

Ownership Structure and HR Management

Work in Progress!

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Establishment Panel Analyses

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- Productivity differences between firms (even in same country and industry) widely studied (e.g. Bloom and van Reenen, 2007; Bertrand et al. 2008)
- Unexplained part of differences often attributed to differences in quality of management and ownership structure
- In many countries, family ownership constitutes important and widespread type of business, both among private and publicly traded firms
 - La-Porta et al. (1999): 40% of medium-sized firms in Europe family owned
 - Bloom and van Reenen (2007): 32% of their German firms with single family as largest shareholder, 11% of all firms also with CEO coming from same family
 - Anderson and Reeb (2003): 33% of S&P 500 characterized by family ownership, of them 45% of CEOs are family members

Research Questions



- Why do we observe productivity differences between family and non-family firms?
- Do they differ with respect to management practices?

- Evidence on family firm performance is mixed
- Meta-Study of Wagner et al. (2015):
 - positive correlation between family ownership and ROA
 - public and large family firms outperform
 - Family management is associated with worse economic performance
- Source for this underperformance is not well explored

Our Contribution



- Explore differences in use of management practices between family firms and firms with dispersed ownership
 - might explain empirically documented differences in firm productivity
- Very few studies: Bloom and van Reenen (2007) and Reid and Adams (2001)
- We extend analyses by Bloom and van Reenen (2007):
 - We focus on common human resource management practices not limited to more operational-focused management practices tailored to production context
 - They calculate average aggregate index for management quality based on set of different practices and do not analyze which single practices differ between family and non-family firms

Theoretical Approach I: Agency Theory

- Lower agency costs, managerial and owner goals more aligned (Fama and Jensen, 1983; Jensen and Meckling, 1976)
- Management is based on set of common values and trust (Allouche et al., 2008; Bertrand et al., 2008)
- Investments are more efficient due to less myopic, i.e. more long-term focused decisions (e.g. Bertrand and Schoar, 2006)
 - Less need for management practices designed to reduce agency problem to incentivize managers (performance monitoring, incentive systems)
 - Does not explain why family firms underperform with respect to common HR management practices

Theoretical Approach II: Resource based view



- Differences in endowment with physical, organizational and human resources lead to firm heterogeneity (Kok et al. 2006)
- Also refers to organizational capability in developing competencies and silent organizational knowledge (Lado and Wilson, 1994)
- Hiring decisions based on family membership instead of qualification (e.g. Bertrand et al., 2008; Reid and Adams, 2001)
 - → Family firms systematically differ and do not have the resources to built a strategic HR practices

Family Ownership and Family Management



- Importance of family firm's management composition as key driver for differences in organizational performance
- Applicant pool is restricted when management is limited to family representatives
- Lower incentives to acquire human capital, particularly general management and leadership skills
- Extreme case of primogeniture associated with poor management quality (Bloom and van Reenen, 2007)
- Competitive disadvantage compared to firms managed by external CEOs

- *Hypothesis 1: Family firms are less likely to adopt professional HR management practices compared to firms with a more dispersed ownership structure (financial investor and widely held stock).*
- *Hypothesis 2: Family firms with family members on the management board are less likely to adopt HR management practices compared to family firms with externally hired managers on the management board.*

- Three-wave survey of establishments in Germany in 2012 (n=1,219), 2014 (n=769) and 2016 (n=846)
 - Topics: recruitment and selection, performance management, talent management and employee development, retention management and corporate culture, firm characteristics
- Data are linkable to IAB establishment panel (e.g., information on management comes from establishment panel)

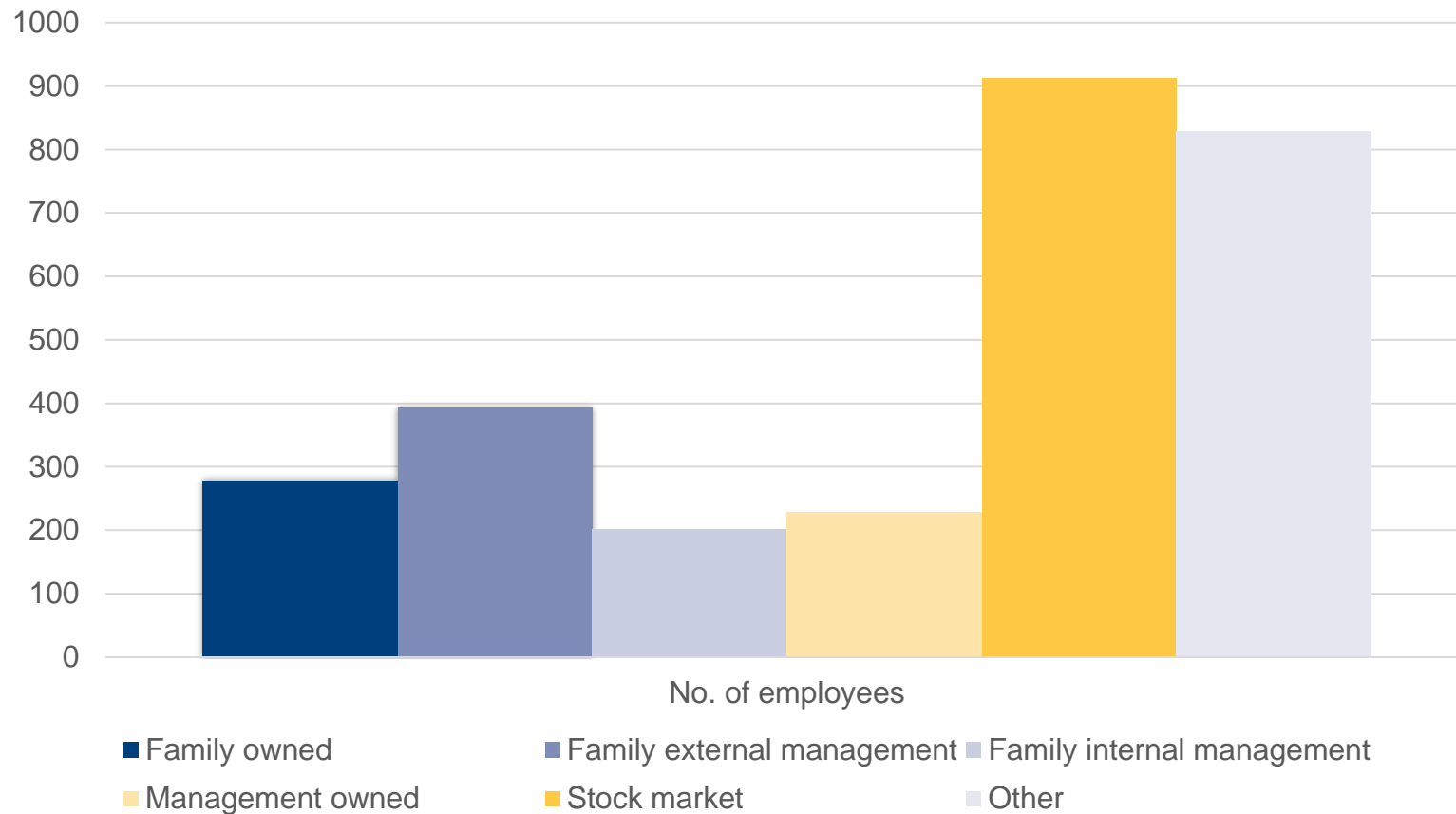
Descriptives - Ownership Structure



Ownership structure	2012	2014	2016	Firms
Family-owned	51%	47%	52%	1,376
Management	19%	24%	18%	550
Financial investor and stock market	13%	15%	14%	384
Other ownership structure	17%	14%	16%	442

Management			
	Family/ owner	External	Both
Family-owned	688	329	351

Ownership structure and employment



Descriptives – Management Practices



Dimension	Practice (all 0/1)	N	Mean	Std.
Performance Management	Formal target agreements	1,534	0.62	0.49
	Performance appraisals	1,531	0.63	0.48
	Recommended distributions	968	0.12	0.32
	Variable pay scheme	1,533	0.59	0.49
Planning and Development	Personnel forecast plan	1,535	0.67	0.47
	Employee feedback talks	1,534	0.70	0.46
	Personnel development plan	1,531	0.45	0.50
	Higher qualification	1,534	0.61	0.49

Descriptives – Management Practices (ctd.)



Dimension	Practice (all 0/1)	N	Mean	Std.
Professionalism of HR Management	Employee surveys	1,535	0.41	0.49
	Promotion not based on tenure	1,505	0.55	0.50
	Recruitment via Headhunter	1,533	0.32	0.47
	Address via social networks	1,514	0.36	0.48
	Promotion of women in managerial positions	1,529	0.25	0.43

Regression Specification



- OLS of waves 2012, 2014 and 2016 for the most recent observation of one establishment
- Robust standard errors
- Additional controls for:
 - workforce composition (proportion of female and part-time employees, skill composition), use of limited work contracts, establishment age, industry sector, firm size, independent establishment, management of the HR function represented in the top executive board of the establishment/company, profit of previous fiscal year, business strategy, region and year

Results: OLS on HR measures

Dependent variable:	Performance Management	HR Planning	Professional HR
	(1)	(2)	(3)
Family-owned ¹	-0.309*** (0.085)	-0.259*** (0.073)	-0.457*** (0.079)
Management-owned	-0.315*** (0.093)	-0.207** (0.082)	-0.366*** (0.090)
Observations	883	1,391	1,354
R-squared	0.208	0.238	0.291

Other ownership not displayed. Additional control variables include, business strategy, firm size, proportion of female, qualified, and part-time employees, limited work contracts (0/1), business strategy, establishment age, profit situation, independent establishment, HR represented in top executive board, use of external information sources (consultancy, exchange with competitors, employer associations), region, industry, and year. Reference groups: ¹ Dispersed Ownership. Robust standard errors clustered on establishment in parentheses. *** p<0.01, ** p<0.05, * p<0.1

Results: Including management information

Dependent variable:	Performance Management	HR Planning	Professionell HR
	(1)	(2)	(3)
Management-owned	-0.326*** (0.093)	-0.240*** (0.083)	-0.388*** (0.090)
Family firm with external manager	-0.182* (0.108)	-0.009 (0.088)	-0.258*** (0.098)
Family firm with internal manager	-0.420*** (0.107)	-0.484*** (0.087)	-0.584*** (0.089)
Family firm with both internal & external manager	-0.337*** (0.116)	-0.242*** (0.092)	-0.515*** (0.093)
Observations	883	1,391	1,354
R-squared	0.213	0.255	0.299

Other ownership not displayed. Additional control variables include, business strategy, firm size, proportion of female, qualified, and part-time employees, limited work contracts (0/1), business strategy, establishment age, profit situation, independent establishment, HR represented in top executive board, use of external information sources (consultancy, exchange with competitors, employer associations), region, industry, and year. Reference groups: Stock market firm. Robust standard errors clustered on establishment in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

- Tried single items as dependent variable, different ways to aggregate practices → robust
- Family firms, as they grow larger, might also face an agency problem and become more similar to more dispersed firms
 - Interaction between establishment size and ownership as family firms are typically smaller
 - first evidence that results are robust in most specifications
- Structural differences in use of external information
 - Interaction between use of informational sources (consultancies, employers' associations and exchange with competitors/ benchmarking)
 - results robust

Conclusion and Discussion



- Majority of previous studies document performance differences between family and non-family firms
 - But: Focus rather on operational performance
- We document differences in the use of management practices
- Also management composition important
 - Family firms with external CEOs more similar to dispersed firms
 - Family firms with family members as board members main driver of results -> explanation for weak organizational performance?

Thank you for your attention!

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Appendix: Ownership and Establishment Size



Type of ownership	Establishment size (n=1,980)						Total
	<50	50-99	100-249	250-499	500-1999	>=2000	
Family	1.56	39.92	33.16	15.07	9.15	1.14	100
Management	2.96	40.64	31.28	17.98	6.16	0.99	100
Financial investor/stock market	1.11	22.14	33.95	18.45	16.61	7.75	100
State-owned	0.00	22.58	25.81	29.03	22.58	0.00	100
Other	0.32	30.97	33.23	17.10	14.19	4.19	100

N=1,980

Dependent variable:	Formal target agreements	Performance appraisals	Recommended distributions	Variable pay scheme
	(1)	(2)	(3)	(4)
Family-owned ¹	-0.197*** (0.041)	-0.087** (0.039)	-0.051** (0.022)	-0.125*** (0.038)
Management-owned	-0.171*** (0.045)	-0.103** (0.044)	-0.031 (0.024)	-0.166*** (0.042)
Other ownership structure	-0.154*** (0.051)	-0.085* (0.046)	-0.018 (0.023)	-0.105** (0.045)
Observations	2,615	2,613	1,672	2,617
Pseudo R-squared	0.144	0.073	0.118	0.084

Marginal effects reported. Constant not displayed. Additional control variables include, business strategy, firm size, proportion of female, qualified, and part-time employees, limited work contracts (0/1), business strategy, establishment age, profit situation, independent establishment, HR represented in top executive board, use of external information sources (consultancy, exchange with competitors, employer associations), region, industry, and year. Reference groups: ¹ Dispersed Ownership. Robust standard errors clustered on establishment in parentheses. *** p<0.01, ** p<0.05, * p<0.1

Results: Planning and Employee Development Practices



Dependent variable:	Personnel forecast plan	Employee feedback talks	Personnel development plan	Higher qualification
	(1)	(3)	(4)	(5)
Family-owned ¹	-0.147*** (0.037)	-0.078** (0.037)	-0.154*** (0.039)	-0.065* (0.036)
Management owned	-0.105** (0.043)	-0.089** (0.043)	-0.140*** (0.043)	-0.081** (0.040)
Other ownership structure	0.010 (0.043)	-0.064 (0.044)	-0.067 (0.046)	-0.033 (0.042)
Observations	2,618	2,617	2,555	2,613

Marginal effects reported. Constant not displayed. Additional control variables include, business strategy, firm size, proportion of female, qualified, and part-time employees, limited work contracts (0/1), business strategy, establishment age, profit situation, independent establishment, HR represented in top executive board, use of external information sources (consultancy, exchange with competitors, employer associations), region, industry, and year. Reference groups: ¹ Dispersed ownership, Stock market. Robust standard errors clustered on establishment in parentheses. *** p<0.01, ** p<0.05, * p<0.1

Results: Professionalism of HR Management



Dependent variable:	Employee surveys	Survey: communication	Survey: weaknesses addressed	Promotion least based on tenure	Recruiting via Headhunter	Address via social networks	Women in management positions
	(1)	(2)	(3)	(4)	(5)	(6)	(8)
Family-owned ¹	-0.189*** (0.037)	-0.077** (0.032)	-0.084** (0.041)	-0.171*** (0.035)	-0.094*** (0.033)	-0.046 (0.034)	-0.076** (0.031)
Management owned	-0.084** (0.040)	-0.065* (0.035)	-0.091** (0.046)	-0.187*** (0.040)	-0.105*** (0.034)	-0.066* (0.037)	-0.101*** (0.032)
Other ownership structure	-0.136*** (0.040)	-0.021 (0.038)	-0.016 (0.048)	-0.048 (0.043)	-0.099*** (0.035)	-0.117*** (0.036)	-0.039 (0.034)
Observations	2,617	1,069	1,070	2,554	2,616	2,591	2,613

Marginal effects reported. Constant not displayed. Additional control variables include, business strategy, firm size, proportion of female, qualified, and part-time employees, limited work contracts (0/1), business strategy, establishment age, profit situation, independent establishment, HR represented in top executive board, use of external information sources (consultancy, exchange with competitors, employer associations), region, industry, and year. Reference groups: ¹ Management-owned. Robust standard errors clustered on establishment in parentheses. *** p<0.01, ** p<0.05, * p<0.1