Might family-owned, family-run firms be a serious obstacle to productivity growth in Europe? Oriana Bandiera, Andrea Prat and Raffaella Sadun have collected time use data on over 1,000 chief executive officers to explore differences in the hours worked by family and professional managers – and the impact on their firms’ performance.

Family business: management effort and firm performance

The exceptional economic success of many European countries in the post-war period was characterised by the dominant presence of family firms across the continent. In countries like Germany and Italy, family ownership came to be seen as the best guarantee of economic and social development. But the consensus that family firms are good for growth has come under scrutiny in recent years.

Indeed, an emerging body of evidence indicates that family management is actually detrimental for performance (Bloom and Van Reenen, 2007). One study estimates a 4% profitability loss for Danish firms due to having a family manager rather than a professional manager (Bennedsen et al, 2007). Another finds that family firms have worse executive selection because they prefer to hire a less qualified family manager rather than an external professional manager: this accounts for a 6% productivity loss relative to conglomerate-owned firms (Lippi and Schivardi, 2014).

So what does economic theory say about whether firms should be led by their owners or by professional managers? The argument in favour of owners is that they have more ‘skin in the game’: as the residual claimants of income generated by the business, they should be highly motivated to succeed, other things equal. The argument against is that other things are not equal. In particular, owners are typically wealthier because they own the firm, and might therefore demand or reward themselves more leisure than professional managers.

Given the ubiquity of family firms, understanding which of these effects prevails has important implications for aggregate income and growth. Our research investigates this issue by conducting a time use analysis of around 1,100 chief executive officers (CEOs) in six developed and developing economies: Brazil, France, Germany, India, the UK and the United States. About 41% of the CEOs in our sample are family CEOs; 16% are professional (non-family affiliated) CEOs working in family firms; and the rest are professional CEOs running non-family-owned businesses.

Our methodology builds on the ethnographic studies conducted by management guru Henry Mintzberg in the 1970s, which we extend to cover large and random samples of managers. Every day of a randomly selected week, we record every activity the CEOs undertake through daily interviews with them or their assistants. This allows us to estimate the total number of hours worked by the CEOs by adding up the duration of all the activities undertaken during the survey week.

Using this bottom-up measure of CEOs’ labour supply, we find that family CEOs dedicate systematically fewer hours to work activities compared with professional CEOs (see Figure 1). The difference – at least 9% of total hours worked – is due to two factors: family CEOs start work later in the day; and they are more likely to interrupt their day to devote time to personal activities.

Our results suggest that the fewer hours of work put in by family CEOs are driven by differences in their taste for
leisure versus work, rather than by systematic ‘technological’ differences between family- and non-family-owned firms. This conclusion is supported by two sets of findings.

First, observable differences in the characteristics of individuals and organisations explain very little of the difference in hours worked between family and professional CEOs. For example, it might be argued that the former can afford to work fewer hours because they can delegate their responsibilities to other family members more easily. But differences in the number of family members in management explain only a small part of the difference in hours worked. What’s more, professional CEOs in family-owned firms work just as hard as their colleagues in non-family-owned organisations, which rules out any suggestion that family firms simply require less work.

Second, we show that the difference between family and professional CEOs depends on the ‘opportunity cost’ of
leisure. For example, family CEOs working in larger firms and more competitive industries – where the opportunity cost of CEO leisure is higher because slacking off would presumably have serious negative implications for the firm – work as many hours as professional managers.

Symmetrically, family CEOs respond more strongly to exogenous ‘shocks’ that increase the marginal cost of their work effort. We show this using data from India, the largest country in our sample, where we can use two proxies for shocks to the cost of providing effort common to all CEOs: instances of extreme monsoon rainfall; and the broadcasting of Indian Premier League (IPL) cricket matches.

During India’s monsoon season, severe rains and floods often cause traffic jams and make it particularly costly to go to work; while the IPL is a popular sporting event that draws superstar players and the eyes of an enthusiastic nation. Our results depict a consistent picture: the difference in hours worked between family and professional CEOs is significantly larger on days when torrential rains hit the region in which the CEO is located. It is also larger on days when IPL matches are broadcast.

The fact that family CEOs seem to value leisure more than professional managers is consistent with the idea that the former are typically wealthier. In support of this, we find that the difference between family and professional CEOs is larger in countries where more permissive hereditary laws favour a concentration of wealth in the hands of the individuals due to inherit control of the family business.

But the difference between family and professional managers is unaffected by other country characteristics, such as the level of development, rule of law and trust, which may inhibit firms’ ability to nominate a hard-working non-family manager.

How do differences in hours worked between family and non-family CEOs relate to differences in firms’ performance and that of the aggregate economy? To address this question, we study the correlation between CEO hours worked and different metrics of firm performance measured in the years in which the CEOs in our sample were in office. We find that longer hours worked by CEOs correlate strongly with firm performance, across a wide range of metrics: productivity, profitability and sales growth.

This implies that systematic differences in hours worked between family and non-family CEOs may well have large economic implications (though unfortunately, the nature of our analysis does not allow us to estimate the causal effect of CEO hours worked on performance). For example, the difference in hours worked corresponds to a 2.6% productivity difference between family and professional CEOs. Given the ubiquity of family-run firms, differences in CEO hours worked may add up to a lot – in reduced profits, slower growth and lagging wages, all of which flow into the wider economy.

Overall, our findings provide novel evidence on a fundamental difference in behaviour between family and professional CEOs. This difference can be easily reconciled with the predictions of standard economic models of labour supply in the presence of wealth differentials across individuals.

Our findings also raise a question for public finance: would an increase in taxation that affects the owners of family firms bring about an increase in productive efficiency? Such taxation might include an inheritance tax, a wealth tax or a reduction in the various forms of exemptions that family firms enjoy in many parts of the world.

This article summarises ‘Managing the Family Firm: Evidence from CEOs at Work’ by Oriana Bandiera, Andrea Prat and Raffaella Sadun, CEP Discussion Paper No. 1250 (http://cep.lse.ac.uk/pubs/download/dp1250.pdf).

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Further reading

