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For love and money: Marital leadership in family firms☆

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ABSTRACT

We investigate how leadership by couples affects the profitability of family firms. Using comprehensive data from Italy, we show that family firms led by married couples perform significantly better than other family firms. This result is robust to several estimation techniques, including matching, instrumental variables and transition analyses. Marital leadership works best when firm operations are complex and knowledge-based, as well as when the firm is subject to agency conflicts due to weak competition and poor legal infrastructure. Studying the mechanisms behind these results, we show that the presence of couples at the top of the firm enhances the willingness to invest during uncertain times, reduces employee turnover, and improves labor productivity.

1. Introduction

A rich body of empirical research in corporate finance has demonstrated that family ownership is a common form of corporate control around the world (e.g. Anderson and Reeb, 2003; Faccio and Lang, 2002; La Porta et al., 1999). Family firms have many distinctive traits, the most prominent being that family members often sit in governance and leadership positions. In such firms, family and business dimensions are intimately intertwined: family objectives and demographic characteristics have a profound impact on the company (e.g. Bennedsen et al., 2007, 2008); conversely, involvement in the business tends to affect family dynamics and preferences (e.g. Broussard et al., 2015; Lindquist et al., 2015).

Recent works have begun to investigate the complex interplay between family and family business, studying how family characteristics shape the governance and performance of family firms (Bennedsen et al., 2006, 2007, 2008; Bertrand et al., 2008; Bunkanwanicha et al., 2013; Mehrotra et al., 2013). We contribute to this literature by examining how an under-explored but relatively common leadership model of family firms, namely leadership by a husband and wife couple, affects corporate profitability.[1]

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[1] For example, Belenzon et al. (2016) in a large sample of small European firms found that married couples were the major owners of about 20,000 companies, almost half of all family firms in their sample.

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A sizeable body of research has debated whether family or outside executives are most successful at leading family firms. Many scholars have argued that family members would incur fewer principal-agent agency conflicts as compared to widely-held companies (Anderson and Reeb, 2003). However, it has also been noted that executives drawn from within a single family may be taken from too small a talent pool to be effective (Mehrotra et al., 2011, 2013). Some family firms have addressed this shortcoming by having multiple family leaders jointly running the firm (Miller et al., 2014). Although that combination of manpower does modestly enhance the talent pool, it may occasion conflict as, for example, siblings compete for rents and power for their separate family branches (e.g. Eddleston and Kellermanns, 2007; Brannon et al., 2013). Thus, there remains a good deal of controversy over which kind of leadership works best in family firms (Anderson and Reeb, 2003; Miller et al., 2007; Sraer and Thesmar, 2007; Villalonga and Amit, 2006). A more general debate concerns the breadth of executive teams (Bandiera et al., 2014) and co-CEO leadership arrangements, which are receiving increasing attention in the literature.[2] Some studies highlight the human capital advantages of having multiple CEOs (Arena et al., 2011; O'Toole et al., 2002) while others find these arrangements to be conflictual (Krause et al., 2015).[3]

Responding to these debates, we analyze how couples in co-CEO positions or CEO and executive chairman positions influence the effectiveness of shared leadership. Married couples share a common future, and frequently, common offspring. Thus their interests tend to be well aligned (Luo and Klohnen, 2005; Mare, 1991; Pencavel, 1998), and their incentive to be good stewards of the business is significant (Marshack, 1994; Matzek et al., 2010). Moreover, marriage ties may facilitate monitoring (Ashraf, 2009) and an efficient allocation of resources.[4] Thus, couples at the top of firms may be conducive of low agency costs, including those caused by intra-family conflicts, and therefore serve as a basis for establishing its associated financial and administrative implications. Couples also bring diverse experiences and network relationships to a business (Bunkanwanicha et al., 2013; Mehrotra et al., 2011, 2013; Schjoedt et al., 2013). Taken together, these arguments suggest that leadership by couples may lead to superior firm performance. From an opposite perspective, it can be argued that when a couple leads the family business, family conflicts and communication problems between partners will directly feed back into the firm, worsening the quality of corporate decision-making at the expense of profitability (Byron, 2005; Fincham and Beach, 1999).

Due to these opposing factors, the benefits and costs of having married couples at the top of a company have been debated by practitioners and the business community.[5] Some academic works (e.g. Belenzon et al., 2016; Dahl et al., 2015; Dyer et al., 2012) have begun to study this topic, but have yielded mixed results.[6] Moreover, these empirical assessments have been made using very small businesses (e.g. having a median of 8 employees and $450,000 in total assets; Belenzon et al., 2016) and studying marital involvement in ownership rather than leadership roles. Small entrepreneurial ventures have peculiarities that may compromise the generalizability of existing findings for established firms. For instance, in small ventures married couples are typically the sole owners and managers of the firm, the family relies on the company as the major source of income, and critically, the pool of employees is small and almost entirely drawn from the family itself and that can explain the lower labor costs and superior cash and profits (the major finding of previous studies). These businesses constitute a limited domain for assessing agency implications or managerial effectiveness under more challenging administrative conditions.

Our study addresses this research gap by establishing the performance effect of co leadership by couples in large, established family enterprises, and by exploring contextual variations behind this performance result. In this way, we offer contributions going beyond existing works on marital ownership in new ventures. First, within major organizations managerial tasks and strategies are far more complex and challenging, and marital leadership is not simply a product of family economic necessity. Second, the ownership of large organizations is typically more developed than in new ventures (where, as noted, the married leaders are often the sole owners), and this makes leadership by couples potentially distinct from joint ownership.[7] Third, in established businesses managerial talent is more prized (Gabaix and Landier, 2008), and agency costs become more relevant as governance arrangements grow in complexity (Ang et al., 2000).

We study marital leadership in Italy, which represents a useful context given the rich array of leadership options adopted by family enterprises there (Miller et al., 2014). These variations provide an ideal opportunity for examining how well couples fare compared to a multiplicity of other kinship and non-family leadership combinations. Estimating a variety of regression models on a comprehensive panel of 1900 companies for the period 2000–2012 (numbering 13,000 observations), we find that family firms led by couples exhibit significantly higher operating profitability, as measured by return on assets, vis-à-vis other family firms. OLS estimates indicate that this outperformance is approximately one percentage point, corresponding to a 19% increase vis-à-vis average profitability. We confirm this result using matching techniques as well as instrumental variables based on historical and geographic variations in gender roles and the value of marriage. Moreover, to strengthen the causal interpretation of our results, we employ time changes showing that firm performance improves when firms appoint a couple to the top position, but that finding reverses when firms abandon such a leadership model.

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[2] A few prominent examples of firms that have adopted a co-CEO model are IMAX and Whole Foods Market in the US, and Samsung and Luxottica outside of the US.

[3] Following Henri Fayol's (1949) well-known dictum of unity of command, Krause et al. (2015) conclude that co-CEOs of equal power may conflict with one another in making decisions, and also behave as poor “agents” for one another as their interests may not be well-aligned.

[4] Indeed, the literature has provided evidence of efficiency in the allocation of resources within households in developed countries (see Bobonis, 2009 and references therein), though this result does not extend to developing countries.

[5] See, for instance, “Billion dollar couples: America's richest husband-and-wife teams” (*Forbes*, October 24, 2014), and “Two's company: A look at some well-known companies from husband-and-wife teams” (*Wall Street Journal*, February 14, 2011).

[6] Dyer et al. (2012) show no effect of involvement of one's spouse on business profits. Similarly, Dahl et al. (2015) find that the profitability of startups led by married couples is similar to that of other startups. Belenzon et al. (2016) find a positive effect of marital ownership on startup performance.

[7] Companies led by couples in our sample have on average four shareholders (ranging from one to 12) and one non-family shareholder.