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

Abstract:

We investigate compensation policies in family and non-family firms using a novel employer-employee matched dataset comprising nearly the universe of Italian incorporated firms and ownership information. Family firms pay significantly lower wages and offer slower and less rewarding careers. Differences in worker sorting account for half of the wage gap between family and non-family firms while productivity differences and compensating differentials explain little of the residual gap. The wage distribution in family firms is more compressed, with infrequent promotions. We rationalize this evidence with a model where family owners seek to maintain control, creating a "glass ceiling" that limits their employees' career progression.