

Family Matters: The Effects of CEO Parental Status in Family Firms



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Aim

We aim to further explain what makes an influential CEO.

This study examines the effects of CEO familial status on corporate policy in family firms in dimensions including, but not limited to, profitability, value, overhead, and investment.

Introduction

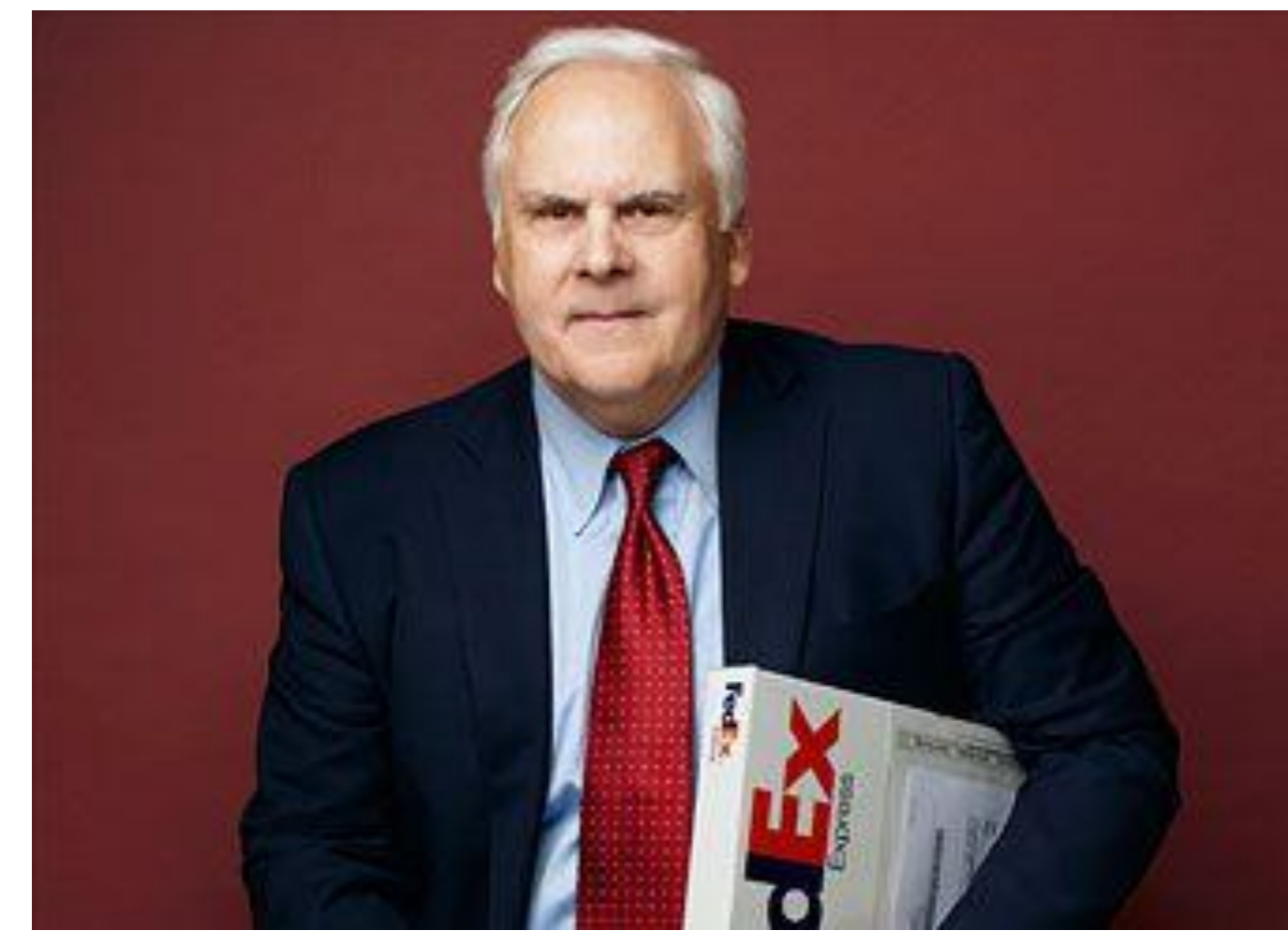
There is a great deal of research on CEO characteristics that affect their firms. Previous research has shown that personal CEO characteristics affect corporate policy.

The relationship between **corporate policy and CEO characteristics** is important because it provides insight to future firm performance and the **efficient allocation of scarce capital in our economy** to their most productive outlets. Prior research has suggested that:

- When **CEOs achieves “superstar” status, they typically underperform** compared to their previous performance and compared to their non-superstar counterparts; however, their compensation is higher and spending more time on work outside their firms [Malmendier and Tate (2009)].
- **Marital status influences risk-taking** in CEOs which affects investment and compensation [Yore and Nicolosi (2014)].

In addition to looking at the relationship between **CEO parental status and corporate policy**, we add in the effects of **founder CEOs and family firm CEOs**. This is important because there is a long-term view that family firms have as compared to their professionally managed counterparts. Prior research has suggested that

- On average, **family firms outperform** their non-family counterparts **due to increased ownership stakes** and a commitment to the future of the firm [Anderson and Reeb (2003)].
- **Concentrated family ownership creates the potential for rent extraction** and a focus on nonpecuniary benefits rather than profitable investments [Demsetz (1983)].
- When family firms are led by non-founder CEOs, rent extraction is evident [Villalonga and Amit (2005)].



Analysis

We use the ExecuComp database, which provides information on the S&P 1500 firms. We have **14,555 firm-year-observations of 2,563 unique CEOs from 1,752 unique firms from 1992 to 2012**.

We then use the websites *Marquis Who's Who* and the *Notable Names Database* to find information about CEO's and their offspring. We look for the number of children, the gender of those children, their birth dates, and any other information that is available.

Using ordinary least squares regression on this data, we regress several dependent variables on our variables of interest. Our variables of interest are CEO parental status and CEO founder or founder family member status.

$$\begin{aligned} \text{Profitability} &= \beta_0 + \beta_1 \text{ Children} + \beta_2 \text{ Founder} + \beta_3 \text{ Children} \times \text{Founder} + \beta_4 \text{ Controls} + \epsilon \\ \text{Firm Value} &= \beta_0 + \beta_1 \text{ Children} + \beta_2 \text{ Founder} + \beta_3 \text{ Children} \times \text{Founder} + \beta_4 \text{ Controls} + \epsilon \\ \text{Overhead} &= \beta_0 + \beta_1 \text{ Children} + \beta_2 \text{ Founder} + \beta_3 \text{ Children} \times \text{Founder} + \beta_4 \text{ Controls} + \epsilon \\ \text{R\&D} &= \beta_0 + \beta_1 \text{ Children} + \beta_2 \text{ Founder} + \beta_3 \text{ Children} \times \text{Founder} + \beta_4 \text{ Controls} + \epsilon \end{aligned}$$

	Profitability			Firm Value		
Children	0.018	0.018	0.015	0.071	0.072	0.027
	(0.00)	(0.00)	(0.00)	(0.02)	(0.02)	(0.41)
Family Firm	0.005	0.002		0.049	-0.007	
	(0.01)	(0.43)		(0.01)	(0.77)	
Family Firm x Children		0.006			0.118	
		(0.04)			(0.00)	

Profitability Controls: Firm Size, Cash to Assets, Stock Return, Market-to-Book, Firm Age, High Tech Firm, CEO marriage, CEO divorce, CEO Ownership, CEO Tenure, CEO Age, industry and year fixed effects

Firm Value Controls: Firm Size, Cash to Assets, Stock Return, Market-to-Book, Firm Age, High Tech Firm, CEO marriage, CEO divorce, CEO Ownership, CEO Tenure, CEO Age, industry and year fixed effects

	Overhead			R&D		
Children	-0.006	-0.006	-0.008	0.002	0.002	0.001
	(0.03)	(0.04)	(0.01)	(0.09)	(0.09)	(0.53)
Family Firm	0.006	0.004		-0.003	-0.005	
	(0.00)	(0.07)		(0.00)	(0.00)	
Family Firm x Children		0.004			0.004	
		(0.17)			(0.02)	

R&D Controls: Firm Size, Cash to Assets, Stock Return, Market-to-Book, Firm Age, High Tech Firm, CEO marriage, CEO divorce, CEO Ownership, CEO Tenure, CEO Age, industry and year fixed effects

Overhead Controls: Firm Size, Cash to Assets, Stock Return, Market-to-Book, Firm Age, High Tech Firm, CEO marriage, CEO divorce, CEO Ownership, CEO Tenure, CEO Age, industry and year fixed effect

Motivation

In our previous research, we find that **parental CEOs lead more profitable firms, particularly at family-owned companies**. Consistent with previous research, family firms also outperform. However, the data shows that **family firms outperform only when the CEO has a child**.

We also find that CEOs with children lead firms with higher valuations, but the effect is driven entirely by family firms. **Controlling for child status, we no longer observe the founder premium documented in the literature**.

Additionally, **firms with children spend less on overhead and more on R&D and advertising**. These results are likely due to founder and family CEOs having a desire to invest in the future of the firm because they are developing a legacy for their children

Methods

Again using the ExecuComp database, we have 39,627 firm-year observations from 1992 to 2012 of all the firms that were ever in the S&P 1500 during that time frame. We gather information from corporate proxy statements regarding family and founder ownership, blockholders, top management team and board members, generation, and several other variables. Once all the data is collected, we will conduct a regression and analyze the results.

Tables

Family Firm with Founder CEO			Family Firm with Professional CEO		
	Location	Variability		Location	Variability
Mean	6.72%	Std Deviation	25.05%	Mean	7.93% Std Deviation
		Variance	6.27%		27.03%
					Variance
					7.31%

Family Firm with Descendant CEO			Non-Family Firm		
	Location	Variability		Location	Variability
Mean	13.66%	Std Deviation	34.36%	Mean	71.70% Std Deviation
		Variance	11.80%		45.07%
					Variance
					20.32%

Direction of Future Research

We are currently two years into this research project. Most of this time has been spent reading relevant literature and collecting data. The rest of the project duration will be spent finishing the data collection and analysing the data set. We plan to re-examine the variables we previously looked at, as well as expand our results. Some ideas of interest include generational effects and ownership level. We estimate that we are two-thirds of the way to project completion.

Acknowledgments

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