Social responsibility in family firms: A double-edged sword?

Family firms are less likely to adopt social practices for internal stakeholders. IESE's Pascual Berrone investigates why.

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Are family firms really more socially responsible?
Because they tend to take the long view and care about their reputations, family firms are often thought to be more socially responsible than nonfamily firms.

But a new study by Cristina Cruz, Martin Larraza-Kintana, Lucía Garcés-Galdeano and IESE's **Pascual Berrone** calls this into question. The co-authors find that the prioritizing of continuity, status, relationships and other forms of "socioemotional wealth" over financial gains and external pressures (such as industry standards) may lead family firms to be less socially responsible than nonfamily businesses -- at least in terms of addressing internal stakeholders' demands.

Crunching the numbers

The empirical study looks at a sample of 598 listed European firms in 22 countries over a period of four years in order to test a series of hypotheses related to social responsibility.

The co-authors conclude that family firms "show a double face" in their relationships with stakeholders. While family firms are as responsible as nonfamily firms in their relationships with external stakeholders (i.e., the environment, community and customers), they are less responsible regarding internal stakeholders (i.e., employees and governance).

Separately, the co-authors look at the influence of external norms, standards and financial performance on social responsibility and find statistically significant differences between

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family and nonfamily businesses.

What drives decision-making in family firms

Building on a 2012 paper by Berrone and co-authors, this study advances the idea that family firms are unique in their pursuit of other forms of wealth apart from financial profits. For family firms, reputation, status, relationships and longevity are key drivers of strategic decision-making. In academic studies, these "affective endowments" are known as "socioemotional wealth" (SEW). Berrone and co-authors previously identified five key dimensions of SEW preservation guiding family firms:

1. Family control and influence
2. Identification of family members with the firm
3. Binding social ties
4. Emotional attachment of family members
5. Renewal of family bonds (dynasty)

For family firms, internal stakeholders can be perceived as threatening their emotional attachment to or influence over the company. As a result, family firms may have unfair compensation practices (favoring family over nonfamily members) and may limit the number of independent directors (favoring full family control over the board).

Meanwhile, following the SEW logic, the co-authors posited that family firms would act more socially responsibly than their nonfamily peers regarding external stakeholder demands -- namely, environmental, community and customer issues. After all, family reputations are at stake here. But empirical evidence did not support this hypothesis: family and nonfamily firms in this sample were not significantly different in their responsiveness to external stakeholder demands.

Why not?

Some answers may be found in the co-authors' look at national and industry norms on corporate social responsibility (CSR).

More specifically, for the national influence on CSR, the co-authors turn to the United States, "the one country that actively sets national standards for CSR." Using an academic measure of cultural proximity (called the CAGE framework) developed by IESE's **Pankaj Ghemawat**, Berrone and co-authors analyze their company data from 22 European countries in terms of cultural proximity to the United States (with the United Kingdom considered closest). In this analysis, the co-authors find that family firms are less likely to be influenced by national CSR standards or "follow the norm" than nonfamily businesses are.

On a similar note, the co-authors look at industry standards and find them less influential for family firms than they are for nonfamily ones. With SEW preservation shaping family firms' decision-making, external factors seem to hold less weight.

Meanwhile, the empirical study finds that family firms are more likely to reduce social practices in the face of declining performance. Perhaps because they have more to lose, since both financial wealth and SEW dimensions are at stake, family firms are found to be more likely to cut their CSR programs in the face of falling profits.

The double-edged sword: Managing social responsibility

"SEW can be a 'double-edged sword' eliciting both socially responsible and irresponsible behavior in family firms, having both a bright and a dark side," the co-authors write.

For managers at family firms seeking to implement social programs, knowing the unique priorities at work can help shape strategy. Because of the internal dynamics at play, these firms' social policies may not be swayed by external managerial trends and standards. On the one hand, this could help protect family businesses from fad management practices and short-term thinking. On the other hand, managers should make sure their social programs are responsive to key stakeholders and keep up with industry best-practices.

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