Study explores why 'family' CEOs think differently

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Founder-CEOs and CEOs related to the founder see the world differently than CEOs of non-family firms, and they pursue different strategies, according to new research from the Robert H. Smith School of Business at the University of Maryland. In general, the more family-oriented the firm, the more of a "stakeholder" focus it has. Faced with a choice between continuing to pay dividends and laying off workers, for example, founders and CEOs related to the firm's founder lean toward protecting workers; professional CEOs instead prioritize payouts to shareholders. Unlike non-family CEOs, founders and CEOs related to the founder also prioritize banks that lend to the firm over shareholders.

"Family" CEOs, too, take a more hands-on management role and put a lower value on hiring top managers to whom they can delegate.

These findings emerged from a new survey of more than 800 CEOs of the largest firms in 22 emerging-market nations, which was conducted and analyzed by William Mullins, an assistant professor of finance at the Smith School, and his co-author Antoinette Schoar, professor of finance at MIT's Sloan School of Management.

The study was conceived to explore the degree to which firm behavior reflects the attitudes of CEOs, as opposed to broader factors including the country in which the firm is situated, GDP per capita, levels of corruption, and legal protections for property. Some researchers have suggested a stakeholder approach is more common in certain cultures, for instance, but the study found that, in fact, CEOs' business philosophies were more determinative.

Previous research has suggested that family-run firms on average have weaker financial performance, adopt technology more slowly, and are slower to institute "best practices" in management. "The literature shows us already that there are performance and behavior differences between family and non-family firms," Mullins says. "We're trying to go a level deeper and try to understand why. Is it because of how CEOs perceive their role, or because they have less power? Or is it a combination?"

No datasets based on objective performance can answer that question. "The only way to do that," he adds, "is to ask the CEOs." The study focuses on developing world CEOs, in part, because they are far more likely to respond to surveys than U.S. or European corporate leaders.

The authors broke down the CEOs into four groups: Founder-CEOs; CEOs related to the founder; professional, non-family CEOs in family-run companies; and professional CEOs in non-family firms. In contrast to the family CEOs, professional CEOs—at both family and non-family firms—leaned toward the shareholder approach, but there were important differences in their experiences.

Chiefly, at family firms, professional CEOs had less power—measured by their likelihood of being on the company's board, how much equity they held, their history of firing top managers and other factors.

"Being a professional CEO in a family firm looks like an uncomfortable position, based on their responses" Mullins says. "The kind of management they want to impose is not something they appear to have the power to impose. The family still controls the levers."

That is a dynamic that family firms should keep in mind as they weigh making the transition to a professional CEO. The retirement of the founder-CEO is a crucial turning point for many companies. This research suggests that "if you don't give the professional CEOs the tools to change the firm, you are going to keep the company, to some extent, frozen in place."

More information: William Mullins et al. How do CEOs see their roles? Management philosophies and styles in family and non-family firms, *Journal of Financial Economics* (2016). DOI: 10.1016/j.jfineco.2015.08.011

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