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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  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**

Conceptual framework: two channels

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

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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.

M obtains warm-glow benefit b.

Key distinguishing predictions

- **Information channel:**
  1. gains may extend to the outside labor market.
  2. no clear differences between family and non-family firms.
  3. gains are not reversed when M loses corporate power.
  4. positive effects on match quality.

- **Favoritism channel:**
  1. gains concentrated inside the relative's firm.
  2. effects larger in family firms.
  3. reversal of gains when M loses corporate power.
  4. negative effects on match quality.

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

Design: Event study with later treated as controls

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

- $T_{ig} = 1$ 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.

Data scale and identifying variation

- **Large matched employer–employee panel**
  - More than 242 million individual-year observations.
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  - Employment averages 65.4 percent; the sample is approximately gender-balanced.

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  - Almost 90 percent of individuals have at least one observed relative.

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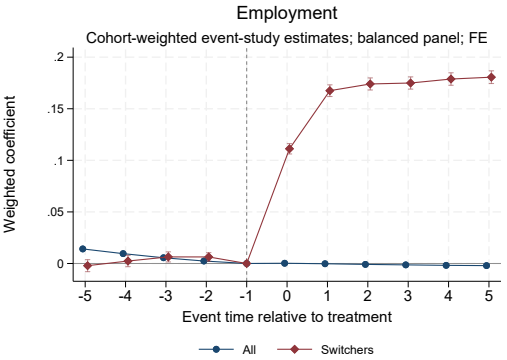
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- **Many powerful-relative events**
  - 2.68 million individuals experience a first powerful-relative event (27.5 percent of the event-analysis sample).
  - Events are fairly balanced between family and non-family firms.
  - First events span many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

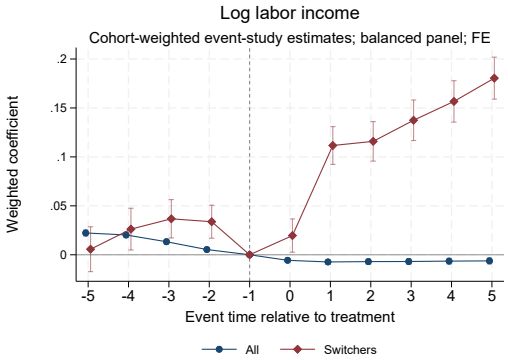
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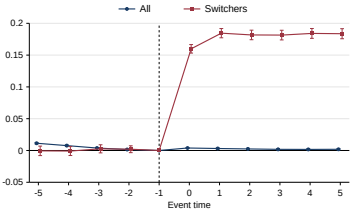
1. Gains concentrated inside the relative's firm



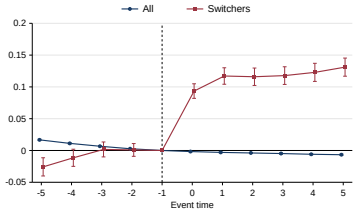


Main result: Little effect in the full sample; large, persistent employment and earnings gains among switchers. Results attenuate, but are robust to mobile controls.

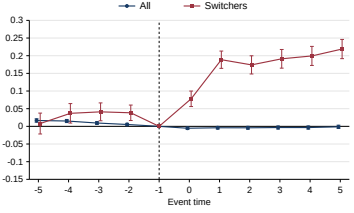
2. Effects larger in family firms



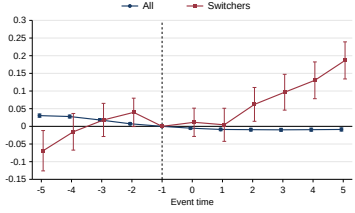
Family firms: employment



Non-family firms: employment



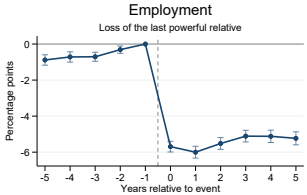
Family firms: log labor income

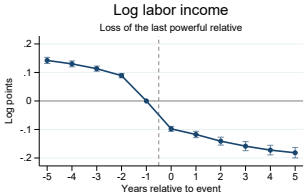


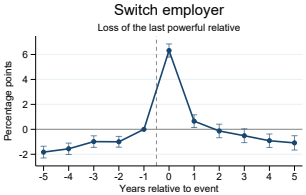
Non-family firms: log labor income

3. Reversal of gains when M loses corporate power

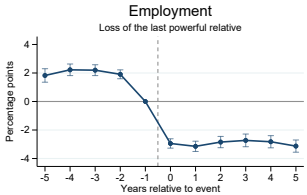
Never observed loss related workers as controls

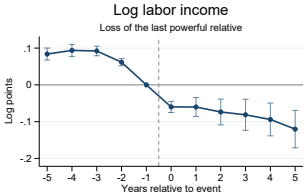


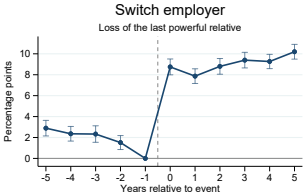




Unrelated coworkers as controls (accounting for common firm shocks)







4. Negative effects on match quality

- **JAQ:** 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. $\text{eJAQ}_i = 1$ if worker i's actual job = predicted best job
  4. JAQ_f = share of correctly matched workers in firm f
- **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

4. Negative effects on match quality

	(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?

- **Results so far:**
  - 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**