Spotlight
by CeFEO

Are CEOs more influential in private firms?

How does ownership structure shape a CEO's power to influence firm success?

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In the world of family business and entrepreneurship, few questions are as important—or as contentious—as the role of the CEO. How much influence does a single leader really have over performance? And more importantly, **does that influence change depending on whether a firm is publicly listed or privately held**?

This is especially relevant for family businesses, many of which operate as private firms. As family enterprises grow and professionalize, they often consider going public to access capital. But doing so might come with hidden trade-offs in leadership impact and strategic freedom.

Until now, most research has ignored private firms, partly due to a lack of reliable data. This study changes that, offering a rare and powerful comparison between CEO influence in public versus private firms—illuminating a path forward for family business owners, boards, and successors.

WHAT WE STUDIED

To assess how the CEO effect varies between public and private companies, the researchers used a **unique longitudinal dataset** comprising **1,501 private firms and 178 public firms in Sweden**, covering a 17-year period (1997–2013). All firms included were large, with more than 250 employees, ensuring that the comparison wasn't skewed by firm size.

The data came from Sweden's mandatory reporting systems, which include accurate financial and employment information, enabling the researchers to identify CEOs and assess their tenure and influence.

Using **multi-level modeling** (MLM), a statistical technique that separates the influence of CEO decisions from other factors like industry trends and firm characteristics, the researchers measured **how much of a firm's performance could be attributed to its CEO**. They used **return on assets (ROA)** as the primary performance metric, along with other indicators like ROE and EBIT for robustness.

KEY INSIGHTS

1. The CEO Effect is Stronger in Private Firms

The analysis revealed that **23.8% of performance variance** in private firms could be attributed to the CEO, compared to just **16.6% in public firms**. This difference widened further in matched-pair samples—where firms were controlled for size, industry, and profitability—with the CEO effect rising to **27.6% for private firms** versus **16.4% for public firms**.

This means that **CEOs in private firms have up to 68% more impact on firm performance** than their public-firm peers.

2. Private Firms Offer More Strategic Freedom

Private firms tend to be less bound by quarterly earnings expectations, stock market pressures, or regulatory scrutiny. This gives CEOs greater **latitude to make bold or unconventional strategic moves**, which amplifies their potential impact—whether for better or worse.

3. Public Firms Limit CEO Discretion

Public companies often have larger boards, more formalized governance structures, and a higher degree of shareholder oversight. These mechanisms are essential for accountability but can also constrain CEO decisions. This reduces the ability of CEOs to shape performance outcomes dramatically, hence a lower CEO effect.

4. Higher Impact Doesn't Mean Higher Risk

Interestingly, CEOs in private firms were found to take **less strategic risk**, have **fewer resources**, and still achieve **slightly better performance outcomes**. This

contradicts the assumption that higher impact stems from high-risk, high-reward strategies. Instead, the data suggest that **strategic creativity, flexibility, and alignment with long-term goals** might explain the superior results.

TAKEAWAYS FOR FAMILY BUSINESSES

1. Empower Leadership in Private Settings

If you're running a family firm, recognize the **amplified power of your CEO**. Whether it's a family member or an external executive, ensure they are supported, aligned with the firm's vision, and given room to act decisively.

2. Think Twice Before Going Public

While public listing brings access to capital, it may come at the cost of **leadership flexibility and influence**. If your firm thrives on personalized leadership, agility, and long-term planning, staying private might preserve those strengths.

3. Prioritize CEO Selection and Development

With CEOs having such a profound influence in private firms, **succession planning and leadership development are vital**. Investing in the right leader—or mentoring the next-generation family CEO—can make the difference between growth and stagnation.

4. Rethink Pay-for-Performance Logic

The study finds that **private firm CEOs outperform public ones** despite earning less and taking fewer risks. This challenges prevailing beliefs around CEO compensation, particularly in public firms, and suggests that **non-financial motivators and ownership commitment** may play a bigger role in private settings.

IMPACT

This research provides compelling evidence that **firm governance type fundamentally shapes CEO impact**. For strategic management scholars, it's a call to broaden the lens: theories developed in public-firm contexts may not generalize well to private companies, especially family-owned ones.

For family business owners and boards, it's a call to action. The CEO's role is more powerful than previously assumed—especially in private firms where leadership isn't diluted by layers of public accountability.

Perhaps most importantly, this study shows that **private firms aren't just smaller versions of public firms**. They operate under different logics, incentives, and structures—and that distinction matters when making leadership and governance decisions.

RECOMMENDATIONS

1. **Maximize CEO impact** by ensuring alignment between ownership goals and executive strategy.
2. **Design governance structures** that balance oversight with flexibility.
3. **Foster a long-term strategic outlook**, free from short-term market pressures.
4. **Invest in succession and leadership development** early, especially in multigenerational family firms.
5. **Explore private firm benchmarks** for innovation and performance—not just public company best practices.

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