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How do CEOs see their roles? Management philosophies and styles in family and non-family firms ☆

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ABSTRACT

Using a survey of 800 Chief Executive Officers (CEOs) in 22 emerging economies, we show that CEOs' management styles and philosophies vary with the ownership and governance structure of their firms. Founders and CEOs of firms with greater family involvement display a greater stakeholder focus, and feel more accountable to employees and banks than to shareholders. They also have a more hierarchical management approach, and see their role as maintaining the status quo rather than bringing about change. In contrast, CEOs of non-family firms emphasize shareholder-value-maximization. Finally, firm-level variation in ownership is as important in explaining management philosophies as cross-country or industry-level differences.

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1. Introduction

The importance of leadership, and the extent to which CEOs contribute to company success are questions that have long been at the center of economic debate. A number of recent studies have shown that individual CEOs are key determinants of how companies are managed, and of how they perform; see, for example, Bertrand and Schoar (2003), Bennedsen, Neilsen, Pérez-González, and Wolfenzon (2007), and Bandiera, Prat, and Sadun (2013). These papers also show significant heterogeneity in the management styles, skills, and even the hours worked by CEOs. Moreover, there are important differences across countries in the governance structures of firms, and especially in the involvement of family members in top management. Following the seminal paper of La Porta, Lopez-de-Silanes, and Shleifer (1999), a large number

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of studies have reported that, in comparison to non-family firms, family firms tend to have weaker performance and worse governance structures, and Bloom, Genakos, Sadun, and Van Reenen (2012a) show that they are slower to adopt managerial best practices.[2] These differences in turn might well be related to how CEOs perceive their roles, and the responsibilities they have at their firms.

However, we know very little about the business philosophies underlying CEOs' decisions, and how they see their roles and responsibilities. Freeman (1984) originally developed the idea of a stakeholder approach to management, in opposition to a shareholder-focused approach, and since then there has been extensive discussion of the degree to which CEOs adopt such a stakeholder focus, and how empowered they feel to be agents of change within the firm. One view is that the ownership structure of the firm—in particular, whether it is family controlled or widely held—might determine the objectives of both the CEO and the entire organization. For example, Whetten and Mackey (2002) propose that family members as CEOs might naturally adopt a stakeholder view, since they have a longer horizon and are not solely concerned with maximizing firm profits: they also safeguard the reputation of the family behind the firm. An alternative view is that greater emphasis on stakeholder welfare is an economy-wide outcome, often referred to as the “stakeholder society.” In societies where property rights are poorly defined and input markets such as labor markets are less efficient, a stakeholder approach can evolve in equilibrium to address some of the production externalities for which markets are missing. See, for example, Magill, Quinzii, and Rochet (2011) or Tirole (2001); see Morck and Yeung (2004) for some of the disadvantages of such a society.

In this paper we show that CEOs' business philosophies, management approaches, and personal backgrounds vary systematically with the firm's governance structure and the influence that the founding family has on the business. Founders and CEOs related to the firm's founder are more likely to embrace a stakeholder view of management and feel less responsibility towards their shareholders, instead prioritizing employees and creditors. These CEOs also adopt a more hierarchical organization structure, concentrate more power at the top, and see their role as preserving the structures and values of the firm rather than bringing about change. In contrast, professional CEOs are more likely to feel responsible to shareholders and rely more heavily on delegation and flatter management. They also perceive their mandate as bringing about strategic change within the firm.

We also document that the simple dichotomy between family and non-family firms that is often used in the literature masks more complex dynamics of how leadership structures differ across firms. Interestingly, we find that these differences at the level of firm-CEO pairings are more important in explaining the heterogeneity in CEOs' management philosophies than standard variables that are widely used to capture country-level variation. This result suggests that stakeholder-focused management may not arise as an economy-wide equilibrium outcome, but rather seems to depend on the governance and ownership structure of a given firm, despite wide variation in the cultural norms and in the financial and economic development of these countries.[3]

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.[4] While survey data cannot establish causality conclusively, they provide information on dimensions of the CEO role that cannot otherwise be studied. These rich, CEO-level data provide insight into the heterogeneity across countries and industries in CEO beliefs, their objectives, and the way they manage and organize the firm.

We first show that firms broadly fall into four distinct categories that 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 (referred to as a “related CEO” henceforth), (3) family firms with a (non-family) professional CEO, and (4) non-family firms run by professional CEOs. We refer to these four pairings of firms and CEOs as firm-CEO types or just CEO types henceforth. This firm-CEO type classification explains a substantial fraction of the variation in CEO survey responses, and is complementary to (and of comparable importance to) the part explained by country fixed effects. In particular, the average adjusted R^2 of all the survey response regressions in the paper rises from 9% when only industry (SIC) and country fixed effects are included, to 15.5% when the firm-CEO type indicators are added.[5] Moreover, when only firm-CEO type and SIC fixed effects are included, the average adjusted R^2 is 10%. In short, the firm-CEO type variable is as important in explaining CEO thinking as are country-, region-, or industry-level differences.

Several overarching themes emerge from our analysis. First, *founder CEOs* are more likely to have much higher cash flow and control rights within their firms than all other types of firm-CEOs, especially compared to professional CEOs. Founder 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 goes hand in hand with a more hierarchical management style and organization. When compared to the other firm-CEO types, founder CEOs have the fewest number of managers reporting directly to them: 45% have

[2] See in particular Morck, Stangeland, and Yeung (2000), Claessens, Djankov, Fan, and Lang (2002), Faccio and Lang (2002), Villalonga and Amit (2006), and Bertrand and Schoar (2006).

[3] We cannot make any statements about the welfare implications or optimality of one type of management philosophy over another; we simply report which types of firms are likely to adopt these approaches.

[4] The countries are: Argentina, Brazil, Chile, Colombia, Ecuador, Peru, Venezuela [S. America]; Costa Rica, El Salvador, Guatemala, Mexico [C. America]; Ghana, Kenya, Nigeria, South Africa, Zimbabwe [Sub-Saharan Africa]; Hong Kong (China), India, Malaysia, Singapore [E. Asia]; Egypt and Turkey.

[5] Alternatively, the average (median) adjusted R^2 of the survey response regressions in the paper rises from 3% (1.7%) when only country-level variables such as per capita GDP, corruption, transparency, and legal origin variables are included as controls, to 11.2% (5.2%) when the firm-CEO type indicators are added.

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