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# Study: A CEO's Decision Making Is Shaped by Whether Their Parents Were Immigrants

by Duc Duy Nguyen, Jens Hagendorff, and Arman Eshraghi

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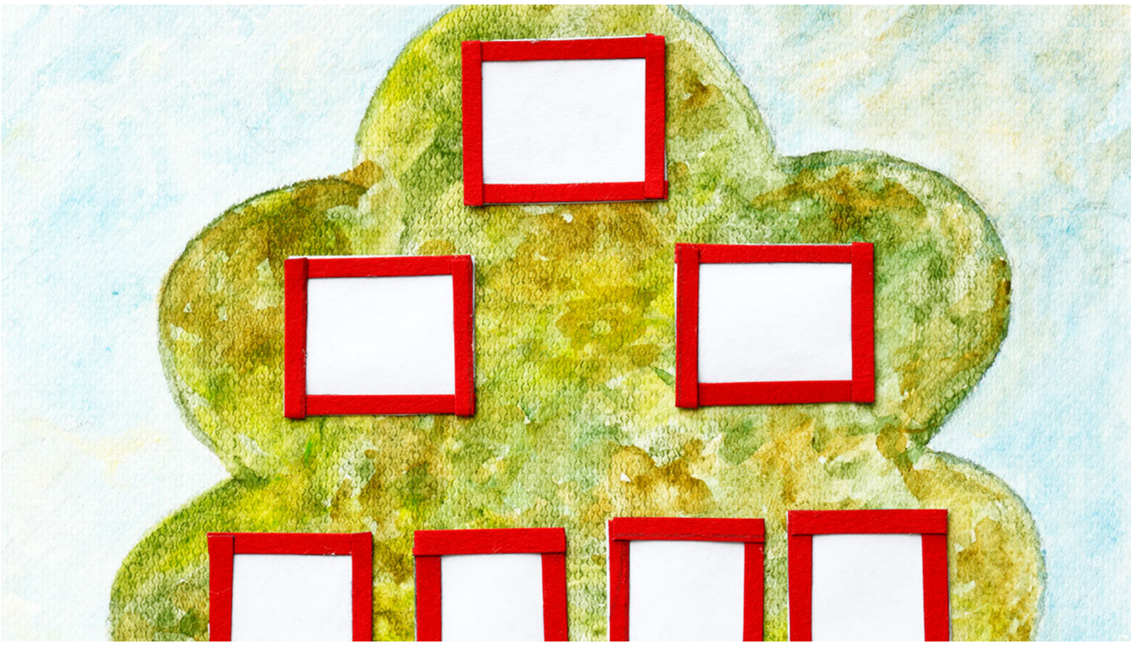

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**Summary.** Does cultural background affect a leader's decision making? A study supports the idea that the culture of a CEO's ancestors influences his or her decision-making, firm policy choices, and ultimately the firm's performance. Researchers studied 610 U.S. bank... **more**

Does cultural background affect a leader's decision making? There's a lot of research on how leaders living in different cultures behave, but little on how cultural *heritage* shapes leaders — even though this would seem to be just as meaningful for business performance as other factors like experience and education.

We sought to fill this gap. We conducted a study specifically focusing on whether the cultural values that CEOs inherit from their parents and grandparents affect their decision-making and their firms' performance.

Our sample consisted of 610 U.S. bank CEOs who were born in the U.S., which we separated into three groups: those whose parents were immigrants to the U.S., those whose grandparents were immigrants to the U.S., and those whose parents and grandparents were born in the U.S. (our control group). We chose this design as a way to isolate the effect of cultural heritage: while CEOs born to immigrant parents or grandparents are exposed to the same legal, social, and institutional influences as other CEOs, they're likely to possess a distinct cultural heritage. Research has long shown that cultural values are deeply rooted and that immigrants to the U.S. show a degree of cultural distinctness over several generations. For instance, U.S. immigrants' family living arrangements and beliefs of the role of women in society have been found to parallel those found in the home countries of their ancestors.

The CEOs in our sample led 441 publicly-listed U.S. banks between 1994 and 2006. Among them, 293 were either children or grandchildren of immigrants, and we called them our second- and third-generation CEOs.

We hand-collected data on the country of origin of a CEO's ancestors from ancestry.com, the world's largest genealogy database, which covers nearly 20 billion family histories. We traced a CEO's ancestors by searching his or her name, birthplace, and birth year to identify parents, then used the same technique to identify the grandparents, and so on. Looking at a range of data sources — from census records to marriage certificates to passenger lists on immigration ships that sailed from Europe to the U.S. — we were able to map their family trees. We were able to accurately determine the ancestors going back six generations for these 610 U.S. bank CEOs. We identified the country that his or her ancestors immigrated from, and how many generations ago the ancestors moved to the U.S. For example, we found that Jamie Dimon, the CEO of JP Morgan, is a third-generation descendant of Greek immigrants to the U.S.

To make causal inferences about the effect of heritage, we had to make sure that cultural background was what drove executives' decisions and firm performance — rather than other skills and characteristics that may have got them appointed to lead in the first place. So we relied on a setting where firms faced an unexpected competitive shock, one that directors could not have anticipated and selected specific CEOs to manage it, and one that forced CEOs to make complex, non-routine, and unstructured decisions — decisions where CEOs' characteristics are likely to affect how they respond.

The banking industry experienced a series of profound competitive shocks in the 1990s. The one we used was the Interstate Banking and Branching Efficiency Act (IBBEA) of 1994 that legalized interstate branching in some U.S. states, such as Michigan or North Carolina, which increased competitive pressures in these states but not in others.

Our idea was that if the cultural heritage of a CEO matters to corporate outcomes, then we would observe systematic differences between firms led by second- and third- generation CEOs and firms led by the control group, following shocks to competition. And this is what we found. Our data showed that banks led by CEOs who are the children and grandchildren of immigrants were, on average, associated with superior performance — measured by bank Return on Assets — following higher industry competition from the deregulation of interstate branching. This superior firm performance was strongest for second-generation CEOs, and the effect weakened with each later generation.

Intriguingly, the cultural heritage effects we uncovered were uniquely linked to the CEO and could not be detected for other senior executives. We replicated our analysis for the Chief Financial Officers (CFOs) of each bank and other members of the top management team, but we did not find a relationship between their cultural heritage and firm performance. This confirmed the role of the CEO as the most important decision-maker in a bank. While we could not rule out that the cultural heritage of non-CEO executives may shape decision-making in their particular areas of responsibility, our results indicated that, should such effects exist, they are not traceable in aggregate Return on Assets.

Not all recent-descendants of immigrants outperformed under pressure. The effect varied by the country of origin of a CEO's ancestors. Our findings implied that CEOs whose ancestors were from Germany, Italy, Poland and Russia were associated with better bank performance under competitive pressure. However, CEOs with British or Irish ancestors did not display different performance from the rest of the sample. These countries represented 90% of the foreign immigrants to the U.S. from our sample, as most immigrants who came to the U.S. in the 19th century came from Europe.

But is it really different cultural values that explains our descendants-of-immigrants effect? We tried to answer this by identifying the cultural values that prevailed in these ancestral countries. In particular, we looked at how different countries compared on 16 cultural values developed by psychologists Geert Hofstede and Shalom Schwartz, the GLOBE Project, and the World Values Survey. These values include culturally prevalent attitudes towards individualism, long-term decision-making, and risk aversion.

We found that some of these cultural values are statistically linked to better competitive performance, and some are associated with negative performance. For instance, we found that banks with stronger performance after this shock had CEOs whose parents and grandparents came from Germany, Italy, Poland and Russia — countries that rate highly on the cultural dimensions of *restraint, long-term orientation, uncertainty avoidance*, and *harmony*. By contrast, firms with weaker performance after the shock had CEOs whose ancestors came from countries that rated highly on *individualism, performance orientation, importance of freedom, intellectual autonomy, importance of selflessness*, and *patriotism*.

These cultural values can mostly be distinguished into two categories: group-oriented vs. self-oriented cultures. When competition intensified, we found that banks led by CEOs whose parents or grandparents came from a group-oriented culture made more cautious but superior investment decisions. On average, these CEOs (1) engaged in fewer acquisitions, (2) realized higher acquisition announcement returns, (3) displayed lower bank risk, and (4) were more cost-efficient.

Overall, our work is consistent with the view that the culture of a CEO's ancestors influences his or her decision-making, firm policy choices, and ultimately the firm's performance. We do not, however, interpret our findings as showing that particular cultures are superior to others. The strengths and weaknesses of all cultures are context dependent.

More broadly, our findings show that cultural heritage matters and that it's beneficial for companies to be diverse and to recruit talents from various backgrounds. At a time when the economic benefits of immigration are increasingly questioned, our study offers a glimpse of the positive and lasting contribution that people of immigrant heritage make in the business world.

DN

**Duc Duy Nguyen** is a lecturer in Banking and Finance at the University of St Andrews. His research interests lie at the intersection of empirical corporate finance, financial intermediation, and labor economics.

JH

**Jens Hagendorff** is professor of finance at The University of Edinburgh. His work focuses on

corporate governance and the risk-return profile of companies.

AE

**Arman Eshraghi** is associate professor of finance and accounting at the University of Edinburgh. His research focuses on behavioral finance and corporate governance.

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