CEO identity and labor contracts: Evidence from CEO transitions

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Abstract

This paper assesses how CEO transitions shape labor contracts within firms. We argue that family links between a new CEO and his predecessor act as a commitment device for upholding implicit contracts with the workforce. Consistent with this view, we find evidence of a wage insurance mechanism during a CEO transition. Dynastically-promoted CEOs relative to external CEOs are associated with up to 25% less job separations and 20% lower wage growth. Crucially, we show that differences, in terms of job separations, between dynastic and non-dynastic CEO successions are significantly greater when labor markets are more frictional.

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JEL classification:
D23
G34
J33
J53
M14

Keywords:
CEO choice
Dynastic management
Labor contracts

1. Introduction

A growing body of literature studies the role played by CEO attributes in shaping employment policies within firms. However most of these papers have abstracted from the role played by CEO turnover in the design of labor contracts (Sraer and Thesmar, 2007). This is despite evidence from hostile takeovers that labor contract renegotiations are most likely to materialize when new executive management comes into the firm (Shleifer and Summers, 1987). The reason is that core elements of labor contracts are not explicitly contractible and thus rely heavily on implicit agreements the credibility of which depends on the attributes of and personal links to the acting CEO.

This is the first paper that provides a direct account of the impact of such CEO turnover events on labor contracts. We compare the evolution of unemployment risk and wages around CEO transitions depending on whether or not the CEO successor belongs to the same family as the departing CEO. Belonging to a dynasty of CEOs is one of the strongest signals of loyalty: family-promoted CEOs are likely to share their predecessor’s attachment to the existing workforce and to eventually transmit similar preferences to future CEOs. The idea developed in this paper is that, in contrast to external professionals, CEOs promoted from within the family are bound by the employment promises of their predecessors and can credibly engage into new long term contracts.

⁎ Comments are appreciated and can be sent to laurent.bach@hhs.se, nicolas.serrano-velarde@unibocconi.it. We thank Steve Bond, Eve Caroli, Michael Devereux, Daniel Ferreira, Clemens Fuest, Luigi Guiso, Marco Pagano, Benjamin Lockwood, Colin Mayer, Andrea Polo, Fabiano Schivardi, Joel Shapiro, David Thesmar and John Van Reenen for helpful comments. We would also like to thank seminar participants at EUI, LSE, Oxford University, Stockholm School of Economics, SBS Labour and Finance Conference 2010 for their numerous insights. Serrano-Velarde gratefully acknowledges financial support from the ESRC (Grant No. RES-060-25-0033).

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We examine this study in a well-suited differences-in-differences setting using matched employer–employee data from France. The main prediction we test is that family-promoted CEOs, relative to external CEOs, are associated with (i) lower job separations for the incumbent workforce and (ii) lower wage raises for the incumbent workforce and lower entry wages for the arriving workforce. The intuition is that following an external CEO turnover workers need to be compensated for the greater termination risk they face (Azariadis, 1975; Bailly, 1974). We find that job separations following CEO turnovers are about 25% lower after a dynastic transition while wage growth is simultaneously 20% lower.

The main empirical challenge is that neither firms experiencing dynastic transitions nor firms experiencing transitions to external professionals can be considered random draws. To address this issue we first use as an instrument the information contained in the name of the firm prior to the transition about dynastic intentions of the incumbent CEO. The magnitude of all the estimates increases with respect to our baseline results.

Our implicit contract hypothesis can be further disentangled from alternative theories on the basis of industry differences in the benefits of wage insurance. Greater commitment to long-term contracts associated with family management should be more valuable in industries where (i) external labor markets are more frictional and (ii) labor relations are more conflictual. Indeed, we find evidence that differences between dynastic and non-dynastic CEO successions in terms of job separations are significantly stronger in those industries.

Finally we also show that differences in labor policies are (i) directly affected by private benefits from dynastic management, (ii) that these differences are not driven by the ex-CEO remaining on the board of the firm, (iii) are not driven by the composition of our control group, and finally (iv) are not driven by changes in the financial structure of the firm.

Our paper most directly contributes to the literature relating inherited management to employment policies. Sraer and Thesmar (2007) shows, in a cross-section of publicly listed French firms, that heir-managed firms offer lower wages but also shield their workforce from industry-wide shocks. It is not clear however whether these two stylized facts are linked to each other by an implicit contracting mechanism, let alone caused by the identity of the CEO, given that, in the cross-section, there cannot be any within-firm variation in either CEO identity or labor contracts. Ellul et al. (2014) also rely on a static definition of family involvement but extend the analysis to a cross country setting. Our paper makes similar predictions but relies instead on a dynamic definition of family involvement. This allows us to not only establish a direct link between dynastic management and the implicit contracts hypothesis but also to pinpoint the time at which commitment provided by CEO choice is of greatest importance.

Our paper also contributes to recent work that focused on the impact of large individual blockholders on human resource management. Bassanini et al. (2010) shows, in a cross-section of French firms, that firms with large individual blockholders provide more employment security to their workforce. Contrary to this paper we show that, in the particular case of employment policies, important differences arise on the basis of management rather than ownership characteristics. Management identity may indeed have a distinct effect on employment practices because CEOs interact with the workforce on a regular basis and thus are more likely to draw a private benefit from taking decisions that are advantageous to them (see Cronqvist et al. (2009)).

The remainder of the paper is organized as follows. Section 2 presents a detailed discussion of the dataset and of the variables used in the analysis. Section 3 presents the theoretical and empirical framework that embeds the analysis. Section 4 presents the main empirical results as well as various robustness checks. Section 5 concludes.

2. Data description

2.1. Data sources

Our empirical analysis combines a unique dataset on French CEO transitions for the period 1997 to 2002 together with balance-sheet and matched employer–employee datasets for the period 1995 to 2004. As in Bach (2010), we identify CEO transitions on the basis of CEO names available in the DIANE dataset, a dataset covering all French corporations. Firm- and industry-level datasets are based on accounting data extracted from tax files, as in Bertrand et al. (2007). Finally, our main source of information on firms’ labor contracts comes from matched employer–employee data. This dataset consists of mandatory employer reports of the gross earnings of each employee subject to French payroll taxes and is similar to the one used by Abowd et al. (1999). It covers all employed persons in the economy and provides information about an individual’s age, gender, occupation, total net nominal earnings during the year, and hours worked. In addition, it contains information about whether the individual began or left his employment at the plant during the year.2

2.2. Data organization

Between 1997 and 2002, we compare monthly issues of DIANE in order to track CEO successions. Given the occurrence of a succession, we compare the spouse and maiden name of both the departing and the incoming CEO in order to track the dynastic status of each CEO transition. Whenever departing and incoming CEOs share the same name, we classify a CEO succession as dynastic. We exclude foreign-owned firms as well as firms in which the arriving CEO is another corporation.3 Focusing on firms that experienced

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1 We thus focus on the French economy, where Bach (2010) estimates that more than one in five employees in the private sector work in dynastically managed firms, in line with various countries including the US (Astrachan and Shanker, 2003; Franks et al., 2012).

2 In this dataset there is, however, no employee identifier that would allow us to re-trace the entire sequence of labor contracts across more than two periods.

3 For an in-depth discussion of the data we refer the reader to Bach (2010).
a single CEO succession between 1997 and 2002, we obtain a dataset of more than 14,000 observed successions, 20% of which could be identified as dynastic transitions.

We thus classify firms as dynastic on the basis of the successor CEO’s name. This categorization has two important implications for our analysis. First, it defines dynastic firms on the basis of direct involvement of the family in running and directing the firm as opposed to a simple ownership perspective. Indeed, welfare paternalism, understood as an implicit labor contract, is generally thought by business and labor historians to be linked to the figure of the CEO rather than to the more general concept of closely held corporations. Second, the comparison group of non-dynastic CEOs might include not only family-directed firms that become non-family-directed, but also non-family-directed firms in which an external CEO replaces another external CEO. We will discuss and address this last issue later on.

For each firm experiencing a CEO transition, we extract employee tax files for the entire workforce. The workforce hierarchy is identified on the basis of the occupational status declared by the employer. For each of these employees we first identify their position within the firm, daily wages, occupational status and age. This information is available for each employee for the current and the previous year of observation. Note that the administrative data do not distinguish between different modes of employee exit such as redundancies or voluntary exits. Even such detailed information would be difficult to interpret given that institutional (labor and pension laws) and cultural conventions would lead employers to under-report redundancies. We aggregate workforce job separations, hirings and promotions at the firm level and divide it by total workforce size at the beginning of the year. We also average the wage level, wage raises, and the skill and age composition of the firms’ workforce. Within the overall workforce of the firm, we compute these measures separately for different hierarchical categories within the firm so as to explore potential heterogeneity in labor contracts according to the skill composition within the firm. The reader is referred to Appendix A for a detailed description of all the variables.

Consistent with the view that personal links between the parties are central to an implicit contract, our analysis focuses mainly on intermediate layers of the firm composed of non-executive, white-collar workers. Within this intermediate layer of non-executive management we then distinguish between high management such as engineers and administrators, and middle management composed of salesmen and product line managers. We mainly focus on intermediate layers of the workforce for three reasons. First of all, CEOs are unlikely to feel bonded to individuals they do not interact with regularly and/or to whom they can hardly identify themselves, as suggested by results from Cronqvist et al. (2009) and Landier et al. (2009). Second, wage contracting with blue-collar workers in Europe is strongly bound by minimum wage laws (Kramarz and Philippon, 2001). This puts a constraint on the wage level, wage raises, and the skill and age composition of the firms’ workforce. Within the overall workforce of the firm, we then distinguish between high management such as engineers and administrators, and middle management composed of non-executive, white-collar workers. Within this intermediate layer of non-executive workers we then compute a temporary solution driven by unexpected death or taxes, we also exclude firm successions that involve another CEO transition within the next year.

Table 1 provides descriptive statistics on firm balance-sheet characteristics prior to the CEO transition. On average, we find that firms experiencing dynastic successions are significantly smaller, both in terms of employment and sales, than firms experiencing transitions to external professionals. Dynastic successions occur in firms with a workforce half the size of non-dynastic ones, on average. This is in line with previous findings by Bennedsen et al. (2007) that indicate that dynastic firms in Denmark are four times smaller in terms of assets than non-dynastic ones. Note also that the frequency of dynastic transitions, although roughly comparable, is slightly lower than in the Danish case. This may be due to the fact that our sample covers on average larger firms. Firms experiencing a dynastic transition also do significantly better in terms of profitability prior to the CEO change. The average profitability of dynastic firms during the two years preceding the transition is 1.3 percentage points higher than the average profitability of non-dynastic firms. Such evidence is consistent with several explanations. It might hint at the endogeneity of the timing of the transmission decision (Bennedsen et al., 2007) or possibly at the existence of significant founder effects (Adams et al., 2005). Finally, while we do not have direct information about the identity of the dynastic successor, Bach (2010) computed, for a subsample of our firms, the age difference between the exiting and arriving CEO. He shows that the age difference in successive CEOs in dynastic firms is on average 20 years, while it is only about 8 years for firms experiencing outside successions.

3. Theoretical and empirical framework

3.1. Theoretical framework

The theoretical framework draws on the literature on implicit contracts and job security (Azariadis, 1975; Bailly, 1974). The idea is that firms and workers not only negotiate about wages but also about wage variability. Provided workers are risk-averse relative to a

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4 James (2006) provides an analysis of paternalism in family firms in the iron industry; Moutet (1975) describes the characteristics of paternalism among French industrial firms at the beginning of the 20th century.
Table 1
Firm characteristics prior to CEO change.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Type of succession</th>
<th>All</th>
<th>Dynastic</th>
<th>Non-dynamic</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>(2)</td>
<td>(3)</td>
<td></td>
<td>(4)</td>
</tr>
<tr>
<td>Total Employment</td>
<td></td>
<td>181</td>
<td>90</td>
<td>202</td>
<td>−112**</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(22)</td>
<td>(11)</td>
<td>(27)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>[14661]</td>
<td>[2795]</td>
<td>[11866]</td>
<td></td>
</tr>
<tr>
<td>Total Sales</td>
<td></td>
<td>36.6</td>
<td>15</td>
<td>43</td>
<td>−28***</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(2.7)</td>
<td>(1.9)</td>
<td>(3.3)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>[14659]</td>
<td>[2794]</td>
<td>[11865]</td>
<td></td>
</tr>
<tr>
<td>Age of Firm</td>
<td></td>
<td>18.7</td>
<td>21</td>
<td>18</td>
<td>3***</td>
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<tr>
<td></td>
<td></td>
<td>(.11)</td>
<td>(.23)</td>
<td>(.12)</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>[13785]</td>
<td>[2694]</td>
<td>[11091]</td>
<td></td>
</tr>
<tr>
<td>Operating Returns on Assets</td>
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<td>.24</td>
<td>.26</td>
<td>.24</td>
<td>.02**</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(.08)</td>
<td>(.01)</td>
<td>(.00)</td>
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<td></td>
<td></td>
<td>[14661]</td>
<td>[2795]</td>
<td>[11866]</td>
<td></td>
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<tr>
<td>Debt to Assets Ratio</td>
<td></td>
<td>.49</td>
<td>.39</td>
<td>.51</td>
<td>−.12***</td>
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<td>(.00)</td>
<td>(.01)</td>
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<td>[14659]</td>
<td>[2794]</td>
<td>[11865]</td>
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</tbody>
</table>

Note: The table reports average firm balance-sheet characteristics over the two years preceding the CEO transition. CEO successions are classified into two groups: Dynastic, when the new CEO shares the same name with the departing CEO, Non-dynastic otherwise. See Appendix A for the definition of categories and variables. Standard errors are reported in parentheses and the number of observations in square brackets.

*** Significance at the 1% level.
** Significance at the 5% level.
* Significance at the 10% level.

Firms’ shareholder they will be willing to trade off lower wages in exchange for a tacit commitment of the firm to guarantee and insulate the employment status of the worker. The firm will be willing to do so if what it saves on the wage bill compensates for the losses due to its commitment on the stability of employment. However, given that such contracts are implicit, the ability to make such promises depends on the credibility of the firm management in committing to no ex-post renegotiation.

The intuition that dynamic firms can credibly commit to provide job security in exchange for lower wages goes as far back as Shleifer and Summers (1987). Dynastic CEO transitions are costly and signal a willingness to keep the future of workers feeling betrayed by a supposedly caring company. In other words, expectations by workers that their employer will keep them under all circumstances, which are critical to the implicit contract between dynamic firms and their employees, may be drastically reupdated downwards.

However, this simple intuition has so far only led to static tests in which a job separation and wage pattern over a long period is related to the identity, dynastic or not, of the main owner during that period (Sraer and Thesmar (2007)). This is as if, from the workers’ perspective, firms never switched from the status of a safe dynamic firm to that of a more volatile professionally-managed corporation. This is clearly a strong assumption: as shown in Shleifer and Summers (1987), business history is filled with examples of workers feeling betrayed by a supposedly caring company. In other words, expectations by workers that their employer will keep them under all circumstances, which are critical to the implicit contract between dynamic firms and their employees, may be drastically reupdated downwards.

This typically happens at times of control transitions: the departure of the founding family from control of the firm is a sharp event whose consequences on labor relations cannot be fully anticipated by the workers. Those outside CEO successions, especially among private firms, are more often than not hidden from workers by founding owners until a deal with future leaders of the firm is finalized, little time before the transition takes place. Such a lack of preparation, not uncommon even in listed firms, means that CEO transitions to outsiders should lead workers’ expectations to brutally change around that time. At that point, implicit contracts cannot be sustained, leading to a new equilibrium contract in which job separations are more frequent but wages are higher. Reversely, CEO transitions to family members naturally confirm the owners’ commitment to their workers. Therefore, those events tend to sustain preexisting implicit contracts with low wages but infrequent job separations. This leads us to our two main propositions:

**Proposition 1.** There are fewer job separations following a dynastic CEO transition than after an outside CEO transition.

**Proposition 2.** Following an outside CEO transition, wages of the new generation of workers are higher than if the founding family stays in place after the departure of the founder. Wage raises of remaining workers should also be more likely following an outside transition.

Testing those predictions in the data is already an original step in the literature. However, it is clear that endogeneity is a primary concern here given that the decision to yield control to an outsider can be driven by an anticipation of bad times ahead for the firm. To do so we find a predictor of dynastic transitions that is likely uncorrelated with business prospects at the time of the transition. As
Bennedsen et al. (2007) show, some dynastic transitions are driven by business expectations, but many are instead determined by a long-term preference for continuity of the firm within the family. To the extent it is observable to workers, only the latter component of dynastic transitions really matters for implicit contracts. Thus, whatever measure of such a long-term preference for dynastic transitions provides a good instrument for our purposes. Following Burkart et al. (2003) the proposed measure is based on the name of the firm: whenever it contains the name of the founder years before the actual transition, it becomes much more likely that a dynastic transition takes place. This leads to the following proposition:

**Proposition 3.** Firms that bear the name of the incumbent CEO are more likely to undergo a dynastic transition than an outside CEO succession. For that reason, there are relatively fewer job separations and lower wages following a CEO transition taking place in such firms.

To provide further evidence on the mechanism through which dynastic commitment arises we explore the structural characteristics of a firm, uncorrelated with current business trends, that give families a distinct advantage in offering implicit contracts to the workforce. A first distinction one can make is between those cases in which workers stand much to lose from losing their job due to large labor market frictions and those in which employees can quickly rebound in their career following a job separation. In the former case, implicit contracts that provide job security are especially valuable to workers, so the commitment ability of dynastic firms is also more valuable and their relative tendency to offer implicit contracts should be even bigger. In sum, most of the movements in job separations we predict around CEO transitions should be magnified in such contexts:

**Proposition 4a.** There are relatively fewer job separations following a family CEO transition in industries where labor markets are frictional.

The underlying hypothesis we assume here is that firms do not resort more to outside transitions in bad times when workers have a harder time finding a new job. Labor markets are typically more frictional when human capital is more firm-specific. Turning around firms from such industries is probably more difficult for an outsider, so we are confident about the robustness of our identifying hypothesis here.

A second important distinction arises from the link between the value of commitment and labor relations. For instance, Mueller and Philippon (2011) argue that implicit contracts require a high amount of trust between parties, so where labor representatives and employers tend to be uncooperative toward each other, the trustworthiness of dynastic firms should give them a competitive edge in proposing implicit contracts. In turn, when such trustworthiness disappears at the time of a CEO transition, the subsequent decrease in employment protection should be larger when workers are in a strong bargaining position. We can therefore make the following prediction:

**Proposition 4b.** There are relatively fewer job separations following a family CEO transition in industries where workers’ bargaining stance is tough.

There the assumption is that it is unlikely that firms resort more to outside transitions in bad times when worker unions are tough. If anything, hard-line unions, particularly in France, have a reputation for being quite insensitive to current economic conditions in their bargaining stance. This means that non-trusted employers should if anything be less willing to take over a firm dominated by hard-line workers in bad times.

### 3.2. Empirical framework

#### 3.2.1. Differences in differences

We now turn to the empirical framework for assessing the impact of dynastic CEOs on the employment policies of firms. We exploit a well suited difference-in-difference methodology and estimate the following model by OLS:

\[
\left[ Y_{i,t+2} - Y_{i,t-2} \right] = \alpha_{\text{Dynastic}_i} + X_{it-1}\beta + \epsilon_{it}
\]  

where we compare the average job separation intensity in firm \( i \), during the two years following a transition, \( Y_{i,t+2} \), with the average job separation intensity in firm \( i \) during the two years preceding a transition \( Y_{i,t-2} \). Dynastic \( i \) is a binary indicator of whether the transition was dynastic, and \( X_{it-1} \) are controls measured one year prior to the succession. To test Proposition 2 we will use wage information, constructed on the same principle, as a left-hand-side variable.

Note that, controlling for firm fixed effects, the identifying condition is that if two firms would have had the same type of CEO transition, they would also have experienced the same changes in job separation rates. Although this identifying assumption is non-testable, one can discuss its relevance. We will show in the graphical analysis that the differences-in-differences framework seems pertinent since (i) both groups of firms are on similar time trends before the CEO transition, and (ii) the difference in employment policies occurs through a level shift just after the CEO transition.

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\footnote{Bennedsen et al. (2013) find evidence for a very similar argument that family firms should have a particularly high comparative advantage in recruiting when labor markets are more regulated.}
All specifications include controls for observable differences likely to affect both the identity of the successor CEO and restructuring needs. First of all, estimation includes the usual balance-sheet characteristics such as firm size, profitability and age as well as industry, business group, and year fixed effects. Second, we also add workforce characteristics in terms of age and organizational structure, which seem to significantly differ across both groups. These workforce characteristics affect, via legal obligations, the possibility for newly arrived CEOs to restructure the firm.\textsuperscript{6} Finally, analysis of the data reveals that there is a high degree of mean reversion in the level of restructuring: firms that undergo few episodes of restructuring before the succession are more likely to have greater restructuring after the succession. This is why we control in our regressions for the average level of restructuring pre-succession. All specifications are estimated using heteroskedasticity-robust estimation techniques.\textsuperscript{7}

3.2.2. Endogeneity and instrumental variables

To address concerns about the endogeneity of the transition decision, we implement the instrumental variable approach described in Proposition 3 and use eponymous firms to instrument for dynastic intentions. We require the name of the firm to influence restructuring decisions of the firm only through its impact on the identity of the successor. Our argument is that the exclusion restriction holds when conditioning on both observable and time constant unobservable characteristics. We consequently estimate by Two Stage Least Squares the following system:

$$
\begin{align*}
\text{Dynastic}_i & = \phi \text{ Eponymous}_i + X_{it} - Y + \nu_{it} \\
\left[Y_{t+1,2} - Y_{t-1,2}\right]_i & = \alpha \text{ Dynastic}_i + X_{it-1} \beta + \epsilon_{it}
\end{align*}
$$

(2)

where Eponymous\textsubscript{i} is a binary indicator of whether or not a firm shares the same name as the incumbent CEO. Under the usual IV-LATE assumptions, we thus obtain the average causal impact of dynastic transitions on the subset of compliers.

3.2.3. Endogeneity and differential predictions

On the basis of the evidence in Bennedsen et al. (2007), we have already recognized that a potential concern is that precisely at the time of a transition economic shocks arise determining both the identity of the new CEO and his labor policies. Insofar as these shocks are not captured by either time or firm fixed effects, and that our instrumental variable is static, part of the observed correlation between dynastic CEOs and labor policies may then be due to a self-selection effect.

However, we can draw on the differential predictions outlined in Propositions 4a and 4b and put them empirically to the test by relating the relative benefits from family management to labor market frictions and labor relations within an industry. This approach aims to provide an additional piece of evidence consistent with a model where family-promoted CEOs are committed to upholding long-term labor contracts, while being hard to rationalize with a story of self-selection. Indeed, if the differential between dynastic and non-dynastic CEOs in terms of labor policies is driven by economic shocks, then such a differential (i) should not vary as a function of industry labor market characteristics (Proposition 4a), and (ii) should not vary as a function of labor relations in the industry (Proposition 4b).

We test this prediction by splitting our industries into two categories according to these dimensions. To do so we construct labor market characteristics and labor relation characteristics on the industry level and define industry \(m\) to be\textsuperscript{Frictional} or \textsuperscript{Conflictual} if it lies above the median of the industry distribution of the underlying variable. We then include the \textsuperscript{Frictional} and \textsuperscript{Conflictual} industry indicator and its interaction with the transition type in the estimated equation:

$$
\left[Y_{t+1,2} - Y_{t-1,2}\right]_i = \alpha_1 \text{Dynastic}_i + \alpha_2 \text{Conflictual}_m + \alpha_3 \text{Dynastic}_i \times \text{Conflictual}_m + X_{it-1} \beta + \epsilon_{it}.
$$

(3)

Alternatively, we have:

$$
\left[Y_{t+1,2} - Y_{t-1,2}\right]_i = \alpha_1 \text{Dynastic}_i + \alpha_2 \text{Frictional}_m + \alpha_3 \text{Dynastic}_i \times \text{Frictional}_m + X_{it-1} \beta + \epsilon_{it}.
$$

(4)

If differences in labor policies between dynastic and non-dynastic firms are driven by economic shocks and not by the value of dynastic management, then we should not expect \(\alpha_3\) to be statistically different from 0. Evidence inconsistent with this prediction would make us more confident that we are indeed capturing the effect of dynastic management and its associated commitment value.

3.2.4. Measurement issues

As explained above, dynastic firms’ ability to make credible promises stems from the following two characteristics: (i) control of the firm by the family is unlikely to disappear, and (ii) family members are likely to have developed a strong personal bond with the

\textsuperscript{6} During the analyzed period the “Contribution Delalande,” for instance, penalized firms that laid off workers over the age of 50.

\textsuperscript{7} Note that we also jointly estimated the equations for job separations and wage changes in a seemingly unrelated regression system to account for possible cross-equation error correlation. The economic and statistical interpretations of our estimates are robust to this alternative estimation method. More importantly we find a positive correlation between the estimates on dynastic management for separations and wages. We thank the referee for highlighting this point.
workforce. In other words, what matters is that both control and management remain dynastic. In the data, however, we observe only CEO identity but do not track ownership status. We will address this issue in our robustness checks but it is useful to also conceptually discuss this potential data limitation. The case in which a family member is followed by another family member poses no major conceptual problem. When an external CEO transition takes place several cases may arise:

1. Family management and ownership switch to external;
2. Family management switches but ownership remains with the family;

**Fig. 1.** Differences in differences. Note: The figure plots average job separation rates (left-hand side) and wage raises (right-hand side) for the workforce of dynastic (black, square) and non-dynastic (red, triangle) firms for each year before and after the control transition. All, High, Middle refers to management categories defined on the basis of the “Categories Socioprofessionnelles” classification used by INSEE.
3. Non-Family management switches but ownership remains with the family;
4. Non-Family management switches to family management but ownership remains with the family;
5. Non-Family management switches and dispersed ownership switches to family control;
6. Non-Family management switches and ownership remains dispersed.

Descriptive evidence from Denmark suggests that the first case by far is the most common among closely-held firms (cases 1 to 4): Bennedsen et al. (2004) report that when a firm is controlled by a family or an individual there are more than 90% chances that the CEO is drawn from the population of shareholders. Moreover, even among bigger firms, Bennedsen et al. (2012) have shown for Japan that the fourth case, in which non-family management switches back to family management is only very rarely observed. Dispersed ownership (cases 5 to 6) is negligible in our sample: Bach (2010) finds in a similar sample that only about 14% of CEO successions take place in listed firms, most of which are closely-held according to Sraer and Thesmar (2007). In fact, the most interesting alternative case that we fail to measure is the second one, in which the founding family remains the owner but management is given to an outsider. In Japan, Bennedsen et al. (2012) have shown that this situation is relatively frequent among closely-held listed firms, and potentially as well in mid-sized firms such as the ones in our data. However, over the life cycle of Japanese firms post-IPO, this case always represents between 15% and 25% of the cases, even as “full” family firms, owned and managed by founding family members, are gradually replaced by widely-held and professionally-managed firms. This suggests that founding family members typically start opening the CEO position to outsiders and then gradually sell their ownership stake. If that is the case, workers should rightly anticipate the gradual decline of family ownership when the CEO is not from the family anymore and implicit contracts shall not be as sustainable as they used to be from the day that a professional manager is nominated. In sum, our simple definition of an outside control transition as a switch in management toward a non-family member should encompass most events in which the amount of trust between the firm and its employees suddenly declines. The remaining measurement errors, while of limited magnitude as we argue here, should only bias our results against finding any difference between treatment and control groups.

4. Differences-in-differences analysis

4.1. Graphical analysis

Fig. 1 in Appendix A provides a first insight into changes in employment policies following a change of CEO. In that figure we plot the trade-off between job security in terms of job separation rates (left-hand side) and wage dynamics in terms of wage raises (right-hand side) for the workforce of dynastic and non-dynastic firms for each of the two years before and after the control transition.8

Firms experiencing dynastic successions differ with respect to firms experiencing non-dynastic transitions even prior to the transition. Both separation rates and wage raises are significantly lower before control transitions for dynastic firms compared to non-dynastic ones. Such level differences are actually in line with our implicit contract hypothesis and broadly correspond to the stylized facts on dynastic firms established by Sraer and Thesmar (2007). One also notices the existence of a structural increasing trend in job separation rates and wage raises around the time of succession. However, the trajectories of separation rates and wage raises appear parallel for both groups before the succession.

At the time of a CEO transition, baseline differences in labor policies are reinforced through the choice of the successor CEO. Indeed the difference in average separation rates jumps from 3 percentage points before the transition to over 5 percentage points after the transition. A naive interpretation of these figures therefore suggests that the dynastic identity of the CEO successor reduces job separation rates by about 2 percentage points. The constant difference following the succession suggests that the change in job separation behavior occurs right after the succession and is persistent (up to two years after the succession). At the same time average wage raises of the management workforce also displays a jump after the control transition. The difference between the two groups increases from 1.5 percentage points to over 2.5 percentage points for the high management category. These differences also appear across workforce categories.

These descriptive statistics would suggest that observed differences in labor policies between dynastic and non-dynastic firms prior to the transition are reinforced under the successor CEO. In other words family-promoted CEOs might inherit not only control of the firm but also a set of long-term commitments that affects the scope of firm restructuring. However, in our descriptive statistics we showed that both groups of firms differ on other dimensions potentially correlated with employment policies. The next step is therefore to account for such differences in a multivariate setting.

4.2. Dynastic management and renegotiation

In Table 2 we first investigate whether the identity of the successor CEO affects separation rates of the workforce. According to our central hypothesis, dynastically promoted CEOs should be more constrained by contracts signed under the previous management and should thus be less likely to engage in restructuring the workforce. Consequently, the intensity of workforce job separations should be lower under dynastic transitions compared to non-dynastic ones.

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8 As in Bennedsen et al. (2007), we exclude the transition year itself.
The table reports OLS regressions of the effect of a dynastic transition on changes in job separation rates (cols. 1–3) and changes in average tenure of the workforce. See Appendix A for the definition of variables. Robust standard errors are reported in parentheses.

The table reports OLS regressions of the effect of a dynastic transition on changes in job separation rates (cols. 1–3) and changes in average tenure of the workforce. See Appendix A for the definition of variables. Robust standard errors are reported in parentheses.

Table 2 confirms visual inspection of the differences-in-differences plots: separation rates increase less in the case of dynastic transitions. Column (1) indicates that transitions from one family member to another decrease job separation rates of management by 3.3 percentage points, on average, compared to transitions to external professionals. In terms of magnitude, family-promoted CEOs are therefore associated with an approximately 25% decrease in unconditional separation rates following CEO transition. The impact of the successor CEO’s identity dwarfs other economic variables such as the profitability of the firm. Indeed, an increase by one standard deviation in firm profitability before the transition reduces separation rates only by 1.1 percentage points (.38*.028). Columns (2) and (3) suggest that the less volatile employment relationship related to dynastic transitions extends to the different managerial levels in the firm. Note, however, that graphical analysis suggests a lower job separation rate of around 2 percentage points, compared to 3.3 percentage points in our multivariate analysis. This difference may not be statistically significant. Yet, if it were significant, it would point to the existence of confounding factors driving the difference in evolution of the two groups toward zero, thus leading to an underestimation of the effect of family successions.

Finally, note that control variables have the expected sign and are generally statistically significant. Age of the firm and of the workforce reduce job separation rates at the moment of a CEO transition. Greater profitability prior to the transition is also associated with less restructuring of the workforce. Only total employment and the management to workforce ratio, as proxies for the scope for restructuring, are associated with higher restructuring during a CEO transition.

4.3. Dynastic management and wage dynamics

According to Proposition 2, the higher turnover in non-dynastic firms should also be associated with greater wage compensation in these firms, since external CEOs will need to compensate workers for the greater termination risk of their employment (Bailly, 1974). Table 3 investigates costs associated with increased job separation risks in terms of wage compensation for the incumbent workforce (col. 1) and in terms of entry wages for the arriving workforce (col. 2). We focus on wage raises of incumbent employees for several reasons. First, the wage level for the incumbent workforce around transitions is to some extent locked into existing contracts, so it only makes sense to look at how wage growth evolves for those workers. Reversely, because wage levels are typically decided upon hiring, dynastic CEOs can use the long term credibility generated by the CEO transition to write long-term contracts with lower wage levels for the newly hired workforce. Secondly, around external CEO transitions it may well be that only the most productive employees remain, thereby leading to a higher wage level for incumbent employees after an outside transition. The evolution of incumbents’ wage raises is to a large extent immune to this problem, unless outside managers retain employees not on the basis of their current productivity but on that of their expected individual productivity growth, a hypothesis that is harder to defend using arguments from personnel economics.
Col. 1 in Table 3 shows that external transitions are associated with a significant increase in wage raises on the order of 7.2 percentage points. However, this increase in wages is less pronounced in the case of dynastic transitions. Dynastic transitions reduce wage raises associated with control transitions by 1.9 percentage points. This difference is highest for the high management category where dynastic transitions lower wage raises by 2.1 percentage points. These differences are statistically significant and valid across management categories. Col. 2 in Table 3, on the other hand, investigates how entry wages evolve at times of control transitions. Once the CEO change. Family-promoted CEOs are associated not only with significantly larger wage increases.

In summary, we find that the differences in labor policies observed prior to the CEO transition are reinforced at the moment of the CEO change. Family-promoted CEOs are associated not only with significantly lower separation rates of the workforce compared to external CEOs, but also with a greater negative wage differential of the incumbent and hired workforce. Taken together, these findings are consistent with our hypothesis of the greater commitment of family-promoted CEOs to long-term contracts while hard to rationalize relying only on self-selection. Indeed adverse economic shocks can lead to non-dynastic transitions but should not be associated with significantly larger wage increases.

4.4. Instrumental variables

In Table 4 we instrument the probability of observing a dynastic transition by a dummy variable equal to 1 when the firm shares the same name as the incumbent manager three years before the succession. Column (1) presents first stage estimates, whereas Columns (2), (3) and (4) present results of the two stage least squares strategy on employment policies. All results are presented with respect to their impact on the overall management but extend to the different subcategories.

First stage estimates suggest that eponymy between the incumbent CEO and the name of the firm significantly increases the likelihood of a dynastic transition. The odds increase by 22 percentage points and are highly significant (t-statistic of 23). We therefore have a strong instrument to ex ante predict the dynastic character of a succession. The magnitude of all the second stage estimates increases with respect to OLS estimates. In column (2), the average reduction in job separation rates associated with dynastic transitions increases from 3.4 percentage points to over 4.8 percentage points, the difference being statistically significant. In column (3), the magnitude of the coefficient on dynastic transitions on wage raises of the incumbent workforce increases threefold. On average, 3.5% premium on wages to newly hired managers. This finding is consistent with our hypothesis of the greater commitment of family-promoted CEOs to long-term contracts while hard to rationalize relying only on self-selection. Indeed adverse economic shocks can lead to non-dynastic transitions but should not be associated with significantly larger wage increases.
but confirms that external transitions are associated on average with increased wages for the newly hired workforce. All the evidence therefore suggests that the self-selection bias leads to an underestimation of the commitment effect of family-promoted management.

The central hypothesis developed in this paper is that dynamic management of a firm is associated with less restructuring of the workforce. We now turn to the differential predictions about the link between CEO identity and restructuring that are consistent only with our dynamic management hypothesis.

### 4.5. Dynastic management and labor market conditions

If the differential between dynastic and non-dynastic CEOs in terms of restructuring is driven by long-term contracts signed under the previous management, then such a differential should be stronger whenever external labor markets in the industry are more frictional. Conversely, if differences between dynastic and non-dynastic transitions arise due to unobserved profitability shocks, then these differences should not be affected by structural labor market conditions in the industry.

We hypothesize that dynamic commitment, understood as implicit unemployment insurance, should be more valuable to workers in industries where the probability to stay unemployed once exiting employment is high. Although industry labor market conditions in a given year are very likely to be correlated with the shock affecting the transition firms, this is less likely when computing these measures (i) on a long time horizon and (ii) on the universe of French firms.

We construct information on industry labor market frictions by computing the probability for an employee, once laid off, to be unemployed after X months, where the time horizon X is successively defined as being 3, 6, 12 and 24 months. In order to construct this measure we use information from the universe of panel workforce files for the period 1994–2001. We focus on men between 25 and 54 years of age who leave a firm in which they were employed for at least 3 consecutive years. The panel then allows us to identify the fraction of employees who have not found stable employment after a certain time. Again, we classify frictional industry labor markets as industries with above median industry averages in terms of the fraction of the workforce that remains unemployed in a given year.

Table 5 estimates the differences-in-differences model but interacts the identity of the successor CEO with the variable classifying industry-level labor market conditions as frictional or not. Columns (1) to (4) successively define the classification for being unemployed after 3, 6, 12 and 24 months.

Column (1) confirms our hypothesis about the higher value of long-term commitment in industries in which it takes longer to find a new employment. Indeed, the dynastic identity of the successor still has a negative and statistically significant impact on job separation rates. However, the differential between dynastic and non-dynastic firms’ employment policies is larger in industries where labor markets are frictional. On top of the baseline differential between dynastic and non-dynastic CEOs, the former tend to lay off an additional 1.7 percentage points less than their non-dynastic counterparts in markets with difficult labor market conditions. These differences are significant and of similar magnitude in the different specifications. Interestingly, frictional industries in terms of job search have no direct impact on job separations at the time of a transition. This indirectly confirms that the classification is not correlated with firm-specific shocks affecting separation needs but with intrinsic industry labor market characteristics. Finally,

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9 Stable employment being defined as any new employment in which the worker stays for longer than 3 months.
these results also contradict the view that job separations in external transitions might be linked to voluntary exits. Indeed, if this was the case then we would expect these voluntary exits to be higher in labor markets which are not frictional. Our results are consistent with Agrawal and Matsa (2010) who show, using a sample of publicly listed US firms, that the positive correlation between legally mandated unemployment benefits and firm leverage is stronger for firms where workers face greater unemployment risk and that are more likely to fire workers in adversity.

4.6. Dynastic management and labor relations

A second discriminating prediction between our alternative theories comes from the role played by labor relations within an industry. We obtain information on French employment relations through the 1998 REPONSE survey. This survey collects evidence about numerous aspects of employment relations. The data cover all economic activities and are representative of French firms.

Table 5
Dynastic management and labor market environment.

<table>
<thead>
<tr>
<th>Dependent variable: management job separation rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 months</td>
</tr>
<tr>
<td>Dynamic Transition</td>
</tr>
<tr>
<td>(0.01)</td>
</tr>
<tr>
<td>Difficult Labor Mkts</td>
</tr>
<tr>
<td>(0.01)</td>
</tr>
<tr>
<td>Dynamic*Labor Mkts</td>
</tr>
<tr>
<td>(0.01)</td>
</tr>
<tr>
<td>Controls</td>
</tr>
<tr>
<td>Pre-Transition Levels</td>
</tr>
<tr>
<td>R-squared</td>
</tr>
<tr>
<td>N</td>
</tr>
</tbody>
</table>

The table reports OLS regressions of the effect of a dynastic transition on changes in job separation rates as a function of long-term industry labor market conditions. Long-term industry labor market conditions are computed on the basis of the fraction of laid-off workers who did not find a new occupation after X months, where the length of time is successively defined as 3, 6, 12 and 24 months. Controls include Age of Firm, Total Employment, Profitability, Mgmt to Workforce and Age of Mgmt. See Appendix A for the definition of variables. Robust standard errors are reported in parentheses.

*** Significance at the 1% level.
**  Significance at the 5% level.
*   Significance at the 10% level.

Table 6
Dynastic management and industry labor relations.

<table>
<thead>
<tr>
<th>Dependent variable: changes in management job separation rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
</tr>
<tr>
<td>Dynamic Transition</td>
</tr>
<tr>
<td>(0.01)</td>
</tr>
<tr>
<td>Conflictual Ind.</td>
</tr>
<tr>
<td>(0.00)</td>
</tr>
<tr>
<td>Dynamic*Conflict</td>
</tr>
<tr>
<td>(0.01)</td>
</tr>
<tr>
<td>Controls</td>
</tr>
<tr>
<td>Pre-Transition Levels</td>
</tr>
<tr>
<td>R-squared</td>
</tr>
<tr>
<td>N</td>
</tr>
</tbody>
</table>

The table reports OLS regressions of the effect of a dynastic transition on changes in job separation rates as a function of industry labor relations. Col. (1) divides industry labor relations on the basis of the unionization of its workforce. Col. (2) divides industry labor relations on the basis of the presence of union representatives, whereas col. (3) considers the presence of hardline union representatives. Col. (4) divides industry labor relations on the basis of the occurrence of soft forms of labor conflicts, whereas col. (5) considers the occurrence of hard forms of labor conflicts. Controls include Age of Firm, Total Employment, Profitability, Mgmt to Workforce and Age of Mgmt. See Appendix A for the definition of variables. Robust standard errors are reported in parentheses.

*** Significance at the 1% level.
**  Significance at the 5% level.
*   Significance at the 10% level.
with more than 20 employees. We construct labor relation variables at the industry level and classify markets as conflictual if the industry average is above the median of the distribution in the economy.

Therefore, in Table 6 we extend our baseline specification introducing an interaction between the identity of the successor CEO and the indicator variable classifying an industry as conflictual or not.

Column (1) uses as a proxy for conflictual labor relations the industry average of unionization of the workforce for the period 1995–1998. Our results are consistent with the above prediction: the differential job separation rates between dynamic and non-dynamic CEOs are nearly twice as high in conflictual markets. The impact of dynamic transitions per se when labor relations are good remains significantly negative, indicating that the difference in job separation rates between dynamic and non-dynamic firms was not simply driven by their clustering in markets with different labor relation structures.

Columns (2) and (3) use as a proxy for conflictual labor relations the industry average of union representatives. Column (2) shows that the differential between dynamic and non-dynamic successions does not vary according to the presence of union representatives in the industry. However, significant differences between dynamic and non-dynamic successions arise in markets where hardline union representatives are more prevalent. Dynamic transitions in these industries are associated with a 5.1 percentage point reduction in job separation rates relative to non-dynamic transitions, compared to a differential of 2.3 percentage in less conflictual industries.

Finally, columns (4) and (5) use as a proxy for conflictual labor relations the occurrence of strikes (col. 5) and more generally of worker protests (col. 4). Our results are again consistent with the prediction that the value of long-term commitment linked to dynastic management varies across industries. The interaction is of the expected sign and individually significant at the 10% level.

4.7. Robustness checks

In this section we provide additional support for the validity of our results and exclude potential confounding factors that could simultaneously drive differences in CEO identity and restructuring activity. Table 7 provides evidence on the direct impact of dynastic intentions on renegotiation (col. 1) and on the distinction between real versus formal control for family-promoted CEOs (col. 2). Column (4) addresses issues related to the composition of the non-dynastic group of firms by re-estimating the DID specification on the subsample of firms with high ex-ante dynastic preferences.

Table 7
Robustness checks.

<table>
<thead>
<tr>
<th>Dependent variable: job separation rates</th>
<th>All Management</th>
<th>Eponymous</th>
<th>All Empl.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dynastic Preferences</td>
<td>−0.014***</td>
<td>−0.034***</td>
<td>−0.014**</td>
</tr>
<tr>
<td></td>
<td>(0.00)</td>
<td>(0.00)</td>
<td>(0.01)</td>
</tr>
<tr>
<td>Dynastic Transition</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Father on Board</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Controls</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Pre-Transition Levels</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Fixed Effects (Industry-BG-Time)</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.255</td>
<td>0.326</td>
<td>0.326</td>
</tr>
<tr>
<td>N</td>
<td>11223</td>
<td>10893</td>
<td>2307</td>
</tr>
<tr>
<td></td>
<td>2307</td>
<td>11662</td>
<td></td>
</tr>
</tbody>
</table>

The table reports OLS regressions of the effect of a dynamic transition on changes in job separation rates. Column 1 directly considers the impact of a proxy for dynastic preferences on labor policies. Dynastic preferences are proxied by a binary indicator equal to 1 if the incumbent CEO and the firm share the same name. Column 2 controls for the presence of the ex-CEO on the board of the firm. Column 3 estimates the baseline specification on the subsample of eponymous firms. Column 4 uses as a dependent variable job separation rates of the entire workforce as computed from the panel workforce. Controls include Age of Firm, Total Employment, Profitability, Mgmt to Workforce and Age of Mgmt. See Appendix A for the definition of variables. Robust standard errors are reported in parentheses.

*** Significance at the 1% level.
** Significance at the 5% level.
* Significance at the 10% level.

As a robustness check to our instrumental variable strategy, we directly include our proxy for high dynastic preferences in our DID estimation instead of the identity of the CEO successor. Results in column (1) of Table 7 remain qualitatively similar: the proxy has a negative, albeit smaller in magnitude, statistically significant impact on job separations.

10 Among French unions, the traditional division is between the “revolutionary” and communist CGT, on the one hand, and the “reformist” and social-democrat CFDT on the other hand. In the 1990s, some “hardline” bits of the CFDT split up and formed a new union called SUD. We count as hardline union members those who belong to either CGT or SUD. See Andolfatto and Labbe (2000) for a description of French unions.
Another issue is related to the difference between real versus formal control in dynastic transitions. In such transitions the ex-CEO might remain the gray eminence of the firm as argued by Morck and Yeung (2004): “Family control endures with patriarchs grooming scions sometimes for decades.” From 2003 onward, the DIANE dataset provides the names of French companies’ board members, for both public and private firms. We use this information on the composition of boards and match their members’ names to the name of the CEO who left the firm. We find that in 23% of dynastic transitions, the ex-CEO is sitting on the board of the firm in 2003. This number drops to only 9% in the case of non-dynastic transitions. In column (2) of Table 7 we extend our DID specification by including an indicator of whether the ex-CEO is still in the firm. We find that (i) the impact of dynastic transitions per se is virtually unaffected in size and precision, and that (ii) the presence of the predecessor on the board has a significant negative impact on separation rates around the time of a CEO transition.11

A potential criticism is that the comparison group of non-dynastic CEOs could be a mixed bag, since it might include not only family-directed firms that become non-family-directed, but also non-family-directed firms in which an external CEO replaces another external CEO. Note that the presence of the latter might indeed account for higher restructuring of non-dynastic firms, since they would not provide ex-ante implicit contracts, but it cannot account for the observed wage dynamics following the CEO transition. Column (3) in Table 7 checks the robustness of our results on employment stability with the use of an alternative comparison group. Column (3) estimates the DID equation on a more homogeneous control group, i.e., eponymous firms in which the transition was non-dynastic. Although sample size is considerably reduced, neither the magnitude nor the precision of our estimate of interest is affected. As a final robustness check with respect to sample composition, we first estimated a propensity score model of dynastic transitions. Using only observations with predicted probabilities of dynamic transition lying between .1 and .9, we re-estimated our specifications and the results were unaffected.12

Finally, we focus on intermediate layers of the firm for two reasons. First, wage contracting with blue-collar workers in France is limited by minimum wage laws. This puts a constraint on the wage-insurance contracting trade-off for blue-collar workers that does not exist for white-collar workers, for whom minimum wage constraints are not binding. Second, because the literature on implicit contracts suggests that these employees are most likely to make firm-specific investments and to experience renegotiation of these contracts. If this is the case, then including low-skill workers in the analysis should drive down the observed differential between job separations in dynastic and non-dynastic firms following a CEO transition. Column (4) estimates the DID specification using the entire workforce of the firm. For administrative reasons, we can, however, use only the random extract from the entire employee tax files. Column (4) indicates that when we include lower levels of the firm workforce, the differential between dynastic and non-dynastic CEO successions in terms of job separations falls from 3.4 pp to 1.4 pp. This confirms that even for the entire workforce, commitment to long-term contracts remains a significant aspect of labor policies. However, as confirmed by the mostly theoretical literature on the subject, it is disproportionately related to labor contracts with intermediate and higher layers of the firm.

5. Conclusions

To the best of our knowledge, this is the first work to investigate the link between CEO choice and employment policies in firms. We exploit time variation in CEO identity and labor contracts to identify the impact of one of the most important CEO attributes, namely family ties. Our evidence suggests that employment policies in dynastically managed firms significantly differ from those in non-dynastically managed firms, as the former have a greater credibility in enforcing long-term labor contracts and an ability to sustain such credibility at times of CEO transitions.

Our main finding is that, at the time of a CEO transition, family-promoted CEOs are associated with lower job separations of the incumbent workforce and lower wage renegotiation. This is in line with an implicit contract model in which the firm offers a joint product, relative to employment and financial intermediation, and workers need to be compensated for the greater termination risk faced after increased renegotiation by external CEOs (Azariadis, 1975; Bailly, 1974). Additionally, our results suggest that the differential between dynastic and non-dynastic CEOs in terms of job separations is significantly greater whenever labor market conditions are more frictional and labor relations in the industry are more conflictual.

Thus, our findings provide support for the view that the connection between CEO identity and labor contracts is due to greater commitment to long-term contracts associated with dynastic management. Such a view has often been expressed in policy circles but, so far, has received little empirical support. To have a grasp of the economic importance of these phenomena, consider a firm experiencing a transition from one family member to another. According to our estimates, these firms’ separation rates remain virtually unchanged, whereas firms experiencing a transition to an external CEO experience a 3.3 percentage point increase in separation rates. In terms of magnitude, family promoted CEOs are therefore associated with an approximately 25% decrease in unconditional job separation rates following a transition. Note that the impact of the successor CEOs dwarfs other economic variables such as the profitability of the firm. Indeed, an increase of one standard deviation in firm profitability reduces separation rates by only 1.1 percentage points (.38* .028).

The paper highlights the importance of CEO attributes in the design of labor contracts. We have focused here on one of the most important attributes, namely family ties of the CEO. Our results open the door for future research on determinants of a CEO’s credibility in the context of the workforce negotiation. Social background, education or career path prior to nomination as a CEO could, for instance act, as a signaling device to induce the trust and credibility necessary for engaging in such implicit contracts.

11 Non-reported specifications using interactions were not statistically significant.
12 Tables available upon request.
Appendix A. Description of variables

White-collar employees have been identified alternatively on the basis of the “Categories Socioprofessionnelles” classification and on the basis of the wage-earning distribution within the firm:

- **All Mgmt**: Employees with CSP categorization below 50;
- **High Mgmt**: Employees with CSP categorization below 40;
- **Middle Mgmt**: Employees with CSP categorization below 50 but above 40;
- **All Empl.**: All employees regardless of CSP categorization.

The dependent variable is the change in the considered outcome computed as the difference between the average two-year post-succession minus the two-year average pre-succession:

- **Job Separation Rates**: Total number of job separations in the considered employment category divided by total workforce in the same category. A job separation is defined as an employee who left the firm during the year and who was employed by this firm at the beginning of the year;
- **Tenure**: (Average) Difference between the year of observation and the starting year of employment;
- **Wage Raise**: (Average) Difference between the weekly wage during the year of observation and the previous year divided by previous year’s weekly wage. The wage measure includes all taxable perks;
- **Promotion Rates**: Total number of promotions in the considered employment category divided by total workforce in the same category. Promotions refer, in the case of the CSP classification, to an employee with a positive change in management classification between the current and the previous year of observation;
- **Hiring Rates**: Total number of hirings in the considered employment category divided by total workforce in the same category. A hiring is defined as an employee of the firm in a given year who did not receive a wage from this firm the previous year.

The following firm characteristics have been measured alternatively one year before the transition (multivariate analysis) or as two-year averages before the CEO transition (descriptive statistics):

- **Dynastic Transition**: Binary indicator of whether the new CEO shares the same name as the departing CEO;
- **Dynastic Preferences**: Binary indicator of whether the ex-CEO shares the same name as the firm three years before the transition;
- **Father on Board**: Binary indicator of whether the ex-CEO is on the board of the firm in 2003;
- **Age of Firm**: Administrative age of the firm as indicated in the BRN tax files;
- **Log of Sales**: Natural logarithm of total sales;
- **Log of Total Employment**: Natural logarithm of total workforce;
- **Profitability**: EBITDA divided by total assets;
- **Mgmt to Workforce**: Total management workforce divided by total employment;
- **Age of Mgmt**: Average age of management workforce;
- **Pre-Transition Levels**: Level of the outcome variable before the CEO transition.

Industry characteristics in terms of labor relations have been computed using the French workplace survey REPONSE from 1998. For each of the following variables we have computed the industry average and constructed a binary indicator equal to 1 if the industry average is above the median of the distribution in the economy:

- **Unionization**: Share of workforce of a firm that is unionized;
- **Union Reps.**: Binary indicator equal to 1 if a union representative is present in the firm;
- **Hardline Union Reps.**: Binary indicator equal to 1 if a hardline union representative is present in the firm;
- **Soft Conflict**: Binary indicator equal to 1 if in the past three years there have been worker protests in the firm;
- **Hard Conflict**: Binary indicator equal to 1 if in the past three years there have been worker protests in the firm that involved periods of strikes.

In order to construct industry labor market conditions we use the information from the panel workforce files for the period 1994–2001. We compute the probability for an employee, once laid off, to be unemployed after X months. We then classify industries as having difficult labor markets as those with above median industry averages in terms of the fraction of unemployed after X months:

- **Fraction Unemployed — X months**: Share of white-collar employees between 25 and 54 years who have been working for 3 consecutive years in a given firm and who are still without stable employment X months after being laid off;
References