

Family Ties, Corporate Power and Workers' Careers

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Motivation and Research Question

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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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 - Employment and earnings **decline** following loss of the last powerful relative
 - Relatives have **lower occupational match quality**, specially in **family firms**

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Family ties create **substantial career advantages** when workers enter firms where their relatives hold **corporate power** and have **discretion**

- **Private benefits of control in CEO successions and pay/talent in family firms**

(Bennedsen et al 2007; Pérez-González 2006; Bennedsen et al. 2025; Di Porto et al. 2024)

- We document extensive **labor-market private benefits of control**: jobs, promotions, and wages allocated to family members

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- **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 study relatives of CEOs and controlling owners, not rank-and-file workers
- We show how **power-based favoritism** can counteract the information channel

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 - We study relatives of CEOs and controlling owners, not rank-and-file workers
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- **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**

Conceptual Framework

Conceptual framework: two channels

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1. Information

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External referrals: other firms can hire the relative without screening.

Internal referrals: M 's own firm hires the relative; M partly internalizes profits.

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2. Discretion

M directly hires or rewards relatives in her firm, irrespective of quality.

This occurs with probability d : higher when governance is weak and control is concentrated.

Model primitives

- Workers are high type, producing x , or low type, producing 0.
- Firms cannot directly observe type; some screen applicants at a cost.
- Families know their members' types.
- A powerful relative M obtains a warm-glow benefit b when a relative is hired.
- M internalizes a fraction α of firm profits.
- M can directly hire relatives with probability d :
 - low d : professionally managed firms with governance constraints;
 - high d : family-controlled firms where ownership and control overlap.

Referral channel

- If $d = 0$, M cannot directly hire relatives.
- Credible referrals save screening costs and raise entry wages.
- External referrals are credible if reputational losses from lying exceed the warm-glow benefit b .
- Internal referrals are more credible than external ones because a bad hire reduces M 's financial payoff.

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Discretion channel

- If $d > 0$, M may hire relatives directly and bypass screening.
- Low-quality relatives may be hired if warm glow exceeds financial loss.
- Direct hiring can generate non-meritocratic appointments and lower output.
- Direct hiring weakens referral credibility and crowds out the information channel.

Empirical implications

- **Both channels predict:**
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 - **Information channel:**
 - gains may extend to the outside labor market;
 - gains are not reversed when M loses corporate power.
 - positive effects on match quality.

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- **Key distinguishing predictions:**
 - **Information channel:**
 - gains may extend to the outside labor market;
 - gains are not reversed when M loses corporate power.
 - positive effects on match quality.
 - **Discretion/favoritism channel:**
 - gains concentrated inside the relative's firm;
 - effects larger in family firms and for controlling owners;
 - reversal of gains when family tie loses corporate power;
 - negative effects on match quality (misallocation).

Data

- **LISA matched employer–employee data:**
 - Entire adult population, 2000–2020
 - Employment, earnings, occupation, education, location, employer identifiers, experience, tenure, and unemployment history
- **RTB (genealogies):**
 - parents, grandparents, siblings, children, grandchildren, and partners
 - extended family networks across generations
- **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
- **Family firm:** at least two related individuals among CEO, board members, or controlling owners
- **Treated:** individuals who gain powerful relatives for the first time (the "event").
- **Switchers:** treated individuals who move to the powerful relative's firm within five years from the event

Data scale and identifying variation

- **Large matched employer–employee panel**
 - More than 242 million individual-year observations.
 - About 12.1 million individuals observed between 2000 and 2020.
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- **Many powerful-relative events**

- 2.68 million individuals experience a first powerful-relative event (27.5 percent of the event-analysis sample).
- Events are fairly balanced between family and non-family firms.
- First events span many years, enabling early- versus late-treated comparisons.

Empirical design

Empirical design: early treated versus late treated

- For each cohort g , the sample includes individuals treated in year g and a balanced comparison group of late-treated individuals.
- Control group: individuals whose relatives acquire the same kind of corporate power, but at least nine years later.
- Balanced window: retain individuals observed from $g - 5$ to $g + 5$.
- Estimate event-study regressions separately by cohort, then aggregate cohort-specific coefficients.
- Event time -1 is the omitted reference period.

Note: this avoids comparing families with and without corporate power.

Cohort-specific event-study equation

$$Y_{it} = \alpha_i + \gamma_t + \sum_{k \neq -1} \beta_{gk} (T_{ig} \times \mathbf{1}\{t - g = k\}) + \varepsilon_{it}.$$

- $T_{ig} = 1$ for individuals first treated in cohort g .
- $T_{ig} = 0$ for late-treated individuals assigned to the same focal event year but not yet treated during the event window.
- Individual fixed effects α_i absorb permanent worker and family differences.
- Year fixed effects γ_t absorb aggregate shocks.

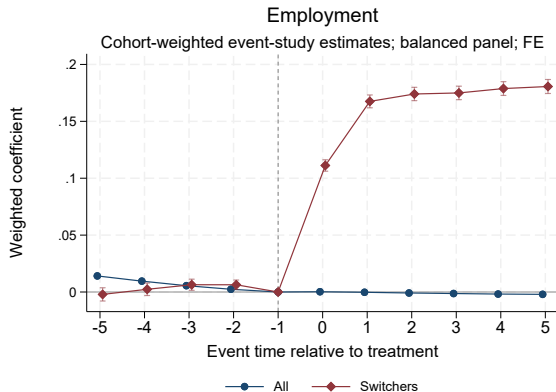
Identifying assumption: event timing is not driven by shocks that affect the worker's career.

Two samples: all treated workers and subsample of switchers

- The **full treated sample** measures the average effect of acquiring a powerful relative.
- The **sample of switchers** consists of individuals for whom the family connection is activated by entry into the relative's firm.
- Switcher status is post-event, so these estimates are not the causal effect of switching itself.
- They are mechanism evidence: if family ties operate through the relative's firm, effects should be concentrated among switchers.

Results

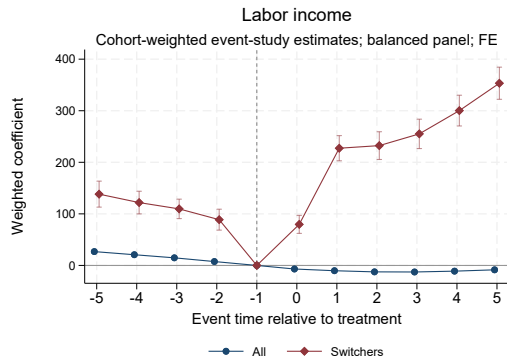
Employment: effects concentrated among switchers



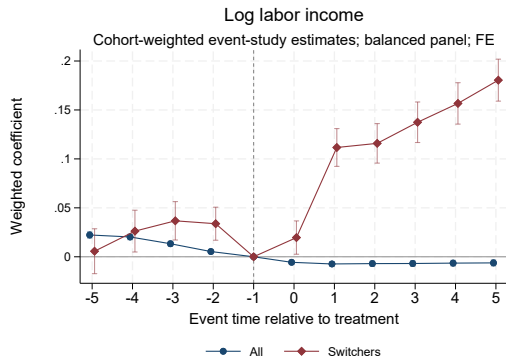
Cohort weights use `N_treated` from `reg_results_buffer` weights and are constant over event time.
Approximate 95% CIs use $SE = \sqrt{\sum w_g^2 \times SE_{gk}^2}$.
Cross-cohort covariance is ignored.
Event time -1 is the omitted reference period, normalized to zero.

Main result: Little effect in the full sample; large, persistent employment gains among switchers.

Earnings: effects concentrated among switchers



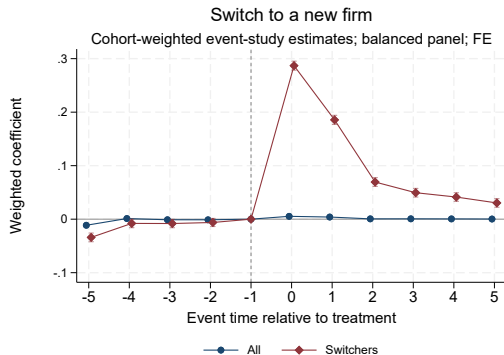
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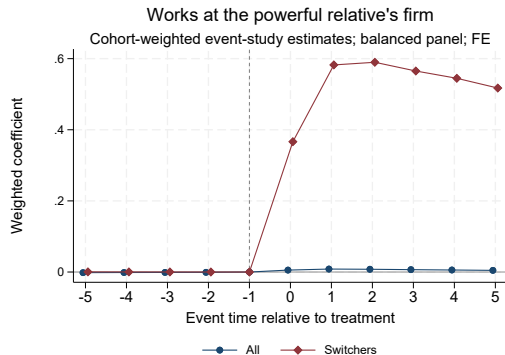
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Main result: Earnings gains are large for switchers, while full-sample effects remain close to zero.

Mobility and entry into the relative's firm



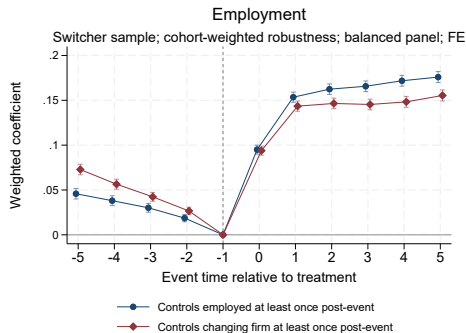
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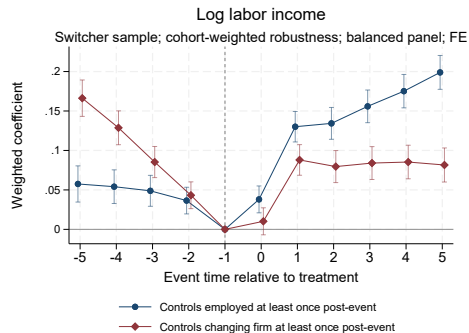
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Main result: The gains coincide with a discrete move into the relative's organizational domain.

Robustness: alternative controls for switchers



Both series use the switcher treatment sample; only the not-yet-treated control restriction differs.
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Approximate 95% CIs use $SE = \sqrt{(\sum g_w^2 \times SE_{gk^2})}$; cross-cohort covariance is ignored.
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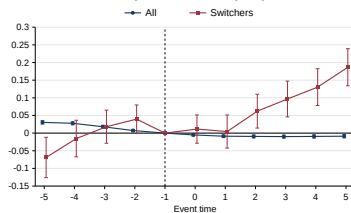
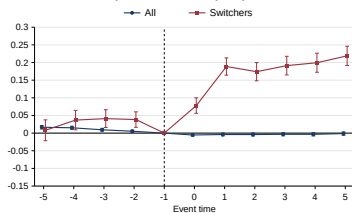
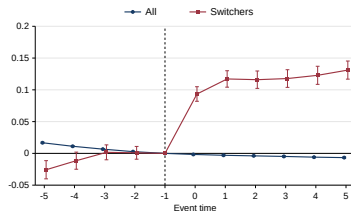
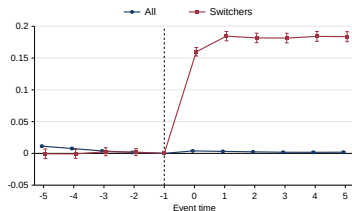
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Alternative controls: (i) employed at least once post-event; (ii) moved at least once post-event.

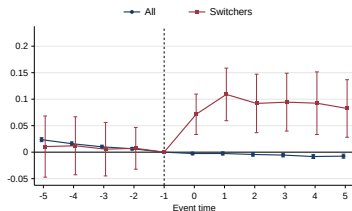
Main result: Employment effects survive stricter controls; earnings gains attenuate with mobile controls but do not vanish.

Heterogeneity by discretion

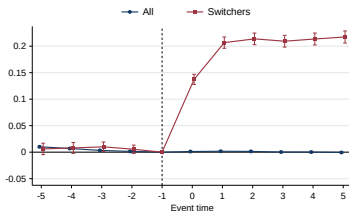
Heterogeneity I: family versus non-family firms



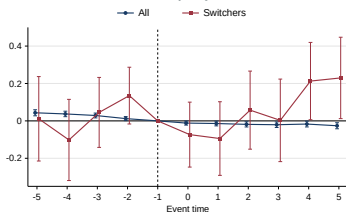
Heterogeneity II: CEO versus controlling owner



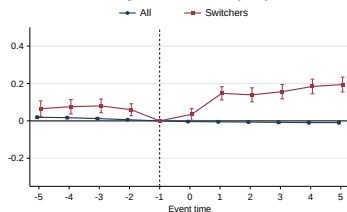
CEO: employment



Controlling owner: employment



CEO: log labor income



Controlling owner: log labor income

Evidence consistent with discretion

- Gains are concentrated among workers entering the relative's firm.
- Effects are larger where governance grants more discretion.
- Controlling-owner events generate especially large effects.

How the evidence maps back to the model

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Why this is not definitive

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- Switchers may be selected on unobserved quality.
- Wage gains alone do not prove lower match quality or rent extraction.

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These results identify **where** the returns to family power are realized. But they may still reflect superior **information** rather than **favoritism**.

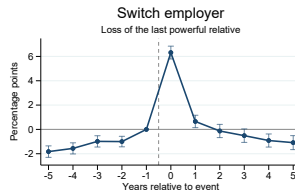
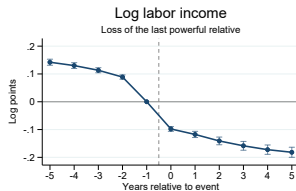
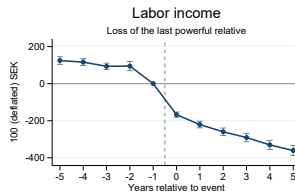
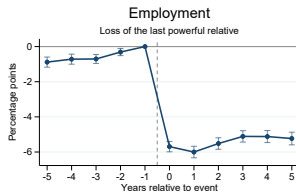
Test I: Loss of corporate power

What happens when relatives lose corporate power?

- Under the **information channel**, workers should retain their positions after the relative loses corporate power, provided they have proved their value to the firm.
- Focus on workers employed at their powerful relative's firm.
- Estimate event studies around the loss of the *last* powerful relative, using as control group those whose relatives do not lose power.
- We track employment, labor income, log labor income, and employer changes from -5 to $+5$.

Loss of the last powerful relative

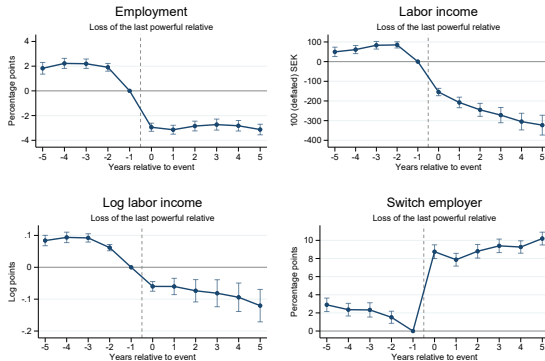
Control group: Never observed loss



Main result: Compared to connected workers with no loss, employment falls by 5–6 pp, earnings decline by over 20 log points, employer changes spike at the event; some anticipation at -1.

Coworker comparison accounts for common firm shocks

Control group: Unrelated coworkers



Main result: Relative to unrelated coworkers, employment falls by about 3 pp, earnings decline by over 10 log points, employer changes spike (even more) at event; some anticipation at -1.

Test II: Misallocation

Misallocation vs. efficiency

- Earnings rise for workers who join a powerful relative's firm
- Two interpretations:
 - **Misallocation through favoritism (rents):** relatives get jobs they are not qualified for → **lower match quality**, displaces better-suited workers, reduces firm productivity
 - **Efficiency (productive matching):** family ties reduce information frictions → **better match quality**, family employees are well suited and productive, higher firm productivity
- Key empirical question: are relatives placed in jobs for which they are **less qualified** than comparable workers?
- We can test this directly using a measure of **job-worker allocation quality (JAQ)**

Measuring job-worker allocation quality: JAQ

- **Idea:** use ML to learn the job-assignment rule from the most productive firms, then measure how closely others follow it (Coraggio et al, *JFE* 2025)
- **Construction in four steps:**
 1. Train ML algorithm on top-decile productivity firms: worker+firm characteristics → occupation
 2. Predict most suitable job for every worker in remaining firms
 3. $eJAQ_i = 1$ if worker i 's actual job = predicted best job
 4. $JAQ_f =$ share of correctly matched workers in firm f
- **Validation:** JAQ correlates positively with earnings (+2.4%), negatively with separations, and robustly with firm productivity (+11.5% sales/employee per SD)
- **Prior finding:** Family firms have **significantly lower JAQ** than non-family firms

- **Empirical strategy:** compare eJAQ of relatives who join the powerful relative's firm to eJAQ of comparable non-related hires in the same firm-year
 - **Misallocation through favoritism (rents):** Relatives should have $eJAQ <$ non-related hires (hired despite poor fit) and the gap should be **larger in family firms** (more discretion)
 - **Efficiency (productive matching):** Relatives should have $eJAQ \geq$ non-related hires
- **Additional tests (to be done):**
 - Does firm-level JAQ, productivity and profitability *decline* after hiring a relative? (within-firm)
 - Are relatives with low (non-)cognitive scores especially likely to have low eJAQ? Lower eJAQ if hired after personal shocks?
 - Internal allocation distortions: Do coworkers' outcomes (wages, promotions, JAQ) deteriorate around family hires?

Family connections and log labor income

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Family connection	-0.1631*** (0.0037)	-0.0997*** (0.0038)	-0.0912*** (0.0037)	-0.0809*** (0.0036)	-0.0807*** (0.0036)	-0.0756*** (0.0037)	-0.0195*** (0.0049)
Family firm	-0.1685*** (0.0006)	Absorbed	Absorbed	Absorbed	Absorbed	Absorbed	--
Connection x family firm	0.3171*** (0.0042)	0.2913*** (0.0043)	0.2702*** (0.0042)	0.2630*** (0.0042)	0.2627*** (0.0042)	0.2600*** (0.0043)	0.2806*** (0.0051)
Best-fit job probability	0.2664*** (0.0013)	0.1261*** (0.0015)	0.1435*** (0.0014)	0.1262*** (0.0015)	0.1280*** (0.0015)	0.1300*** (0.0015)	--
Cognitive score	--	--	--	--	--	--	0.0568*** (0.0005)
Cognitive score squared	--	--	--	--	--	--	0.0026*** (0.0003)
Noncognitive score	--	--	--	--	--	--	0.0743*** (0.0004)
Noncognitive score squared	--	--	--	--	--	--	0.0046*** (0.0004)
Constant	7.9544*** (0.0006)	7.9605*** (0.0006)	7.9542*** (0.0006)	7.9626*** (0.0006)	7.9620*** (0.0006)	7.9621*** (0.0006)	8.2034*** (0.0005)
Predicted-job FE	Yes	--	Yes	Incl.	Incl.	Incl.	--
Year FE	Yes	Incl.	Incl.	Incl.	Incl.	Incl.	Incl.
Firm x year FE	--	Yes	Yes	Yes	Yes	Incl.	Yes
Firm x predicted-job FE	--	--	--	Yes	Yes	Incl.	--
Predicted-job x year FE	--	--	--	--	Yes	Incl.	--
Firm x predicted-job x year FE	--	--	--	--	--	Yes	--
Observations	19,098,204	19,010,896	19,010,895	18,846,160	18,846,159	18,281,145	15,714,380

Worker-clustered standard errors in parentheses. * p < 0.10, ** p < 0.05, *** p < 0.01. Stars and precision reproduce the source exports.

Absorbed: family-firm main effect omitted under firm x year fixed effects. --: regressor/effect not explicitly included. Incl.: contained in higher-dimensional fixed effects.

Predicted job refers to maxjob; its probability is maxval. Column (7) replaces maxval with cognitive and noncognitive scores and their squares.

Samples may differ across columns. No worker fixed effects, balanced-panel restriction or benchmark restriction is imposed by the active do-file.

Family connections and eJAQ

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Family connection	-0.0297*** (0.0023)	-0.0315*** (0.0022)	-0.0284*** (0.0022)	-0.0245*** (0.0020)	-0.0245*** (0.0020)	-0.0279*** (0.0021)	-0.0296*** (0.0052)
Family firm	-0.0156*** (0.0004)	Absorbed	Absorbed	Absorbed	Absorbed	Absorbed	--
Connection x family firm	-0.0354*** (0.0026)	-0.0579*** (0.0025)	-0.0506*** (0.0025)	-0.0581*** (0.0023)	-0.0581*** (0.0023)	-0.0652*** (0.0025)	-0.0964*** (0.0058)
Best-fit job probability	0.7179*** (0.0011)	0.5612*** (0.0011)	0.4791*** (0.0011)	0.3069*** (0.0010)	0.3042*** (0.0010)	0.3100*** (0.0011)	--
Cognitive score	--	--	--	--	--	--	0.0008* (0.0004)
Cognitive score squared	--	--	--	--	--	--	0.0104*** (0.0003)
Noncognitive score	--	--	--	--	--	--	-0.0061*** (0.0004)
Noncognitive score squared	--	--	--	--	--	--	-0.0003 (0.0003)
Constant	0.0454*** (0.0004)	0.1003*** (0.0004)	0.1309*** (0.0004)	0.1968*** (0.0004)	0.1979*** (0.0004)	0.1998*** (0.0004)	0.3017*** (0.0005)
Predicted-job FE	Yes	--	Yes	Incl.	Incl.	Incl.	--
Year FE	Yes	Incl.	Incl.	Incl.	Incl.	Incl.	Incl.
Firm x year FE	--	Yes	Yes	Yes	Yes	Incl.	Yes
Firm x predicted-job FE	--	--	--	Yes	Yes	Incl.	--
Predicted-job x year FE	--	--	--	--	Yes	Incl.	--
Firm x predicted-job x year FE	--	--	--	--	--	Yes	--
Observations	19,098,211	19,010,901	19,010,900	18,846,165	18,846,164	18,281,150	5,627,353

Worker-clustered standard errors in parentheses. * p < 0.10, ** p < 0.05, *** p < 0.01. Stars and precision reproduce the source exports.

Absorbed: family-firm main effect omitted under firm x year fixed effects. --: regressor/effect not explicitly included. Incl.: contained in higher-dimensional fixed effects.

Predicted job refers to maxjob; its probability is maxval. Column (7) replaces maxval with cognitive and noncognitive scores and their squares.

Samples may differ across columns. No worker fixed effects, balanced-panel restriction or benchmark restriction is imposed by the active do-file.

Takeaways

- **Question:** How do workers' careers change when a family member **gains or loses corporate power**?
 - Do family ties transmit **information** or enable **favoritism** in jobs and pay?
- **Preview of results:**
 - Little detectable average employment or earnings gain in the **full treated sample**
 - **Large gains** among workers who enter the relative's firm
 - Stronger employment responses in **family firms** and **controlling-owner events**
 - Employment and earnings **decline** following loss of the last powerful relative
 - Relatives have **lower occupational match quality**, specially in **family firms**

Family ties create **substantial career advantages** when workers enter firms where their relatives hold **corporate power** and have **discretion**