WHEN DAD IS THE CEO: HOW FAMILIAL TIES IN THE EXECUTIVE SUITE AFFECT DISPLAYS OF ORGANIZATIONAL EMPATHY

An Honors Thesis Presented

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ABSTRACT

A growing body of research explores relationships between executive backgrounds and organizational outcomes. Researchers in this space are practitioners of Upper Echelon Theory (UET). UET views organizational outcomes as partly affected by the paradigms of an organization's top management team. These paradigms are shaped by the individual backgrounds of executives. Researchers examine a wide range of background characteristics, spanning from birth order to marital status, to experiencing famine as a child. One background characteristic for which scholars currently lack research insight is whether an individual's status as an executive was earned through familial ties to company insiders. This study fills this gap by testing the organizational effect of nepotism in top management teams. I pursue this question by using data from the SEC's EDGAR database through web scraping and text parsing of shareholder proxy statements to identify nepotistic relationships in top management teams. As an organizational outcome, the study incorporates data on company engagement with corporate social responsibility (CSR) to test differences between nepotistic and non-nepotistic corporations. The study draws on theories from sociology and psychology, aiming to test whether individuals who face lower levels of adversity in their lives display less empathy toward those less fortunate. This research systematically identifies nepotism in the upper management of organizations, relating how individual experiences with adversity among executives affect displays of organizational empathy.

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INTRODUCTION

> "Life is a series of experiences, each of which makes us bigger, even though it is hard to realize this. For the world was built to develop character, and we must learn that the setbacks and griefs which we endure help us in our marching onward."
>
> — Henry Ford

> "I walked in and inherited a management group that I didn't know very well."
>
> — William Clay Ford, Jr.

Nepotism is a component of American culture that hides in plain sight. It can be observed in the political realm from all sides of the aisle. One look at former President Donald Trump's cabinet or Alexandra Pelosi's success in the political documentary industry would convince even the most critical skeptics. The normalcy of familial ties playing a role in securing positions extends beyond Washington. Executive suites throughout the corporate world are permeated with instances of nepotism. Despite the SEC's requirement that such cases be formally reported in shareholder filings, there has yet to be a systematic analysis of the frequency by which nepotism occurs in America's largest public companies. Further, there are no examinations of how firms that engage in this behavior behave differently than those that do not.

This paper aims to fill this gap by answering the question of how often companies in the S&P 500 index report nepotism in their SEC filings, and whether these companies behave differently in their corporate social responsibility (CSR) practices. My research situates itself in the broader context of how executive backgrounds affect organizational behavior. It also speaks to the effects of experiencing low levels of adversity on an individual's prosocial behavior.

I use web scraping and text-parsing methodologies to identify instances of nepotism reported in the SEC's Electronic Data Gathering, Analysis, and Retrieval (EDGAR) database for the companies in the sample. Further, I hand-code each instance of nepotism to allow for a more

detailed analysis. I separate my cases into executive nepotism and non-executive nepotism. I define executive nepotism as a familial tie between two executives. Non-executive nepotism is categorized as a familial tie between one executive and one non-executive employee at the firm. Using a case of executive nepotism as a treatment effect, I conduct a difference-in-differences analysis on the effects of experiencing executive nepotism on two organization-level CSR measures.

The control group is restricted to firms with cases of non-executive nepotism. This allows for a control on any confounding variables that may impact both a firm's proclivity to engage in nepotism and its engagement with CSR practices. I also control for firms' market capitalization rates, the total number of employees, and GICS sectors. Using four lagged dependent variable measures of both overall CSR scores and scores pertaining to employment practices within firms, the model finds that nepotism in an executive suite has no significant effect on these metrics. As a secondary result, I find that between the years 2000 and 2023, 30.8% of all companies in the 2023 S&P 500 list reported at least one case of executive or non-executive nepotism.

This work contributes to the larger body of literature on corporate executive behavior by systematically analyzing instances of nepotism in the largest public American firms. I begin with a literature review of the existing scholarship motivating my research. Then, I discuss my hypothesis, data, and methodology. I finish with an analysis of my results and a discussion of their implications.

REVIEW OF EXISTING LITERATURE

Upper Echelons Theory

Hambrick and Mason's (1984) intervention serves as the basis for ensuing research on executive backgrounds and organizational behavior. The authors propose a model that relates the idiosyncratic backgrounds of powerful corporate actors to the observable outcomes of their organizations. They argue that an organization's behavior reflects the decisions of its leaders. Further, personal backgrounds and experiences form the paradigms through which individuals make decisions. Given these assumptions, they theorize that linkages between the backgrounds of executives and the behavior of their organizations can be detected empirically.

Since the advancement of their framework, many authors have pursued research aimed at linking executive backgrounds to organizational outcomes. These outcomes fall into two broad categories: work and non-work experiences. The work experience of the individual includes company tenure (Finkelstein & Hambrick, 1990; Miller, 1991; Guthrie *et al*., 1991; Weng & Lin, 2014; Musteen *et al.*, 2006;); functional background, referring to prior professional experience (Dearborn & Simon, 1958; E Higgins & Molden, 2003; Kunda, 1990; Zajac & Westphal, 1996; Buyl *et al.*, 2011); knowledge and education (Wiersema & Bantel, 1992; Geletkanycz & Black, 2001; Barker & Mueller, 2002; Lewis *et al.* 2014); and outsider status (Davidson *et al.*, 1990; Shen & Cannella, 2002b; Zhang & Qu, 2016).

The second categorization encompasses the non-work experiences of executives. For example, scholars approach the childhood experiences of executives as one avenue to understanding the development of their decision-making paradigms. These studies include sibling birth order as it relates to executive disposition to take risks in business settings (Campbell *et al.*, 2019), the connection between experiencing childhood famine and corporate philanthropic donation (Han *et al.*, 2022), and familial social class background's effect on

strategic risk-taking (Kish-Gephart & Campbell, 2015). Research also exists on military experience (Malmendier *et al.*, 2011; Benmelech & Frydman, 2015; Koch-Bayram & Wernicke, 2018), transitions to fatherhood (Dahl *et al.*, 2012), and prior legal infractions (R. Davidson *et al.*, 2015).

There has yet to be a study in the non-work experience domain that examines the organizational effect of nepotism in upper management positions. Zhang *et al.* (2020) looks at the effect of CEO-board surname ties on agency costs in Chinese firms. They find that such ties elicit a bias in board monitoring of CEO activity through the group-formation psychology of shared surnames. While nepotism and shared surnames are within the same sphere of innate social ties, the dynamics of the analyses are largely different. Zhang and colleagues explore the idea of shared lineage through surname ties. Chinese culture, in particular, attributes great importance to ancestral ties given its Confucian roots (Tang, 1995). Such ties are not cases through which involved actors are directly related. The mechanisms at play are patterns in behavior between executives due to acknowledgments of potentially shared lineage. Instances of nepotism carry different implications. They are more direct forms of bonds, where an identifiable family member plays a role in securing another family member a leadership position within an organization.

Kish-Gephart and Campbell (2015) also studies a concept closely related to the dynamics of nepotism: social class. It finds evidence for a lasting effect of CEOs' perceived social class origins on a firm’s propensity to take risks. This study is valuable in uncovering the apparatus between the socioeconomic backgrounds of a corporation’s executives and their organization’s behavior, but it is also a different characteristic than the background experience of nepotism. Although class backgrounds play a large role in career trajectories (Friedman *et al.*, 2015),

nepotism is a distinct form of privilege. Class background has an *indirect* effect on career advancement through developing personal attributes in a manner that leads toward remunerative careers. These advantages include higher-quality educational opportunities and exposure to upper-class social norms. Nepotism, however, is a far more *direct* form of privilege within corporate operations. Rather than a complex path to professional development, aided by positions within high social strata, nepotism's only requirement is a familial relation to a current firm insider. It is an immediate linkage between belonging to a family and securing an executive position. Given the differences in how direct each form of privilege is, I conjecture that the imprinting effect on the decision-making processes of individuals varies considerably.

Adversity and Empathy

Scholars from a range of disciplines theorize on the relationship between one's experience with adversity and their proclivity to behave prosocially. There is wide agreement that experiencing past traumatic events increases goodwill and compassion. Kaniasty and Norris (1995) finds evidence for the formation of more altruistic communities after individuals collectively experienced a natural disaster. Vezzali *et al.* (2016) expands on this result. It demonstrates that children with symptoms of posttraumatic stress after suffering two major earthquakes exhibit tendencies to behave altruistically toward other survivors. Victims of sexual assault display higher levels of empathy in their responses to accounts of other victims (Barnett *et al.*, 1987). More generally, Vollhardt and Staub (2011) finds that college undergraduates with experience of at least one traumatic event in their lives demonstrate a higher likelihood to behave charitably.

These conclusions extend beyond trauma-based adversity. Kraus *et al.* (2009) indicates that individuals with lower socioeconomic statuses (SES) display higher levels of non-verbal

engagement and concern for strangers during brief interactions. While high SES individuals were more likely to be disengaged, signaled by behaviors such as doodling or fiddling with objects, lower SES individuals were more engaged, indicated by behaviors such as nodding and making eye contact with their conversation partners. Such results may point to a more general phenomenon, where higher levels of adversity, proxied, in this case, by lower SES (Karimshah *et al.*, 2013) lead to individuals having a more developed ability to relate to and empathize with others. Piff *et al.* (2010) builds on these results, finding evidence to support the notion that lower-class individuals behave more prosocially than their upper-class counterparts. Across four studies, the authors demonstrate that lower-class subjects display behaviors that indicate them to be more generous, charitable, trusting, and helpful than upper-class individuals in their sample. They theorize this pattern exists because "upper-class individuals can use their material wealth and access to buffer themselves against life's disruptions, [but] lower-class individuals are more reliant on the strength of their social bonds and, as a consequence, are more prosocial" (p. 773). Stellar *et al.* (2012) performs a further investigation on the relationship between SES and prosociality. The authors conducted three studies with populations consisting of individuals from high and low SES backgrounds. The results demonstrate that individuals from lower SES backgrounds display higher levels of dispositional compassion, greater self-reported compassion during a compassion-inducing video, and higher levels of heart rate deceleration during the same video (a response associated with connecting with others).

Nepotism and the Path to the Top

The nature of the findings on adversity and empathy is magnified in the context of nepotism within corporations. Many corporate executives face significant barriers to entry, including exposure to adversarial circumstances based on race (Park & Westphal, 2013), gender

(Davies-Netzley, 1998), and social class background (Friedman *et al.*, 2015). Individuals coming from such backgrounds withstand significant levels of adversity. Based on their demographic backgrounds, leaders must endure increased levels of scrutiny, judgment, and gatekeeping. Rosette and Livingston (2012) finds that Black women executives are evaluated more negatively than Black men, white women, and white men under comparable circumstances of organizational failure. In Lyness and Thompson (2000), women executives report greater barriers to entry than their male counterparts, such as exclusion from informal networks, unwelcoming cultures, and greater consideration towards having a good background and developing relationships. Kilian *et al.* (2005) identifies an even wider range of barriers to minority advancement in executive roles. These include a lack of mentors, networks, business experience, and visible assignments. Women in this study also report family responsibilities as negatively impacting their ability to advance in the corporate world.

Beyond barriers based on demographic characteristics, there are hurdles almost all executives face in their paths to the top. Useem and Karabel (1986) identifies that a path to a corporate managerial position is largely facilitated by the possession of a bachelor's degree from an elite institution and a master's degree in business administration from a reputable program, or a law degree from a leading university. Building on these results, Stadler (2010) identifies that 40% of Fortune 100 CEOs possess an MBA, 60% of which are from an elite school. The study also demonstrates the importance of experience in obtaining an executive role. 75% of Fortune 100 CEOs hold prior posts in business operations. 32% are former CFOs.

Familial ties, however, can aid individuals in circumventing such barriers. Examples within large corporations are glaring. Gus Wenner is the son of *Rolling Stone* cofounder and publisher. His father appointed him CEO of the magazine at the age of 22, after just seven

months working for the company. Robert Murdoch's News Corporation has entangled its business operations with family. His youngest son, James Murdoch, was appointed to key executive roles that put him on the fast track to a future CEO position. The company also fought lawsuits from investors after a $650 million deal to acquire Murdoch's daughter's media firm, Shine. Chrissy Taylor, daughter of Fidelity's executive chairman, was appointed to the company's CEO position in 2020.

Levels of adversity experienced in paths to executive positions may be viewed as a spectrum where one's position is determined largely by their background characteristics. At the highest end of the spectrum are those with characteristics proven to generate barriers, namely women, people of color, and individuals coming from lower-class backgrounds. Even if an aspiring executive does not maintain such traits, they still face challenges brought on by a lack of an elite education, advanced degrees, or significant prior experience. Thus, even individuals with no prominent demographic or socioeconomic anchors may still find themselves located somewhere in the middle of the adversity spectrum. At the lowest end of the spectrum are executives whose positions were achieved seamlessly and with little or no adversarial experiences. Such executives are those whose appointment to roles was contingent largely upon factors purely based on circumstance and good fortune. Although many conditions meet these criteria, I argue that nepotism is one of the more glaring examples in the corporate world. There is perhaps no greater luck than being born to the right family, at the right time, and subsequently being trusted with the management of the family's successful corporation. The small group of individuals who are fortuitous enough to experience these circumstances comprise the executives that reside at the lowest end of the adversity spectrum. Thus, based on the preceding literature, I

hypothesize that this group of executives is demonstrably less empathetic than their less fortunate peers.

Corporate Social Responsibility and Organizational Displays of Prosociality

Corporate social responsibility (CSR) is a concept by which organizations integrate social and environmental concerns into their business operations. Key measures of such initiatives include "environmental management, eco-efficiency, responsible sourcing, stakeholder engagement, labor standards, and working conditions, employee and community relations, social equity, gender balance, human rights, good governance, and anti-corruption measures" (UNIDO, 2022). There is wide debate surrounding the motives behind organizational engagement with CSR practices.

Graafland and Mazereeuw-Van der Duijn Schouten (2012) categorizes executive engagement with CSR as motivated by two broad categories: intrinsic and extrinsic. Theorists of extsic motivations propose a model of CSR engagement in which corporations only engage in such practices for reasons pertaining to business development. Incorporating socially responsible practices is linked with higher levels of organizational growth (Ali *et al.* 2019; Okafor *et al.*, 2021; Tsoutsoura, 2004). This relationship is caused by increases in firm reputation among consumers (Maden *et al.* 2012; Stuebs and Sun, 2011), improved employee satisfaction (Barakat, 2016), and the opportunity for preemptive regulation (Yoon & Lam, 2013).

Margolis and Walsh (2003) cites the need for explorations of incentives surrounding CSR engagement that extend beyond financial benefits. Since this criticism, a number of scholars have expanded their inquiries toward a more encompassing narrative of what drives firms to implement CSR initiatives. Graafland and Mazereeuw-Van der Duijn Schouten (2012) categorizes these motivations as intrinsic reasons for firm implementation of CSR practices. In a

study of 111 Dutch firms, Graafland and van de Ven (2006) finds that a moral motive for engagement in CSR induces stronger participation among firms than financial incentives.

Campbell (2007) proposes a nuanced institutional theory of CSR whereby socially responsible firm behavior is mediated through specific conditions, specifically, "public and private regulation, the presence of nongovernmental and other independent organizations that monitor corporate behavior, institutionalized norms regarding appropriate corporate behavior, associative behavior among corporations themselves, and organized dialogues among corporations and their stakeholders" (p. 948).

The literature on the motivations behind CSR practices is thus inconclusive. Therefore, not only will this study aim to test whether executives who are beneficiaries of nepotism exert a negative prosocial influence on their firms' practices, but it will also indicate conclusions about the efficacy of CSR scores as a measure of prosocial behavior among firms. If one suspects the addition of nepotism-benefiting executives to the board to have an observable effect on how prosocially firms behave, but no correlation exists between this event and variation in CSR scores, then perhaps the result is more indicative of CSR as a poor measure of prosociality. To draw defensible conclusions, robustness checks on the dependent variable will be included in the analysis to account for the indeterminate evidence on motivations for CSR practices.

HYPOTHESIS, DATA, AND METHODS

Central Hypothesis

Nepotism permeates the leadership structures of numerous powerful corporations, yet its effects on organizational behavior remain understudied. An empirical examination of how nepotism shapes the decision-making framework of corporate leaders will provide new insights into the factors that drive corporate practices, especially within the growing body of research concerned with the impacts of class backgrounds on organizational behavior. Specifically, it addresses what is arguably the most direct form of privilege in the corporate world: the use of familial ties to secure a remunerative executive position. This study integrates literature on the relationship between adversity and prosocial behavior, corporate displays of empathy, and the mechanisms through which the backgrounds of leaders affect organizational outcomes. Given scholars' findings in each of these disciplines, I hypothesize that organizations with nepotism in their executive suites behave less prosocially than those with executives who experience higher levels of adversity in their career advancement processes.

Data

The sample of firms are those listed in the S&P 500 in 2023. The motivation for this is twofold. First, the firms listed in the S&P 500 index are considered to be among the largest public companies in the United States. The impacts of their behavior are farther-reaching than smaller firms. Thus, understanding what shapes their organizational outcomes is of the greatest social interest. Secondly, each firm is publicly traded. This ensures that they have a board of directors, as well as file regularly with the SEC. Therefore, there are no potential issues with data omission when parsing company filings.

For the dependent variable of CSR scores, the CSRHub database is used. CSRHub is a web-based data aggregation tool that provides comprehensive indexes on company CSR ratings. Drawing on 882 sources for 51,921 companies in 154 countries, CSRHub provides an organized and easy-to-use database for extracting CSR ratings for any given company. To generate scores, CSRHub synthesizes four categories, each containing several subcategories: (1) community (subcategories: community development and philanthropy, human rights and supply chain, products), (2) employees (subcategories: compensation and benefits, diversity and labor rights), (3) environment (subcategories: energy and climate change, environment policy and reporting, resource management), (4) governance (subcategories: board, leadership ethics, transparency, and reporting).

Data on nepotism within the S&P 500 is gathered through the SEC's Electronic Data Gathering, Analysis, and Retrieval system (EDGAR). EDGAR is the online filing system through which public companies submit required documentation to the SEC. The majority of these files are available for public access through the database. Every company that files with the SEC was phased into EDGAR's system by May 6, 1996. Thus, all public filings are available on EDGAR from 1996 to present.

Section 12 of the Securities Exchange Act of 1934 necessitates that all shareholders of a company receive a proxy statement prior to any shareholder meeting. These proxy statements are required to, "State the nature of any family relationship between any director, executive officer, or person nominated or chosen by the registrant to become a director or executive officer," where family relationships are defined as "any relationship by blood, marriage, or adoption, not more remote than first cousin."[1]

[1] Securities and Exchange Act of of 1933, Item 401, section (b)

Using the Python programming language, I download each shareholder proxy statement for all S&P 500 companies from 2000 until 2023. I then use the Beautiful Soup package to parse each document for keywords that indicate familial ties between executives. This list is meant to account for any word that indicates a family tie[2]. Each time a keyword is located in the document, it is manually examined to determine if it meets two criteria. The first is whether the familial tie being reported is unique to the dataset and not a duplicate from a previous reporting period. The cases of interest are ties between individuals that have not been reported prior, which indicate *new* cases of nepotism. The second piece of criteria is whether this is the first instance of nepotism or if familial ties already exist between executives. This filters to include only unique instances. These criteria isolate specific events in which a corporation utilizes family ties in its executive appointments for the first time, allowing for a difference-in-difference approach to examine CSR engagement trends before and after this point in time.

Methods

To analyze the effect of instances of nepotism on CSR, I use a lagged dependent variable difference-in-differences (DiD) regression model. The lagged dependent variable is implemented to account for the delayed effects of appointments to executive positions. It is unlikely that a new member of an executive suite would have an immediate effect on any organizational outcomes. The lagged dependent variable incorporates this knowledge by allowing for a period of time between the executive appointment and when the CSR scores are measured. Given the estimations for when a new executive may begin to exert influence on organizational behavior are arbitrary, I implement four time periods for robustness: 3 months, 6 months, 12 months, and

[2]The list is as follows: stepson, stepdaughter, step-son-in-law, son-in-law, son, sons, stepfather, step-father, step-father-in-law, father-in-law, father, stepmother, step-mother, step-mother-in-law, mother-in-law,mother, sister-in-law, sister, stepdaughter, step-daughter, step-daughter-in-law,daughter-in-law, daughter, daughters, cousin, cousins, brother-in-law, stepbrother, stepbrothers, brother, brothers, sibling, uncle, niece, husband, ex-husband, grandfather, grandson, wife, ex-wife, nephew

24 months. The time period used to gather CSR scores before treatment remains consistently at 3 months prior to treatment for each specification of the model.

Using a DiD regression model helps control for unobserved time-invariant confounding variables that may affect an organization's proclivity to engage in CSR and the likelihood for nepotism to exist in their executive suite. To further control for such variables, I restrict the control group in the sample to companies with instances of non-executive nepotism. I define non-executive nepotism as cases within firms in which a non-executive worker is related to a member of the executive suite. Examples include a sibling of a CEO who works in the HR department or a grandchild of a director who works as an intern. Given that such cases must also be reported in SEC Def 14-A filings, they too were detected in my data collection process. Restricting my control group to companies with such cases controls for unobserved factors that may be driving corporations to engage in both nepotism and CSR. When all firms in my sample engage in some form of nepotism, the mechanisms through which *executives* who are beneficiaries of nepotism influence CSR practices are isolated. According to the tenets of Upper Echelon Theory, it should only be firms with executive nepotism that experience an influence in their organizational behavior.

My data consist of all companies in the S&P 500 that have occurrences of either executive or non-executive nepotism. To isolate a treatment effect for the DiD model, I restrict the instances of executive nepotism to only the first cases detected for companies. For instance, if my program detects nepotism within Firm A in 2012, 2019, and 2020, my model only incorporates the instance in 2012. After this restriction, 104 unique companies have cases of executive nepotism and 50 companies have cases of non-executive nepotism. Additionally, the data source from which the CSR score dependent variables were derived, CSRHub, only has

historical ratings dating back to 2008. There are also instances in which companies have null values for certain months based on data availability. Due to these cases, any companies with missing scores for their specific months were eliminated from the data set. These restrictions left 45, 44, 43, and 41 companies as observations for the 3 month, 6 month, 12 month, and 24 month lagged dependent variables, respectively.

Along with the controls endogenous to the data structure, I include three exogenous control variables that may potentially confound with a proclivity for nepotism and CSR engagement. The first is the firm's market capitalization rate as of 2023. This accounts for any potential for nepotism-likelihood and CSR engagement as predicted by firm market size. The next control variable, the number of employees, accounts for a similar mechanism, but this is more concerned with the size of the internal structure of the firm. Lastly, I control for GICS firm industry classifications. The final regression equation is represented by:

$$\text{CSR Overall Score} = \alpha + \beta_1*(\text{Time}) + \beta_2*(\text{Treatment}) + \beta_3*(\text{Time} * \text{Treatment}) + \beta_4*(\text{Market Cap}) + \beta_5*(\text{Number of Employees}) + \beta_6*(\text{Industry}) + \varepsilon$$

Where "Time" is a binary indicator for whether the data point came before or after treatment, and "Treatment" is a binary indicator for whether a company experienced a case of corporate nepotism.

Given the conflicting literature surrounding the motivations for CSR engagement, I also introduce a second dependent variable as an alternative model to contribute to the robustness of the results. Some may argue that an overall measure of CSR does not capture the prosocial influence of a board. Since there are benefits associated with CSR engagement that extend

beyond prosocial goals, firms may be motivated to act in ways that increase these scores that do not represent altruistic tendencies. Thus, if no variation in CSR engagement is observed when a beneficiary of nepotism joins an executive suite, a claim as to whether these beneficiaries exert a prosocial influence remains equivocal.

To account for this, I introduce a subcategory from CSRHub, employee percentile rank, as an alternative dependent variable in my model. This alternative dependent variable attempts to isolate some of the external pressures felt by firms to engage in CSR. While it is undeniable that there are still exogenous influences on firms' employment practices, these influences are less acute than the other subcategories offered by CSRHub. Community, climate, and governance practices all receive higher degrees of public scrutiny than employment practices. This largely is based on the idea that malpractice in these three areas produces larger negative externalities suffered by more stakeholders than malpractice in employment policies. Negative community effects are felt by the entire population in which the company operates. Actions that damage the climate contribute to a global crisis. Poor governance practices can impact the business community at large, set damaging precedents, and negatively affect the entire population relying on the success of a given firm's operations. Poor employment practices, generally speaking, do not extend to affect any stakeholder other than employees. Thus, external pressure to remediate such practices is generally less formidable than in the prior three situations. Using this measure as an alternative dependent variable isolates, to a greater extent than other measures, a firm's proclivity to behave prosocially, *as motivated by empathetic tendencies.*

It is important to note that this measure is still limited to a large extent. External pressures pushing companies to improve employment practices still exist. The threat of unions and the promise of higher levels of productivity may each contribute to the reasons for improved

treatment of employees. This measure is certainly not a perfect indication of organizational empathy. I posit, however, that *relative* to the other subcategory measures available, it isolates prosociality most effectively. The alternative dependent variable's regression equation is represented by the following:

$$\text{CSR Employee Percentile Rank} = \alpha + \beta_1*(\text{Time}) + \beta_2*(\text{Treatment}) + \beta_3*(\text{Time} * \text{Treatment}) + \beta_4*(\text{Market Cap}) + \beta_5*(\text{Number of Employees}) + \beta_6*(\text{Industry}) + \varepsilon$$

As an added layer of control, I use percentile rank rather than fundamental scores in this category (a feature that is not available via CSRHub for the previous dependent variable, CSR Overall Score). The percentile rank helps control for the norms of employment practices at a given time in the measurements across the business community. If trends in employment practices rise across all firms over time, these increases would not be falsely associated with the independent variables when using a percentile rank as the dependent variable. This is because percentile rank captures employment scores relative to all other firms analyzed by CSRHub. General trends in scores are effectively removed from the measure of changes in scores, leading to more accurate measures of any changes spurred by the independent variables in the model.

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RESULTS

The regression results under these model conditions are shown in Table 1 and are demonstrated visually via coefficient plots in figures 1.1-1.4:

Table 1:

	Dependent variable:			
	CSRHub Overall Score			
	3 Month Lag	6 Month Lag	12 Month Lag	24 Month Lag
treatment	−1.401	−1.404	−1.639	−0.135
	(1.887)	(1.896)	(2.080)	(2.193)
time	0.563	0.656	1.058	2.493
	(1.903)	(1.926)	(2.070)	(2.424)
treat_time	−0.972	0.172	0.536	−0.825
	(2.440)	(2.459)	(2.662)	(3.123)
log(employees)	0.324	0.141	0.274	0.142
	(0.898)	(0.901)	(1.009)	(0.682)
log(market_cap)	2.519***	2.558***	2.515***	2.503***
	(0.681)	(0.687)	(0.797)	(0.828)
information_technology	3.890	4.255	0.833	−14.021**
	(5.739)	(5.743)	(6.173)	(6.708)
communication_services	2.524	3.032	1.055	−7.226
	(4.470)	(4.473)	(4.811)	(5.307)
health_care	1.234	2.354	0.223	−6.282
	(4.295)	(4.298)	(4.692)	(5.170)
energy	−2.973	−1.117	−1.767	−9.926*
	(4.936)	(4.940)	(5.335)	(5.512)
industrials	−0.846	0.416	−1.073	−9.671*
	(4.344)	(4.347)	(4.672)	(5.146)
financials	6.417	7.721*	4.802	−4.243
	(4.620)	(4.623)	(4.974)	(5.426)
consumer_staples	7.969*	8.468*	5.760	−7.880
	(4.360)	(4.364)	(4.690)	(5.171)
consumer_discretionary	1.989	2.857	0.453	−5.868
	(4.278)	(4.281)	(4.602)	(4.967)
real_estate	10.843*	10.913*	10.345*	−2.831
	(5.519)	(5.524)	(5.969)	(6.016)
utilities	5.198	6.944	4.939	−9.517
	(5.073)	(5.205)	(5.633)	(6.094)
Constant	−16.400	−16.393	−14.601	−4.931
	(14.719)	(14.800)	(16.391)	(18.524)
Observations	89	88	86	82
R^2	0.487	0.453	0.390	0.325
Adjusted R^2	0.382	0.340	0.260	0.171
Residual Std. Error	5.612 (df = 73)	5.616 (df = 72)	6.035 (df = 70)	6.547 (df = 66)
F Statistic	4.625*** (df = 15; 73)	3.982*** (df = 15; 72)	2.986*** (df = 15; 70)	2.116** (df = 15; 66)

Note: *p<0.1; **p<0.05; ***p<0.01

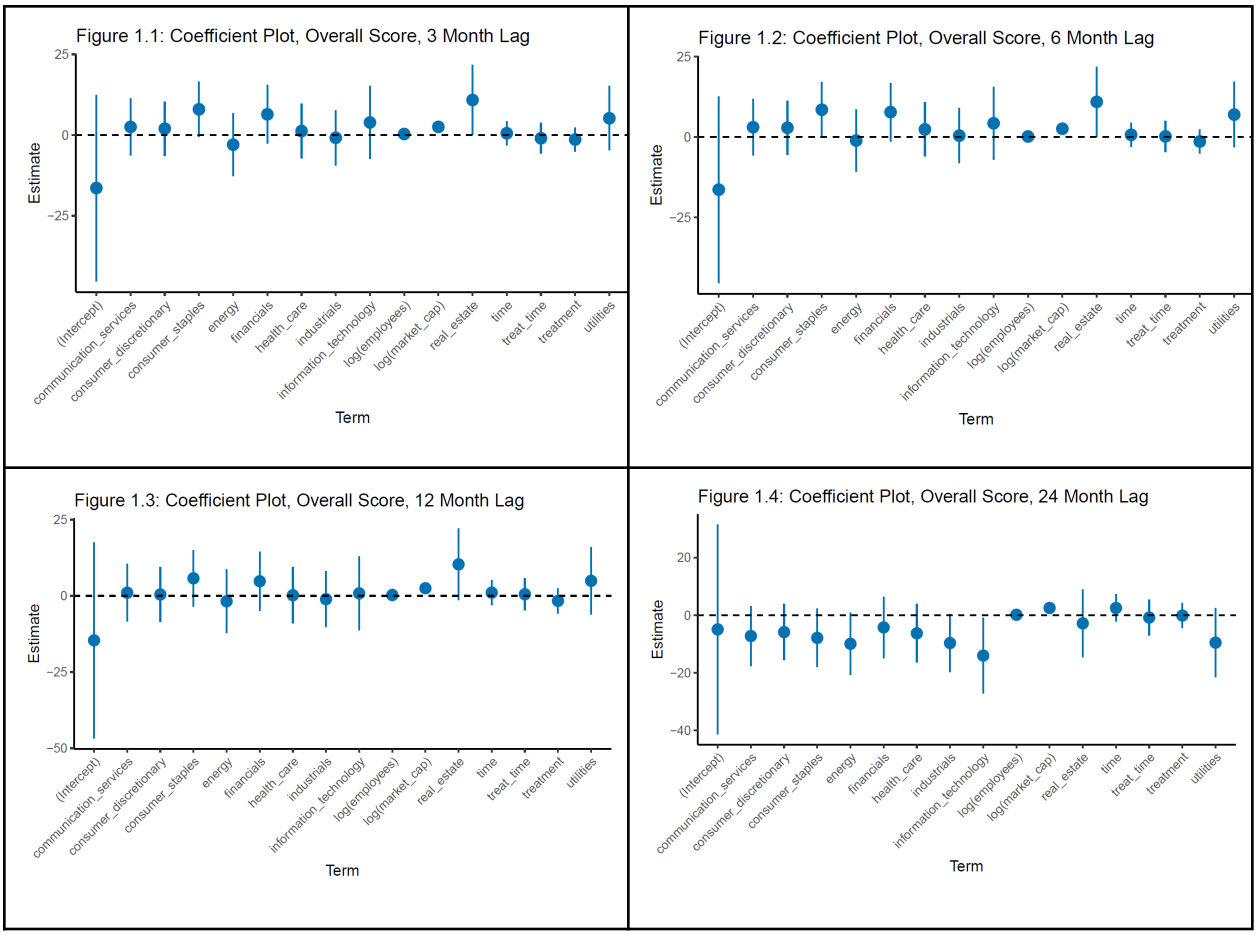
Figure 1.1: Coefficient Plot, Overall Score, 3 Month Lag
Estimate
25
0
−25
(Intercept)
communication_services
consumer_discretionary
consumer_staples
energy
financials
health_care
industrials
information_technology
log(employees)
log(market_cap)
real_estate
time
treat_time
treatment
utilities
Term
Figure 1.2: Coefficient Plot, Overall Score, 6 Month Lag
Estimate
25
0
−25
(Intercept)
communication_services
consumer_discretionary
consumer_staples
energy
financials
health_care
industrials
information_technology
log(employees)
log(market_cap)
real_estate
time
treat_time
treatment
utilities
Term
Figure 1.3: Coefficient Plot, Overall Score, 12 Month Lag
Estimate
25
0
−25
−50
(Intercept)
communication_services
consumer_discretionary
consumer_staples
energy
financials
health_care
industrials
information_technology
log(employees)
log(market_cap)
real_estate
time
treat_time
treatment
utilities
Term
Figure 1.4: Coefficient Plot, Overall Score, 24 Month Lag
Estimate
20
0
−20
−40
(Intercept)
communication_services
consumer_discretionary
consumer_staples
energy
financials
health_care
industrials
information_technology
log(employees)
log(market_cap)
real_estate
time
treat_time
treatment
utilities
Term

Table 2 demonstrates the results of the robustness check using employee percentile rank as the dependent variable. The results are displayed via coefficient plots in figures 2.1-2.4:

Table 2:

	Dependent variable:			
	Employee Rating Percentile Rank			
	3 Month Lag	6 Month Lag	12 Month Lag	24 Month Lag
treatment	−0.115	−0.125	−0.113	−0.114
	(0.078)	(0.076)	(0.081)	(0.079)
time	0.035	0.032	−0.021	−0.026
	(0.080)	(0.078)	(0.082)	(0.080)
treat_time	−0.028	0.010	0.085	0.086
	(0.102)	(0.099)	(0.105)	(0.103)
log(employees)	−0.005	−0.024	0.012	0.017
	(0.037)	(0.036)	(0.039)	(0.037)
log(market_cap)	0.050*	0.055**	0.058*	0.053*
	(0.027)	(0.026)	(0.030)	(0.029)
information_technology	−0.249	−0.194	−0.162	−0.207
	(0.246)	(0.238)	(0.251)	(0.212)
communication_services	−0.321*	−0.326*	−0.298	−0.327**
	(0.192)	(0.186)	(0.195)	(0.153)
health_care	−0.156	−0.144	−0.189	−0.250
	(0.183)	(0.177)	(0.188)	(0.153)
energy	−0.223	−0.256	−0.224	−0.244
	(0.211)	(0.204)	(0.216)	(0.164)
industrials	−0.146	−0.113	−0.171	−0.221
	(0.186)	(0.180)	(0.190)	(0.150)
financials	−0.039	−0.019	−0.050	−0.050
	(0.198)	(0.192)	(0.202)	(0.162)
consumer_staples	−0.027	−0.003	−0.068	−0.116
	(0.187)	(0.181)	(0.191)	(0.161)
consumer_discretionary	−0.167	−0.147	−0.206	−0.258*
	(0.182)	(0.176)	(0.185)	(0.148)
real_estate	−0.028	−0.093	0.061	0.056
	(0.236)	(0.228)	(0.241)	(0.185)
utilities	0.028	−0.017	0.061	
	(0.222)	(0.215)	(0.227)	
Constant	−0.493	−0.438	−0.862	−0.741
	(0.594)	(0.576)	(0.623)	(0.615)
Observations	94	94	92	88
R^2	0.265	0.259	0.252	0.269
Adjusted R^2	0.124	0.116	0.104	0.129
Residual Std. Error	0.241 (df = 78)	0.233 (df = 78)	0.245 (df = 76)	0.234 (df = 73)
F Statistic	1.879** (df = 15; 78)	1.817** (df = 15; 78)	1.705* (df = 15; 76)	1.918** (df = 14; 73)

Note: *$p < 0.1$; **$p < 0.05$; ***$p < 0.01$

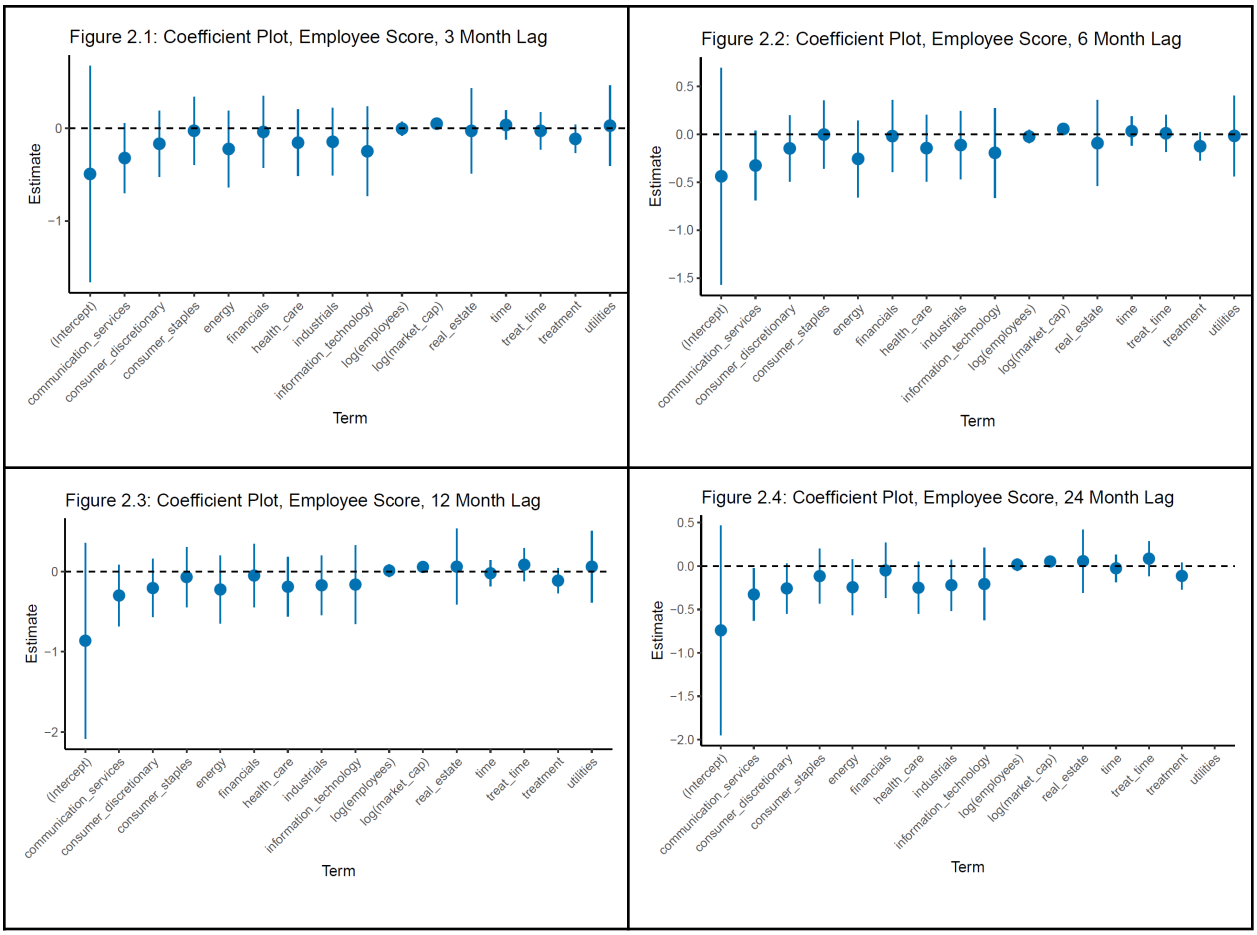

Table 3 contains summary information on the frequency of nepotism in the 2023 S&P 500 companies over the past two decades:

Table 3: Summary Statistics

Statistic	**Value**
Total Cases of Nepotism Detected	2373
Total Cases of Executive Nepotism	1728
Total Cases of Non-Executive Nepotism	608
Total Cases with Both Executive and Non-Executive Nepotism	37
Total Number of Companies	500
Total Number of Unique Companies Reporting Nepotism	154

DISCUSSION OF RESULTS

As a topline result, the study finds the presence of nepotism in 154 companies belonging to the 2023 S&P 500 list. The date range for when these detections take place is between September 27, 2000, to March 7, 2023. This result indicates that in the past 23 years, nepotism has permeated the structures of 30.8% of the United States' largest 500 public firms.

The regression results suggest that there is no significant evidence that the interaction term causes variation in overall CSR scores or the employment subcategory. These results may imply three scenarios, outlined below.

The first is that beneficiaries of nepotism do exert a negative prosocial influence on the behavior of their firms, but CSR ratings are unable to accurately capture such behavior. If this is the case, the lack of observed effect can be attributed to CSR scores acting as a poor indicator of organizational empathy. This outcome would align with what Graafland and Mazereeuw-Van der Duijn Schouten (2012) categorize as a theory for extrinsic motivations for CSR engagement; corporations do not improve their CSR practices as a result of the altruistic tendencies of executives, but rather as a pragmatic approach to increase success in business development. In this scenario, the challenge becomes identifying a measure that accurately isolates displays of organizational empathy.

The second possible case is that CSR does exist as a useful proxy for the empathic tendencies of a firm's executives, but there are no significant differences in the behavior of firms with and without nepotism in their executive suites. This result carries numerous potential implications. The first is that it contradicts extant literature on adversity and empathy. The suggestion being that despite individuals existing on boards who have experienced less adversity, there is no difference in how empathy is incorporated into the paradigms through which they

make decisions. A second possible interpretation is that the assumptions of Upper Echelon Theory do not extend to this particular scenario. In this case, there still may be differences in how empathy relates to adversarial experiences, but these differences are unobservable in organizational behavior. This may suggest that existing norms are a more powerful indicator of organizational behavior than the personal traits of executives. It may also indicate the presence of a form of 'board tokenism.' A body of literature exists on the phenomenon of board tokenism in the corporate world. It ordinarily pertains to minority groups, defined as "the practice or policy of admitting an extremely small number of members of racial (e.g. African American), ethnic (e.g. Latino) or gender (i.e. women) groups... to give the impression of being inclusive, when in actuality these groups are not welcomed" (Riccucci, 2008, p. 132). This conventional definition of tokenism indicates behavior that caters to stakeholders such as diversity activists and executives in diversity-based positions. A scenario in which beneficiaries of nepotism are treated as tokens, however, is also possible. In this case, the stakeholders being catered to are the higher-ranking, more well-respected executives who play roles in securing family members positions. The beneficiaries of nepotism may be viewed by fellow executives as illegitimate and undeserving of their positions. Thus, their impact on organizational behavior may be empirically undetectable to the extent that the rest of the executives within firms tokenize their presence.

The third and final possible implication of the results is that beneficiaries of nepotism experience adversity to a similar degree that non-beneficiaries experience adversity. This may potentially relate to the aforementioned concept of tokenism. If beneficiaries are viewed by their peers as fraudulent, they may experience negative emotions associated with alienation. Such executives may also feel a higher level of necessity to 'prove themselves worthy', which may take the form of pursuing elite education, gathering more corporate experience, or pursuing

similar accolades prior to their appointment to an executive position. It may be possible that beneficiaries have a more demanding 'path to the top,' and end up experiencing more scrutiny, alienation, and adversity than an average executive does in her career advancement. If this is the case, we would not observe a negative association between the presence of nepotism and organizational empathy. In fact, according to the literature, we would examine a positive association between the variables. The fact that this association does not appear in the data reduces the likelihood of this scenario existing.

Table 4 summarizes the potential scenarios that can be derived from the study's results, and avenues of further research that can lead to more definitive conclusions:

Table 4: Summary of Results and Implications

Potential Scenario	**Implications for Current Study**	**Avenues for Future Research**
CSR Rating as an ineffective measure for corporate prosociality	Evidence for nepotism's effect on organizational empathy is equivocal, given that the dependent variable does not indicate organizational empathy	Analysis exploring efficacy of CSR in indicating organizational empathy, examination of more effective indicators
Beneficiaries of nepotism do not influence organizational behavior to an extent that is observable	Disproves the current hypothesis on the basis that principles of UET do not hold	Qualitative analysis of the presence of board tokenism for beneficiaries of nepotism in executive positions
Beneficiaries of nepotism and non-beneficiaries experience comparable levels of adversity	Disproves the current hypothesis on the basis that beneficiaries of nepotism do not enjoy less adversarial circumstances than non-beneficiaries	Background analysis comparing paths of beneficiaries to the paths of non-beneficiaries

CONCLUSION

This study examines the causal link between beneficiaries of executive nepotism and corporate social responsibility practices. Using a difference-in-difference model and a control group restricted to corporations that engage in non-executive nepotism, the model finds no significant evidence to support the claim that individuals in the executive suite who experience lower levels of adversity drive their firms to exhibit lower displays of organizational empathy.

The results are limited in that the sample is restricted to firms that file reports to the SEC. Thus, these results cannot be generalized to include private firms or international corporations that are not publicly traded in American markets. The database used for evaluating CSR scores, CSRHub, is also just one of many potential measures for the dependent variable of organizational empathy. Restricting the evaluation of this variable to one that isolates displays of empathy from external pressure, i.e. empathetic responses that the firm seeks out, rather than is pressured into undertaking, may help measure a more accurate effect of the mechanism the study aims to uncover. The extent to which such responses can be identified remains unclear.

In future avenues of research, I aim to identify differences in background attributes between beneficiaries of nepotism and a sample of individuals with similar positions who do not hold familial ties to current executives. I hope to uncover any effects of familial ties in ‘covering lost ground’ in securing remunerative positions that otherwise would have been acquired via advanced education or high-level experience. Analyses regarding CSR as an accurate measure of organizational empathy and the presence of tokenism among executives who benefit from nepotism would also lead to more fruitful conclusions.

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