Discussion of "The Talent Gap in Family Firms"

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CAREERS OF EXTREMELY INTELLIGENT MEN

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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 pctle)
 - · 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)
 - \rightarrow 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)









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

	L(va/emp)	L(va/emp)	L(sales/emp)	L(sales/emp)	OROA	OROA
Family Firm	-0.0107*** (-4.69)	-0.00746** (-3.28)	-0.0786*** (-23.62)	-0.0752*** (-22.89)	0.00737*** (6.76)	0.00730*** (6.70)
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 Height Fitness Muscle BMI		0.0341*** 0.00820** 0.0187*** 0.0111*** -0.00907**		0.0277* 0.0246*** 0.0181*** -0.00655 0.00521		-0.00412 -0.00206 0.00479*** 0.00335* -0.00510***
R _a ² N	0.472 487238	0.474 487238	0.675 486541	0.677 486541	0.0489 487238	0.0490 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)
 - \rightarrow 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 Smeet 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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