Careers and Wages in Family Firms: Evidence from Matched Employer-Employee Data

E. Porto M. Pagano V. Pezone R. Saggio F. Schivardi

Discussion by Isaac Hacamo
Indiana University
CSEF-RCFS Finance, Labor and Inequality

Summary of the Paper (1/5)

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Just kidding..

General Assessment

- I really like this paper.
- Solid work with convincing evidence.
- I don't have any problems with the main premise of the paper. I believe in the existence of a *family firm discount*.
- My comments will focus on helping the paper strengthening the existing arguments and underlying economic mechanism.

Discussion Outline

- Comment 1: AKM Model
- Comment 2: Oaxaca Decomposition
- Comment 3: Family Firms and Middle Managers
- Comment 4: Model and Economic Interpretation

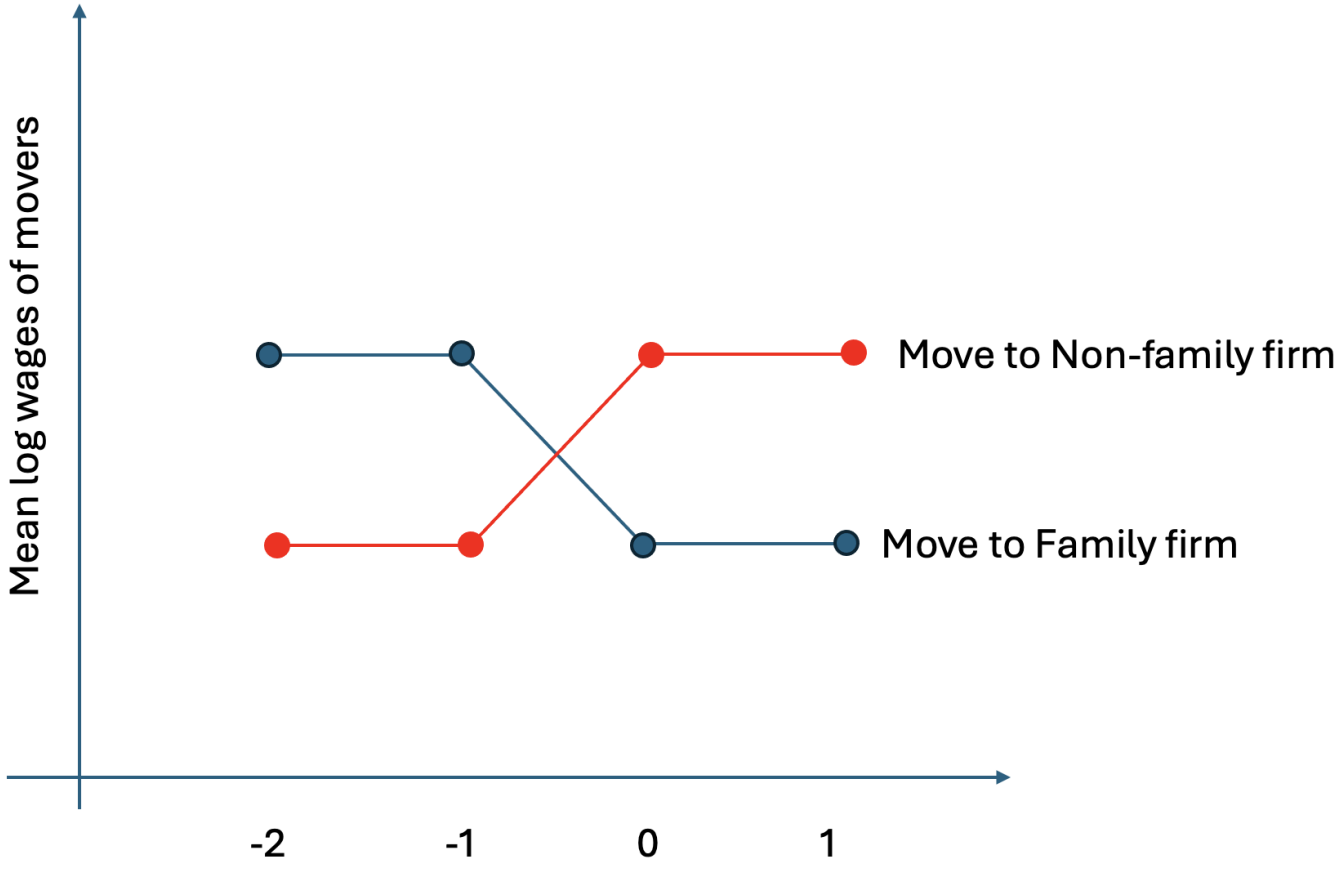
Comment 1: AKM Model

- AKM model has a classical endogeneity problem: *Moves between companies may be endogenous.*
- OLS estimates of worker and firm effects will be biased if worker mobility is correlated with the time-varying residual components of wages.
- For example, in a model where mobility is linked to the worker- and firm-specific match component of wages (e.g., Eeckhout and Kircher 2011), movers experience positive wage gains regardless of the direction of their move.

Comment 1: AKM Model

- In this setting, if the AKM model is correct and firms offer proportional wage premiums for all their employees.
  - → Workers who move to non-family firms will experience pay raises.
  - → Those moving to family firms will experience pay cuts.
  - → The gains and losses for movers in opposite directions between any types of firms will be symmetric.
- Card et al. (2013) develop a simple event study analysis of the wage changes experienced by workers moving between high- and low-wage firms.
- I simple think this test could be quite helpful in convincing readers. It's also a low cost exercise compared to other adjustment techniques (e.g., Di Addario et al. 2023).

Comment 1: AKM Model



Comment 1: AKM Model

- This additional test would allows us to:
  - $\rightarrow$ Alleviate concerns of endogenous mobility
  - $\rightarrow$ See the symmetric effects on wages
  - $\rightarrow$ Pre-trends before the moves

Comment 2: Oaxaca Decomposition

$$\Delta_{\psi,F} \equiv E[\psi_{j(i,t)}|f(j(i,t)) = F] - E[\psi_{j(i,t)}|f(j(i,t)) = NF]$$

$$= \underbrace{\pi_{NF}\{E[P_j|f(j) = F] - E[P_j|f(j) = NF]\}}_{\text{productivity component}}$$

$$+ \underbrace{(\pi_F - \pi_{NF})E[P_j|f(j) = F]}_{\text{bargaining component}} + \underbrace{\theta_F - \theta_{NF}.}_{\text{systematic component}}$$

- Aims to separate the productivity of firms, the employee's rent-sharing of productivity gains, and the effect of family firms.
- This regression is common practice in Labor Econ, but I can't help thinking of the endogeneity of this regression.
- Card et. al. (2018) use past sales in an IV-regression for this regression spec. Providing a few more robustness tests in this regression would be useful.

Comment 3: Family Firms and Middle Managers

- I like and believe the results on lesser promotions in family firms.
- However, I would like to see some adjustment of the results due to two reasons:
    - Family firms by definition have more top positions filled with family members;
    - Family firms are small, hence likely to have less structure, and disproportionately less middle-managers.
- I think this should be easy to fix.

Comment 4: Model and Economic Interpretation

- I like the insight of the model despite its simplicity.
- The authors suggest a novel insight: *Non-family firms have higher rates of unemployment, so in expectation the utility of working for a family and non-family firms is the same.*
- I like this insight, I think it's plausible, but I haven't seen any empirical test of this key prediction of the model. More empirical evidence would help.
- For example, this prediction would imply that non-family firms have higher rates of turnover and employees that work for this firms are more likely to experience unemployment spells.

Comment 4: Model and Economic Interpretation

More clarification on two modeling choices:

- Unemployment is modeled stringent way. In the 4-period model workers try to find a job in period zero. They apply for jobs and firms pick from a random pool of candidates. If they don't get one, they remain unemployed in the rest of the periods.

- I would also like to see more intuition of the assumption loss of private benefits: $\beta\phi_j^2/2$, where ϕ_j is the promotion rate.

Comment 4: Model and Economic Interpretation

- My first gut feeling on why workers stayed in family firms despite the lower utility is because of geographical and industry composition.
- I wouldn't be surprised that in some geographical areas of Italy, the only firms operating are family firms (this my be biased by reading Mario Puzzo)
- The same might be true for some industry.
- These might be the only option available and if inter-city moving costs are high enough, many productive workers might stay in family firms.

Concluding Remarks

- Really interesting paper. I like it a lot.
- A lot to learn from it.
- I think the paper could gain with small improvements that strengthen the key arguments.