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Management Philosophies and Styles in Family and Non-Family Firms

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A growing body of evidence supports the view that there are substantial differences in the management styles and skill sets of individual CEOs, and these differences seem to translate into effects on firm performance and how firms operate. However, we know little about what drives these differences in CEO behavior. In particular, we do not know if the management philosophies and styles of CEOs vary with the governance structure or ownership of the firm (for example, whether it is a family firm or widely held firm), or even across countries. One view is that the extent to which they take a stakeholder approach to management—in opposition to a shareholder focused approach—is an important determinant of CEO behavior. Family members as CEO might be more likely to adopt a stakeholder view, since they have a longer horizon and care about the reputation of the family beyond profit maximization. An alternative view holds that greater emphasis on stakeholder management is a feature of entire countries, evolving in response to aspects of the economy as a whole, rather than to firm-specific characteristics.

In our paper, **How Do CEOs See Their Roles? Management Philosophies and Styles in Family and Non-Family Firms**, forthcoming in the *Journal of Financial Economics*, we explore how the interplay of firm level and country level factors shape CEO management styles and beliefs regarding their roles.

We use a unique and detailed survey of over 800 CEOs of the largest public and private firms in 22 emerging market countries to examine the business philosophies underlying CEOs' decisions, the way they manage their firms, and how they see their roles and responsibilities. These rich data allow us to shed light on two questions: (i) Are there systematic differences in CEO management approaches? (ii) Are country or firm level characteristics associated with the adoption of a stakeholder approach to management? We differentiate between four types of firms to capture the complex landscape of leadership arrangements:

1. firms run by the firm's founder,
2. family firms with a family member as CEO ("related CEOs"),
3. family firms with a (non-family) professional CEO, and
4. non-family firms run by professional CEOs.

We first show that CEOs' business philosophies, management approaches, and personal backgrounds are systematically associated with firm characteristics, and especially with the firm's governance structure and the influence that the founding family has on the business.

Founder CEOs and Related CEOs are more likely than Professional CEOs to embrace a stakeholder view of management, and feel less responsibility towards shareholders, instead prioritizing employees and creditors. For example, when asked how they would trade off stable employment against dividend payments to shareholders, Founder CEOs (Related CEOs) were 22% (11%) more likely to prioritize employment than Professional CEOs. Founders in particular also adopt a more hierarchical organization structure (e.g. they have fewer managers reporting directly to them and are less likely to delegate important decisions to subordinates), and both Founder and Related CEOs concentrate more power in their own hands (e.g. they are more likely to be on the board of their firms and have larger ownership stakes), and see their role as preserving the structures and values of the firm rather than bringing about change. In contrast, Professional CEOs of non-family firms are more likely to feel responsible to shareholders over stakeholders, and rely more heavily on delegation and flatter management structures.

Professional CEOs of family firms inhabit what may be an uncomfortable middle ground. Based on their business philosophies and approaches they seem very similar to professional CEOs of widely held firms. Moreover, both types of professional CEOs see their role as bringing about change in the business instead of maintaining established strategies. However, the ambitions of professional CEOs of family firms to effect change appear hard to translate into action, as they have the weakest explicit or implicit control rights of all CEOs. For example, they have the lowest ownership stakes and likelihoods of being on the board or naming directors, and are much less able than CEOs of non-family firms to replace members of the top management team when they come into the job. This suggests a discrepancy between the reported ambitions of professional CEOs at family firms and how empowered they are to actually implement them.

Surprisingly, we find that the patterns in CEO business philosophies are mostly explained by firm-level variation in governance and ownership structures. So despite wide variation in cultural norms and financial and economic development across countries, management's degree of stakeholder-focus seems largely to depend on the governance and ownership structures of each firm rather than on national or even regional factors.

Finally, while we cannot track individual firms over their full life cycles (the survey gives us a snap shot at a given point in time), our data suggest that there are important differences between firms that persist over time. Firms led by their founders are (naturally) younger than all other types of firms, but once firms move beyond the founding stage they must choose between distinct approaches to leadership: some stay family managed, some engage a professional CEO even when they are mainly family-owned, and others become widely held. However, our results suggest that this first leadership transition has lasting effects on how stakeholder-focused the firm is, and on the role and management approach of its CEO.

The full paper is available for download **here**.