Family Ties, Corporate Power and Workers' Careers

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Motivation and Research Question

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- 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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- **Preview of results:**

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

Related literature and contribution

- **Private benefits of control in CEO successions and pay/talent in FF**
  (Bennedsen et al 2007; Pérez-González 2006; Bennedsen et al. 2026; Di Porto et al. 2026)
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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)
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  - We show how **power-based favoritism** can counteract the information channel
- **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 $\rightarrow$ **corporate governance implications**

Conceptual Framework

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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.

Information versus discretion

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.
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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:**
  - higher probability of employment after acquiring a powerful relative;
  - higher probability of working in the powerful relative's firm;
  - higher entry wages or earnings.

Key distinguishing predictions

- **Information channel:**
  1. gains may extend to the outside labor market.
  2. no clear differences between high and low discretion 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 are larger where governance grants more discretion.
  3. reversal of gains when M loses corporate power.
  4. negative effects on match quality.

Data

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.
  - Employment averages 65.4 percent; the sample is approximately gender-balanced.

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  - The average individual has 14.2 observed relatives.
  - Almost 90 percent of individuals have at least one observed relative.

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  - The average individual has 14.2 observed relatives.
  - Almost 90 percent of individuals have at least one observed relative.
- **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

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

- $T_{ig} = 1$ 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.

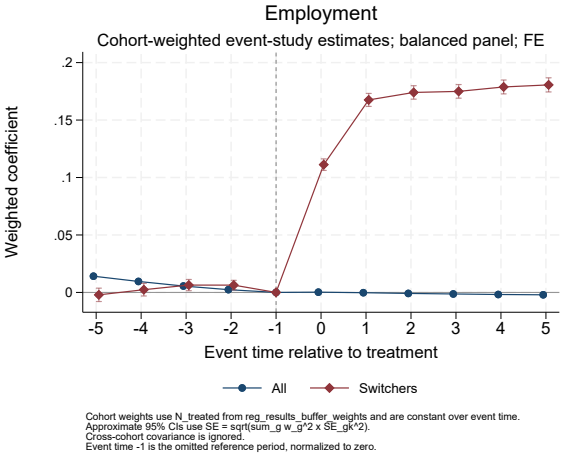
Identifying assumption: event timing is not driven by shocks that affect the worker's career.

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.

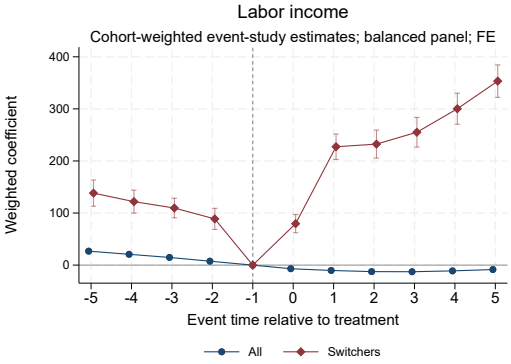
Results

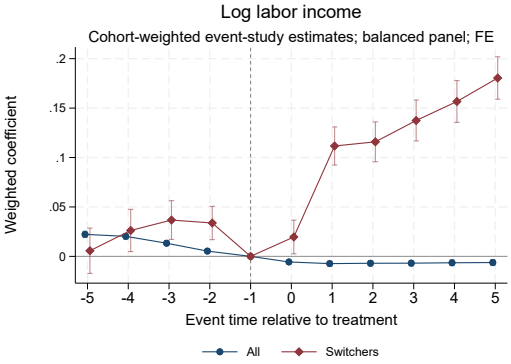
Employment rises among workers who join the relative's firm



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

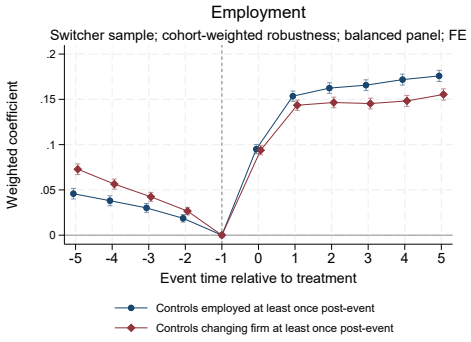
Earnings: effects concentrated among switchers

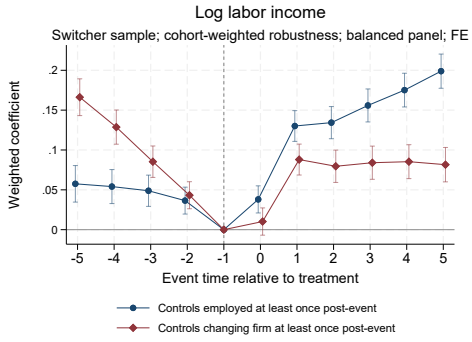




Main result: Earnings gains are large for switchers, while full-sample effects remain close to zero.

Alternative controls for switchers



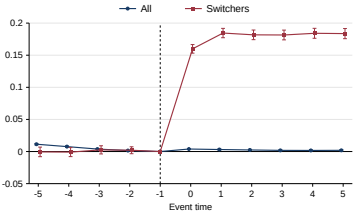


Alternative controls: (i) employed at least once post-event; (ii) moved at least once post-event.

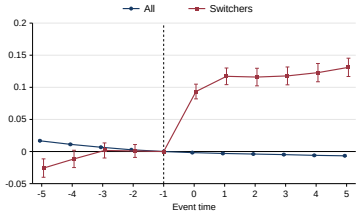
Main result: Employment effects survive stricter controls; earnings gains attenuate with mobile controls but do not vanish.

Heterogeneity by discretion

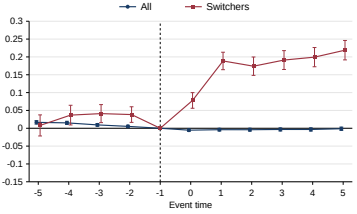
Family versus non-family firms



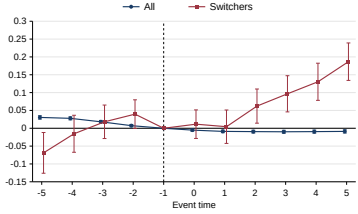
Family firms: employment



Non-family firms: employment

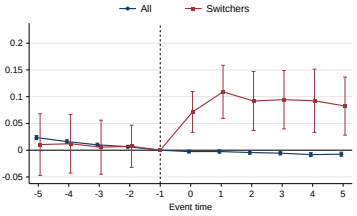


Family firms: log labor income

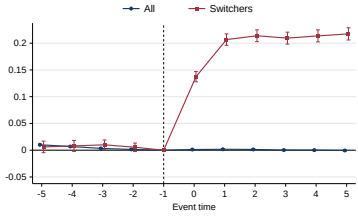


Non-family firms: log labor income

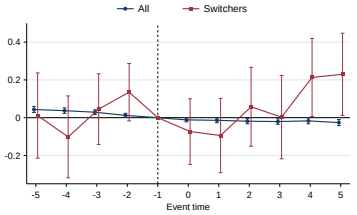
CEOs versus controlling owner



CEO: employment



Controlling owner: employment



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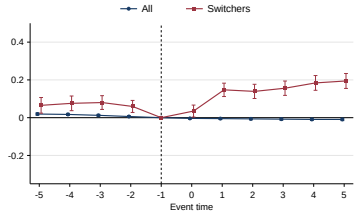

Controlling owner: log labor income

How the evidence maps back to the model

Evidence consistent with discretion

- Gains are concentrated among workers entering the relative's firm.
- Effects are larger where governance grants more discretion.
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Why this is not definitive

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- Switchers may be selected on unobserved quality.
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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**.

Loss of corporate power

Does the career advantage survive the loss of family power?

- **Information:** A relative may help a worker get hired because she knows the worker would be a good fit. Once the firm has seen the worker on the job, **that information should retain its value.**
- **Favoritism:** A relative may also influence pay, assignments, or retention after hiring. **Those advantages may depend on her continued authority.**
- We therefore follow workers who already work at their powerful relative's firm and ask what happens when their **last powerful relative loses power**.

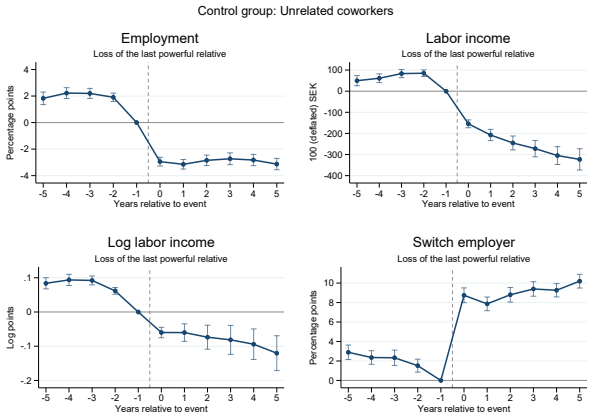
Compare relatives and coworkers at the same firm

- **Connected workers:** employees at the relative's firm whose last powerful relative loses power in year 0.
- **Comparison group:** unrelated coworkers at the same firm. Both groups face the same change in leadership or control.

Let G_k denote the outcome gap between connected workers and unrelated coworkers in event year k. Then plot how that gap changes relative to year -1:

$$\Delta G_k = G_k - G_{-1}, \qquad k = -5, \ldots, +5.$$

Connected workers are more likely to change employer when family power ends



Main result: At year 0, employer switching rises by about 9 percentage points and employment falls by about 3 points relative to coworkers. Switching remains elevated through year +5.

Misallocation vs. efficiency

Are relatives well matched to the jobs they hold?

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- We can test this using our 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 $\rightarrow$ 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

Testing for misallocation

Empirical strategy: compare eJAQ of relatives with connections to eJAQ of comparable non-related workers **in the same firm-year**

We estimate:

$$Y_{ift} = \beta C_{ift} + \theta F_{ft} + \delta(C_{ift} \times F_{ft}) + X'_{ift}\gamma + \text{FE} + \varepsilon_{ift}.$$

- Y_{ift} is log annual labor income or eJAQ.
- C_{ift} indicates that worker i has a family connection in firm f in year t.
- F_{ft} indicates a family firm.
- X_{ift} includes controls such as cognitive and noncognitive test scores.

Family connections and log annual labor income

	(1)	(2)	(3)
Family connection	−0.0997***	−0.0756***	−0.0195***
	(0.0038)	(0.0037)	(0.0049)
Connection × family firm	0.2913***	0.2600***	0.2806***
	(0.0043)	(0.0042)	(0.0051)
Implied gap in family firms	**0.1916**	**0.1844**	**0.2611**
Firm × year FE	Yes	Yes	Yes
Firm × predicted job × year FE	–	Yes	–
Predicted-job probability	Yes	Yes	–
Cognitive and noncognitive scores	–	–	Yes
Observations (millions)	19.01	18.28	15.71

Family connections and eJAQ

	(1)	(2)	(3)
Family connection	−0.0315***	−0.0279***	−0.0296***
	(0.0022)	(0.0020)	(0.0052)
Connection × family firm	−0.0579***	−0.0652***	−0.0964***
	(0.0025)	(0.0025)	(0.0058)
Implied gap in family firms	**−0.0894**	**−0.0931**	**−0.1260**
Firm × year FE	Yes	Yes	Yes
Firm × predicted job × year FE	–	Yes	–
Predicted-job probability	Yes	Yes	–
Cognitive and noncognitive scores	–	–	Yes
Observations (millions)	19.01	18.28	5.63

In family firms, connected workers earn more and have lower eJAQ

How large is the gap between connected and unconnected workers?

	Non-family firms β	**Family firms** $\beta + \delta$
Log annual labor income	-0.100	$+0.192$
Probability of holding the predicted occupation	-3.2 pp	-8.9 pp

Main result: Within a family firm, connected workers earn more, yet they are about nine percentage points less likely than their coworkers to hold the occupation our model predicts.

Four open questions about the evidence

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- **What changes when a relative gains or loses power?** How much of the response comes from relatives starting a firm together or a firm closing?
- **Do family firms provide insurance after a layoff?** Are displaced workers more likely to find their next job at a relative's firm when that relative controls hiring? Is the response stronger where the relative has more discretion?

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- **Do family firms provide insurance after a layoff?** Are displaced workers more likely to find their next job at a relative's firm when that relative controls hiring? Is the response stronger where the relative has more discretion?
- **Who gets hired within the family?** Among relatives of the same manager, who joins the firm: those with fewer opportunities elsewhere, or those with especially strong outside prospects? Does gender matter?

Takeaways

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- **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**