Family Ties, Corporate Power and Workers' Careers

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- Insiders with **corporate power** have substantial discretion over these decisions
- A potential use of that discretion is **channeling jobs and pay to relatives** through **favoritism**
- Thus, corporate power can affect **allocation and pay in the labor market**
- Yet, little is known about the importance of this **labor-allocation channel of corporate power** and **how corporate governance constrains it**

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  2. **Family/social networks as information channels** (Montgomery 1991; Calvó-Armengol and Jackson 2004; Kramarz and Skans 2014; Hensvik and Skans 2016; Pallais and Sands 2016)
     - We show how **power-based favoritism** can counteract the information channel

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  3. **Favoritism and political connections** (Prendergast and Topel 1996; Bandiera et al. 2009; Wang 2013; Folke, Persson, and Rickne 2017; Gagliarducci and Manacorda 2020)
     - We bring the logic of political connections **inside the firm**: corporate control, not public office, as the source of power → **corporate governance implications**

Swedish registry data

- **LISA matched employer–employee data:**
  - Entire adult population, 2000–2020
  - Employment status, earnings, occupation, education, employer identifiers
  - Analysis uses a 5% random sample (~700k individuals, ~9.7M person-years)
- **RTB (genealogies):**
  - Parents, grandparents, siblings, children, grandchildren, partners
  - Family defined through biological or adoptive links (common children)
  - Includes “step-links”
- **Board and ownership registers:**
  - Boardmembers and CEOs: Swedish Companies Registration Office
  - Owners: K10 filings from FRIDA (the Swedish Tax Office)

Key definitions

- **Powerful relative:** family member who is CEO or controlling owner
  - **CEO:** registered as the CEO in the board register
  - **Controlling owner:** owner in a closely held firm
    - ”Fåmansaktiebolag”
    - $\approx \leq 4$ owners with $>50\%$ of votes
  - **Prevalence:** 32.7% of the sample gains a powerful relative at some point
- **Family firm:** ≥ 2 related individuals among CEO, board members, or controlling owners
- **Corporate governance:** Family vs non-family firm proxies the strength of constraints on insider discretion

Event-study around the first year an individual gains a powerful relative

Career paths around the event

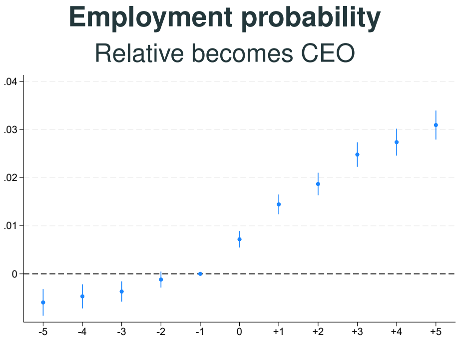
- First year a worker gains a CEO or controlling-owner relative
- Employment, firm mobility, and annual earnings over a five-year window
- Worker and year effects; never-treated workers provide the comparison

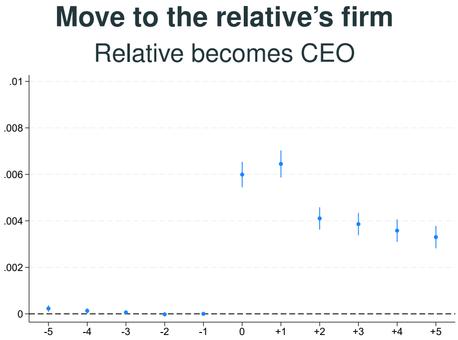
Patterns consistent with favoritism

- Gains concentrated inside the relative's firm
- Larger effects in family firms, where insiders may have more discretion
- Match quality goes down

Note: Current broad events are suggestive, not causal: cleaner events in pre-existing firms, using later treated as controls, and staggered-treatment estimators are next.

Employment rises and workers move toward the relative's firm





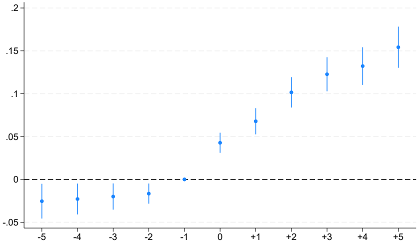
Employment probability is about **7% higher** within five years

Discrete rise in moves into the relative's firm ($\approx$ 2 **moves per 100 treated**)

Earnings rise mainly inside the relative's firm

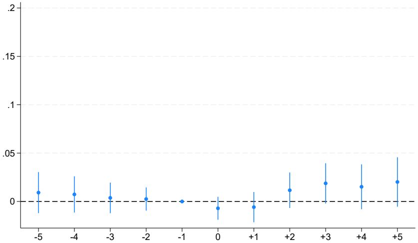
All workers

Relative becomes controlling owner



Workers who never join the firm

Relative becomes controlling owner



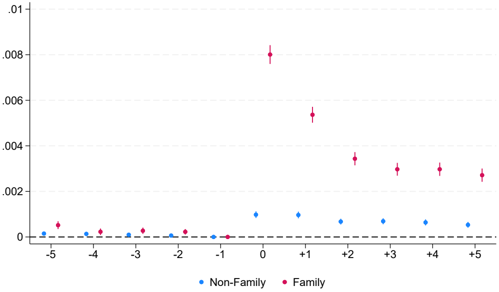
Annual earnings rise by up to **15%**

Outside the relative's firm, the gain is only **1–2% or zero**.

Corporate governance matters

Moves into the relative's firm

Controlling-owner events



Result

Movement is much larger in **family firms**, where insiders plausibly have more discretion.

Takeaway

Corporate power appears to reallocate jobs and earnings within families.

Distinguishing **rents** from **productive matching** using JAQ is next

Planned tests can separate rents from productive matching

Two interpretations

Favoritism and rents

Relatives receive jobs despite poorer fit and may displace better-matched workers

Productive matching

Family ties reduce information, trust, or monitoring frictions and improve match quality

Planned tests

- Compare relatives' job–worker allocation quality (JAQ) with comparable non-related hires in the same firm-year and whether any gap is larger in family firms.
- Track firm JAQ, productivity, profitability, and coworkers' outcomes after a relative is hired.

Lower JAQ is consistent with rents,
equal or higher JAQ with productive matching.

Takeaway so far...

- **Question:** How do workers' careers change when a family member gains corporate power?

- **Results so far:**
  - **Employment rises, workers move into relative's firm, earnings up by 15%**
  - Effects much larger in **family firms** than in non-family firms
  - Gains concentrated **inside relative's firm**

Corporate power creates family-based labor-market advantages,
and corporate governance constrains them