

THE TALENT GAP IN FAMILY FIRMS

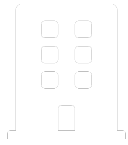


Bennedsen, Tsoutsoura & Wolfenzon (2025)

Margarita Tsoutsoura - Family and Private Equity Firms NBA 6720

HYUNDAI

Why Should You Care?



50%+

of firms worldwide
are family-controlled



Large % of total employment
in many economies



???

Can they attract and
retain top talent?

This study provides the large-scale evidence on how family control affects the talent of the entire workforce — not just the CEO.

Motivation

The Talent Advantage

Family firms are **loyal to existing employees**, providing a safety net and reducing uncertainty

Long-term oriented: patient in developing creative ideas into valuable businesses

Greater autonomy and other **non-pecuniary benefits**

The Talent Challenge

Nepotism: prioritize hiring family members and friends over qualified candidates

Glass ceiling: restrict career options for non-family employees

Pay **lower wages** for comparable jobs

Do family firms **attract** talent? This paper measures the gap — and its mechanisms.

Data & Methodology



IQ Scores

Military draft exams (70-item cognitive test)



High School Grades

Administrative records, full population



Employer-Employee

Matched registers covering all Danish firms



Family Linkages

CPR-based family tree reconstruction



Control Based Definition of Family Firms:

at least three board members or CEOs are related by blood or marriage

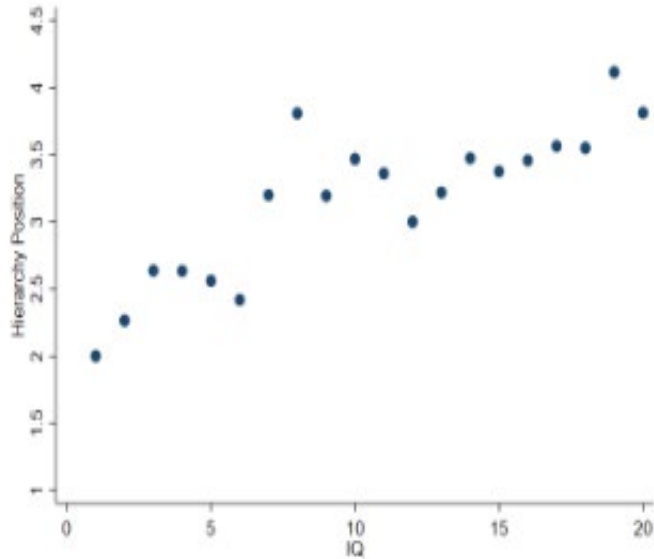
Denmark: Universe of firms

Grades: 67,750 firm-years | 14.8M employee-years

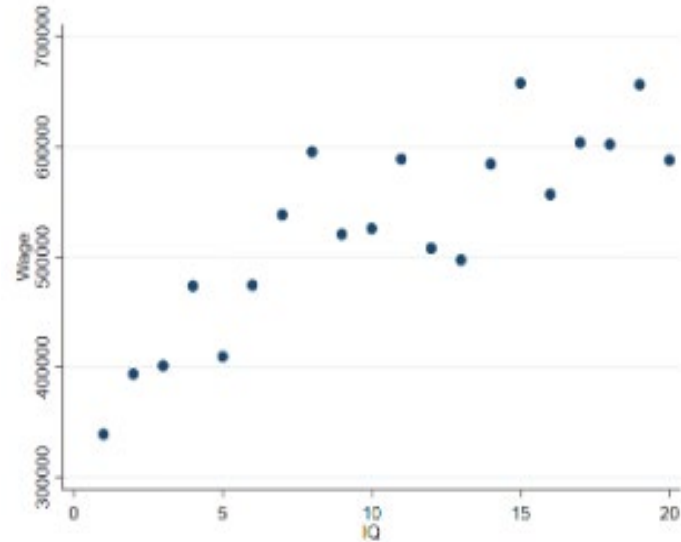
IQ: 46,219 firm-years | 2.5M employee-years

IQ Predicts Career Outcomes

Hierarchy position and wage at age 40, by IQ ventile



(a) Higher IQ correlates with higher position in firm at age 40



(b) Higher IQ correlates with higher salary at age 40

The Core Finding

–2.15

IQ points lower

~5% of population mean (43)

–17pp

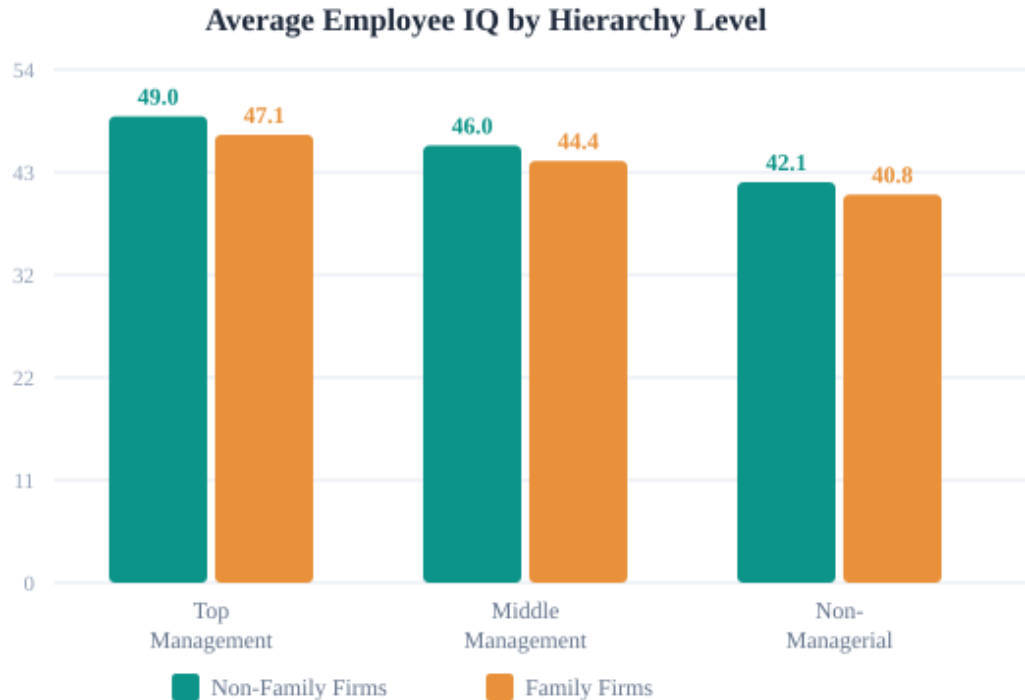
less likely to finish
high school

26% vs 43% completion rate

Family firm employees have significantly lower IQ and educational attainment — **even after controlling for firm and worker characteristics and excluding family members.**

*Coefficient on family firm: -1.05*** with all controls (industry, size, year FE).*

The Gap is Largest at the Top



Mean IQ scores by hierarchy level. Bars show non-family vs family firm employees.

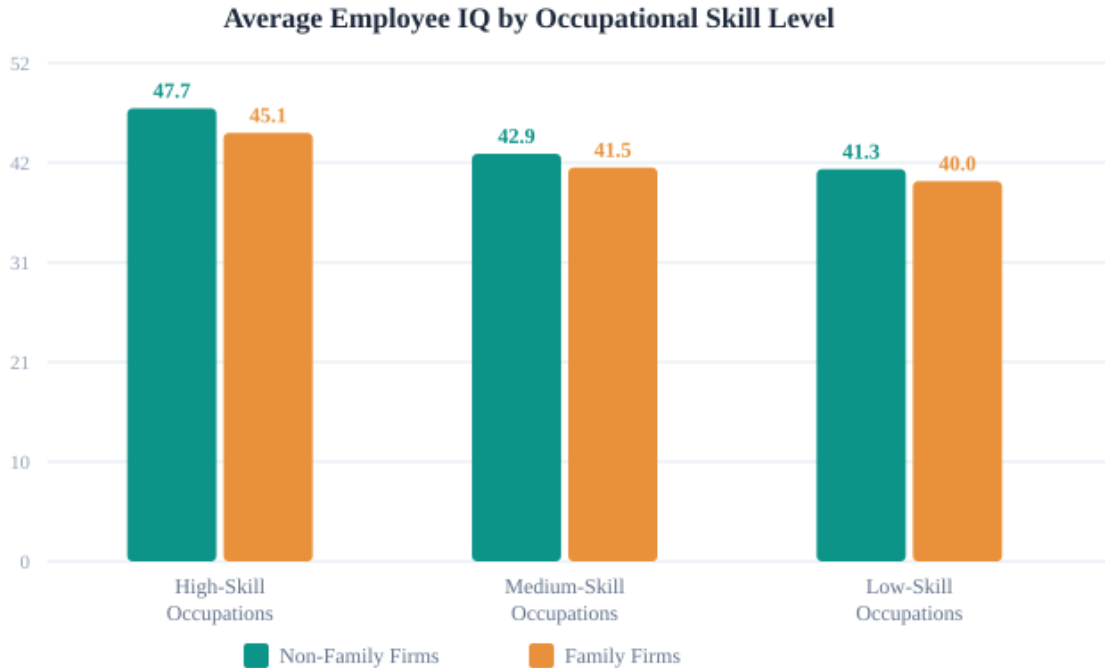
Implication

1.96 pt gap
at the top of the hierarchy

1.30 pt gap
at the bottom

The talent deficit is most severe where decisions matter most.

Gap Widest in High-Skill Roles



Implication

2.59 pt gap
in high-skill occupations

Engineers, analysts, lawyers — roles where human capital is critical — show the largest deficit.



Is This Causal?

Three complementary identification strategies

1

Event Studies

Family vs non-family CEO successions within the same firm. Family successions cause a 1 IQ-point decline in new hire quality.

2

Instrumental Variables

Gender of CEO's firstborn predicts family succession. IV estimates: 4–5 IQ-point decline, much larger than OLS.

3

Survey Experiment

Randomized job postings shown to students. High-achievers are significantly less interested in family-controlled firms.

Event Study: CEO Successions

New Hires

-1.006***

(2.41%)

IQ point decline around succession

All Employees

-0.546***

(1.31%)

IQ point decline around succession

- Family successions — where incoming and outgoing CEOs are related by blood or marriage — lead to a **significant decline in average employee IQ**, measured as the difference between the five years before and after succession.
- The effect is nearly twice as large for new hires.

Survey Experiment: Randomized Design

Identical job postings — only ownership structure varies

Non-Family Firm

Company History

We are a medium-sized company in the service sector.
The company was founded in 2009.

About the Job

Analyst position in a team-based environment.
Responsibilities include data analysis and reporting.

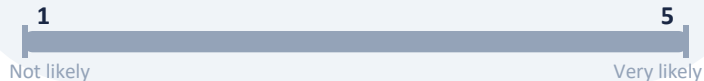
Qualifications

Master's degree or equivalent experience

Benefits Pension, health insurance

Wage 490,000 kr.

How likely are you to apply for this job?



Family Firm

Company History

We are a medium-sized company in the service sector.
The company was founded in 2009 **by the Jensen family, who remain the main shareholder. Several generations of the family are still active in operations.**

About the Job

Analyst position in a team-based environment.
Responsibilities include data analysis and reporting.

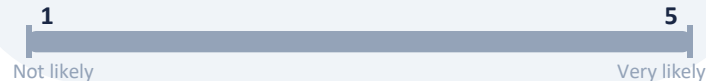
Qualifications

Master's degree or equivalent experience

Benefits Pension, health insurance

Wage 490,000 kr.

How likely are you to apply for this job?



Wages, benefits, qualifications, and job descriptions held constant. Only ownership language varies.

Top Students Avoid Family Firms

Top Students

-0.187***

family-controlled firms

Top students actively avoid family firms

Other Students

+0.167**

family-owned firms

Lower-tier students prefer family firms

Randomized survey of Copenhagen students presented synthetic job postings with identical wages and attributes — only ownership structure varied.

Talent sorting: the best students self-select away from family firms (**especially family controlled**), even when pay is identical.

What's Driving the Gap?

Two reinforcing mechanisms



NEPOTISM

Family members promoted above their qualifications. Non-family employees systematically held back. High-ability individuals anticipate blocked advancement.



COMPENSATION

Family firms pay less even for equivalent talent. Wage penalty is especially severe for high-ability workers. Creates a competitive disadvantage for talent.

Nepotism:

Predicted hierarchy position based on a random forest model trained on non-family firms, using skill, age, industry, and other worker characteristics

Actual vs. Predicted Hierarchy Position

Hierarchy scale: 1 (bottom) to 5 (top) — Table 8



Key Finding

▲ Family relatives:

Promoted +0.54 above their qualifications. Nepotism extends throughout the hierarchy.

▼ Non-family employees:

Held back -0.49 below predicted rank. Merit alone won't drive advancement.

High-IQ individuals are significantly less likely to join firms with dynastic intent.

Young Family Members at the Firm?

- 1 Compare family firms with different degrees of dynastic intent:** Measure it by looking if family members are employed in the firm.
- 2 Young heirs deter top talent** – When a family member under 35 works at the firm, high-ability outsiders are far less likely to join.
- 3 The effect is stronger in new hires** – Including individual, industry, and size controls.

High-IQ individuals are significantly less likely to join firms with dynastic intent.

Does this Gap Matter for Firms?

1

Prior evidence that **talent drives innovation** .

2

Strong positive relationship between IQ and transformative entrepreneurship.

3

Talent allocation drives innovation – A growth model calibrated on Danish data shows that how talent is sorted across firms shapes aggregate patenting and R&D intensity.

Key Takeaways

1

The talent gap is large, systematic and causal – It's not just anecdotes or impressions.

2

Two drivers:

- **Nepotism** blocks advancement.
- **Compensation penalties** make you uncompetitive for top talent.

3

It is costly– You're losing the talent battle where it matters most: senior leadership and high-skill roles.

4

Challenge: Can your family business compete for talent while staying true to its identity?