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HOW DO CEOS SEE THEIR ROLE? MANAGEMENT PHILOSOPHY AND STYLES IN FAMILY AND NON-FAMILY FIRMS

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ABSTRACT

Using a survey of 800 CEOs in 22 emerging economies we show that CEOs' management styles and philosophy vary with the control rights and involvement of the owning family and founder: CEOs of firms with greater family involvement have more hierarchical management, and feel more accountable to stakeholders such as employees and banks than they do to shareholders. They also see their role as maintaining the status quo rather than bringing about change. In contrast, professional CEOs of non-family firms display a more textbook approach of shareholder-value-maximization. Finally, we find a continuum of leadership arrangements in how intensively family members are involved in management.

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1 Introduction

Most companies start out as family firms, with only a small fraction eventually becoming widely held firms with professional management and no significant family involvement. The literature suggests that family firms differ in important ways from non-family firms: Starting with the seminal paper by La Porta et al. (1999) these studies document that family firms on average tend to be smaller than nonfamily firms, have weaker performance, and worse governance structures.[1] In addition, family firms are reportedly slower to adopt managerial best practices than non-family firms (see for example Bloom et al., 2012a). While this literature suggests that differences in the performance of family firms are associated with the involvement of family members in the top management (and control) of the company, we know very little about the types of CEOs that select into these different leadership positions.

In this paper we show that CEOs' business philosophies, their management styles and backgrounds vary systematically with the control rights and the influence that the family has on the business. We also document that the simple dichotomy between family and non-family firms which is often used in the literature masks much more complex dynamics of how leadership structures differ across firms.

Our data come from a unique survey of over 800 CEOs of the largest public and private firms in 22 emerging market countries, which we undertook jointly with the World Bank.[2] These rich, CEO level data provide insight into the heterogeneity in CEO beliefs, their objectives, and the way they manage and organize the firm across countries and industries.

We first show that firms broadly fall into four distinct categories which are directly associated with the characteristics of their CEOs: (1) firms run by the original founder, (2) family firms with a family member as CEO, (3) family firms with a professional CEO, and (4) non-family firms run by professional CEOs. This proposed CEO type classification explains a substantial fraction of the variation in CEO survey responses, and is complementary (and of comparable importance to) the fraction explained by country fixed effects.[3]

We then show that CEOs' management styles and philosophy varies with the involvement of family members in the firm: In firms where the founder or the family owners are more involved in the management and control, the CEO tends to run a more hierarchical management structure, places less weight on protecting minority shareholder rights, more weight on protecting stakeholders such

[1] See in particular Morck, Stangeland, and Yeung (2000); Claessens et al. (2002); Faccio and Lang (2002); Anderson and Reeb (2003); Villalonga and Amit (2006); Bertrand and Schoar (2006); and Bennedsen et al. (2007).

[2] The countries are: Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Egypt, El Salvador, Ghana, Guatemala, Hong Kong (China), India, Kenya, Malaysia, Mexico, Nigeria, Peru, Singapore, South Africa, Turkey, Venezuela, and Zimbabwe.

[3] The average adjusted R^2 of all the regressions in the paper rises from 8% when only SIC and country fixed effects are included, to 13.6% when the CEO type variables are added. Moreover, when only CEO type and SIC fixed effects are included the average adjusted R^2 is 8.6%.

as workers, and feels most accountable to banks as outside investors. In addition, these CEOs see their role as maintaining the status quo rather than bringing about change. In contrast, professional CEOs of widely held firms are at the other end of the spectrum and display a management philosophy and style that resembles the textbook view of a shareholder-value-maximizing CEO. In the following we discuss our findings in more detail.

Several overarching themes emerge from the data. First, **founder CEOs** are more likely to have much higher cash flow and control rights within their firms than all other types of CEOs, especially compared to professional CEOs. These CEOs are also more likely to be on their company Board, to serve as the Chairman of the Board, and to name the directors. This centralization of control seems to go hand in hand with a more hierarchical management style and organization. When compared to that of the other CEO types, founder CEOs have the fewest number of managers reporting directly to them: 45% have fewer than 5, in contrast to the 80% of professional CEOs that have between 5 and 10 managers reporting to them. Furthermore, founder CEOs are more likely than professional CEOs to see their main task as being to supervise and monitor decisions, so they put much less weight on selecting and appraising managers.

Founder CEOs' relative insulation from outside governance seems to have implications for their business philosophy and view of governance. Compared to other CEOs, founders are less likely to report that they feel accountable to shareholders or to consult large shareholders before major investment decisions. By contrast, they are more likely than professional CEOs to consult banks before major investment decisions and to feel accountable to banks. This suggests that founders retain most of the de facto control within the firm, and that the main constraints they face are from third parties such as their banks, rather than from shareholders. In addition, founder CEOs show much less concern for shareholder value: they are 24% more likely than professional CEOs to answer that they would prioritize stable employment over maintaining dividends for shareholders. While this reveals that founder CEOs place less emphasis on protecting value for (minority) shareholders, it also suggests that they have a broader set of stakeholders in mind – since founders tend to be large shareholders in their firms, they themselves will be affected by foregoing dividends. Additionally, founder CEOs are 26% more likely than professional CEOs to see their leadership role as maintaining existing strategies and values, rather than bringing change to the firm; they may have crafted the strategy themselves.

A different portrait emerges of **professional CEOs of *non-family* firms**. Although they are significantly less likely to own equity and to be on the Board than related CEOs, they are just as likely to be Chairman of the Board, indicating relatively high internal control rights. Interestingly, professional CEOs view their role as agents of change for their organizations rather than to maintain traditions and values, and they appear to have sufficient power to do so. Of all CEO types, they are most likely to replace upper-level managers in their first two years as CEO.

Professional CEOs of *non-family firms* are around 15% less likely than professional CEOs of *family* *firms* and related CEOs to view family relationships as important to successful business, and report that the founders of their firms are less likely to have a role in naming directors, or advising on major investment decisions. Unlike founder CEOs (and to a lesser extent the other two CEO types), professional CEOs of non-family firms view large shareholders as more important stakeholders than banks, perhaps reflecting the high preponderance of foreign multinational control of this type of firm. The professional backgrounds of such professional CEOs also reflect a different career path: they are more likely to have been CEOs of other firms and to have held senior positions in finance than founders or related CEOs, and are around 14% less likely than all other CEO types to view specific industry knowledge as one of the two most important factors for success, which is suggestive of a generalist background.

Related CEOs and professional CEOs of family firms fall between these first two CEO types on all dimensions. **Related CEOs** tend to be closer to founder CEOs in their responses, as they maintain a high fraction of cash flow and control rights in the firm they run: they are almost as likely to own equity in the firm as founders (60% more likely for founders, and 50% for related CEOs in comparison to both types of professional CEO) and also to own over 5% of the firm (75% more likely for founders, and 60% for related CEOs). They are also the CEO type most likely to be on the Board of their firm, although they are less likely to be the Chairman of the Board than founder CEOs.

In contrast to founders, and even to professional CEOs of non-family firms, related CEOs appear to be less empowered, since they are often supervised by a powerful founder. Related CEOs are more likely than other CEOs to report that the founder is still involved before major investment decisions, that the founder, rather than the Board, terminated the last CEO, and also that they themselves were appointed by the founder. The active presence of the founder might explain why related CEOs seem to resemble founder CEOs in their approach to governance and business philosophy. Like founder CEOs, related CEOs are more likely to feel accountable to banks and are more likely to involve banks in major investment decisions than professional CEOs of non-family firms. Also like founder CEOs, related CEOs are more likely to favor maintaining the firm's values over bringing change, and are approximately 11% more likely to say they would choose to prioritize maintaining employment over paying dividends. The point estimates on all these dimensions are smaller than those for founder CEOs, but they are consistently and significantly different from the answers of professional CEOs, suggesting a systematic difference in business philosophy. Related CEOs are also more likely than other CEOs to say that family relationships facilitate access to business information, perhaps reflecting their personal experience.

Despite this similarity to founder CEOs in governance and business philosophy, the management style of related CEOs seems to be closer to that of professional CEOs. Related CEOs are much more likely than founder CEOs to view the selection of senior managers as important, and are less likely to answer that supervision of senior managers is a high priority. When looking at the number of managers reporting directly to the CEO, related CEOs are much more likely than founders to have more than 5 managers report to them, but less likely than professional CEOs (although the last difference is not statistically significant).

Lastly we look at **professional CEOs of *family firms***. Based on their business philosophy, management strategies, and attitudes toward governance, they seem very similar to professional CEOs of non-family firms. They are more likely than founder CEOs to feel accountable to shareholders and to favor shareholder value maximization over maintaining employment. They are also more likely than founders to see their most important task as selecting top talent rather than monitoring managers. Moreover, like professional CEOs of non-family firms, and unlike both founder CEOs and related CEOs, they see their role as bringing about change in the business rather than maintaining established strategies. Finally, the number of managers reporting directly to them is the same as for professional CEOs of non-family firms (i.e., relatively high), reflecting a less hierarchical organization than that of firms run by founders or related CEOs.

However, the ambitions of professional CEOs to effect change may be harder to translate into action within a *family firm*: our results suggest that professional CEOs of family firms have fewer explicit or implicit control rights than other CEOs. Like professional CEOs of non-family firms, they have lower ownership of their firm on average, and are less likely to sit on the Board; they are the CEO type least likely to be the Board Chairman or to name directors. Furthermore, professional CEOs within family firms also appear to have fewer effective control rights: in comparison to professional CEOs of non-family firms they have less scope to replace the top management team when they come into the job. This suggests a discrepancy between the reported ambitions of professional CEOs and how much they are empowered to actually implement them.

Finally, we explore the family backgrounds of the CEOs in our sample. On average the CEOs in our sample grew up in predominantly middle or higher income families, with only 14% describing their parental home as low income. The majority have fathers who were businessmen themselves (59%) or even had paternal grandfathers in business (39%). However, there is a sharp difference between the background of founders and professional CEOs of *non-family* firms on the one hand, and the more privileged background of related CEOs and professional CEOs of *family firms* on the other. In comparison to the other CEO types, founder and professional CEOs of non-family firms are (i) more likely to come from low income families, and are (ii) less likely to have had fathers who were business managers. In contrast, family firms tend to hire CEOs that come from a more privileged background, or to promote their own descendants into these positions (who by definition come from higher income classes). These results may suggest that family firms tend to hire people through their social networks, but that positions as founders and as CEOs of non-family firms provide opportunities for upward mobility in these economies.

This paper contributes to both the literature on family firms, and the literature on the impact of CEOs on firm performance. By examining the heterogeneity in governance arrangements across firms of different types, and how it maps onto CEOs' business philosophies and management styles, this paper aims to shed some light on the determinants of the reported differences in firm performance associated with the CEO and with family firm status. The large sample size and wide regional coverage relative to existing CEO surveys make it possible to remove country and industry-specific variation and to explore the relationship between firm governance and CEO business philosophies and management styles. Interestingly, we show that the CEO/firm level variation accounts for the most robust patterns in the data, rather than traditional country-level variables such as GDP per capita, legal origin, corruption, and property rights, suggesting that the CEO/firm level variables are of first order importance.

The rest of the paper is organized as follows. The related literature is reviewed in Section 2, while Section 3 describes the data and provides summary statistics. Section 4 describes the regressions and discusses the results. Section 5 examines CEO family backgrounds in further detail, and Section 6 concludes.

2 Related Literature

A large literature has focused on differences between family and non-family firms, starting with the influential paper by La Porta et al. (1999). These studies document that family firms, on average, tend to be smaller than non-family firms, have lower performance, weaker governance structures, and are often concentrated in older, more regulated industries (e.g. Morck, Stangeland, and Yeung, 2000, Claessens et al., 2000, 2002; Faccio and Lang, 2002; Anderson and Reeb, 2003; Bertrand and Schoar, 2006). Attention has also focused on the importance to firm outcomes of the CEO position (e.g. Bennedsen et al., 2010, 2012) and on the individual characteristics and styles of CEOs (e.g. Bertrand and Schoar, 2003; Malmendier and Tate, 2008; Schoar and Zuo, 2011).

At the intersection of these literatures, a number of papers have studied the performance implications of leadership transitions within family firms: the reported lower average rates of return and stock market valuation of family firms seem to be associated with the passing of control from the founder to the heirs (e.g. Pérez-González, 2006; Bloom and Van Reenen, 2007; Bertrand et al., 2008).[4] Furthermore, some studies have found that when management control within family firms is transferred to professional CEOs rather than a descendant of the founder, the decrease in performance is less pronounced (see the important contributions of Villalonga and Amit, 2006 and Bennedsen et al., 2007).

While survey-based data such as that used in this paper have some well-known limitations, they also provide a window into the beliefs, attitudes and governance environments of CEOs that are

[4] A few studies have argued that family firms, in fact, perform better than non-family firms: Khanna and Palepu (2000), Anderson and Reeb (2003), Sraer and Thesmar (2007), and Mehrotra et al. (2011). Moreover, firms led by founder CEOs appear to also perform better (Villalonga and Amit, 2006; Fahlenbrach, 2009), although Bloom et al. (2012a) report lower management practice scores.

otherwise entirely inaccessible to researchers (see Graham and Harvey, 2001, Brav et al., 2005, and Graham, Harvey, and Puri, 2011, for short discussions). This is especially true for CEOs of leading firms in developing countries, which are often private. As such, our results are complementary to some of the recent work on differences in management practices across firms and countries (particularly Bloom and Van Reenen, 2007 and Bloom et al., 2012a), and also with recent work by Bandiera et al. (2012) on the time use of CEOs. The latter paper identifies two distinct styles of time use, and reports that the least productive of the two styles is associated with family CEOs in their sample of Indian manufacturing firms. They also find systematic differences between the time use of family CEOs, and that of professional managers, and that family CEOs work shorter hours and are more likely to shirk when temptation arises. In unreported regressions we examine CEO time use reported in the survey and find that in our sample it is founder CEOs that are more likely to work the most (over 60 hours per week), and some weak evidence that related CEOs are more likely to work fewer hours.

The results in this paper are directly relevant to research on the unique role of founder CEOs (Adams et al., 2005; Anderson et al., 2009), to the links between family firms and the political system (Morck and Yeung, 2004), and to the increasingly important issue of family management transitions as large cohorts of family firms mature, as highlighted in Tsoutsoura (2013). Relatedly, the patterns in our data point to many of the problems that firms face when evolving from a founder-run firm into a more established family firm, and finally into a non-family firm in some cases.

Potential problems may have been imprinted into the structure and composition of the organization from the beginning (Baron, Hannan, and Burton, 1999), since founder-led firms appear to concentrate implicit and explicit power in the hands of the founder CEO. This organizational structure might perform well when the firm is run by an exceptional leader – which founder CEOs often are. However, such a structure is likely to be detrimental when a family successor is less exceptional (which will occur if there is reversion to the mean in ability over generations), or when a leadership transition to a change-oriented professional CEO is triggered by a change in the skills required of the CEO (as in Eisfeldt and Kuhnen, 2013). Kaplan et al. (2012) report that variation in the abilities of (professional) CEOs for buyout and VC-backed firms are primarily explained by two factors: one approximating general ability, and another that contrasts communication and interpersonal with execution skills. They report that the latter skills are valuable only in some settings, providing support for the idea that CEO abilities have to match the changing needs of their firms. This fits well with our evidence that there is substantial heterogeneity in CEO types, as measured by their governance environment, styles and business philosophies, and that this is closely associated with each firm's stage in its lifecycle: from founder-run to, potentially, a widely held firm with wholly professional management.

3 Data Description

Our survey covers leading CEOs in 24 emerging markets and was conducted in the first half of 2007 in association with the World Bank. Questionnaires were sent to the CEOs or Managing Directors of the largest 100 companies in each country. These firms were selected using D&B International, Amadeus, and OneSource databases, stock market information, World Bank country directories, and local lists of incorporation.

The final survey contained eight sections: company information, personal information, educational background, prior work experience, the CEO's business approach, family background, country culture, and company structure. The survey is in the appendix. We ran a pilot for Australia and South Africa in 2006, which served to refine the survey instrument and implementation. A team of MBA students conducted phone interviews with CEOs over a four-month period. All the firms in our sample were contacted by one of the callers to set up a time for a phone interview with the CEO. In almost all cases we reached the Assistant to the CEO. If the CEO was not available for a phone conversation, we asked the Assistant to give the CEO a copy of our survey to fill out, or to forward an online link to the survey. Those CEOs that did not answer were then sent a reminder email or fax ten days after the initial contact, and then subsequently called by a survey team of MBA students up to a maximum of three times. Survey responses relating to firms' industries (at the two-digit SIC code level) and ownership of the firm by multinationals and the Government were verified and augmented with information obtained from firms' websites and annual reports.

We keep observations from countries where we have at least 15 completed surveys, so our final sample is composed of 823 CEOs from 22 countries: eleven are in Latin America, six are in Africa, and the remainder in Asia (see the appendix for observations by country).[5] This is a large sample relative to the managerial surveys in the finance literature.[6] The average response rate is 37.4% of the top 100 CEOs in 22 countries and has no correlation with GDP (the Spearman's rank correlation is -0.15 with a p-value of 0.51). Our response rate compares favorably to those in other senior management survey studies that range from 9% (e.g., Graham and Harvey, 2001) to approximately 16% (e.g., Brav et al., 2005), and is large enough to mitigate concern about potential response biases.

3.1 Classifying CEOs into types

We group CEOs into four mutually exclusive categories based on the responses to our survey and information about the firm:

[5] Australia and Romania were dropped because we obtained less than 10 observations for them.

[6] Recent papers using surveys in the finance literature include Graham and Harvey (2001), Brav, Graham, Harvey, and Michaely (2005), and Graham, Harvey, and Puri (2011).

(i) Founder CEOs (12.6% of the sample)

(ii) Related CEOs (18%)

(iii) Professional CEOs of family firms (21%)

(iv) Professional CEOs of non-family firms (48.4%)

Founder CEOs (founders henceforth) are identified from a direct question as to whether the CEO is the founder of the firm. We classify a CEO as a **related CEO** if he or she either answers in the survey that they are a relative either of the founder or of shareholders who own at least twenty percent of the firm. To classify a CEO as a **professional CEO** we require him or her to be neither the founder, nor related to the founder, and that his or her family does not own more than 20% of the firm's equity. We also separate firms into either family or non-family firms; founder-led and related CEO-led firms are classified as family firms. Professional CEOs are classified as leading **family firms** if the founder or his family is one of the firm's three largest shareholders. If this is not the case, we classify them as professional CEOs of **non-family firms**. This implies that we may be mistakenly classifying family firms as non-family if either the controlling family is unrelated to the founder, or if the CEO himself – but not his or her family – is the majority owner of the firm but is not the founder. This would reduce our ability to detect differences between family and non-family firms, leading to attenuation bias in our results because our baseline category for the analysis that follows is professional CEOs of non-family firms (approximately half of the sample).

Two other papers use similar classification schemes for CEO types: Anderson and Reeb (2003) and Sraer and Thesmar (2007).[7] In comparison to both papers, our sample has more professional CEOs (of both family and non-family firms) and fewer founder-run firms. The firms in our sample are spread over a wide array of two-digit SIC code industries, but the top ten industries account for 60% of firms in our sample, while the top twenty account for 82%. The top five two-digit industries are: (1) food and kindred products; (2) chemicals and allied products; (3) depository institutions (i.e., banks); (4) general building contractors; and (5) electric, gas, and sanitary services.

3.2 Summary Statistics

Table 1 suggests that company characteristics covary directly with the type of CEO leading the firm. In unreported regressions we find that founder and related CEO firms are significantly smaller than non-family firms in terms of (survey-reported) sales, in line with the literature, which reports

[7] Bloom et al. (2012a) also makes use of a similar classification, but focuses on the organization's management practices rather than those of the CEO with regard to his/her top management team. Burkart et al. (2003) model managerial succession as the founder simultaneously choosing both how much equity to sell and, if she retains control, whether to appoint a related or a professional CEO. The choices faced by the founder in their model match the categories used in this paper.

that family firms are smaller on average[8] and may be willing to forgo growth to maintain control. The non-family firms in the sample are larger: both in terms of mean and median sales, we find that non-family firms are at least double the size of founder-run firms and are at least 50% larger than other family firms on average. Drawing data from Bloomberg for the subsample of firms that are publicly listed we find a similar pattern for mean revenue, suggesting that the self-reported sales data is broadly accurate. There is no difference in means for market capitalization in the subsample of listed firms. In addition, founder-run firms are substantially younger on average than all other types of firms, while non-family firms are more likely to be controlled by multinationals (38%) than family firms (5% to 14%). The equity ownership of the largest three equity holders is considered in detail in Table 4, and we are slightly less likely to see family firms with a professional CEO in English legal origin countries.

In short, between younger, smaller, founder-run firms at one extreme, and larger, often multi-national controlled non-family firms at the other, we have family firms run by either related or professional CEOs, harder to distinguish along the dimensions in the table.

TABLE 1 ABOUT HERE

Table 2 displays individual characteristics by CEO type. In unreported regressions we find that founder CEOs are significantly different from the other types of CEOs on average: they are older, are (naturally) more likely to have been CEO from the start of their time at the firm, have much longer average and median tenures, and are much more likely to own more than 5% of the firm than all the other CEO types. Moreover, founders are less likely to have undergraduate degrees.

Perhaps reflecting an apprenticeship period at the family business, related CEOs are much less likely than all other CEO types to have begun their time at the firm as CEOs, but have both longer tenures and are more likely to own at least 5% of the firm's equity than the two professional CEO types. They are also more likely than all other CEO types to have a degree from a foreign country, potentially because they were groomed for a role at the family firm from an early age, and because of the economic advantages of being related to a successful founder CEO.

Clear and statistically significant differences emerge between founder and related CEOs on one hand, and the two professional CEO types on the other. Founders and related CEOs are significantly less likely to have held a prior position as a CEO or in a financial field[9], and have much longer tenures (the median is ten years or more in comparison to five or fewer), which is potentially related to their higher likelihood of owning over 5% of their firms.

[8] For example, Anderson and Reeb (2003), in a sample of US S&P 500 members, find that family firms are smaller than non-family firms. Villalonga and Amit (2006) find that family firms are smaller, but not significantly so, and report that they are younger. Sraer and Thesmar (2007) also report that family firms are smaller and slightly younger.

[9] Survey respondents were asked to "*list the three positions (business and non-business related, academia, government, military etc.) you held the longest prior to becoming*" CEOs of their firms. These were then classified into CEO positions (CEOs, Executive Chairman, etc.), Board positions (Director, Chairman, etc.), and Financial positions (Finance manager, Comptroller, Treasurer, VP(Finance), etc.) if it was possible to do so.

By contrast, Professional CEOs (at both family and non-family firms) are statistically indistinguishable from each other on all dimensions in the table. Thus, the personal characteristics and professional experience of the two types of professional CEOs are very similar.

TABLE 2 ABOUT HERE

The characteristics of the different types of CEOs in our sample match those reported in the literature. As noted earlier, we find that most types of family firms in our sample have lower sales than non-family firms, a standard result, and that founder-run firms are younger. We find that related CEOs themselves are also younger than other CEO types on average, and by approximately the same amount (eight years) as reported by Pérez-González (2006) at the time of CEO transition. Related CEOs in the sample tend to have significantly longer tenures than professional managers, as also noted by Sraer and Thesmar (2007) who report differences of similar magnitudes, and we find CEO personal shareholdings are positively correlated with tenure.

4 CEO Management Style, Business Philosophy, and Governance Structures

4.1 Description of regressions

A linear probability model (LPM) is used to describe the correlations of the survey responses with explanatory variables. We code the responses as indicator variables which take a value of 1 if the respondent is in agreement with the question or chooses a specific answer from a list of potential answers, and 0 otherwise. We generate a separate indicator variable for each response, e.g., a variable equal to one for all those who choose the answer "Shareholders", and zero otherwise. Each indicator variable is then used as a dependent variable in a LPM regression structured as follows:

$$Survey\ response\ _{ijcs} = \alpha + \Gamma \times CEOtype_j + \beta X_{cs} + \varepsilon_{ijcs}$$

Where i indexes individual CEO-firm pairs, j indexes the CEO types, c indexes the country of the firm's headquarters, and s indexes the firm's 2 digit SIC code. The CEO type variables are binary indicators for three CEO types: founders, related CEOs and professional CEOs of family firms. The omitted CEO category is professional CEOs of non-family firms (48.4% of the sample). Taking the question: "Do you feel accountable to shareholders?" as an example, the estimated coefficient on the CEO type indicator ($\hat{\gamma}$) should be interpreted as the additional likelihood of the specific CEO type answering "I feel accountable to shareholders," in comparison to the likelihood of such an answer from the omitted CEO type: *professional* CEOs of *non-family* firms.

The X vector contains four controls for the overall development of the country of each firm. These are the natural logarithm of GDP per capita from the IMF World Economic Outlook, the average score on the Transparency International Corruption Index over 2003-2007 (the scale runs from 0 (most corrupt) to 10 (least corrupt)), the Property Rights index from the Heritage Foundation's 2004 Index of Economic Freedom (a higher score means more secure property rights), and an indicator variable denoting either English (1) or French (0) legal origin. Finally, the X vector also contains a fixed effect for each two-digit SIC industry.

An additional regression was run for each survey response including the natural logarithm of firm sales in 2006 as an independent variable, winsorized at 5% and 95% to protect against data coding errors.[10] For observations missing sales (18%) we replace sales with a zero and add a missing sales indicator variable. It is important to control for firm size since the descriptive statistics show that family firms tend to be smaller than non-family firms, although including observations with missing sales values instead of dropping them from the sample does not materially affect our results.

Standard errors are clustered at the country level, resulting in twenty two clusters, a number low enough to warrant concern that our standard errors are biased downwards (see Cameron, Gelbach, and Miller (2008) and the references therein). To allay this concern we re-ran all regressions clustering by country*SIC code, an economically meaningful unit which results in around 350 clusters, and we also separately re-ran all regressions using non-parametric block bootstrap by country. Both sets of estimates provide the same or smaller standard errors, so to be conservative we retain the method that produces the largest standard errors: clustering by country.

Finally, to assess the robustness of our results to the regression specification we estimated the regressions using country fixed effects instead of country controls (in addition to SIC code fixed effects), and also separately estimated them using a probit specification instead of the LPM. In both cases we obtained very similar results, confirming that the results are not sensitive to the inclusion of country fixed effects, or to the linearity assumption of the LPM.

4.2 Confirming firm classifications: the Appointment Process of the CEO

To confirm that our CEO type classification is picking up real differences between the categories, we first look at the appointment process of the CEO and how the current CEO sees the influence of the founder and family relationships. To that end we run regressions on a set of survey questions that were not used to generate the categories, but that should predictably vary between the different CEO categories as well as on CEO type indicator variables and our standard set of control variables. These are reported in **Table 3**.

[10] Firm sales are the best measure of firm size available to us, because stock markets are underdeveloped in many of the countries under consideration and many of the sample firms are not publicly listed, ruling out the use of market values. Earnings measures are distorted by international differences in accounting.

The first two columns focus on the question: "*Who appointed you as the CEO of ≪Company-Name≫?*" Professional CEOs of family firms are approximately 7% more likely to answer, "*the Founder or his/her relatives*" than the omitted category, professional CEOs at non-family firms. This is to be expected, since the founder probably retired long ago at most non-family firms. Additionally, in columns 3 and 4 we confirm the status of family firms for those firms run by founders and related CEOs: they are (46 and 77% respectively) more likely to answer affirmatively to the question "*Were any of your relatives ever employed in an upper-level management position at your firm?*" than professional CEOs of either type.

CEOs were asked, "*Who appoints the board members in your company?*" In columns 5 and 6 we see that the founder is 17 to 18% more likely to appoint directors at family firms with professional CEOs compared to non-family firms. These results lend support to our differentiating professional CEOs by the type of firm they run: family versus non-family firms. Firms run by related CEOs are also 16 to 17% more likely to report that directors are appointed by the founder than professional CEOs of non-family firms, which is consistent with our classification of firms as "family firms" when they are run by either related CEOs or what we have called professional CEOs of family firms.

Two regressions in Table 8 are also relevant here. The question is: "*In many countries around the world, mutual support of family members in business transactions is essential for efficient business operations. In your view, how important are family relationships for conducting successful business in your country?*" Columns 5 and 6 of Table 8 show that both professional CEOs of family firms and related CEOs are 14 to 17% more likely to answer that family background and contacts are important compared to the excluded category, professional CEOs of non-family firms, and also to founder CEOs.

Another dimension that lends support to our classification is whether the founder of the firm is alive, (irrespective of whether he/she is CEO). While we did not ask this explicitly, we can infer it from certain questions, albeit with error. Founders are alive at 51% of related CEO firms, at 44% of family firms with professional CEOs, and at only 23% of non-family firms with professional CEOs. In sum, the results in this section suggest that the four categories of CEOs that we use throughout correspond to real differences in the internal organization of the firms.

TABLE 3 ABOUT HERE

4.3 Ownership and Governance

We now turn to how governance arrangements vary across firm types. Founder and related CEOs have significantly higher equity ownership, which also translates into substantially more power at the Board level. At the other extreme, professional CEOs that lead family firms seem to have less implicit and explicit control, which might affect their ability to independently manage their firms.

In the first two columns of **Table 4**, we consider responses to the question: "*As the CEO of ≪CompanyName≫ do you hold equity in the firm (stock options)?*" We generate an indicator variable equal to one if CEOs answer that they own equity in the firm by answering either "*Yes, I hold more than 5% of the company's stock*," or "*Yes, I hold less than 5% of the company's stock*". Founders and related CEOs have much higher propensities than both types of professional CEOs to own equity (60% and 52% respectively from columns 1 and 2). In the following two columns we focus exclusively on CEO responses of "*Yes, I hold more than 5% of the company's stock*". Again, founders and related CEOs have much higher propensities to own over 5% of their firms (77% and 62% respectively from columns 3 and 4), in line with Table 2.

We then regress whether CEOs answer "*Yes, I receive stock and stock options as part of my compensation*" on our standard explanatory variables. Columns 5 and 6 suggest that founder and related CEOs are less likely to receive stock or options as part of their compensation, perhaps because their holdings are already large on average. However, this effect disappears when we control for multinational ownership in an unreported regression, suggesting that it is driven by multinational firms – which are overwhelmingly non-family firms – choosing equity-linked compensation (for their disproportionately professional CEOs) rather than by differences between CEO types along this dimension.

The number of different types of blockholders present in each firm is obtained from the question: "*Please indicate if any of the three largest equity holders is/are: The founder or relatives of the founder/ Foreign investors/ Foreign corporations/ Domestic corporations/ The government.*" Note that the question does not provide the number of blockholders; if more than one exists in the same category they are counted as a single blockholder. The dependent variable is then coded as the number of separate categories identified by each respondent, which we term the number of "blockholder types." We also obtain the total equity holding (as a percentage) of the largest three shareholders from the following question: "*How concentrated is the ownership of your company? That is, what fraction of equity in your company is held by the three largest shareholders?*" Thus, these two dependent variables (unlike all the others) are not indicator variables, making the regressions OLS rather than LPM.

Interestingly, for family firms run by both related and professional CEOs, we observe a higher number of blockholder types (approximately 0.3 and 0.4 more blockholder types respectively in columns 7 and 8), while the total equity holdings of the top three shareholders are 11% lower for firms run by related CEO (columns 9 and 10). This suggests some equity dispersion may have occurred when moving from founder-run to family firm structures in this sample, perhaps due to the impact of inheritance taxes or the natural dispersion of ownership from a single founder to more numerous descendants.

TABLE 4 ABOUT HERE

Table 5 reports regressions of answers to additional questions on firm governance. The first two columns are regressions of the response to the question "*Do you sit on your company's Board of directors?*" while the following two columns are regressions of the response to the question "*Are you the Chairman of the Board?*" Founder and related CEO equity ownership is reflected in their high propensities to be on the Board of directors (9% more likely for founders, 13% for related CEOs – see columns 1 and 2), and to be Chairman of the Board (24% more likely for founders – see columns 3 and 4). The survey also includes the question: "*Who appoints the Board members in your company? Please choose up to three alternatives.*" We generate an indicator variable equal to one if the respondent answers, "*I select most of the Board members*" and this is the dependent variable for the following two regressions in the table. The high average equity ownership of founders and related CEOs is also reflected in their propensity to answer that they select most of the Board members, which is 16% more likely for founders and 8% more likely for related CEOs (see columns 5 and 6) than for both types of professional CEOs. Thus, the governance structure of founder and related CEO firms appears to differ markedly from those of firms with professional CEOs.

These regressions also suggest that professional CEOs of family firms are relatively disempowered in comparison to the other CEO types. They are the least likely CEO type to be Chairman of the Board (21% less likely – see columns 3 and 4), and to name directors (6% less likely – see columns 5 and 6). By contrast, non-family firm professional CEOs are as likely as related CEOs to be Chairman of the Board, despite having lower equity holdings on average, as reported in Table 4.

The results also suggest that related CEOs are often monitored by a powerful founder figure. Consider the results from Table 3: related CEOs are the most likely to have been appointed by the founder (over 30% more likely than all other CEO types), and at such firms, founders are over 16% more likely to appoint directors than at non-family firms run by professional CEOs. Moreover, founders are just as likely to appoint directors if a relative or a professional is CEO as they are when they themselves are CEO. Returning to Table 5, the previous CEO was more likely to have been terminated by the founder: in columns 7 and 8 we report the results of regressions of an indicator variable equal to one if respondents answer, "*Company founder terminated his appointment*" to the question "*Why did the previous CEO leave ≪CompanyName≫?*" Related CEOs are 10% more likely to answer this than the omitted category, professional CEOs of family firms.

In addition to this increased ability to hire and fire the CEO and name directors, company founders are also more influential in major business decisions at family firms with related CEOs than at firms with other CEO types. We ask CEOs: "*Which of the company's stakeholders are you most likely to involve before deciding to undertake a large-scale investment project, such as the acquisition of a plant or a company? Please select up to two*" and make an indicator variable for when CEOs answer "Founder". Related CEOs are 13 to 14% more likely to consult the founder before major investment decisions than other CEO types (columns 9 and 10). All the other answers (except for major shareholders and banks, which are discussed later) show no significant differences between

CEO types. [11] Thus, related CEOs appear more likely to be directly supervised by the company founder, and consequently appear to be less empowered than professional CEOs at non-family firms and, naturally, founder CEOs.

TABLE 5 ABOUT HERE

4.4 CEO Management Style

Table 6 analyzes difference in management approaches between the four types of CEOs concerning their reporting structure, most important tasks, and responsibilities. In comparison to other CEO types, founders appear to disproportionately favor direct management over delegation when asked the question: "*As the CEO of ≪CompanyName≫, what do you perceive as your most important operational tasks?*" Founders are 8 to 10% more likely to answer that their most important operational task is "*Supervising operational, strategic, and financial planning decisions*" (in columns 1 and 2) and 14 to 16% less likely to answer "*Selecting and appraising other top managers in the company*" (in columns 3 and 4). Moreover, they choose to design their organizations to have fewer subordinates directly reporting to them than any other CEO types – the most hierarchical structure. They are 17 to 20% less likely than other CEO types to have five or more managers reporting directly to them (see columns 5 and 6) in response to the question "*How many managers in your company report directly to you?*"

Our results are in line with some recent findings for the US. Like Rajan and Wulf (2006) who exclusively examine public firms, we find that professional CEOs in both widely held firms and in family firms manage flatter organizations and have more managers reporting directly to them. By contrast, founder CEOs have the most hierarchical reporting structures. Guadalupe and Wulf (2010) and Bloom et al. (2010, 2012b) provide evidence that increased competition leads firms to decentralize decisions, and to improve management practices. Moving the founder out of the CEO position may be the response of family firms to such challenges.[12] As in Bloom et al. (2012a) we find that founder run firms seem to have the weakest organizational management practices of all firm types in the sample, perhaps reflecting a reliance on the idiosyncratic management structures put in place by the founder.

In contrast to founders' autonomy in structuring their management teams, Professional CEOs of family firms appear to have more limited freedom to fire top executives in their initial years as CEO. In response to the question "*How many of the upper-level managers did you replace in the first two years after you took office as the CEO of ≪CompanyName≫?*" we generate an indicator variable

[11] The other available answers were the parent company CEO, the Government, members of the board, or other top executives in the company

[12] Particularly because Bloom, Eifert, Mahajan, McKenzie, and Roberts' (2011) experiment providing management consultancy to Indian firms suggests firms are more likely to adopt new management practices in bad times.

equal to zero if the answer was "*None*" and one for the other answers (All/More than half/Less than half). Professional CEOs of family firms are 9% less likely to report dismissing any senior managers in the first two years of their tenure (see columns 7 and 8). This suggests constraints on professional CEOs' ability to bring their professional expertise to bear on firms originally structured by the founding CEO, potentially due to organizational imprinting (Baron, Hannan, and Burton, 1999).

Founder CEOs are less likely to report having fired any top executives in their first two years (a largely mechanical result as they are likely to have hired all the executives themselves), but interestingly, related CEOs are also less likely to report firing top managers, albeit only at the 10% level of statistical significance. This again suggests limits on their ability to effect changes to the structure they inherit from the founder.

Finally, professional CEOs of non-family firms appear to have a more generalist background than the other types of CEO. In response to the question "*Which do you consider to be the most important factors to being a successful CEO in your country?*" they are 12 to 15% less likely than all other CEO types to answer "*specific industry knowledge*" (see columns 9 and 10).

TABLE 6 ABOUT HERE

4.5 CEO Business Philosophy

Table 7 reports responses to questions about CEOs' business philosophy and strategic focus. CEOs were asked "*Which of the following alternatives best describes your strategic focus for ≪Company-Name≫ in the next five years? Please select one: Diversify into new industries/ Expand into international markets/ Strengthen focus in core businesses.*" Founder CEOs are 17% more likely than other CEO types to express a preference for international expansion over the alternatives (columns 1 and 2). When asked whether executives should "*Maintain payments to shareholders, even if they must lay off a number of employees*" or should instead choose to "*Maintain stable employment, even if they must reduce payments to shareholders,*" founders come out strongly in favor of maintaining stable employment: they are 23 to 26% more likely to do so than the other CEO types (columns 3 and 4). This fits with the result in Sraer and Thesmar (2007) that heir-managed family firms in France smooth the effects of industry sales shocks on labor demand, although here the result is present at founder-run firms rather than for firms with related CEOs. It is also in line with the idea in Shleifer and Summers (1988) that family control makes possible implicit or relational contracts with a firm's workforce, and Mueller and Phillipon's (2011) argument for the beneficial effect on firms' labor relations of family control.

However, on other dimensions, founder CEOs have similar views to related CEOs, and both differ in their responses from professional CEOs of either type. In particular, both founders and related

CEOs are more likely to see their leadership role at the firm as "*Guaranteeing the stability of the company's traditions and values*" instead of "*Bringing about changes in the way the company is run*," unlike professional CEOs (columns 5 and 6). This view is more pronounced for founders (for whom it is 27% more likely versus 14% for related CEOs), which is to be expected from the individual who likely created these traditions and instilled the values. However, it may also be a symptom of the monitoring performed by a powerful founder (as discussed in the ownership and governance section). Related CEOs' freedom of action may be limited by this monitoring, and so they may see their mandate to be administering the firm as they received it from the founder. By contrast, Professional CEOs of family firms, as "outsiders", are more inclined to make changes, which are likely essential to their ability to contribute to the firm and may be why they were initially appointed. Professional CEOs of non-family firms also see their leadership role in terms of making changes rather than maintaining values and traditions.

Turning to CEOs' views on accountability, banks (rather than shareholders) appear to be viewed as the key stakeholders by both founders and – to a lesser extent – related CEOs. In response to the question "*As the CEO of ≪CompanyName≫, who do you feel the most accountable to?*" founders and related CEOs are more likely to report feeling accountable to banks than professional CEOs (11% and 6% respectively in columns 7 and 8). Moreover, both CEO types are more likely to report involving banks before major investment decisions (12% and 8% respectively in columns 9 and 10) in response to the question: "*Which of the company's stakeholders are you most likely to involve before deciding to undertake a large-scale investment project, such as the acquisition of a plant or a company?*" This may reflect the smaller size of their firms (as measured by average sales) and consequently more limited access to capital, or perhaps a closer working relationship.

In contrast to their attitude towards banks, founders – but not related CEOs – are 7 to 12% less likely than other CEO types to feel accountable to shareholders (in columns 11 and 12). Moreover, they are 18% less likely to report involving large shareholders before major investment decisions than other CEO types (columns 13 and 14). Thus, founder CEOs are particularly likely to view banks, not shareholders in general (or even large shareholders), as their most important external stakeholders, perhaps because founders themselves are large or controlling equity holders. Related CEOs appear to share founder CEOs' concern for banks.

TABLE 7 ABOUT HERE

4.6 Politics and Family Ties

A final group of regressions considers questions about the links between politics and family firms and are reported in **Table 8**. CEOs were asked "*How would you describe the relationship between major companies and political parties in your country?*" Related CEOs are 21% more likely to answer "*most business leaders try to maintain close relationships with all political parties and* *candidates*" (as opposed to only one or none at all) than all other CEO types (columns 1 and 2). In columns 3 and 4 they are also 18% less likely than the other CEO types to answer that "*most business leaders do not have close relationships with any political party or candidate.*" That related CEOs in particular should see contacts with politicians across the political spectrum as central to his or her role is consistent with the Morck and Yeung (2004) hypothesis that family controlled firms are best suited to the role of counterparties in rent-seeking games with long-serving officials in Government, due to the prospect of repeated games and the many points of contact between these firms and the Government.

In a similar vein, columns 5 and 6 show that both professional CEOs of family firms and related CEOs are 14 to 17% more likely to answer that family background and contacts are important for conducting successful business compared to both professional CEOs of non-family firms, and to founders. Moreover, related CEOs are also about 11% more likely than other CEOs to say that family relationships facilitate access to business information in their country (columns 7 and 8), in response to the question "*In your view, which of following transactions are most commonly facilitated through family relationships in your country?*" This is unsurprising if, as is probable, their families are wealthier and thus better connected than those of other CEO types. There are no differences between CEO types on any of the other available alternative answers: access to credit, relationship with the Government and regulators, hiring, sale and purchase of assets, or supplier and customer relationships. In sum, the results in this section lend support to the view that family firms (but not founder-run firms) see political interaction and family contacts as a key factor for success.

TABLE 8 ABOUT HERE

5 The Family Backgrounds of CEOs

We describe our CEOs' family backgrounds in **Table 9**. We regress survey responses regarding CEOs' parental income and occupation on CEO type indicator variables and our standard set of control variables. The first two columns focus on the question "*How would you classify the income level of your parents when you were growing up (compared to other families in your country of residence)? Please select one (lower, middle, upper).*" They show that related CEOs are over 16% less likely to have been brought up in a low income household (and are over 30% more likely than all other CEO types to be brought up in a high income household in unreported regressions). Thus, related CEOs appear to have more privileged backgrounds, which is not surprising given that they are related to the founder of a firm that was one of the 100 largest firms in their country at the time of the survey.

Additionally, professional CEOs of family firms are also around 6% less likely to have been brought up in low income households than either founder CEOs or professional CEOs of non-family firms, although unlike related CEOs they are no more likely to be brought up in high income households.

Fathers' occupation is an alternative measure of CEO family background. CEOs were asked "*What is/was your father's main occupation?*" which we classify into three broad occupation categories: business people, blue-collar workers, and professionals. CEOs whose fathers were medical doctors, judges, engineers, teachers, high or middle income Government officials, or other clearly identifiable professionals were grouped into the professional category. Those whose fathers were business owners or managers – whether large (¿100 employees) or small – or high or middle income farmers were categorized as being in business, while fathers who were salesmen, clerks, manual workers, or artisans were categorized as blue-collar workers, along with low income farmers or low income Government officials (combinations of the answer to this question and the previous question). Indicator variables for each of these three categories were regressed on the CEO type indicator variables and standard controls.

Columns 3 and 4 show that related CEOs' fathers, unsurprisingly, are 19% less likely to have been blue-collar workers than the other CEO types' fathers and are approximately 40% more likely to have been in business (in unreported regressions). Further, in columns 5 and 6 we see that both founders and related CEOs are respectively 14% and 23% less likely than professional CEOs to have had a professional father (although for different reasons).

We then focus on a smaller grouping of responses to the question "*What is/was your father's main occupation?*" In particular, we look at the likelihood of responding either "*Large business manager (¿100 employees)" or "Small business manager (¡100 employees)*" and group them into an indicator variable for business managers. We do the same for the business owner variable with the responses "*Large business owner (¿100 employees)" or "Small business owner (¡100 employees)*."

In columns 7 and 8 we see that Professional CEOs of family firms were 8% more likely to have had a father who was a business *manager* than either professional CEOs of non-family firms or founders. However, there are no statistically significant differences for such CEOs in the likelihood of having fathers who were business *owners* (in columns 9 and 10). There is a mechanical effect for related CEOs, while founder CEOs are 17% more likely to have had a father who owned a business at the 10% significance level, which fits with the entrepreneurship literature's finding that a major determinant of self-employment is parental self-employment (e.g., Sørensen, 2007).

Thus, the CEO types appear to coalesce into two groups with regard to family backgrounds: less privileged founders and professional CEOs of non-family firms, in contrast to more privileged related CEOs and professional CEOs of family firms, both of which are more likely to have had fathers who were business managers (and owners in the case of related CEOs). These results suggest that positions as founders and as CEOs of non-family firms provide opportunities for upward mobility in these countries. In contrast, family firms tend to promote their own descendants into these positions or to hire professional CEOs that come from higher income classes.

TABLE 9 ABOUT HERE

The survey allows us to examine the family backgrounds of the CEOs in our sample in greater detail. A large literature focuses on inter-generational social mobility and the resulting income distribution (see Solon, 2002, for a review of the economic literature on intergenerational earnings mobility). CEOs' pay levels and their privileged position atop the income distribution have also generated a large literature (e.g. Piketty and Saez, 2003). We analyze the socio-economic backgrounds of CEOs by examining their fathers' and paternal grandfathers' occupations, which are key proxies for the social status of the CEO's family, and perhaps the most reliable measure available in countries lacking comprehensive longitudinal data series.[13]

The survey also contains a broad measure of CEOs' paternal income when the CEO was growing up, which is an additional measure of their parents' economic status. Parental economic standings are directly relevant to CEOs' social origins, as the intergenerational mobility literature finds them to be a significant source of advantage (e.g. Erikson and Goldthorpe, 2002; Solon, 2002). This measure was obtained from the question: "*How would you classify the income level of your parents when you were growing up (compared to other families in your country of residence)? (Low/ Middle/ High)*" and so can be viewed as a measure of their parents' permanent income at the time.

Table 10 shows that the CEOs in this sample overwhelmingly come from middle (52%) or high income (34%) families, suggesting important limits to inter-generational social mobility even for this selected sample of successful managers. However, there are economically important and statistically significant differences between the CEO types. Firstly, and perhaps unsurprisingly, related CEOs are more likely to have grown up in a high income household (63%) and less likely to be from middle income households compared to the other CEO types. More interestingly, founder CEOs and professional CEOs of non-family firms are significantly more likely to have grown up in low income households in comparison to the other two CEO types (related CEOs and professional CEOs of family firms), as noted in the regressions in the origins section. These results suggest that the entrance of professional CEOs either as founders or the heads of non-family firms allows talented individuals from less privileged backgrounds to become involved in the management of the largest firms within a country. If we believe that there is regression to the mean in managerial abilities, allowing a transition of managerial power to people outside the narrow circle of family members is likely to be a net improvement, since the firm can draw from the full talent distribution in the country.

These results find broad support when we turn to the occupational backgrounds of the CEOs' parents and grandparents. Table 10 also separates the fathers of CEOs into three broad occupation categories: business people, blue-collar workers, and professionals, as described earlier. CEOs

[13] The sociology literature has a long history of examining inter-generational mobility as measured by occupational categories (e.g., see Erikson and Goldthorpe, 2002, for a sociological perspective). We are aware that by focusing on fathers and grandfathers we exclude the intergenerational linkages due to mothers and grandmothers, but our data make this inevitable.

whose fathers were medical doctors, judges, engineers, teachers, high or middle income Government officials, or other clearly identifiable professionals were grouped into the professional category. Those whose fathers were business owners or managers – whether large (¿100 employees) or small – or high or middle income farmers were categorized as being in business, while fathers who were salesmen, clerks, manual workers or artisans were categorized as blue-collar workers, along with low income farmers or low income Government officials.

We then repeat the same classification for the CEOs' grandfathers. But we also separate out the categories "Government worker" and "farmer" for the paternal grandfathers because of their high frequency and because we have no measure of income for grandfathers.[14]

The fathers of the CEOs in our sample were principally businesspeople (59%), again suggesting it may be harder to make the occupational leap from a non-business family environment to top CEO status in a single generation. In addition, related CEOs are less likely to have a blue-collar father and are (mechanically) more likely to have a father in business (71% are either sons/daughters or grandsons/granddaughters of founders) than all other CEO types.

When we move to the occupation of the CEOs' parental grandfathers, there are fewer professional and business people and many more farmers. The latter made up only 8% of the fathers' occupations and were coded together with the business and blue-collar categories as described earlier. As expected, related CEOs' grandfathers are more likely to be in business compared to the other CEO types' grandfathers' occupations.

TABLE 10 ABOUT HERE

5.1 Paternal-Grandfather-to-Father Occupational Transition Matrices

We now examine the occupational transitions between the fathers and paternal grandfathers of the CEOs in our sample. These transition matrices are unusual in that we are looking back from a highly selected sample of CEOs to the occupational transitions of their fathers and paternal grandfathers. The aim is to understand how much income and occupational mobility happened in generations prior to the current period, or whether the current CEO represents a unique jump in attainment that could have occurred from any point in the occupation distribution.

52% of CEOs' fathers worked in a different occupational category than *their* fathers (i.e., CEOs' paternal grandfathers). While this may appear to be a high degree of mobility, much is driven by the secular shift away from farming into other occupations that occurred across the world. **Table**

[14] Long and Ferrie (2007) use a similar four category classification scheme with (much older) British and US census data from 1860 to 1900. These are (1) white collar (professional and technical workers, as well as retail and clerical workers; (2) farm owners; (3) skilled and semi-skilled workers (craftsmen and factory operatives); and (4) unskilled workers (including farm laborers). They note that using more categories alters none of their substantive findings.

11 shows CEOs' fathers' occupations as a percentage of their fathers' occupations and should be read by rows rather than by columns: i.e., for all professional paternal grandfathers, 47% of their sons (whose sons, in turn, were CEOs) were also professionals, while 6% became blue-collar workers and 35% went into business.

Whatever the occupation of CEOs' paternal grandfathers, there was a striking movement by the fathers of CEOs into the business occupation category: it is the largest occupational category choice for all except those fathers whose own father was a professional, and even in that case 35% chose to work in business.[15] Thus only 22% of blue-collar grandfathers had a blue-collar son in our sample, and the proportions are similar for grandfathers that were farmers and Government officials.[16] In conjunction with the very low proportion of CEOs with a blue-collar father (15%), or low parental income (14%), this suggests it was difficult to move from the lower strata of society to CEO positions in a single generation.

TABLE 11 ABOUT HERE

One way to think about this matrix is to consider what would occur if this transition matrix was a steady state transition matrix for a population. In such a scenario, what proportion of each occupational class would result from it in the long run? By iterating it hundreds of times, we obtain the steady state distribution of people across the five occupation classes (**Table 12**).

TABLE 12 ABOUT HERE

This means that, if the people in our CEO sample were just like their fathers, and faced similar obstacles and opportunities, we would have seen a distribution somewhere in between the two in the table above. That is, we would have observed between 55% and 65% of our sample in business occupations, instead of observing 100% in business. As this is a sample of people who are selected based on their CEO position – which suggests natural ability coupled with opportunity – this difference between the steady state proportion in business suggested by their fathers' transition matrix and the actual proportion does not seem unduly large. Indeed, perhaps the opposite: it may be evidence in favor of the inter-generational transmission of CEO ability, i.e., that their fathers were, as a group, already showing evidence of above-average talent for business.

When we draw up the paternal grandfather's occupation to father's income transition matrix in **Table 13**, we see a clear grouping of fathers in the middle income category, regardless of the grandfather's occupation. The particularly low proportion of low income fathers with the grandfather in business (7%) suggests that the latter were already at least moderately successful, if some

[15] For all transition tables, the pattern and magnitudes are essentially unchanged if we exclude related CEOs because of concerns that the transition matrix of related CEOs is less informative (as we already know that many of their fathers and/or grandfathers were CEOs).

[16] The status of farmers and Government workers in CEOs' grandparents' generation is unclear, so moving from those occupations and into business may not necessarily have implied an improvement in social standing.

economic advantage is transmitted between generations as the literature suggests. At the other extreme, approximately half of low income fathers had farmer fathers themselves (i.e., CEO paternal grandfathers).

TABLE 13 ABOUT HERE

The literature on family firms has also focused on the distance in generations between the founder and the current controlling family members. For example, in their study of Thai family business groups Bertrand et al. (2008) note that they have been around for an average of 2.5 generations, while Villalonga and Amit (2006) report of their sample of Fortune 500 firms that approximately a third were in their first generation, a further third were in their second generation, and the remainder were older still. While this information is not available in our sample for family firms run by professional CEOs, it is available for firms with related CEOs: approximately 60% of related CEOs are a single generation younger than the founder (i.e., are the son, daughter, or nephew), while a further 18% are two generations younger (i.e., grand-children of the founder).[17]

6 Conclusion

In this paper we show that firms broadly fall into four distinct categories: (1) firms run by the founder, (2) family firms with a family member as CEO, (3) family firms with a professional CEO, and finally (4) non-family firms run by professional CEOs. This categorization holds across geographic regions and may track the stages of a firm's lifecycle. Founder-run firms concentrate cash flow and control rights in the hands of the founder CEO to a large extent, and show a more hierarchical organizational structure, less delegation to other top managers and more direct monitoring of employees. This centralization of power may explain why founder CEOs report feeling less accountable to shareholders than other CEO types, although they are more likely to acknowledge feeling accountable to banks. It also gives them the freedom to adopt a more stakeholder-centric view, as illustrated by their preference for maintaining stable employment at the firm over paying out dividends.

This structure might be beneficial while the founder CEO is in place, since they are often individuals of exceptional talent. However, the existence of such a centralized management structure appears to create distortions once the founder is no longer running the firm, and may be part of the explanation for the reduced performance reported in the literature on transitions from founders to family CEOs. We find that family CEOs broadly mimic the approach of the founder and often still consult the founder for important decisions, which might reflect that they do not have the same business acumen as professional CEOs or the founder. A potential expectations mismatch

[17] The remaining related CEOs are either in the same generation as the founder – 4% of related CEOs – (e.g., wife, brother, sister) or their generation could not be determined from their survey responses.

emerges for professional CEOs leading family firms. These individuals see their role as bringing about change, and they aim to implement a modern business philosophy. However, their ability to implement change seems to be significantly curtailed, since the founder appears to retain control of many major management decisions and also limits the CEO's de facto power. For example, such CEOs must take over the existing management team instead of being allowed to hire their own team, in contrast to professional CEOs at non-family firms. Ultimately, such provisions might reduce the decision authority of the CEO position and may make it more difficult to attract a high-quality professional CEO to a family firm.

These results suggest that family firms and widely held firms are different not only in their explicit governance structures, but also in terms of the softer factors that affect management effectiveness, such as the way they set up their operations or their business philosophy. These differences also highlight that the importance and mandate of the CEO position seems to vary based on the type of firm they are hired into, and this internal firm dynamic, in turn, can affect the type and quality of managers that select into each firm type. The results add to our understanding of why we see the differences in performance and managerial outcomes across family and non-family firms that have been documented in the literature. However, much remains to be learned about the internal dynamics of family firms, and how such firms transition into professionally managed and widely held firms.

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Table 1	# of obs used in calculation	Whole sample	Founder CEO	Related CEO	Prof. CEO of family firm	Prof. CEO of non-family firm
Observations	823	823	104	148	173	398
% of each CEO type			12.6%	18.0%	21.0%	48.4%
Sales (mean, M US$ in 2006)	671	386	202	288	373	474
Sales (median, M US$ in 2006)	671	116	42	100	100	148
Revenue (mean, M US$ in 2006, from Bloomberg)	229	938	332	517	1,023	1,181
Market capitalization (mean, M US$ in 2006, from Bloomberg)	222	2,938	2,202	2,062	2,450	3,553
Firm age (mean, years)	714	39	24	43	39	41
Firms owned by multinational company	823	23%	10%	5%	14%	38%
% ownership of largest 3 equity holders	656	78%	78%	70%	78%	81%
% English legal origin	823	32%	33%	28%	22%	37%

Sales are winsorized at 5% and 95%. Firm age is winsorized at 5% to reduce the impact of respondent recall errors (i.e. date of founding versus date of incorporation versus public listing). Results are virtually identical without winsorizing.

Table 2	# of obs used in calculation	Whole sample	Founder CEO	Related CEO	Prof. CEO of family firm	Prof. CEO of non-family firm
Age (mean, years)	816	52	56	50	51	52
% Men	822	98%	97%	97%	96%	98%
CEO education:						
Undergrad. %	819	91%	82%	90%	92%	93%
MBA or grad. degree %	823	46%	35%	46%	50%	48%
International educ. %	807	50%	41%	62%	46%	50%
Prior position						
On a Board of Directors	823	14%	19%	15%	14%	12%
As a CEO	823	33%	21%	22%	41%	37%
In Financial field	823	15%	6%	8%	20%	18%
1st job at current firm was as CEO	732	42%	63%	17%	42%	47%
Tenure (mean, years)	738	8	15	12	6	5
CEO owns >5% of firm	766	26%	80%	67%	7%	3%

See the Appendix for selected summary statistics by region.

Table 3

Dependent variable	CEO appointed by founder or his/her relatives		Were any of your relatives ever in the upper management of the firm?		Founder names Directors	
	(1)	(2)	(3)	(4)	(5)	(6)
Founder CEO	0.236***	0.231***	0.461***	0.467***	0.175***	0.162***
	[6.461]	[6.346]	[6.551]	[6.605]	[3.529]	[3.277]
Related CEO	0.315***	0.310***	0.771***	0.770***	0.172***	0.160***
	[5.585]	[5.615]	[19.102]	[18.879]	[3.060]	[3.055]
Prof. CEO of Family firm	0.070***	0.066***	-0.03	-0.031	0.182***	0.174***
	[3.121]	[3.045]	[-1.140]	[-1.152]	[6.237]	[6.369]
Ln(GDP per capita)	0.013	0.02	0.032	0.026	0.004	0.021
	[0.954]	[1.608]	[1.590]	[1.285]	[0.135]	[0.726]
Anti-corruption index	-0.020	-0.019	-0.028***	-0.027***	-0.014	-0.013
	[-1.411]	[-1.267]	[-3.306]	[-3.360]	[-0.610]	[-0.511]
Property rights index	0.001	0.001	0.00	0.00	0.00	0.00
	[0.976]	[0.882]	[1.295]	[1.525]	[0.763]	[0.691]
Legal origin (1=English)	0.043	0.049	-0.035	-0.046	0.094	0.11
	[1.259]	[1.441]	[-1.032]	[-1.298]	[1.198]	[1.463]
Control for sales	N	Y	N	Y	N	Y
SIC code fixed effects	Y	Y	Y	Y	Y	Y
Observations	802	802	733	733	786	786
Adjusted R^2	20%	20%	57%	57%	10%	11%

Regressions of survey responses on a constant, three CEO type indicator variables (the omitted category is professional CEO of a non-family firm), four country-level variables, two-digit SIC code fixed effects, and in some specifications, the natural logarithm of firm sales in 2006, and an indicator for missing value of firm sales. The country level variables are: the natural logarithm of per capita GDP, the Transparency International corruption index (higher values indicate low corruption), the Heritage Foundation property rights index (higher scores indicate more secure property rights), and an indicator variable for English or French legal origin (1 denotes English). All dependent variables are indicator variables, taking a value of 1 if the respondent is in agreement with the question or answers in the affirmative, and a 0 otherwise. Regressions are estimated using the linear probability model. t-statistics are in parentheses below each coefficient. *, **, and *** denote coefficients significant at 10%, 5%, and 1% respectively. Standard errors are clustered by country.

Table 4

Dependent variable	Does CEO own equity?		Does CEO own>5% of firm?		Does the CEO receive stock/options in compensation?		Number of blockholder types		Equity % of largest 3 shareholders	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Founder CEO	0.590***	0.600***	0.775***	0.771***	-0.215***	-0.194***	0.167**	0.167**	-3.58	-5.07
	[11.473]	[12.237]	[16.640]	[16.367]	[-3.250]	[-3.060]	[2.357]	[2.401]	[-1.172]	[-1.578]
Related CEO	0.525***	0.524***	0.622***	0.616***	-0.199***	-0.181**	0.289***	0.291***	-10.686***	-11.884***
	[9.741]	[9.629]	[18.553]	[18.341]	[-2.888]	[-2.681]	[4.197]	[4.256]	[-3.484]	[-4.125]
Prof. CEO of Family firm	0.06	0.06	0.03	0.03	-0.106**	-0.095*	0.423***	0.425***	-3.54	-4.27
	[1.310]	[1.216]	[1.156]	[1.000]	[-2.165]	[-1.945]	[5.209]	[5.283]	[-1.238]	[-1.494]
Ln(GDP per capita)	0.083*	0.08	0.01	0.01	0.06	0.01	0.02	0.02	-1.17	0.62
	[1.768]	[1.640]	[0.257]	[0.567]	[1.061]	[0.232]	[0.408]	[0.393]	[-0.525]	[0.302]
Anti-corruption index	-0.02	-0.02	0.00	0.00	0.02	0.02	0.01	0.01	-1.00	-0.64
	[-0.447]	[-0.502]	[0.089]	[0.123]	[0.441]	[0.477]	[0.358]	[0.340]	[-0.610]	[-0.449]
Property rights index	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.03	0.01
	[-0.962]	[-0.875]	[0.101]	[0.155]	[0.530]	[0.432]	[-0.152]	[-0.168]	[0.234]	[0.083]
Legal origin (1=English)	0.255**	0.239**	0.04	0.04	0.191***	0.173**	0.157*	0.160*	-7.28	-6.11
	[2.668]	[2.573]	[0.986]	[1.052]	[3.138]	[2.400]	[1.769]	[1.769]	[-1.554]	[-1.221]
Control for sales	N	Y	N	Y	N	Y	N	Y	N	Y
SIC code fixed effects	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	821	821	765	765	577	577	748	748	655	655
Adjusted R^2	29%	30%	54%	54%	12%	14%	5%	4%	9%	11%

Regressions of survey responses on a constant, three CEO type indicator variables (the omitted category is professional CEO of a non-family firm), four country-level variables, two-digit SIC code fixed effects, and in some specifications, the natural logarithm of firm sales in 2006, and an indicator for missing value of firm sales. The country level variables are: the natural logarithm of per capita GDP, the Transparency International corruption index (higher values indicate low corruption), the Heritage Foundation property rights index (higher scores indicate more secure property rights), and an indicator variable for English or French legal origin (1 denotes English). All dependent variables are indicator variables, taking a value of 1 if the respondent is in agreement with the question or answers in the affirmative, and a 0 otherwise. Regressions are estimated using the linear probability model. t-statistics are in parentheses below each coefficient. *, **, and *** denote coefficients significant at 10%, 5%, and 1% respectively. Standard errors are clustered by country. The dependent variables for regressions 7 to 10 are cardinal variables (not indicators), and so the regressions are OLS.

Table 5

Dependent variable	Is CEO also on Board?'		Is CEO also Chairman?'		Does the CEO name most directors?		The previous CEO was terminated by the founder		Founder is involved in major investment decisions	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Founder CEO	0.082***	0.092***	0.233***	0.240***	0.152***	0.159***	0.038	0.037	0.043	0.036
	[3.185]	[3.702]	[4.164]	[3.946]	[3.457]	[3.517]	[1.269]	[1.151]	[0.796]	[0.662]
Related CEO	0.117***	0.129***	0.068	0.08	0.066	0.075*	0.099***	0.095***	0.137***	0.128**
	[3.046]	[3.429]	[1.257]	[1.398]	[1.623]	[1.768]	[3.536]	[3.507]	[2.952]	[2.728]
Prof. CEO of Family firm	-0.019	-0.011	-0.218***	-0.208***	-0.063***	-0.056***	0.039**	0.035**	0.054	0.046
	[-0.593]	[-0.336]	[-5.747]	[-5.358]	[-3.295]	[-2.873]	[2.561]	[2.448]	[0.854]	[0.724]
Ln(GDP per capita)	0.08	0.064	0.053	0.039	0.019	0.009	-0.004	-0.003	0.118**	0.128**
	[1.629]	[1.332]	[1.101]	[0.815]	[0.428]	[0.183]	[-0.331]	[-0.219]	[2.181]	[2.555]
Anti-corruption index	-0.103**	-0.105**	-0.059	-0.061*	0.024	0.022	-0.006	-0.005	0.049	0.05
	[-2.525]	[-2.766]	[-1.570]	[-1.750]	[0.918]	[0.929]	[-0.746]	[-0.575]	[1.439]	[1.553]
Property rights index	0.004	0.004	0.00	0.00	(0.00)	(0.00)	0.00	0.00	-0.013***	-0.013***
	[1.208]	[1.302]	[0.677]	[0.737]	[-0.616]	[-0.671]	[0.439]	[0.575]	[-3.388]	[-3.570]
Legal origin (1=English)	0.321***	0.309***	-0.061	-0.071	0.117	0.11	-0.04	-0.046*	-0.145	-0.145
	[4.940]	[4.779]	[-0.756]	[-0.902]	[1.504]	[1.382]	[-1.611]	[-1.912]	[-1.143]	[-1.203]
Control for sales	N	Y	N	Y	N	Y	N	Y	N	Y
SIC code fixed effects	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	806	806	804	804	786	786	706	706	718	718
Adjusted R^2	14%	15%	13%	14%	5%	6%	5%	5%	21%	21%

Regressions of survey responses on a constant, three CEO type indicator variables (the omitted category is professional CEO of a non-family firm), four country-level variables, two-digit SIC code fixed effects, and in some specifications, the natural logarithm of firm sales in 2006, and an indicator for missing value of firm sales. The country level variables are: the natural logarithm of per capita GDP, the Transparency International corruption index (higher values indicate low corruption), the Heritage Foundation property rights index (higher scores indicate more secure property rights), and an indicator variable for English or French legal origin (1 denotes English). All dependent variables are indicator variables, taking a value of 1 if the respondent is in agreement with the question or answers in the affirmative, and a 0 otherwise. Regressions are estimated using the linear probability model. t-statistics are in parentheses below each coefficient. *, **, and *** denote coefficients significant at 10%, 5%, and 1% respectively. Standard errors are clustered by country.

Table 6

Dependent variable	Most important task is supervising decisions		Most important task is selecting and appraising managers		CEO has >5 managers reporting directly to him/her?		Did CEO replace any top managers in 1st 2yrs as CEO?		Most important factor for success is industry knowledge	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Founder CEO	0.096**	0.083**	-0.160**	-0.139**	-0.199***	-0.169***	-0.179***	-0.173***	0.146**	0.140**
	[2.801]	[2.429]	[-2.680]	[-2.348]	[-3.640]	[-3.257]	[-3.861]	[-3.800]	[2.352]	[2.272]
Related CEO	-0.021	-0.029	-0.042	-0.023	-0.087	-0.06	-0.093*	-0.093*	0.141***	0.137***
	[-0.714]	[-0.936]	[-0.803]	[-0.446]	[-1.693]	[-1.285]	[-1.769]	[-1.793]	[3.053]	[2.842]
Prof. CEO of Family firm	-0.018	-0.021	-0.069	-0.057	-0.038	-0.022	-0.085**	-0.086**	0.125**	0.122**
	[-0.568]	[-0.675]	[-1.263]	[-1.078]	[-1.181]	[-0.696]	[-2.367]	[-2.385]	[2.223]	[2.225]
Ln(GDP per capita)	-0.008	0.006	0.033	0.004	0.058**	0.018	0.025	0.022	0.128***	0.135***
	[-0.466]	[0.348]	[0.748]	[0.091]	[2.636]	[0.986]	[0.977]	[0.893]	[3.180]	[3.536]
Anti-corruption index	0.023**	0.024***	0.005	0.002	-0.014	-0.018	-0.002	-0.002	0.016	0.017
	[2.624]	[2.854]	[0.158]	[0.086]	[-0.658]	[-1.240]	[-0.100]	[-0.094]	[0.541]	[0.580]
Property rights index	-0.002**	-0.002***	0.00	0.00	0.004**	0.004***	0.00	0.00	-0.012***	-0.012***
	[-2.806]	[-3.056]	[1.213]	[1.484]	[2.105]	[2.872]	[0.154]	[0.207]	[-4.471]	[-4.614]
Legal origin (1=English)	-0.102***	-0.087**	0.138*	0.110*	0.048	0.011	-0.132**	-0.138**	0.051	0.059
	[-2.966]	[-2.478]	[2.056]	[1.832]	[1.447]	[0.323]	[-2.312]	[-2.514]	[0.528]	[0.624]
Control for sales	N	Y	N	Y	N	Y	N	Y	N	Y
SIC code fixed effects	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	804	804	804	804	802	802	780	780	821	821
Adjusted R^2	4%	5%	5%	7%	8%	11%	2%	2%	14%	14%

Regressions of survey responses on a constant, three CEO type indicator variables (the omitted category is professional CEO of a non-family firm), four country-level variables, two-digit SIC code fixed effects, and in some specifications, the natural logarithm of firm sales in 2006, and an indicator for missing value of firm sales. The country level variables are: the natural logarithm of per capita GDP, the Transparency International corruption index (higher values indicate low corruption), the Heritage Foundation property rights index (higher scores indicate more secure property rights), and an indicator variable for English or French legal origin (1 denotes English). All dependent variables are indicator variables, taking a value of 1 if the respondent is in agreement with the question or answers in the affirmative, and a 0 otherwise. Regressions are estimated using the linear probability model. t-statistics are in parentheses below each coefficient. *, **, and *** denote coefficients significant at 10%, 5%, and 1% respectively. Standard errors are clustered by country.

Table 7

Dependent variable	CEO management focus is international expansion		Prioritize stable employment over dividends		Leadership role is to bring change rather than maintain values		CEO feels accountable to banks		Banks are involved before major investment decisions		CEO feels accountable to shareholders		Large shareholders are involved before major investment decisions	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Founder CEO	0.169***	0.169***	0.263***	0.234***	-0.266***	-0.264***	0.108**	0.107**	0.117***	0.118***	-0.068*	-0.121**	-0.186***	-0.182***
	[3.187]	[3.100]	[3.902]	[3.318]	[-4.299]	[-4.300]	[2.737]	[2.639]	[3.317]	[3.196]	[-1.871]	[-2.791]	[-3.453]	[-3.531]
Related CEO	-0.015	-0.014	0.133**	0.108**	-0.139***	-0.138***	0.063**	0.061**	0.076***	0.076***	0.053	-0.01	-0.143*	-0.143*
	[-0.267]	[-0.257]	[2.355]	[2.082]	[-3.150]	[-3.034]	[2.612]	[2.562]	[3.688]	[3.736]	[1.120]	[-0.189]	[-2.050]	[-2.032]
Prof. CEO of Family firm	0.028	0.028	-0.004	-0.02	0.007	0.007	0.005	0.003	0.049**	0.050**	0.067	0.017	-0.04	-0.04
	[0.807]	[0.821]	[-0.084]	[-0.430]	[0.129]	[0.144]	[0.271]	[0.180]	[2.227]	[2.216]	[1.560]	[0.367]	[-1.010]	[-1.004]
Ln(GDP per capita)	-0.012	-0.013	-0.014	0.023	0.001	-0.001	-0.022*	-0.019	-0.023	-0.024	0.064***	0.057**	-0.01	-0.01
	[-0.400]	[-0.421]	[-0.574]	[0.887]	[0.054]	[-0.024]	[-1.787]	[-1.451]	[-1.414]	[-1.466]	[2.833]	[2.228]	[-0.252]	[-0.319]
Anti-corruption index	0.042*	0.042*	0.01	0.013	0.004	0.004	-0.005	-0.005	0.007	0.007	0.001	-0.003	-0.037*	-0.037*
	[1.881]	[1.857]	[0.540]	[0.573]	[0.302]	[0.278]	[-0.679]	[-0.656]	[1.140]	[1.107]	[0.081]	[-0.216]	[-2.059]	[-2.034]
Property rights index	-0.002	-0.002	-0.004**	-0.004**	0.004***	0.004***	0.00	0.00	(0.00)	(0.00)	0.00	0.00	0.00	0.00
	[-1.349]	[-1.343]	[-2.427]	[-2.105]	[3.205]	[3.193]	[1.572]	[1.562]	[-1.472]	[-1.370]	[-0.211]	[-0.099]	[1.404]	[1.448]
Legal origin (1=English)	-0.024	-0.025	-0.011	0.02	-0.031	-0.033	0.005	0.006	0.003	0.003	0.136**	0.109*	-0.10	-0.11
	[-0.388]	[-0.387]	[-0.220]	[0.442]	[-0.616]	[-0.622]	[0.196]	[0.255]	[0.099]	[0.079]	[2.424]	[1.806]	[-1.209]	[-1.232]
Control for sales	N	Y	N	Y	N	Y	N	Y	N	Y	N	Y	N	Y
SIC code fixed effects	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	807	807	761	761	800	800	808	808	717	717	808	808	717	717
Adjusted R^2	5%	6%	7%	9%	7%	7%	8%	8%	7%	7%	3%	7%	4%	4%

Regressions of survey responses on a constant, three CEO type indicator variables (the omitted category is professional CEO of a non-family firm), four country-level variables, two-digit SIC code fixed effects, and in some specifications, the natural logarithm of firm sales in 2006, and an indicator for missing value of firm sales. The country level variables are: the natural logarithm of per capita GDP, the Transparency International corruption index (higher values indicate low corruption), the Heritage Foundation property rights index (higher scores indicate more secure property rights), and an indicator variable for English or French legal origin (1 denotes English). All dependent variables are indicator variables, taking a value of 1 if the respondent is in agreement with the question or answers in the affirmative, and a 0 otherwise. Regressions are estimated using the linear probability model. t-statistics are in parentheses below each coefficient. *, **, and *** denote coefficients significant at 10%, 5%, and 1% respectively. Standard errors are clustered by country.

Table 8

Dependent variable	Business tries to maintain relationship with all political parties		Business generally does not have close relationships with any political party or candidate		Family relationships are very/moderately important in business		Family relationships facilitate access to information	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Founder CEO	0.06	0.059	-0.012	-0.008	0.017	0.006	-0.023	-0.03
	[0.917]	[0.890]	[-0.185]	[-0.132]	[0.330]	[0.125]	[-0.308]	[-0.403]
Related CEO	0.210***	0.218***	-0.182***	-0.182***	0.171***	0.161**	0.114**	0.115**
	[4.003]	[4.318]	[-3.391]	[-3.486]	[2.848]	[2.673]	[2.788]	[2.749]
Prof. CEO of Family firm	-0.003	0.003	0.004	0.004	0.149***	0.143***	0.006	0.01
	[-0.073]	[0.066]	[0.086]	[0.080]	[3.560]	[3.670]	[0.111]	[0.160]
Ln(GDP per capita)	0.023	0.018	0.019	0.017	0.01	0.025	0.017	0.022
	[0.453]	[0.349]	[0.442]	[0.395]	[0.179]	[0.437]	[0.658]	[0.932]
Anti-corruption index	-0.035	-0.038	-0.018	-0.018	-0.049*	-0.047*	-0.003	-0.002
	[-0.951]	[-1.039]	[-0.471]	[-0.473]	[-1.976]	[-1.984]	[-0.136]	[-0.088]
Property rights index	0.004	0.004	0.00	0.00	0.00	0.00	0.00	0.00
	[1.234]	[1.200]	[-1.021]	[-0.999]	[0.716]	[0.693]	[-0.564]	[-0.715]
Legal origin (1=English)	-0.072	-0.062	0.196*	0.191	-0.113	-0.101	-0.121**	-0.111**
	[-0.642]	[-0.542]	[1.747]	[1.706]	[-1.027]	[-0.929]	[-2.614]	[-2.432]
Control for sales	N	Y	N	Y	N	Y	N	Y
SIC code fixed effects	Y	Y	Y	Y	Y	Y	Y	Y
Observations	720	720	720	720	796	796	821	821
Adjusted R^2	6%	6%	5%	5%	3%	3%	3%	3%

Regressions of survey responses on a constant, three CEO type indicator variables (the omitted category is professional CEO of a non-family firm), four country-level variables, two-digit SIC code fixed effects, and in some specifications, the natural logarithm of firm sales in 2006, and an indicator for missing value of firm sales. The country level variables are: the natural logarithm of per capita GDP, the Transparency International corruption index (higher values indicate low corruption), the Heritage Foundation property rights index (higher scores indicate more secure property rights), and an indicator variable for English or French legal origin (1 denotes English). All dependent variables are indicator variables, taking a value of 1 if the respondent is in agreement with the question or answers in the affirmative, and a 0 otherwise. Regressions are estimated using the linear probability model. t-statistics are in parentheses below each coefficient. *, **, and *** denote coefficients significant at 10%, 5%, and 1% respectively. Standard errors are clustered by country.

Table 9

Dependent variable	Parental income when growing up was low		Father was a blue collar worker		Father was a professional		Father was a business manager		Father was a business owner	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Founder CEO	0.05	0.05	0.017	0.016	-0.144*	-0.140*	-0.05	-0.044	0.175*	0.171*
	[1.092]	[1.123]	[0.316]	[0.305]	[-1.992]	[-1.927]	[-1.523]	[-1.365]	[1.893]	[1.906]
Related CEO	-0.164***	-0.161***	-0.194***	-0.191***	-0.233***	-0.228***	0.130*	0.134*	0.346***	0.336***
	[-5.821]	[-5.695]	[-5.626]	[-5.286]	[-5.311]	[-5.230]	[1.740]	[1.813]	[5.115]	[4.910]
Prof. CEO of Family firm	-0.065**	-0.063**	-0.032	-0.03	-0.025	-0.021	0.077*	0.081**	0.001	-0.007
	[-2.450]	[-2.370]	[-1.039]	[-0.926]	[-0.640]	[-0.530]	[2.010]	[2.096]	[0.029]	[-0.202]
Ln(GDP per capita)	0.027	0.025	0.016	0.017	-0.037	-0.041*	0.019	0.013	0.011	0.016
	[1.337]	[1.257]	[0.485]	[0.523]	[-1.621]	[-1.903]	[0.681]	[0.424]	[0.492]	[0.644]
Anti-corruption index	0.008	0.007	0.037	0.036	-0.005	-0.006	-0.004	-0.005	-0.014	-0.011
	[0.501]	[0.483]	[1.549]	[1.493]	[-0.390]	[-0.473]	[-0.224]	[-0.282]	[-1.029]	[-0.676]
Property rights index	-0.003*	-0.003**	-0.003*	-0.003*	0.00	0.00	0.00	0.00	0.00	0.00
	[-2.059]	[-2.159]	[-1.815]	[-1.957]	[0.789]	[0.724]	[-1.150]	[-1.054]	[1.249]	[1.247]
Legal origin (1=English)	0.207***	0.207***	0.125**	0.132**	-0.037	-0.036	0.027	0.024	-0.070*	-0.08
	[5.822]	[6.176]	[2.228]	[2.379]	[-0.685]	[-0.660]	[0.531]	[0.451]	[-1.839]	[-1.694]
Control for sales	N	Y	N	Y	N	Y	N	Y	N	Y
SIC code fixed effects	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	759	759	693	693	693	693	694	694	694	694
Adjusted R^2	10%	10%	6%	6%	4%	4%	1%	1%	8%	9%

Regressions of survey responses on a constant, three CEO type indicator variables (the omitted category is professional CEO of a non-family firm), four country-level variables, two-digit SIC code fixed effects, and in some specifications, the natural logarithm of firm sales in 2006, and an indicator for missing value of firm sales. The country level variables are: the natural logarithm of per capita GDP, the Transparency International corruption index (higher values indicate low corruption), the Heritage Foundation property rights index (higher scores indicate more secure property rights), and an indicator variable for English or French legal origin (1 denotes English). All dependent variables are indicator variables, taking a value of 1 if the respondent is in agreement with the question or answers in the affirmative, and a 0 otherwise. Regressions are estimated using the linear probability model. t-statistics are in parentheses below each coefficient. *, **, and *** denote coefficients significant at 10%, 5%, and 1% respectively. Standard errors are clustered by country.

Table 10	Whole sample	Founder CEO	Related CEO	Prof. CEO of family firm	Prof. CEO of non-family firm
CEO's Parental income					
% low	14%	23%	3%	9%	18%
% middling	52%	49%	34%	61%	57%
% high	34%	28%	63%	30%	25%
Father's occupation					
Bluecollar worker (%)	15%	19%	1%	15%	19%
Professional (%)	26%	17%	8%	31%	34%
In business (%)	59%	65%	92%	54%	46%
Paternal grandfather's occupation					
Bluecollar worker (%)	11%	11%	8%	10%	13%
Professional (%)	13%	11%	6%	15%	14%
In business (%)	39%	39%	65%	38%	29%
In Government (%)	8%	4%	5%	9%	9%
Farmer (%)	29%	34%	16%	28%	35%

See the Appendix for selected summary statistics by region.

Table 11

Origin: CEOs' paternal grandfathers' occupation	**Destination:** CEOs' fathers' occupation Blue-collar	Professional	Business	Govt.	Farmer	*Total*
Blue-collar	22%	7%	**54%**	16%	1%	100%
Professional	6%	**47%**	**35%**	10%	2%	100%
Business	4%	11%	**78%**	5%	1%	100%
Govt.	8%	22%	**43%**	24%	4%	100%
Farmer	16%	18%	**35%**	8%	24%	100%

The table presents the inter-generational transition matrix of occupations. Rows sum to 100%, so for each category of paternal grandfather occupation, the table presents the distribution of their sons' (the CEOs' fathers') occupations. The diagonal, representing relative occupational stability over generations, is shaded grey. Cell values over 30% are in bold.

Table 12

Distribution:	Actual (CEOs' fathers')	Steady state
Blue-collar	10.5%	6.2%
Professional	17.8%	18.3%
Business	54.3%	65.1%
Govt.	9.3%	8.3%
Farmer	8.1%	2.1%

The first column of this table shows the distribution of CEOs' fathers' occupations. The second column iterates the occupational transition matrix in Table 11 to obtain the steady state distribution of occupations suggested by the transition matrix. Note that this table does not use CEO fathers' incomes to group them into just three categories, which is why the numbers in the first column are different from those in Table 10.

Table 13

Origin: CEOs' paternal grandfathers' occupation	**Destination:** CEOs' fathers' income			
	Low	Middle	High	Total
Blue-collar	20%	**63%**	17%	100%
Professional	11%	**55%**	**34%**	100%
Business	7%	**44%**	**48%**	100%
Govt.	12%	**51%**	**37%**	100%
Farmer	24%	**54%**	23%	100%

The table presents the inter-generational transition matrix from CEOs' paternal grandfathers' occupations to their sons' (the CEOs' fathers') income levels when the CEO was growing up. Rows sum to 100%, so for each category of paternal grandfather occupation, the table presents the distribution of their son's income. Cell values over 30% are in bold.

APPENDIX

Country	# observations	%
Argentina	49	6%
Brazil	52	6%
Chile	38	5%
Colombia	50	6%
Costa Rica	21	3%
Ecuador	45	5%
Egypt	32	4%
El Salvador	31	4%
Ghana	26	3%
Guatemala	30	4%
Hong Kong, China	15	2%
India	30	4%
Kenya	60	7%
Malaysia	20	2%
Mexico	46	6%
Nigeria	29	4%
Peru	75	9%
Singapore	18	2%
South Africa	26	3%
Turkey	46	6%
Venezuela	47	6%
Zimbabwe	37	4%
TOTAL	**823**	**100%**

Selected summary statistics by region

	S. America	C. America	Africa	East Asia	Turkey-Egypt	Total
Observations by region	43%	16%	22%	10%	9%	100%
CEO type						
Founder CEO	10%	15%	15%	9%	18%	13%
Related CEO	20%	21%	16%	16%	9%	18%
Prof. CEO of family firm	20%	29%	12%	21%	33%	21%
Prof. CEO of nonfamily firm	49%	35%	57%	55%	40%	48%
Education						
Undergrad. %	94%	94%	80%	90%	96%	91%
MBA %	32%	46%	20%	28%	17%	30%
Parental income when growing up:						
% low	8%	13%	26%	23%	9%	14%
% middle	52%	50%	61%	54%	44%	52%
% high	40%	38%	14%	23%	47%	34%
Father's occupation:						
Blue-collar worker (%)	12%	15%	19%	30%	8%	15%
Professional (%)	27%	20%	29%	21%	31%	26%
In business (%)	61%	65%	51%	49%	61%	59%
Father was a business owner	36%	42%	28%	34%	38%	35%
Father was a business manager	22%	16%	19%	15%	16%	19%

Survey Appendix

Survey on Business Perspectives of Top Executives

COMPANY INFORMATION

Company name: «CompanyName»

Year of incorporation: ________

What is this company's main sector of operation? Please select one:

☐ Agriculture
☐ Automobile
☐ Construction
☐ Consumption Goods
☐ Corporate Services
☐ Energy
☐ Finance
☐ Pharmaceuticals
☐ Food processing
☐ Household Equipment
☐ Non-Traded Services
☐ Real Estate
☐ Retail and Wholesale Trade
☐ Transportation
☐ Mining/Metals
☐ Other _______________

Company sales in 2006 (in millions of U.S. dollars): $________

PERSONAL INFORMATION

Name: «Firstname» «Lastname»

Full job title:____

Year of birth: 19_____

Place of birth: city:____
country:_______________________________________
Nationality:____

Gender: ☐ Male ☐ Female

EDUCATIONAL BACKGROUND

Do you have an undergraduate university degree? ☐ Yes ☐ No
If yes, please specify:
School attended: ____
Location: city: ____
country: ____
Field of study: ____

Do you have a Masters Degree in Business Administration (MBA)? ☐ Yes ☐ No
If yes, please specify:
School attended: ______________________________
Location: city: ______________________________
country: ______________________________

Do you have any other postgraduate university degree? ☐ Yes ☐ No

If yes, please specify:
Degree type: ☐ Ph.D. ☐ Masters
Field of study: ______________________________
School attended: ______________________________
Location: city: ______________________________
country: ______________________________

Did you ever attend a military school? ☐ Yes ☐ No

PRIOR WORK EXPERIENCE

In which year did you first join «CompanyName»? ________

In which position did you first join «CompanyName»?______________________________

In which year did you become the «title» of «CompanyName»?________

Please list the three positions (business and non-business related, academia, government, military etc.) you held the longest prior to becoming «title» of «CompanyName»:

Job Title	Company Organization	Start Year	End Year	Country

1.______________________________

2.______________________________

3.______________________________

Who appointed you as the «title» of «CompanyName»? Please select one:

☐ Board of directors
☐ Large Shareholder(s)
☐ Founder or relatives of founder
☐ Other (please specify): ______________________
☐ Previous CEO
☐ Government officials
☐ CEO of a parent company
☐ Nominating Committee

Do you sit on your company's board of directors? ☐ Yes ☐ No

Are you the chairman of the board? ☐ Yes ☐ No

YOUR BUSINESS APPROACH

Which of the following alternatives best describes your strategic focus for «CompanyName» in the next five years? Please select one.

☐ Diversify into new industries
☐ Expand into international markets
☐ Strengthen focus in core businesses

Which of the following two alternatives best describes your view? Executives should:

☐ Maintain payments to shareholders, even if they must lay off a number of employees
☐ Maintain stable employment, even if they must reduce payments to shareholders

As the «title» of «CompanyName», who do you feel the most accountable to? Please select *up to two* alternatives:

☐ Customers
☐ Shareholders
☐ Government
☐ Other (please specify): ________________
☐ Parent Company
☐ Employees
☐ Banks and other major lenders

As the «title» of «CompanyName», what do you perceive as your most important *operational* tasks? Please select *up to two* alternatives:

☐ Selecting and appraising other top managers in the company
☐ Supervising operational, strategic, and financial planning decisions
☐ Managing the company image and reputation with outsiders (such as customers, media,
banks, and other investors)
☐ Representing the interests of the company in front of government and regulatory bodies
☐ Other (please specify): ________________

How would you characterize your leadership role in «CompanyName»? Your task is to:

☐ Bring about changes in the way the company is run
☐ Guarantee the stability of the company's traditions and values

Consider the following tasks. At «CompanyName», how would you characterize the way top level decisions are made for each of these tasks? For each category, please select one.

1. Selection and appraisal of top employees are:

☐ Made by myself
☐ Delegated to other top executives with my final say
☐ Made jointly by a group of top executives including myself
☐ Made jointly by members of the board and myself
☐ Other (please specify): ______________________

2. Operational, strategic and business planning decisions are:

☐ Made by myself
☐ Delegated to other top executives with my final say
☐ Made jointly by a group of top executives including myself
☐ Made jointly by members of the board and myself
☐ Other (please specify): ______________________

3. Financial planning and budgeting decisions are:

☐ Made by myself
☐ Delegated to other top executives with my final say
☐ Made jointly by a group of top executives including myself
☐ Made jointly by members of the board and myself
☐ Other (please specify): ______________________

Which of the company's stakeholders are you most likely to involve before deciding to undertake a large-scale investment project, such as the acquisition of a plant or a company? Please select up to two.

☐ Bankers
☐ Parent company CEO
☐ Government
☐ Other top executives in the company
☐ Other (please specify): ___________
☐ Larger shareholders
☐ Founder
☐ Members of the board
☐ I do not involve anyone

How many managers in your company report *directly* to you? Please select one.

☐ Less than five
☐ Five to ten
☐ Ten to fifteen
☐ Fifteen to twenty
☐ More than twenty

How many of the upper-level managers did you replace in the first two years after you took office as the «title» of «CompanyName»? Please select one.

☐ All
☐ More than half
☐ Less than half
☐ None

How many hours do you work in a typical week? Please select one.

- ☐ Forty hours or less
- ☐ Forty to fifty hours
- ☐ Fifty to sixty hours
- ☐ Sixty to seventy hours
- ☐ More than seventy hours

FAMILY BACKGROUND

For how many generations has your family been involved in the upper-level management of large businesses? Please select one.

- ☐ One generation
- ☐ Two generations
- ☐ Three generations
- ☐ More than three generations

How would you classify the income level of your parents when you were growing up (compared to other families in your country of residence)? Please select one.

- ☐ Lower income
- ☐ Middle income
- ☐ Upper income

What is/was your father's main occupation?

- ☐ Large business manager (>100 employees)
- ☐ Small business manager (<100 employees)
- ☐ Large business owner (> 100 employees)
- ☐ Small business owner (<100 employees)
- ☐ Administrative Clerk
- ☐ Sales person
- ☐ Other (please specify): ________________
- ☐ Medical Doctor
- ☐ Engineer/Scientist
- ☐ Teacher/Professor
- ☐ Government Official
- ☐ Judge/Lawyer
- ☐ Farmer

What is/was your paternal grandfather's main occupation?

- ☐ Large business manager (>100 employees)
- ☐ Small business manager (<100 employees)
- ☐ Large business owner (> 100 employees)
- ☐ Small business owner (<100 employees)
- ☐ Administrative Clerk
- ☐ Sales person
- ☐ Other (please specify): ________________
- ☐ Medical Doctor
- ☐ Engineer/Scientist
- ☐ Teacher/Professor
- ☐ Government Official
- ☐ Judge/Lawyer
- ☐ Farmer

What is/was your maternal grandfather's main occupation?

- ☐ Large business manager (>100 employees)
- ☐ Small business manager (<100 employees)
- ☐ Large business owner (> 100 employees)
- ☐ Small business owner (<100 employees)
- ☐ Medical Doctor
- ☐ Engineer/Scientist
- ☐ Teacher/Professor
- ☐ Government Official

☐ Administrative Clerk
☐ Sales person
☐ Other (please specify): ________________
☐ Judge/Lawyer
☐ Farmer

In many countries around the world, mutual support of family members in business transactions is essential for efficient business operations. In your view, how important are family relationships for conducting successful business in your country? Please select one.

☐ Very important
☐ Moderately important
☐ Not important at all
☐ A hindrance to success

In your view, which of following transactions are most commonly facilitated through family relationships in your country? Please select *up to two* options:

☐ Access to business information
☐ Access to credit for company
☐ Dealing with government and regulators
☐ Hiring of top managers and other employees
☐ Sale and purchase of assets
☐ Supplier and customer relationships
☐ Other (please specify): ____

Are you the founder of «CompanyName»? ☐ Yes ☐ No

Are you a relative of «CompanyName»'s founder? ☐ Yes ☐ No
If yes, please specify family relationship:

☐ Son/Daughter
☐ Grandson/Granddaughter
☐ Brother/Sister
☐ Other (please specify): _______________

Were any of your relatives ever employed in an upper-level management position at «CompanyName»? Please specify:

☐ Father
☐ Father-in-law
☐ Uncle
☐ Maternal grandfather
☐ Paternal grandfather
☐ Brother/Sister

☐ Other (please specify): __________________

Are/were any of your following relatives a majority equity owner (at least 20 percent ownership stake) in «CompanyName»? Please specify:

☐ Father
☐ Father-in-law
☐ Uncle
☐ Maternal grandfather
☐ Paternal grandfather
☐ Brother/Sister

□ Other (please specify): _________________

COUNTRY CULTURE

Suppose that the government is deliberating to pass a new law that would substantially hinder business activities in your industry. What mechanisms, if any, do business leaders in your country have to prevent the government from making a major mistake? Please choose the answer that most closely reflects your view:

□ There is no way to influence the government's decisions
□ There is a formal lobbying process through which firms can exchange information and opinions with the government
□ The government will generally consult business leaders in advance about any changes that
may affect their industry
□ Most business leaders have contacts in the government who listen to their opinions

In general, how would you describe the current government's attitude towards business in your country? Please specify one.

□ Supportive □ Indifferent □ Hostile

How would you describe the relationship between major companies and political parties in your country? Most business leaders:

□ Try to maintain close relationships with all political parties and candidates
□ Support only one political party or candidate and do not maintain close relationships with
other parties
□ Do not have close relationships with any political party or candidate

Which do you consider to be the most important factors to being a successful «title» in your country? Please select the *up to two* alternatives:

□ Business contacts
□ Family background and family contacts
□ Formal business training and business experience
□ Political contacts
□ Specific industry knowledge
□ Ability to communicate ideas and persuade others
□ Other (please specify): _________________

In your view, which of the following occupations carries the most social prestige in your country? Please select the *top two* alternatives:

□ Business manager
□ Engineer
□ Entrepreneur
□ Other (please specify): ________________

□ Lawyer
□ Medical doctor
□ Government official

COMPANY STRUCTURE

As the «title» of «CompanyName» do you hold equity in the firm (stock options)?

□ Yes, I hold more than 5% of the company's stock
□ Yes, I hold less than 5% of the company's stock
□ Yes, I receive stock and stock options as part of my compensation
□ No, I do not hold equity in the firm

Is your company majority-owned by a parent corporation? □ Yes □ No
If yes, please give the name of that parent corporation: ______________________________

How concentrated is the ownership of your company? That is, what fraction of equity in your company is held by the three largest shareholders?

Shareholder 1 ________%
Shareholder 2 ________%
Shareholder 3 ________%

Please indicate if any of the three largest equity holders is/are:

□ The founder or relatives of the founder
□ Foreign investors
□ Foreign corporations
□ Domestic corporations
□ The government

In general, how are other top managers appointed in this company? Mostly through:

□ Internal promotions
□ External hires
□ Both

Who appoints the board members in your company? Please choose *up to three* alternatives.

□ I select most of the board members
□ Company founder
□ CEO of the parent company

☐ Large shareholders
☐ Government
☐ Other, please specify: ________________________________

Why did the previous «title» leave «CompanyName»?

☐ Retired for age, health or family-related reasons
☐ Decided to leave for a non-business position
☐ Decided to leave for another business position
☐ Board of directors terminated his appointment
☐ Company founder terminated his appointment
☐ CEO of a parent company terminated his appointment
☐ The government terminated his appointment
☐ Other (please specify): ________________________________