

# Discussion of "The Talent Gap in Family Firms"

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## Summary of the Paper

- ^ **Motivation:** Two perspectives on human capital in family firms (FF):
  - ^ Lower: Nepotism, glass ceiling, bad management
  - ^ Higher: More autonomy, loyalty, long-termism, and authority
- ^ **This paper:** Documents a **talent gap** in family firms and investigates mechanisms (nepotism, compensation for talent)
- ^ **Findings:** "Family leaders do not recognize talent"
  - ^ IQ is 41.6p vs 43.8p, so 2.2p lower out of 70p (GPA 44th vs 48th pctl)
  - ^ Bigger gaps in management and high skill occupations
  - ^ Mechanisms:
    - ^ Nepotism (family members hold "too high" positions + the talented avoid these firms)
    - ^ Pay less for talent (pay-talent slope + FF have lower AKM pay premia)

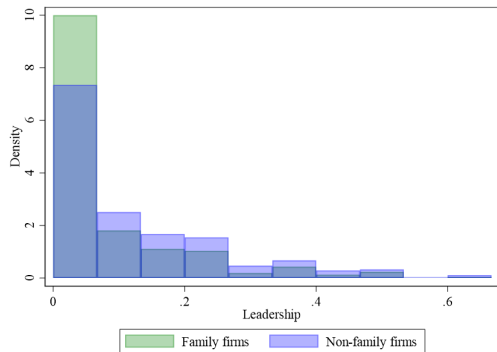
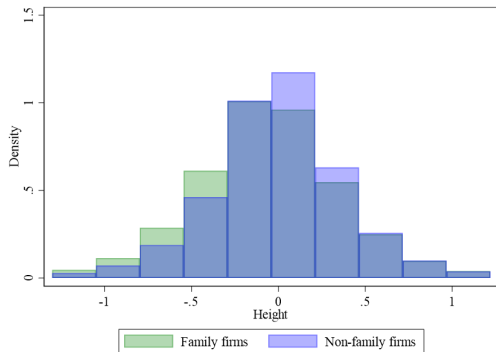
## Remark 1: Interpretation

- ^ "Family leaders are **excellent** at recognizing talent"
  - ^ Nepotism
  - ^ Lower pay for talent
  - ^ Bad management that affect performance (QJE paper)
  - ^ Bad management practices (Bloom et al)
  - ^ Bad matching (JAQ paper)
  - ^ ! Yet only 0.5-2.2p out of 70p difference in IQ test scores
- ^ IQ test scores and GPAs may proxy for "general ability", so evidence on outcomes that matter for FF is needed to determine if effects are large or not (profitability, productivity)

## A Quick Detour to Sweden

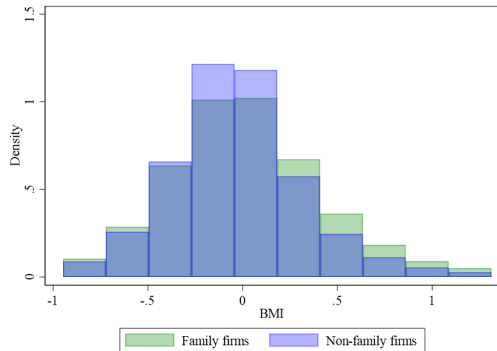
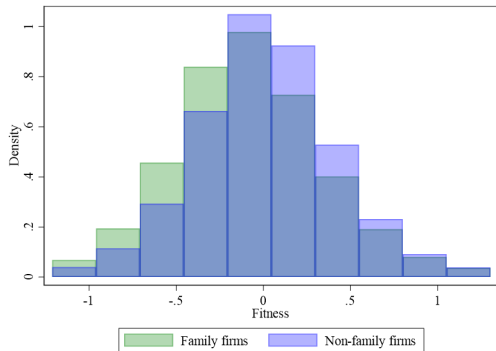
## A Quick Detour to Sweden

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## A Quick Detour to Sweden

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Cognitive	Non-cog	Leadership	Height	Fitness	Muscle	BMI
<b>Panel A:</b> FF (uncond)	-0.260 (-64.52)	-0.146 (-44.18)	-0.0428 (-48.44)	-0.0616 (-22.21)	-0.0929 (-30.67)	0.0306 (10.65)	0.0461 (17.28)
<b>Panel B:</b> FF (cond)	-0.0446 (-14.22)	-0.0232 (-7.61)	-0.00723 (-8.94)	-0.0105 (-3.68)	-0.0219 (-7.38)	0.0111 (3.86)	0.00442 (1.63)
N	488321	488321	488321	488321	488321	488321	488321

# A Quick Detour to Sweden

	L(va/emp)	L(va/emp)	L(sales/emp)	L(sales/emp)	OROA	OROA
<b>Family Firm</b>	<b>-0.0107</b> <b>(-4.69)</b>	<b>-0.00746</b> <b>(-3.28)</b>	<b>-0.0786</b> <b>(-23.62)</b>	<b>-0.0752</b> <b>(-22.89)</b>	<b>0.00737</b> <b>(6.76)</b>	<b>0.00730</b> <b>(6.70)</b>
Log(cap/emp)	0.268 (94.88)	0.263 (93.38)	0.458 (120.27)	0.452 (119.83)	0.00398 (4.21)	0.00404 (4.22)
Log(emp)	0.00873 (5.31)	0.00868 (5.32)	0.0226 (10.07)	0.0226 (10.14)	-0.00377 (-6.21)	-0.00372 (-6.10)
Cognitive		0.0358 (12.40)		0.00876 (2.10)		-0.00160 (-1.16)
Non-cog		0.0204 (6.96)		0.0630 (14.79)		-0.00166 (-1.10)
Leadership		0.0341		0.0277		-0.00412
Height		0.00820		0.0246		-0.00206
Fitness		0.0187		0.0181		0.00479
Muscle		0.0111		-0.00655		0.00335
BMI		-0.00907		0.00521		-0.00510
$R_a^2$	0.472	0.474	0.675	0.677	0.0489	0.0490
N	487238	487238	486541	486541	487238	487238

## Remark 1: Interpretation

- ^ "Family leaders are **excellent** at recognizing talent!"
  - ^ Nepotism
  - ^ Lower pay for talent
  - ^ Bad management that affect performance (QJE paper)
  - ^ Bad management practices (Bloom et al)
  - ^ Bad matching (Coraggio, Pagano, Scognamiglio, Tåg 2024)
  - ^ ! Yet only 0.5-2.2p out of 70p difference in IQ test scores
- ^ They appear to get it mostly right. **Why?**
  - ^ Lower: Nepotism, glass ceiling, bad management
  - ^ **Higher: More autonomy, loyalty, long-termism, and authority**

## Remark 2: Additional Analyses

- ^ **Regressions:**
  - ^ Region: Rural areas have more family firms and fewer talented individuals
  - ^ IQ distribution: should probably not enter linearly (and not sure mean is correct aggregation)
  - ^ Are the pay for performance results affected by pay to family and friends?
- ^ **Compensating differentials:** Do they matter less for the talented? (Working in Family Firms: Paid Less but More Secure? Evidence from French Matched Employer-Employee Data, Bassani et al 2013, ILR Review)
- ^ **"Who works for family firms?":** Run Blinder–Oaxaca regressions and compare talent vs other observables

## Remark 3: Additional Literature

### ^ **Mention the broader literature on talent in the labor market:**

- ^ Lindqvist and Vestman 2011 (AEJ: Applied): “The Labor Market Returns to Cognitive and Noncognitive Ability: Evidence from the Swedish Enlistment.”
- ^ Fredriksson, Hensvik, and Nordström Skans 2018 (AER): “Mismatch of Talent: Evidence on Match Quality, Entry Wages, and Job Mobility.”
- ^ Fox and Smeets 2011 (IER): “Does Input Quality Drive Measured Differences in Firm Productivity?”
- ^ Böhm, Metzger, and Strömberg 2023 (RESTUD): “‘Since You’re So Rich, You Must Be Really Smart’: Talent, Rent Sharing, and the Finance Wage Premium.”
- ^ Adams, Keloharju and Knüpfer 2018 (JFE): “Are CEOs Born Leaders? Lessons from Traits of a Million Individuals.”
- ^ Baghai, Silva, Thell, and Vig. 2021 (JF) “Talent in Distressed Firms: Investigating the Labor Costs of Financial Distress.”

- ^ **Minor things to consider:**

- ^ **Causality:** The "gender of first-born" analyses (also gives direct link to performance)?
- ^ **Magnitudes:** Compare to other events ("Bach, Baghai, Bos, and Silva. "How Do Acquisitions Affect the Mental Health of Employees?", 2024)
- ^ **Policy?** Misallocation across firms?
- ^ **Note:** Careers and Wages in Family Firms: Evidence from Matched Employer-Employee Data (Di Porto, Pagano, Pezone, Saggio, and Schivardi 2024)

## Concluding Remarks

- ^ **This paper:** Documents a **talent gap** in family firms and investigates mechanisms (nepotism, compensation for talent)
- ^ **Assessment:**
  - ^ Excellent descriptives on an interesting topic (talent and ownership)
  - ^ Well structured
  - ^ High potential given the rich data and outstanding team
- ^ **Suggestions:**
  1. Interpretation
  2. Additional analyses
  3. Additional literature



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