

# The Talent Gap in Family Firms\*

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## Abstract

Using detailed administrative data from Danish military draft sessions as well as high school records we document that employees in family firms have on average lower talent than employees in non-family firms. We measure talent using high school grades and IQ. This gap is higher for upper managers and in high-skill job occupations. Examining potential channels we document that family firms pay less for talent compared to non-family firms. Moreover we find evidence of nepotism in all levels of the organization in family firms, which restrict the career options of non-related employees. Our findings support that the talent gap is rooted in family firms' lower ability to provide incentives for talented individuals.

**Keywords:** Family Firms, Employee Quality, IQ

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