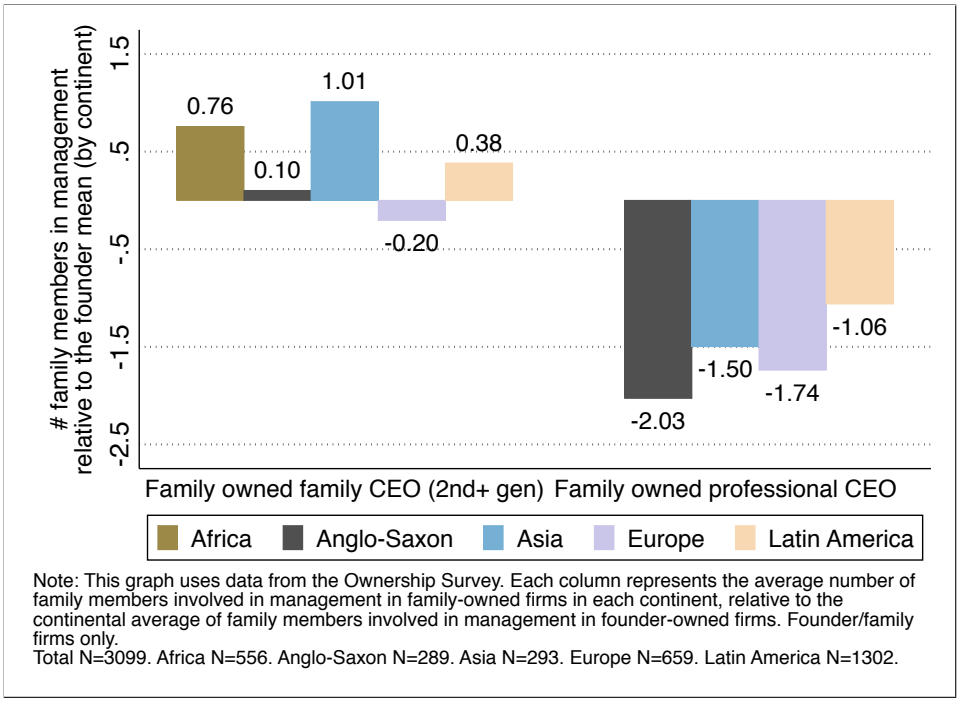


Figure B3: Number of family members involved in management of family firms, relative to the founder mean (by continent)



Note: This graph uses data from the Ownership Survey. Each column represents the average number of family members involved in management in family-owned firms in each continent, relative to the continental average of family members involved in management in founder-owned firms. Founder/family firms only.
Total N=3099. Africa N=556. Anglo-Saxon N=289. Asia N=293. Europe N=659. Latin America N=1302.

Figure B4: CEO investment decision: parameter space

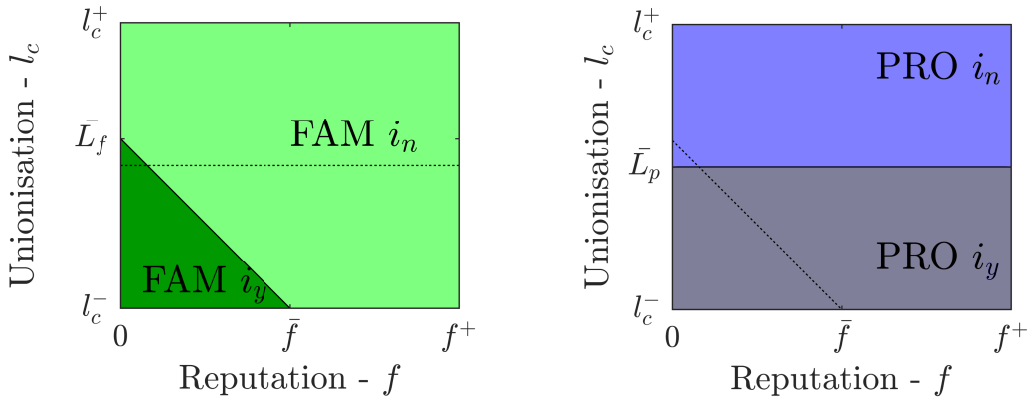


Figure B5: Game tree: owner's decision

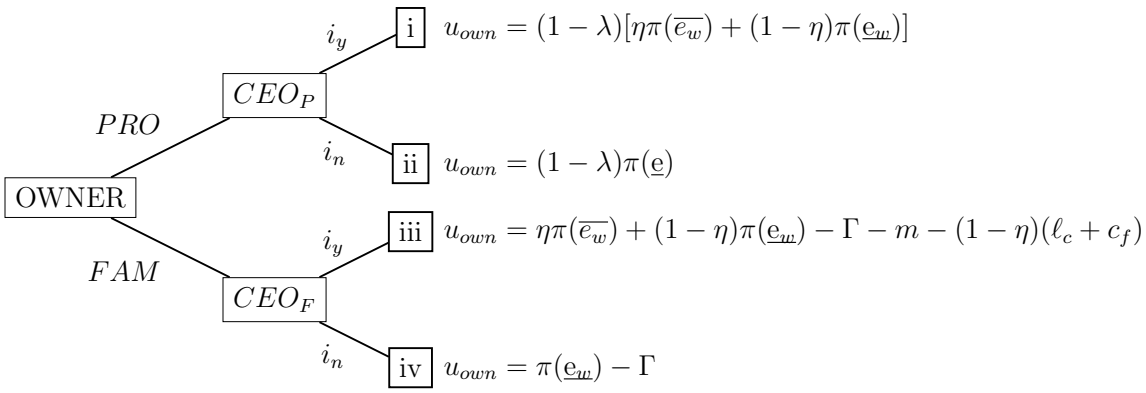


Figure B6: Game tree: CEO's investment decision

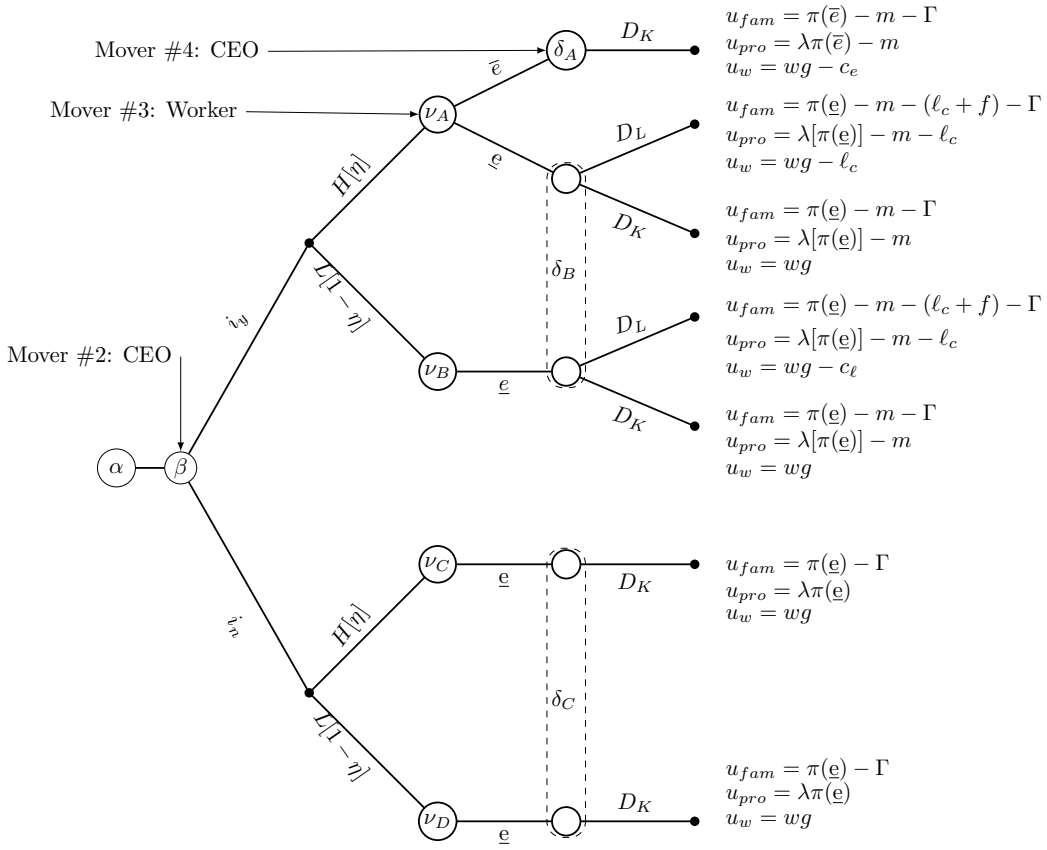


Figure B7: Game tree: summary decision set

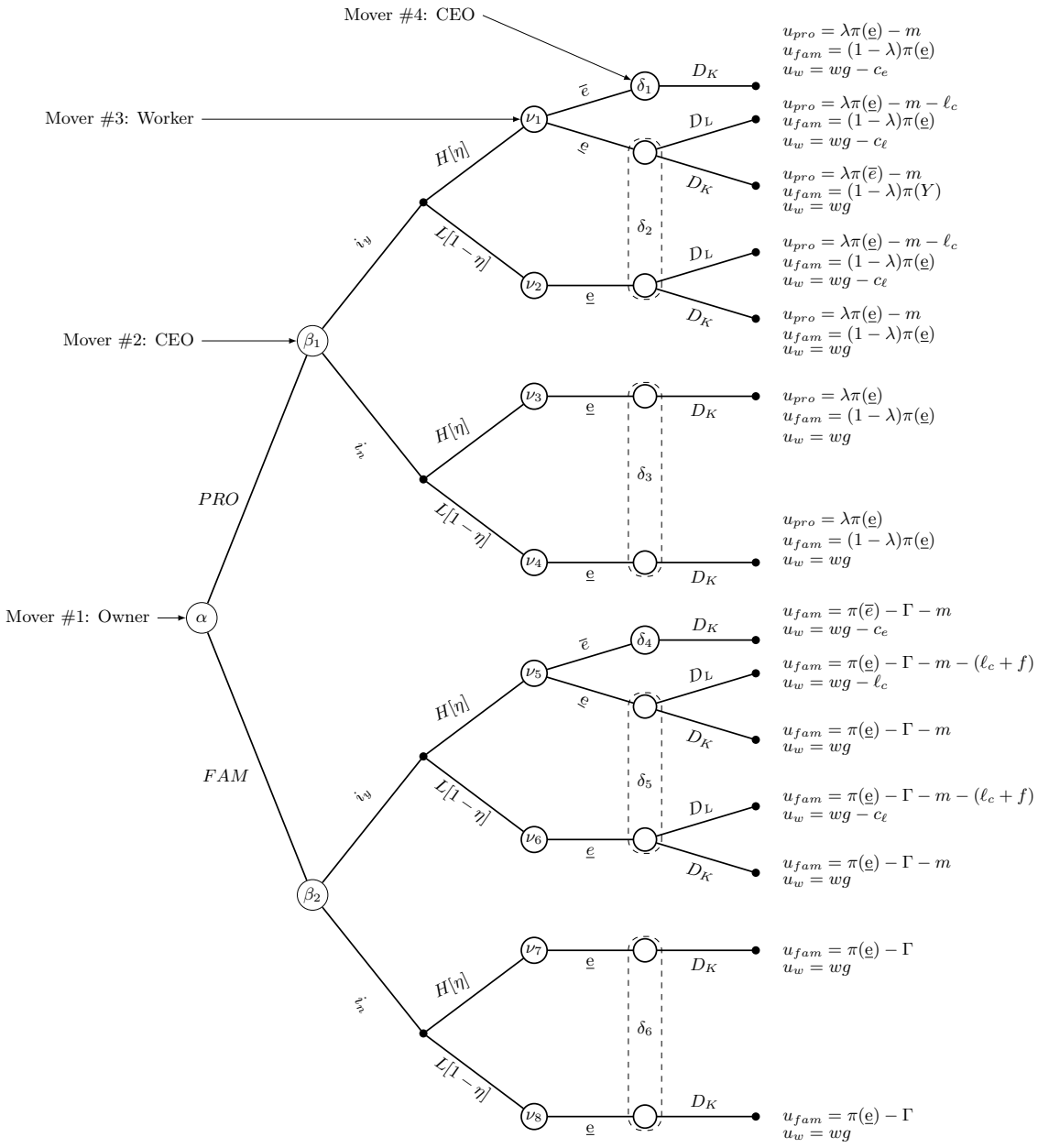


Figure B8: Prediction 3: Parameters determining the four equilibria space, for $\eta = .2$ and $\eta = .8$