Firm Survival and Growth in a Crisis: Ownership Structure, Access to Finance, and Public Policies

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Motivation

- How family firms behave in a crisis, in particular with employees, is an open question.

- Lins et al. (2013): family firms (which are more constrained) cut investment and employment more abruptly during the financial crisis.

- Sraer and Thesmar (2007), Bassanini (2017): family firms less likely to reduce employment in a downturn.

- We use the Covid shock affecting Norwegian firms to shed light on the drivers of family firm behavior, in particular vis-a-vis employment.

Evidence: The COVID emergency in Norway

- The Covid crisis dramatically reduced the revenues of many firms

- Government support:
  - Compensation for "unavoidable fixed costs".
  - Support for furloughs (still costly for the firms).

- For us: data on the impact of the Covid shock on various firms
- Findings:
  - **Little difference** between family and nonfamily firms in terms of the drop in revenues, operating leverage effects
  - **Large difference** in firings and furloughs

Literature

- Sraer and Thesmar (2007), Bassanini (2017): more stable employment in family firms
- Lins et al. (2013): deeper cuts in investment and employment in family firms
- Carletti et. al. (2020): the impact of the Covid crisis on SMEs (most of them family firms) was larger

Model

- Economy with two types of firms, family and nonfamily
- Start with a given, identical amount of equity and number of employees
- Only difference between firm types: the owners of family firms derive private benefits of control (C per period)
- Every period the optimal firm size may be high or low; firms need to decide whether to adjust their size

Model: One-period adjustment

Max $(k(LagN + \Delta N)^{0.5} - (LagN + \Delta N)w - \Delta N\ s)$,

so $\Delta N = k^2/4(w+s)^2 - LagN$.

Positive shock (high productivity k): hire more workers

Negative shock (low productivity k): fire workers

Model: One-period constrained adjustment

Need to raise capital and hire (dilute and forego C)

$$\frac{LagE+k(LagN+\varDelta N)^{0.5}-(LagN+\varDelta N)w-\varDelta N\, s}{LagE+k(LagN+\varDelta N)^{0.5}-(LagN+\varDelta N)w-\varDelta N\, s+\varDelta N\, s}*$$

$$(k(LagN+\varDelta N)^{0.5}\text{-}(LagN+\varDelta N)w\text{-}\varDelta N\, s)$$

vs

Continuing as is

$kLagN^{0.5}$-$LagN *w +C$

Family firms may not be willing to contract

Several periods

Initial starting point t=0 followed by t=1,2

$P(k_2 = k_{high} / k_1 = k_{high}) = P(k_2 = k_{low} / k_1 = k_{low}) = p_1$

If $k_1 = k_{low}$ and p_1 is low (likely short crisis):

family firms may be unwilling to downsize at t=1.

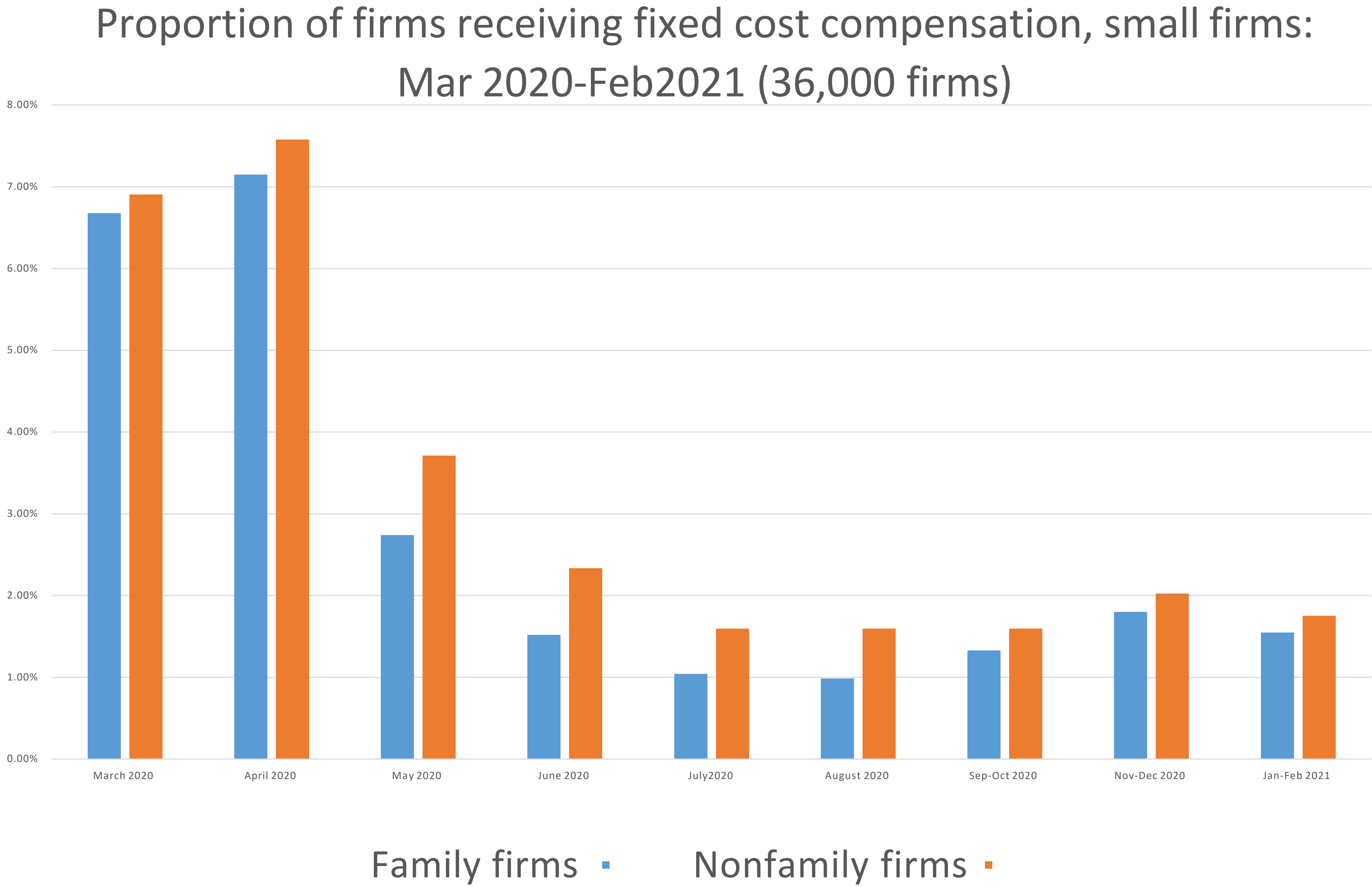
Empirical results

Data:

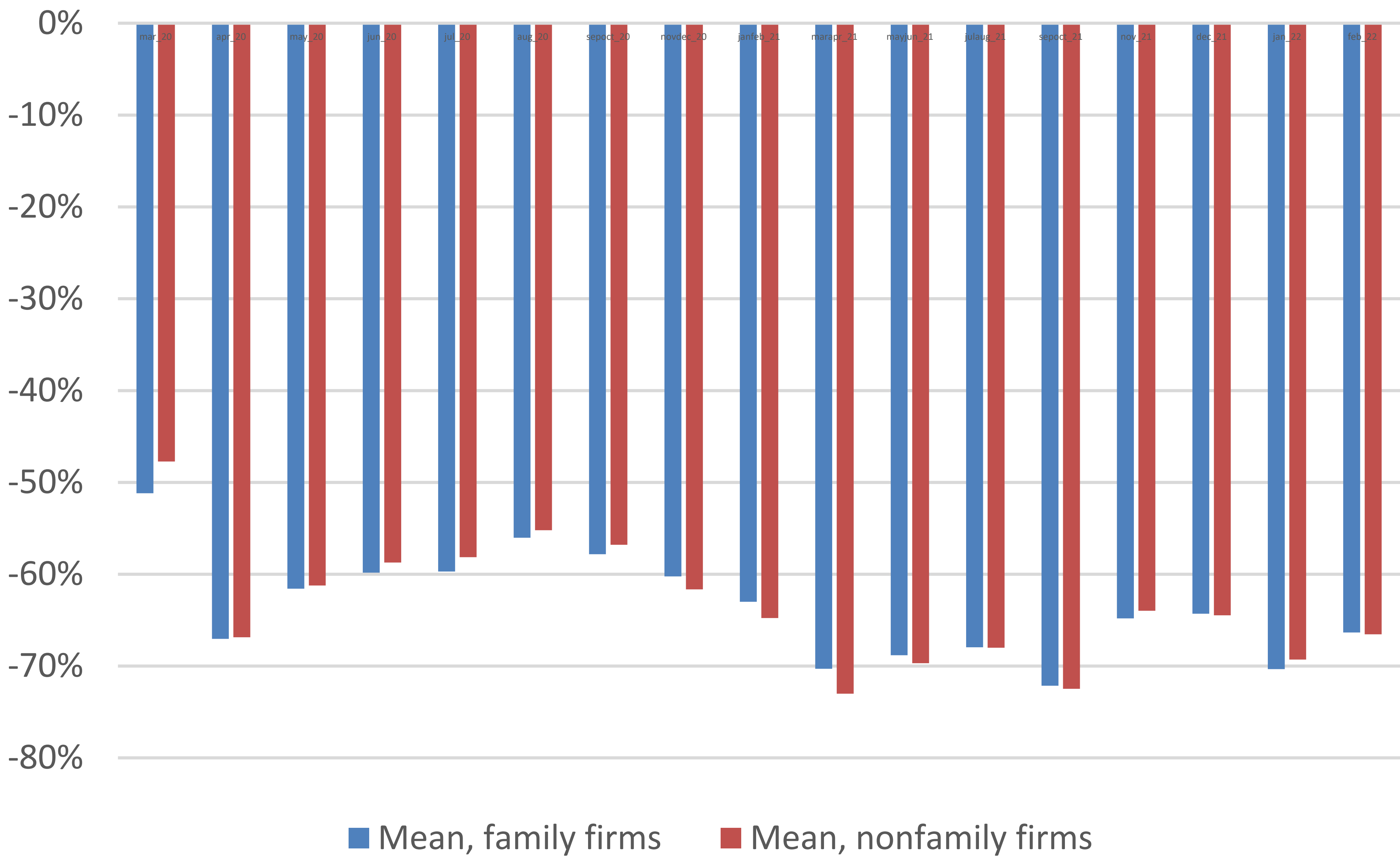
- CCGR data with accounting, ownership and family relationship information

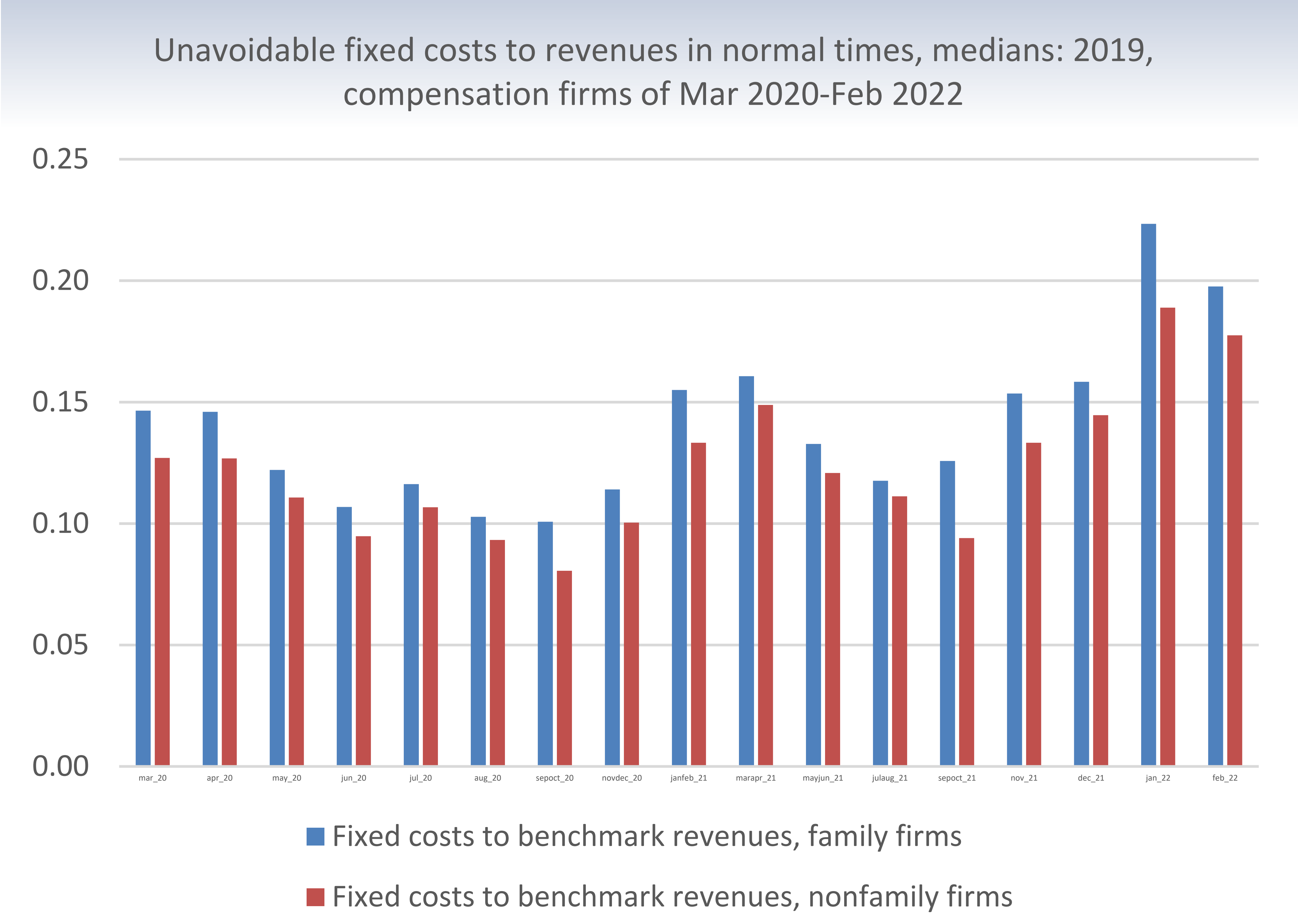
- Data on compensation received by firms, furloughs, decreased hours, and firings
  - Company Rgistry (Brønnøysundregistrene),
  - Social Security Administration (NAV),
  - Media (E24)

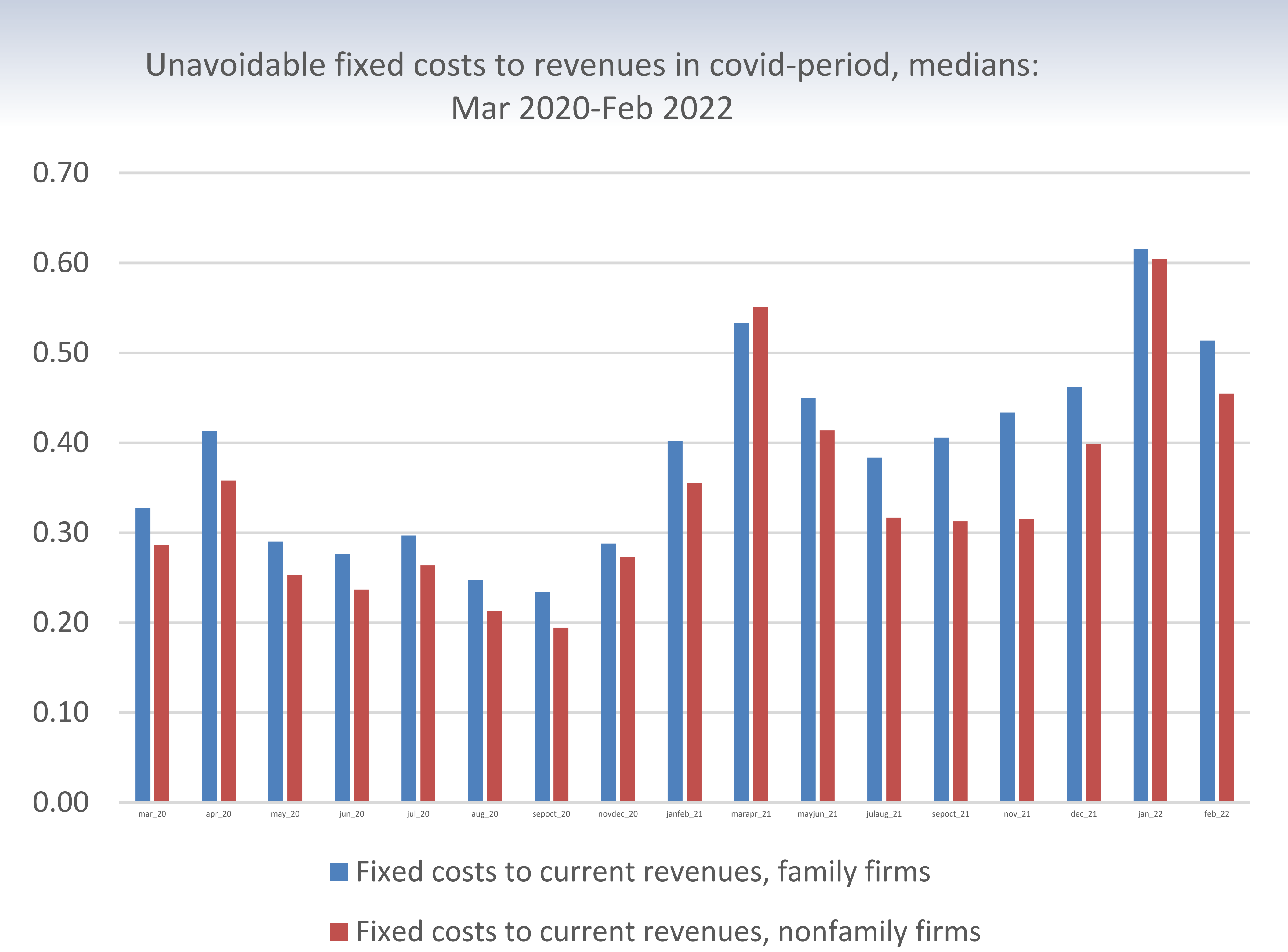
Family Firms and Compensation



Mean decrease in revenues for firms receiving compensation: Mar 2020-Feb 2022

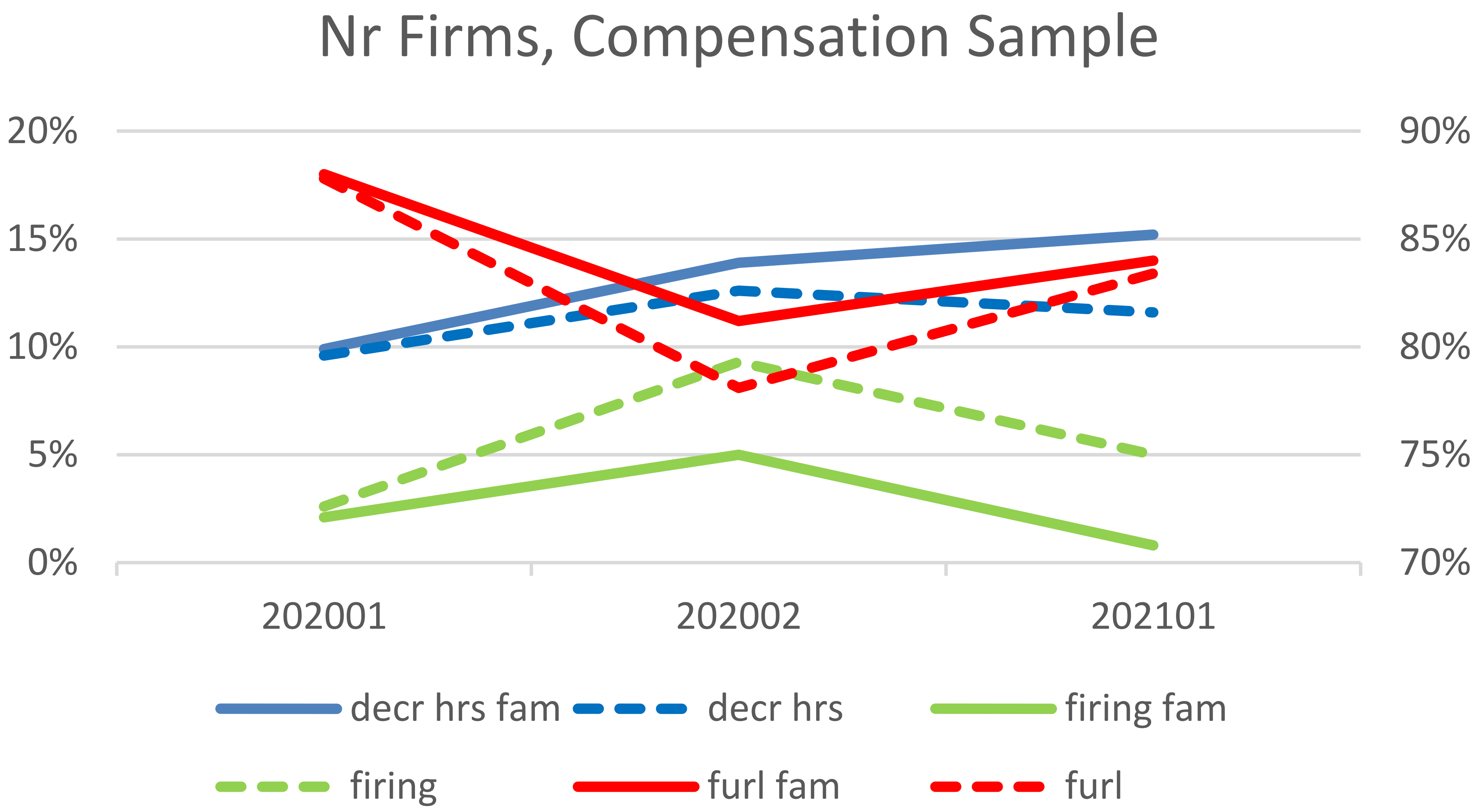



Unavoidable fixed costs to revenues in normal times, medians: 2019, compensation firms of Mar 2020-Feb 2022
0.25
0.20
0.15
0.10
0.05
0.00
mar_20
apr_20
may_20
jun_20
jul_20
aug_20
sepoct_20
novdec_20
janfeb_21
marapr_21
mayjun_21
julaug_21
sepoct_21
nov_21
dec_21
jan_22
feb_22
Fixed costs to benchmark revenues, family firms
Fixed costs to benchmark revenues, nonfamily firms



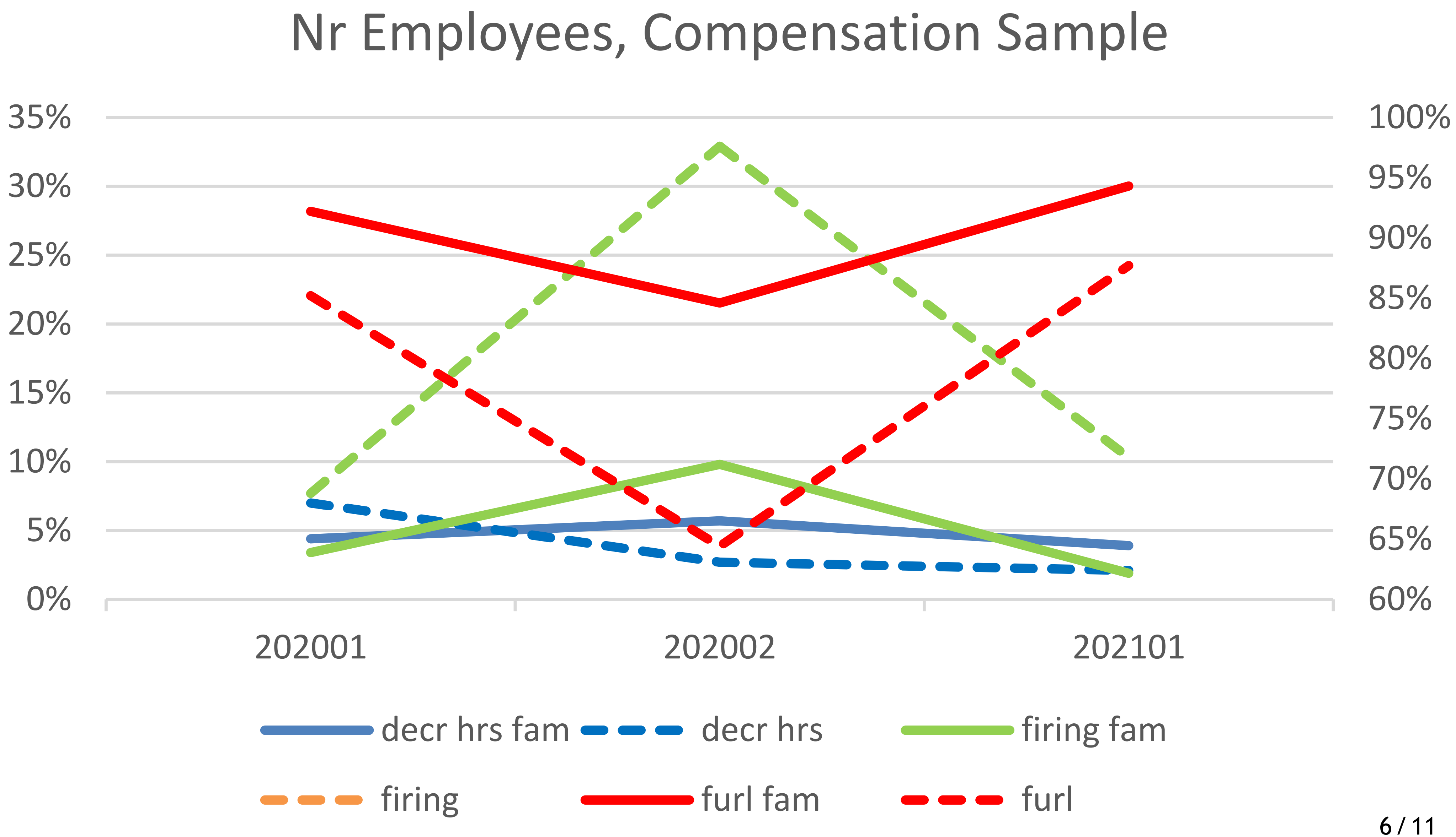
Unavoidable fixed costs to revenues in covid-period, medians: Mar 2020-Feb 2022
0.70
0.60
0.50
0.40
0.30
0.20
0.10
0.00
mar_20
apr_20
may_20
jun_20
jul_20
aug_20
sepoct_20
novdec_20
janfeb_21
marapr_21
mayjun_21
julaug_21
sepoct_21
nov_21
dec_21
jan_22
feb_22
Fixed costs to current revenues, family firms
Fixed costs to current revenues, nonfamily firms

Family and Non-Family Firms behavior towards Employees



Family and Non-Family Firms behavior towards Employees:

36,000 fixed cost compensation firms,
10,000 (2000) employment compensation firms



Rationalizing Findings …

- Family firms have special owners
    - Focused on the survival of the firm (Gomez-Mejia et al. 2007) and keeping control over the firm.

- That limits the amount of capital available to the firm, can slow down its growth (BBS 2022 paper, Fagereng et al.).

- Family firms may compensate on the labor side: can build a reputation of offering long-term jobs, and pay relatively lower wages in return.

- If family firms renege on implicit contract with employees, these will require higher wages ⇒ Problem given resource constraint.

Story

- In a downturn:
  - If the shock is moderate (or is moderated by public support), and the family firm is likely to survive: it will engage in costly attempt to maintain employment.
  - Large shock and firm survival at stake: family firms may downsize more aggressively.

- Policy:
  - Public support attenuating shocks may help maintain family firm employment

Additional tests

The data we have allows us to check our story and contribute to a better understanding of family firm behavior

- Different severity of the shock in different industries
- Wide variation in the size of the local labor market
- Can look at past firm behavior to establish a benchmark
- Can use variation in family involvement, resources, eponymy