

26087: Corporate Finance and Labor Markets

Corporate Ownership

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Recap

Overview

An Overview of Corporate Ownership

Corporate Ownership and Human Capital

- Family Firms

- State-Owned Enterprises

- Listed Firms

- Private Equity Buyouts

Government Policy

Takeaways

Overview on M&As

- M&As are driven by both **financial and strategic** motivations, often in response to market, industry or internal firm changes. → "re-optimizing of the boundaries of the firm"
- M&As often involve large **discrete** changes in a firms human capital
- M&A activity **varies considerably** over time and across industries. Has trended toward larger, cross-border deals, more often involving financial buyers

Human Capital Motivations for M&As

- Human capital is a **critical driver** in many M&As:
 1. Corporate Governance Through M&As
 2. Expanding Internal Labor Markets
 3. Acquiring Monopsony Power
 4. Acqui-hiring
- A key question in the research on M&As is where the sources of **takeover premia** in M&As come from. Is there evidence of **value capture** or **value creation**?
- M&As can involve **externalities**: privately optimal M&As may not be socially optimal → regulation comes into play

How do M&As Affect Human Capital?

- Re-optimization of the **boundaries of the firm**:
 - Cutting redundant labor (implicit contracts, overlapping roles)
 - Modernization and technological change
 - Flattening of the firm
- **Career impacts** vary:
 - Productivity gains may be **shared through higher wages/lower layoff risk**
 - Investments may have **positive spillovers** on careers (knowledge transfer)
 - **ILM career options** may open up (specially for startups)
 - Layoffs can lead to **unemployment/health problems** with substantial negative career externalities (though not always)
- M&As likely involves substantial positive or negative **career externalities** → policy interest and regulation

Objectives for Today

- **Overview of key corporate ownership form:**
 - Family firms, state-owned enterprises (SOEs), listed firms, and private equity buyouts
- **Labor implications of corporate ownership:**
 - Analyze how different ownership forms impact **job security, wages, task allocation and career progression**
- **Government policy:**
 - Learn how government policies, including **taxation, privatization, IPO rules, and corporate governance standards**, can shape corporate ownership decisions and labor outcomes

Outline

An Overview of Corporate Ownership

Corporate Ownership and Human Capital

- Family Firms

- State-Owned Enterprises

- Listed Firms

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An Overview of Corporate Ownership

- **Corporate Ownership Forms and Labor:**
 - **Ownership matters** because it influences decision-making and strategy of the firm
 - Owners have the ultimate **residual control rights** over firms and they get to set the **objective function** of the firm
 - This includes how the **economic rents are shared** between different **stakeholders**
- **Key Themes:**
 - Corporate governance
 - Job security and wages
 - Career progression and job tasks/allocation

Overview of Corporate Ownership Forms

- **Ownership forms we will cover:**

- Family Firms
- State-Owned Enterprises
- Listed Firms
- Private Equity Buyouts

- **Why these forms?**

- **Diverse Impacts:** Each ownership form has unique characteristics that affect management practices and labor outcomes
- **Global Relevance:** These forms are prevalent across different countries and industries

Key Differences in Objective Function

- **Family Firms:** Often prioritize stability and long-term relationships with employees.
- **SOEs:** May balance commercial objectives with social and employment goals.
- **Listed Firms:** Tend to focus on short-term financial performance, influenced by shareholder pressure.
- **Private Equity:** Typically driven by efficiency and profitability, often leading to restructuring.

Bloom et al. 2015: Management Practices Across Owners

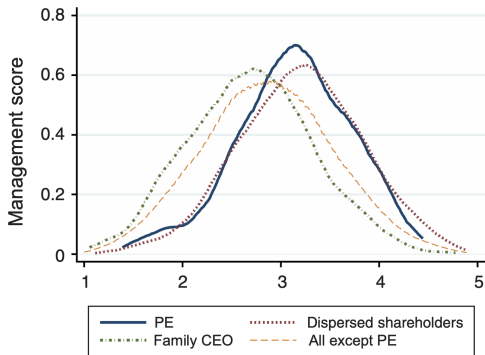


FIGURE 1. THE DISTRIBUTION OF MANAGEMENT SCORES ACROSS OWNERSHIP TYPES

Note: The kernel distribution of management practice scores for 15,038 firms, of which 465 are owned by PE, 4,076 by dispersed shareholders (publicly listed), and 2,539 by family and have a (second or greater) generation family CEO.

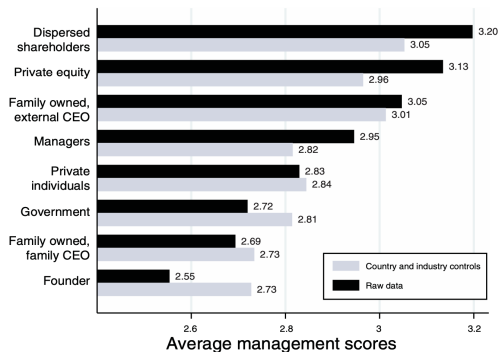


FIGURE 2. AVERAGE MANAGEMENT SCORES ACROSS OWNERSHIP TYPES

Notes: Management scores for 15,038 firms. Raw data and with country and three-digit SIC industry controls.

Trends Over Time and Across Countries

- **Family Firms:** Dominant in many emerging markets, but declining in influence in advanced economies
- **SOEs:** Common in strategic sectors, particularly in countries with strong government involvement in the economy
- **Listed Firms:** Increasingly prevalent in developed markets, driven by capital market growth
- **Private Equity:** Growing presence in a wide range of sectors, often in mature industries

Corporate Ownership and Human Capital

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Family Firms

Family Firms

- **Definition:** A family firm is a company where a family controls a significant share and is actively involved in management (CEO + shareholders + boardmembers)
- **Prevalence:** Common in both emerging and developed markets, especially in sectors like manufacturing, retail, and services
- **Key features:**
 - Long-term orientation
 - Close-knit management and "glass ceilings"
 - Strong emphasis on legacy and continuity

What Makes Family Firms Special?

- **Stability and long-term focus:**

- Family firms prioritize stability over short-term profits, focusing on long-term growth and sustainability
- A desire to preserve **control of the firm** for future generations
 1. nonpecuniary benefits (firm bearing the family name)
 2. reputational benefits (product quality, political connections)
 3. preventing expropriation by non-family managers

- **Trust and loyalty:**

- High levels of trust within the organization, often leading to strong loyalty from employees → firm specific investments
- Relationships are typically closer and more personal, influencing both hiring and management practices

Family Firms and Labor

- **Wage comparisons:**
 - Family firms pay lower wages compared to non-family firms
 - Job security and non-monetary benefits (stability and support) partially offset this (but not always, see below)
- **Career growth and nepotism:**
 - Opportunities for advancement might be more limited
 - Leadership succession often based on trust and shared values (family continuity)
- **Impact on the workforce:**
 - **Employee morale:** Non-family employees may feel demotivated if they perceive limited opportunities for advancement
 - **Retention challenges:** Talented non-family employees might leave the company if they feel their career progression is blocked

Insuring Workers in Family Firms

- **Job Security:** Family firms may offer greater job security, particularly during economic downturns, as they prioritize maintaining employment for their workforce
- **Employee Welfare:** Investment in employee welfare can be higher, with benefits tailored to long-term employment
 - Examples include generous retirement plans, family-friendly policies, and support for employee development
- We will come back to **risk sharing within the firm** in Module 3 of the course

Sraer and Thesmar 2007: Performance and Behavior of Family Firms

- **Research question:**

- Do family firms perform better than non-family firms, and how does family control affect firm performance?

- **Data and identification:**

- French **publicly listed firms** from 1994 to 2000 + LEED survey
- ROA/ROE, labor productivity, and wages
- Comparison between family-controlled firms (founder-managed, heir-managed) and widely held firms

- **Findings:**

- Family firms outperform widely held firms in terms of ROA/ROE, but pay lower wages
- Family firms appears to smooth out how sales shocks transfer to workers over the business cycle

Di Porto et al 2024: Careers and Wages in Family Firms

- **Research question:**

- How do wages and career trajectories differ between family and non-family firms?

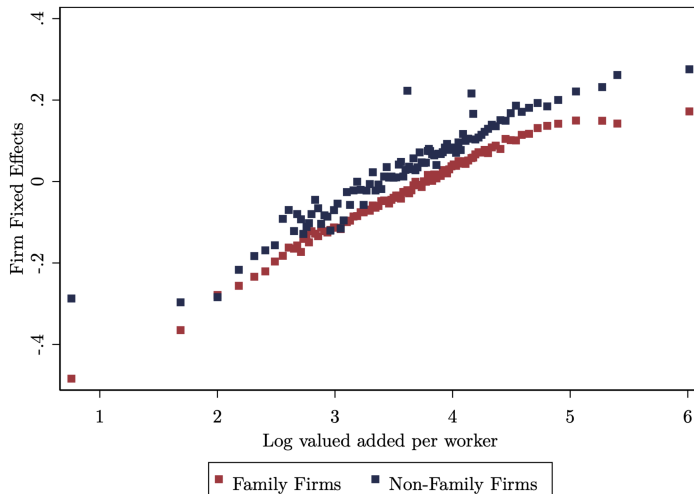
- **Data and identification:**

- Matched employer-employee data from Italian firms and workers
- Wage decomposition, promotion, and firm data

- **Findings:**

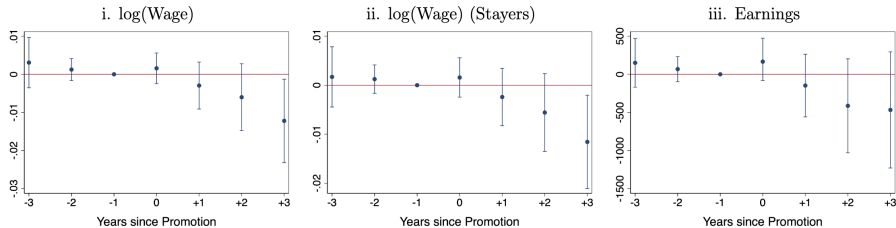
- Family firms pay **16% lower wages**; half the gap is due to worker characteristics
- Family firms retain control, **limiting managerial opportunities for non-family members**
- **Employment stability (and other amenities) is higher** in family firms, but this does not offset the wage gap

Di Porto et al 2024: Careers and Wages in Family Firms

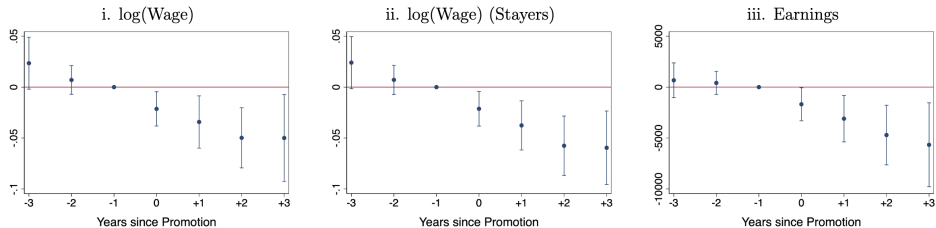


Di Porto et al 2024: Careers and Wages in Family Firms

A. To Middle Management



B. From Middle Management to Manager



Key takeaways on family firms

- **Unique characteristics:** Family firms often provide a stable and loyal work environment, with a focus on long-term growth
- **Labor implications:** While wages may be lower, job security and non-monetary benefits can make family firms attractive employers
- **Challenges:** The potential for nepotism and limited career progression opportunities can pose challenges for non-family employees.

Corporate Ownership and Human Capital

State-Owned Enterprises

State-Owned Enterprises: Introduction

- **Definition:** State-Owned Enterprises (SOEs) are companies where the government owns a significant share or exercises substantial control
- **Prevalence:** Common in strategic sectors and natural monopolies like utilities, telecom, energy, transportation, and defense
- **Key Features:**
 - Dual objectives to balance **commercial success with social and policy goals**
 - Close government oversight and influence on decision-making
 - Often operate in sectors **critical to national interest or public welfare**
 - Managers face **soft budget constraints**

Soft Budget Constraints in SOEs

- **Definition:** Soft budget constraints refer to the tendency of SOEs to receive financial support from the government, reducing pressure to be financially self-sufficient.
- **Implications for Labor:**
 - **Job Security:** Employees in SOEs may enjoy greater job security due to government backing, even in financially difficult times
 - **Efficiency:** The lack of financial discipline can lead to inefficiencies, potentially impacting productivity and innovation
- **Examples:** SOEs in sectors like transportation or utilities often continue operations despite chronic losses, supported by government subsidies or bailouts

Employment Objectives in SOEs

- **Social and Political Mandates:**

- Governments may use SOEs to achieve broader social goals, such as maintaining high employment levels or providing essential services at lower costs
- Employment in SOEs can be seen as a tool for political stability, particularly in regions with high unemployment

- **Labor Practices:**

- **Job Creation:** SOEs may be more willing to create jobs, even if not strictly necessary from a business perspective. They may also empire-build.
- **Wage Policies:** Wages in SOEs might be influenced by social objectives rather than market conditions, sometimes leading to wage compression or above-market wages

How Do Privatizations Affect Workers?

- **Privatization:** ownership change from public to private hands
- **Labor market impacts:**
 - **Job Security:** Privatization often leads to restructuring, which can result in job losses, especially in redundant or non-essential areas
 - **Wage Adjustments:** Wages may be aligned more closely with market rates, which could mean reductions in sectors where SOE wages were above-market
- **Examples:**
 - **United Kingdom:** The privatization of British Telecom led to significant workforce reductions, but also increased efficiency and productivity
 - **Eastern Europe:** Widespread privatizations in the 1990s resulted in substantial layoffs but also opened opportunities for more dynamic job creation in emerging sectors

Olsson and Tåg 2025: Privatizations in Sweden

- **Research Question:**

- How does privatization impact firms and career outcomes?

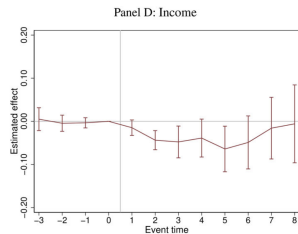
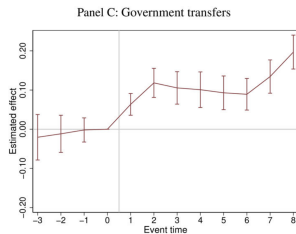
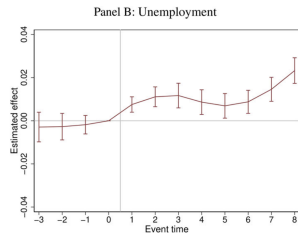
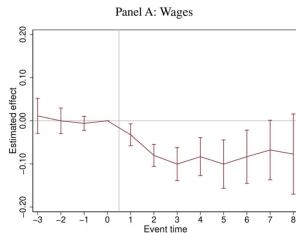
- **Data:**

- Swedish firms undergoing privatization over a 20-year period
- Detailed registry data on workers and firms

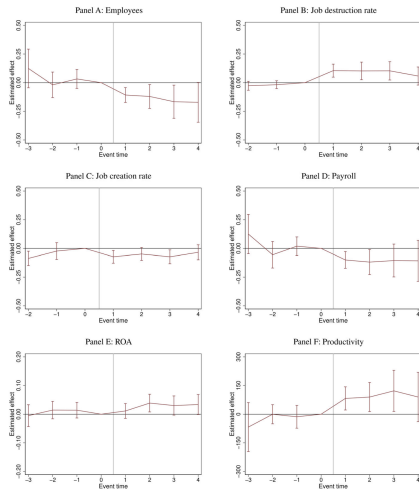
- **Findings:**

- **Career impact:** Privatization leads to a **decrease in wages** and **increases in unemployment** partly offset by **government transfers**.
- **Non-market outcomes:** no large effects on entrepreneurship, family, health, or household finance outcomes
- **Firm impact:** Productivity improves, in particular when there is a **CEO change**
- **Welfare gains:** Productivity gains 2-6 times higher than worker losses

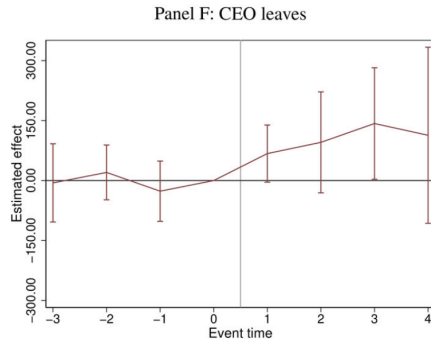
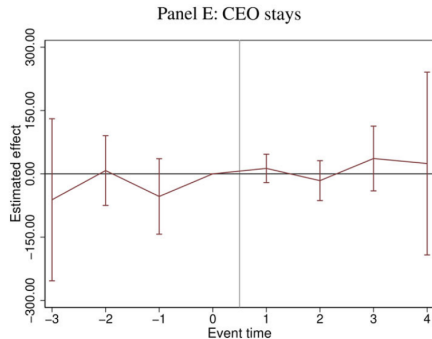
Olsson and Tåg 2025: Privatizations in Sweden



Olsson and Tåg 2025: Privatizations in Sweden



Olsson and Tåg 2025: Privatizations in Sweden



Key Takeaways on SOEs

- **Dual Objectives:** SOEs often operate with both commercial and social goals, influencing their labor practices and overall efficiency
- **Labor Impacts:** Job security and employment levels in SOEs are often higher, but this can come at the cost of operational efficiency
- **Privatization Risks and Benefits:** Privatization can lead to job losses and wage adjustments, but also to improved firm efficiency

Corporate Ownership and Human Capital

Listed Firms

Listed Firms: Introduction

- **Definition:** Listed firms are companies whose shares are publicly traded on stock exchanges, making them accessible to a wide range of investors
- **Prevalence:** Common across most developed economies, particularly in sectors like technology, finance, and consumer goods
- **Key Features:**
 - Ownership is dispersed among many shareholders
 - Subject to stringent regulatory and disclosure requirements
 - Management is accountable to shareholders, often prioritizing shareholder value ("fiduciary duty")
 - Regulations to prevent value extraction from minority shareholders

Dispersion of Ownership and Entrenchment

- **Ownership dispersion:**

- Listed firms have a large number of shareholders, leading to dispersed ownership
- This dispersion can dilute individual shareholder influence, placing more power in the hands of management

- **Agency costs due to dispersion can lead to entrenchment:**

- **Definition:** Entrenchment occurs when managers gain disproportionate power, potentially making decisions that benefit themselves at the expense of other stakeholders (quiet life, empire-building...)
- **Impact on Labor (-/+):**
 - prioritize short-term gains over long-term investments in human capital (-)
 - enrich workers at the expense of other stakeholder (+)

Cronqvist et al. 2009: Do Entrenched Managers Pay Their Workers More?

- **Research Question**

- How does managerial entrenchment affect workers' pay?

- **Data and Identification**

- Data from public firms in Sweden matched with worker-level data (1995–2002)
- Use of CEO voting and cash flow rights to measure entrenchment
- Analysis based various FE regressions

- **Key Findings**

- CEOs with more control tend to pay higher wages
- Financial incentives through cash flow rights reduce this effect
- Higher wages are more pronounced for employees **closer to the CEO in the hierarchy** and for those **geographically closer to headquarters**

Short-Termism in Listed Firms

- **Definition:** Short-termism refers to the focus on achieving **short-term financial results** at the expense of **long-term strategic goals and performance**.
- **Drivers of Short-Termism:**
 - Pressure from shareholders for immediate returns
 - Quarterly earnings reporting cycles
 - Incentive structures that reward short-term performance
- **Impact on labor:**
 - **Job cuts:** Boosting short-term profits at the expense of long run capabilities
 - **Underinvestment in human capital:** Reduction in employee training and development

IPOs and Worker Careers

- **Initial Public Offering (IPO):**

- An IPO is when a private company offers shares to the public for the first time, transitioning into a listed firm

- **Impact on employees:**

- **Equity participation:** Employees might receive (or have) stock options/shares
- **Organisational/cultural shift:** Change in how the firm is organized and run (professionalization, cultural shifts, changes in management ect.)
- **Job security:** Increased scrutiny from shareholders can lead to layoff OR capital injection may lead to expansion and increased job security
- **Career progression:** Opportunities may increase as the company grows due to additional financial resources, but the focus on performance might also introduce a more competitive environment

Bias et al. 2025: Going Public and the Internal Organization of the Firm

- **Research question**

- How does going public through an IPO affect the internal organization of firms?
- Specifically, what changes occur in hierarchies, management, and human capital?

- **Data and identification**

- Data from 327 German IPOs and matched private firms (1984–2015)
- DiD approach to compare IPO firms with private firms before and after IPO

- **Key findings**

- More hierarchical, adding layers of management and increase in finance, accounting, and HR managers
- Higher turnover, with more better-educated but less job-specific workers
- Internal labor market becomes more active with higher promotion rates

Key Takeaways on Listed Firms

- **Ownership structure:**
 - Dispersed ownership of listed firms can create **entrenchment**, **short-termism**, and a greater focus on **shareholder wealth**
- **IPOs:**
 - Often leads to **professionalization** and improves the **financing capabilities** of the firm
- **Labor Implications:**
 - Being listed or listing can **benefit** or **harm** workers
 - **Short term:** higher/lower pay and more/fewer layoffs
 - **Long term:** less training, less career development, fewer internal opportunities

Corporate Ownership and Human Capital

Private Equity Buyouts

Private Equity Buyouts: Introduction

- **Definition:** A PE buyout occurs when a private equity firm acquires a company, often taking it private and restructuring it to improve profitability
- **Prevalence:** Common in mature industries such as manufacturing, retail, and healthcare. But really everywhere where there are assets that can be leveraged nowadays...
- **Key features:**
 - Focus on short- to medium-term profit maximization.
 - Significant restructuring, often involving changes in management and operations.
 - Use of leverage (debt) to finance the acquisition.

The Private Equity Business Model

- **Partnership:** General Partners and Limited Partners
- **Management company:** Controlled by the general partners and takes a 20% carry over a hurdle rate of 8%, also takes a management fee of 2%.
- **Fund:** Limited time span of around 10 years, takes in **commitments**, invests in 5-10 companies, and pays out **disbursements**
- **Portfolio company:** Acquired by the fund, restructured, and resold before the fund closes

The Private Equity Business Model

- **Financial engineering:**
 - PE firms typically use high levels of debt to finance acquisitions, aiming to enhance returns through financial leverage.
 - The acquired company's assets and cash flows are often used to secure and repay this debt.
- **Value creation strategies:**
 - **Governance Engineering:** Management teams (CEO and board) are given equity stakes to align their interests with the PE firm
 - **Operational Engineering:** Streamlining operations, reducing costs, and improving efficiency, divesting non-core assets, focusing on high-margin products or services.
- **Exit Strategy:** Selling the company at a higher valuation through an IPO, secondary buyout, or strategic sale.

The Impact of PE Buyouts on Workers

- **Job Security:**

- PE buyouts often lead to restructuring and layoffs and increases bankruptcy risk
- Focus on cost-cutting and unemployment can increase uncertainty and stress among employees

- **Wages and Benefits:**

- **Short-Term Pressure:** There may be downward pressure on wages and benefits as PE firms seek to reduce costs
- **Long-Term Potential:** Successful **turnarounds** and **growth LBOs** can lead to better pay and career prospects

Olsson and Tåg 2017: Private Equity, Layoffs, and Job Polarization

- **Research Question**

- How do private equity buyouts affect layoffs and job and wage polarization?

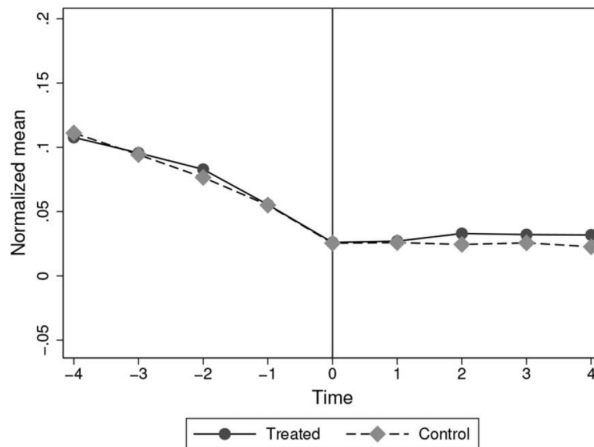
- **Data and Identification**

- Data from employer-employee matched dataset in Sweden (2002–2008)
- DiD analysis comparing firms pre- and post-buyout with controls

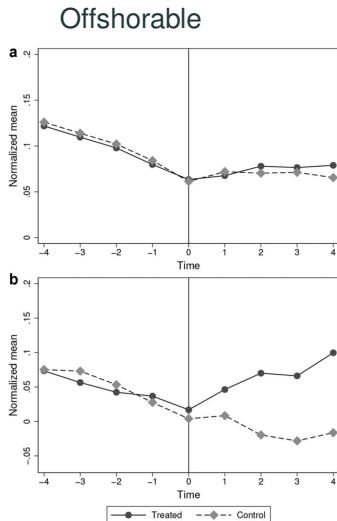
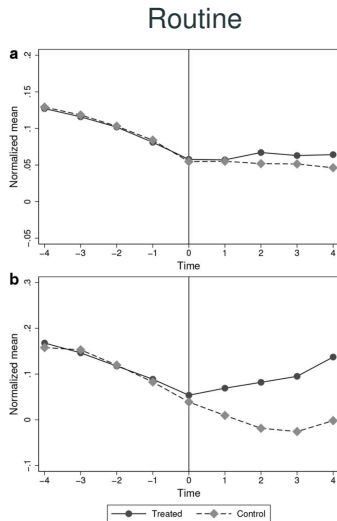
- **Key Findings**

- No overall increase in unemployment, but doubling of layoffs for routine and offshorable jobs
- Layoffs concentrated in firms with lower ex-ante productivity. Evidence for modernization.
- Job polarization more pronounced in buyout-affected firms than in the broader economy.

Olsson and Tåg 2017: Private Equity, Layoffs, and Job Polarization



Olsson and Tåg 2017: Private Equity, Layoffs, and Job Polarization



Fang et al 2025: Private Equity and Pay Gaps Inside the Firm

- **Research Question**

- How do private equity buyouts affect pay gaps (inequality, gender, age manager) inside firms?

- **Data and Identification**

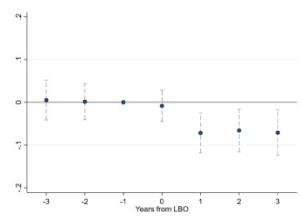
- LEED data from France (1994–2017)
- DiD analysis comparing firms pre- and post-buyout with controls

- **Key Findings**

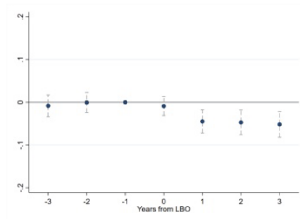
- Buyouts **reduce** pay inequality in firms: p90/p10 -3%, gender -9%, age -21%, and managers/non-managers -4%
- **Turnover** drives result: separated workers are paid more, joiners less

Fang et al 2025: Private Equity and Pay Gaps Inside the Firm

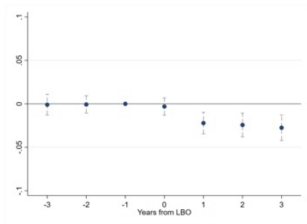
(a) p90/p10



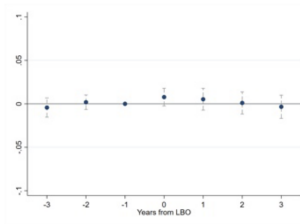
(b) p90/p50



(a) Men

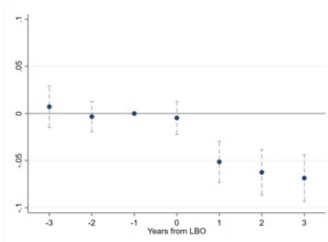


(b) Women

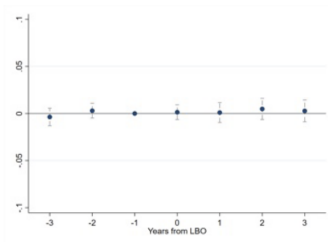


Fang et al 2025: Private Equity and Pay Gaps Inside the Firm

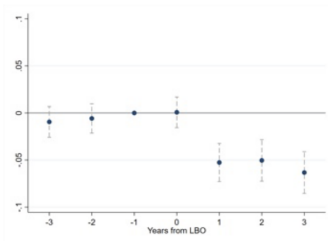
(c) Older Employees (over 50)



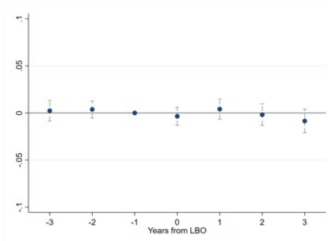
(d) Younger Employees (less than 50)



(e) Managers



(f) Non-Managers



Key Takeaways on Private Equity Buyouts

- **PE Business Model:** Build on **incentive alignment** and **leverage** to drive change in portfolio companies in the medium run (5-10 years)
- **Job Security:**
 - PE buyouts often lead to restructuring and layoffs and increases bankruptcy risk
 - Focus on cost-cutting and unemployment can increase uncertainty and stress among employees
- **Wages and Benefits:**
 - **Short-Term Pressure:** There may be downward pressure on wages and benefits as PE firms seek to reduce costs
 - **Long-Term Potential:** Successful **turnarounds** and **growth LBOs** can lead to better pay and career prospects

Government Policy

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Policy

- **Purpose:** Government policies play a crucial role in shaping corporate ownership structures and their impact on labor markets.
- **Some key policy dimensions:**
 - Taxation
 - Privatization Policy
 - Securities and Corporate Governance Regulations

Taxation and Ownership

- **Corporate Taxation:**

- Different **tax rates and deductions** can influence whether firms choose to remain private, go public, or change ownership structures
- For instance, the tax shield of debt generates an incentive to take on heavy leverage

- **Capital Gains Tax:**

- Policies around capital gains taxation impact the attractiveness of selling or restructuring ownership stakes and the means of payment
- Higher capital gains taxes may discourage private equity exits or incentivize longer holding periods

- **Inheritance Tax:**

- Finland, for instance, imposes progressive inheritance taxes on the transfer of wealth
- Heirs may face liquidity constraints due to high tax burdens, which limits family successions

Privatization Policy

- **Definition of Privatization:**

- Transfer of ownership and management of state-owned enterprises (SOEs) to the private sector.

- **Objectives:**

- Increase efficiency and competitiveness of formerly state-owned entities.
- Reduce the fiscal burden on the government.
- Encourage private sector investment and innovation.

- **Methods of Privatization:**

- Public share offerings (e.g., IPOs).
- Direct sale to private investors.
- Management and employee buyouts.

Securities and Corporate Governance Regulations

- **Securities Regulation:**

- Strict regulatory frameworks govern the process of taking a company public, ensuring transparency, investor protection, and market integrity
- Regulations include disclosure requirements, reporting standards, and compliance with governance norms (often to protect minority shareholders)

- **Board Composition Rules:**

- Regulations may require a certain number of independent directors, gender diversity, or worker representation on corporate boards
- Aims to improve transparency, accountability, and decision-making within firms
- Good governance practices can lead to more stable and equitable labor relations, reducing the risk of conflicts and ensuring fair treatment of workers
- Example: Co-determination laws in Germany require worker representation on the boards of large companies, influencing decisions that affect the workforce

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- **Corporate Ownership Forms and Labor:**
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 - Owners have the ultimate **residual control rights** over firms and they get to set the **objective function** of the firm
 - This includes how the **economic rents are shared** between different **stakeholders**
- **Key Themes:**
 - Corporate governance
 - Job security and wages
 - Career progression and job tasks/allocation

Key Takeaways on Family Firms

- **Unique characteristics:** Family firms often provide a stable and loyal work environment, with a focus on long-term growth
- **Labor implications:** While wages may be lower, job security and non-monetary benefits can make family firms attractive employers
- **Challenges:** The potential for nepotism and limited career progression opportunities can pose challenges for non-family employees.

Key Takeaways on SOEs

- **Dual Objectives:** SOEs often operate with both commercial and social goals, influencing their labor practices and overall efficiency
- **Labor Impacts:** Job security and employment levels in SOEs are often higher, but this can come at the cost of operational efficiency
- **Privatization Risks and Benefits:** Privatization can lead to job losses and wage adjustments, but also to improved firm efficiency

Key Takeaways on Listed Firms

- **Ownership structure:**
 - Dispersed ownership of listed firms can create **entrenchment**, **short-termism**, and a greater focus on **shareholder wealth**
- **IPOs:**
 - Often leads to **professionalization** and improves the **financing capabilities** of the firm
- **Labor Implications:**
 - Being listed or listing can **benefit** or **harm** workers
 - **Short term:** higher/lower pay and more/fewer layoffs
 - **Long term:** less training, less career development, fewer internal opportunities

Key Takeaways on Private Equity Buyouts

- **PE Business Model:** Build on **incentive alignment** and **leverage** to drive change in portfolio companies in the medium run (5-10 years)
- **Job Security:**
 - PE buyouts often lead to restructuring and layoffs and increases bankruptcy risk
 - Focus on cost-cutting and unemployment can increase uncertainty and stress among employees
- **Wages and Benefits:**
 - **Short-Term Pressure:** There may be downward pressure on wages and benefits as PE firms seek to reduce costs
 - **Long-Term Potential:** Successful **turnarounds** and **growth LBOs** can lead to better pay and career prospects

Discussion: Which owner would you like to work for?

1. Form small groups (3-5 students):

- Turn to those sitting nearby.
- Choose a spokesperson.

2. Discuss:

- Which **owner type** would you prefer to work for and **why**?
- What would **you** like to know about how corporate ownership affects careers that we did not cover?

3. Share: Each group gives one short answer to each question