

How Do Family Firms Treat Workers?

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Outline

- ① Bright and Dark Sides of Family Firms
- ② Wages, careers and talent in family firms
- ③ Implications for Firm Productivity

Bright and Dark Sides of Family Firms

Family firms: mixing power, emotions and biology

- Unlike markets, firms are hierarchical power structures: entrepreneurs or managers dictate
 - which tasks workers are assigned to (job-skill matches)
 - how they are rewarded (wages)
 - how their careers evolve (promotions)
- In family firms (FF), emotional and biological elements affect the power structure:
 - emotional elements:
 - family pride \Rightarrow reputational concerns
 - bonds with non-family employees \Rightarrow paternalism
 - bonds with family employees \Rightarrow preferential treatment
 - biological/genealogical elements:
 - evolution of the dynasty \Rightarrow constraint on succession
 - critical events in the controlling family, e.g. deaths \Rightarrow large effects on firm performance

“Bright sides” of family firms

- Emotional bond with employees, long-term relationship and family pride \Rightarrow owners seen by employees as more loyal than non-family firms managers (paternalism)
- This enables FF owner-managers to
 - elicit less confrontational industrial relations (Mueller & Philippon, 2011) and uphold implicit contracts (Shleifer & Summers, 1988)
 - pledge job stability in the face of adverse shocks (implicit insurance) \Rightarrow pay lower wages (Sraer and Thesmar, 2007; Bassanini et al., 2013; Ellul, Pagano & Schivardi, 2018)
 - elicit greater downward wage flexibility in the face of adverse shocks (Ellul, Pagano & Schivardi, 2018)
 - take long-term view in employment & investment decisions

“Dark sides” of family firms I

- Preservation of family ownership \Rightarrow limit to owners' diversification \Rightarrow family firms price idiosyncratic risk \Rightarrow are “too cautious”:
 - Andreessen et al. (2025): exogenous reduction of minority shareholder's stake \Rightarrow reduction in risk taking
 - Bena et al. (2025): less owner's diversification \Rightarrow less insurance offered to employees
- Preservation of family control \Rightarrow value-destroying dynastic succession:
 - due both to the limited selection within heirs' pool and to the “Carnegie effect”
 - evidence: Perez-Gonzalez (2004); Villalonga & Amit (2004); Lemos & Scur (2019); Bennedsen et al. (2007); Lippi and Schivardi (2014); Bandiera et al. (2018)

“Dark sides” of family firms II

- Family firm owner-managers may appoint or promote undeserving candidates if
 - they are relatives (nepotism) \Rightarrow private benefit from emotional reward, e.g., “warm glow” from gratitude
 - these do not pose a challenge to their authority \Rightarrow private benefit in the form of unchallenged power (Raith & Friebel, 2004; Pagano & Picariello, 2025)
 - these deviations from meritocracy stem from an agency problem vis-à-vis non-controlling investors \Rightarrow more likely in countries with worse corporate governance standards (Pagano & Picariello, 2025)

Wages, careers and talent in family firms

Wage and Career Gap: Evidence from Italy

Di Porto, Pagano, Pezone, Saggio & Schivardi (2025) use Italian matched employer-employee data to compare wages and careers in family firms (FFs) and non-family ones (NFFs):

- FFs offer **lower wages** than NFFs, after accounting for differences in workers' quality and firm productivity between FFs and NFFs;
- FFs' employees have **less rewarding careers**: fewer promotions and lower wage increases upon promotion;
- consistent with a "glass ceiling", as the family wishes to retain the top management jobs to themselves.
- FFs appear **less attractive for talented workers**: in wage regressions, worker fixed effects account for 8% lower wages in FFs

Talent Gap: Evidence from Denmark

Bennedsen, Tsoutsoura and Wolfenzon (2025) use Danish administrative data together with military draft and high school records to analyze talent allocation in FFs and NFFs:

- FF employees have on average lower talent than NFF employees;
- this gap is higher for upper managers and in high-skill job occupations;
- family firms pay less for talent compared to non-family firms;
- there is evidence of nepotism at all levels of the organization in FFs, restricting the career options of employees not related to the controlling family.

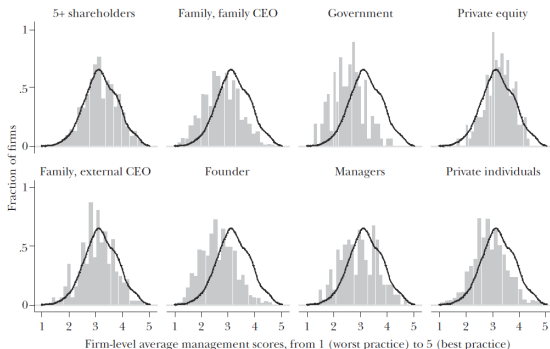
Implications for Firm Productivity

Meritocracy, productivity and family firms

- Matching job to skills enhances productivity:
 - at country level (Bandiera et al., 2024)
 - at firm level (Coraggio et al., 2024)
 - at worker level (Deserranno et al., 2025: evidence from Sierra Leone's health system)
- Non-meritocratic promotions stifle investment in education (Pagano & Picariello, 2025) \Rightarrow dynamic effect reinforcing their negative direct effect on productivity
- The idea that FFs are less meritocratic than NFFs extends beyond Italy and Denmark, as shown by survey-based measures:
 - Bloom & van Reenen's firm-level measures of management practices in 4 areas: operations, monitoring, targets and incentives
 - country-level measure of firm meritocracy based on the World Economic Forum (WEF) Report

Family Firms and Management Practices

Figure 4
Ownership and Management Scores



Source: Bloom, Genakos, Sadun, and Van Reenen (2009).

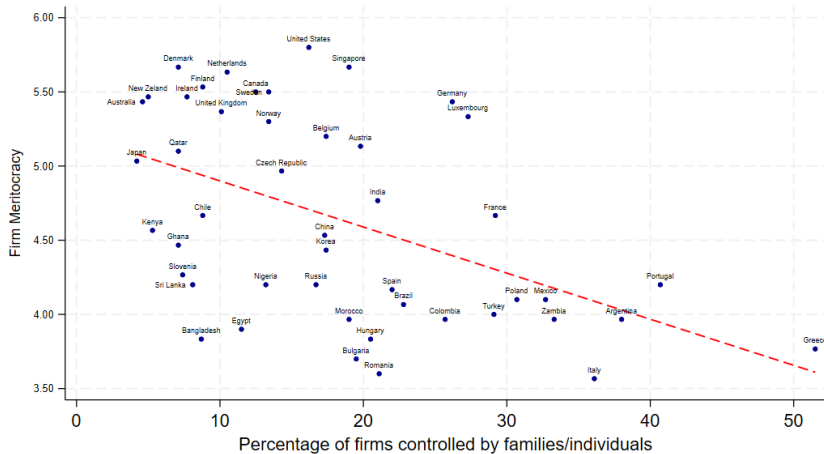
Notes: Graphs show the distribution of firm management scores for firms with different types of management. The overlaid line is the kernel density for dispersed shareholders, the most common U.S. ownership type.

Bloom and van Reenen (2010), data for 5850 firms in 17 OECD countries, plus Brazil, India and China: large low tail in the distribution of family-owned-**and**-managed firms

Firm Meritocracy and Fraction of FFs

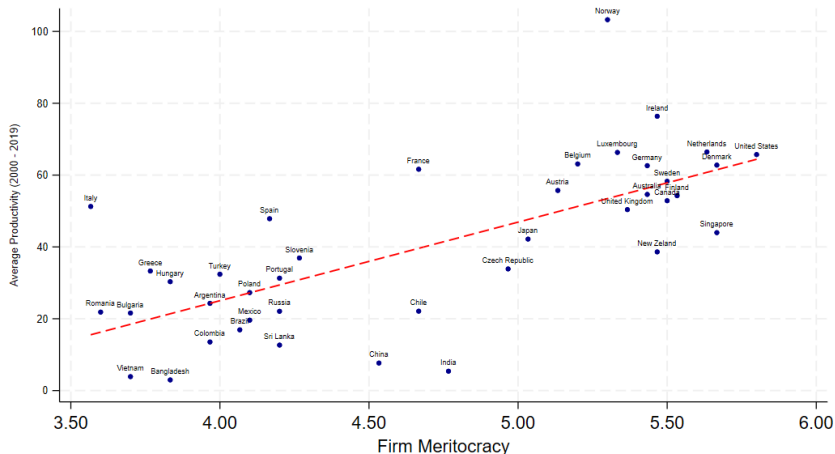
- **Firm meritocracy:** average response by 12,274 managers in 140 countries to the 2018 WEF Global Competitiveness Report Expert Opinion Survey to three questions (as in Pellegrino & Zingales, 2017):
 - ① “In your country, who holds senior management positions?” [1 = usually relatives or friends without regard to merit; 7 = mostly professional managers chosen for merit and qualifications]
 - ② “In your country, how do you assess the willingness to delegate authority to subordinates?” [1 = senior management takes all important decisions; 7 = authority is mostly delegated to business unit heads and other lower-level managers]
 - ③ “In your country, to what extent is pay related to employee productivity?” [1 = not at all; 7 = to a great extent]
- **Fraction of FFs:** percentage of listed firms controlled by families or individuals in 127 countries in 2012 (over 20% of voting rights) from Aminadav & Papaioannou (2020)

Firm Meritocracy and Family Firms Around the World



Sources: WEF: Global Competitiveness Report (2018) and Aminadav, Papaioannou (2020).
Coefficient = -0.031, t-stat = -3.75.

Productivity and Firm Meritocracy Around the World



Sources: WEF: Global Competitiveness Report (2018) and Feenstra et al. (2015), Penn World Table (2021).
Coefficient = 21.8, t-stat = 6.06.

Conclusions

- Past research highlighted the “bright side” in the way family firms treat workers, esp. by providing job stability
- Recent evidence based on administrative data also reveals a “dark side”:
 - lower wages, controlling for workers’ quality and firm productivity
 - slower and less rewarding careers
 - lower ability to attract talented employees
 - worse allocation of talent than in non-family firms
- These effects appear to be more strongly associated with family control than family ownership *per se*
- Future work: quantify the extent to which this “dark side” of family firms contributes to differences in firm-level and country-level productivity and growth rates