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All in the family? Social performance and corporate governance in the family firm ☆

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ABSTRACT

We analyze the social performance of a sample of publicly traded family and non-family firms. Using the KLD index of social performance, we find a negative relationship between family firm status and poor social performance. However, we find no evidence that corporate governance is related to firm social performance. Findings also provide evidence that corporate governance moderates the relationship between extent of family control and social performance.

1. Introduction

This article examines two issues of importance to the literature on social performance. The first research issue is that of the social performance of large family firms compared to non-family firms. Making use of resource dependence and instrumental stakeholder theory, authors have suggested that social performance is particularly valuable to family firms as a means of generating potentially useful goodwill or resources which may prove useful at a later date (Dyer & Whetten, 2006; Hadani, 2007; Niehm, Swinney, & Miller, 2008). This perspective is congruent with arguments for the instrumental value of social responsibility (Siegel, 2009). Further, Berrone, Cruz, Gomez-Mejia, and Larraza-Kintana (2010) and Gomez-Mejia, Haynes, Nunez-Nickel, Jacobson, and Moyano-Fuentes (2007) emphasize the importance of reputation, prestige, and what these authors term 'socio-emotional wealth' to family firms. To a certain extent reputation and prestige are likely important to most firms.

However, the congruence of family and business interests inherent in family firms research suggests that such motivations are of greater importance in family firms (Berrone et al., 2010). To illustrate, the S.E. Johnson Company website (http://www.scjohnson.com/en/home.aspx) identifies three key pillars of the firm's identity: a family company, acting with integrity and products you can trust. Survey results from the Family Firm Institute (Family Firm Institute, 2007) show that family business owners felt that being a family business had a positive influence on their ethics and social performance.

Alternatively, Schulze and colleagues have argued for the relevance of 'altruistic' or family-centered motives in family firms (Schulze, Lubatkin, Dino, & Buchholtz, 2001; Schulze, Lubatkin, & Dino, 2002). From this perspective, family controlled firms may emphasize actions that reflect family interests over those of other stakeholders, which may negatively impact social performance. With few exceptions (Berrone et al., 2010; Dyer & Whetten, 2006), prior research on the social performance of family firms has focused on small family firms. Second, we examine the social performance implications of corporate governance mechanisms in the context of family and non-family firms.

Although most research attention focuses on the financial and strategic implications of corporate governance, there is increasing recognition that corporate governance has social implications as well. Most prior research focuses on specific corporate governance mechanisms such as executive compensation (Mahoney & Thorne, 2005; McGuire, Dow, & Argheyd, 2003), ownership characteristics, for example institutional ownership (Graves & Waddock, 1994; Johnson & Greening, 1999; Simerly & Bass, 1996; Waddock & Graves, 1995), and characteristics of the board of directors (Bear, Rahman, & Post, 2010; McKendall, Sanchez, & Sicilian, 1999; Webb, 2004).

Our study extends this line of research by examining the social performance implications of the corporate governance policies and procedures established by the firm. It therefore focuses on a broader corporate governance profile than the research noted above. One argument is that strong corporate governance may promote accountability

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to a wider range of stakeholder interests and limit entrenchment (Chrisman, Sharma, & Taggar, 2007). In contrast, by insulating management from external pressures, poor corporate governance may limit the extent to which management is held accountable to stakeholder interests. In a cross-national study Surroca and Tribo (2008) provide evidence that entrenched management may view social performance as a means of garnering stakeholder support to offset potential shareholder challenges.

In the context of family firms, however, the relationship becomes more complex. Arguments for the instrumental value of social performance in family firms would suggest that appropriate corporate governance would encourage social performance. However, social performance may also represent an agency problem in family firms. Specifically, family interests imply greater non-financial benefits to social performance, in essence implying the relevance of family altruism. If this is the case, strong corporate governance may curb such non-instrumental social performance. The following sections will elaborate these arguments.

2. Theoretical development

2.1. The social performance of family firms

Although both the theoretical and empirical definition of the family firm has been the subject of considerable debate (Chrisman, Chua, & Steier, 2005), a defining characteristic of family firms is the centrality of family control and involvement in firm decision-making (Birley, 1999; Chrisman et al., 2005; Chua, Chrisman, & Sharma, 1999; Dyer, 2003; Dyer & Whetten, 2006; Ibrahim, McGuire, & Dumas, 2001; Lansberg, Perrow, & Rogalsky, 1988). This dual identity, or 'familiness', has received considerable recent attention in the family business literature (Habbershon, Williams, & MacMillan, 2003; Pearson, Carr, & Shaw, 2008; Sharma, 2008). Family interests color many strategic decisions, the composition of the top management team, succession planning, and other decision areas (Birley, 1999; Burkart, Panunzi, & Shleifer, 2003; Cabrera-Suarez, De Saa-Perez, & Garcia-Almeida, 2001; Chua, Chrisman, & Sharma, 2003; Dyer, 2003; Ibrahim, McGuire, Ismail, & Dumas, 2004; Ibrahim et al., 2001; McConaughy, Matthews, Anne, & Fialko, 2001; Murray, 2003; Schulze et al., 2001; Sharma, 2004; Sharma, Chrisman, & Chua, 1997).

As a form of social capital (Adler & Kwon, 2002; Pearson et al., 2008), family ties serve both 'bridging' and 'bonding' functions internally within the firm and externally with important external stakeholders (Sirmon & Hitt, 2003). Proactive or positive social performance may serve internal bonding and external bridging functions. Such positive social performance, particularly regarding important external stakeholders, can serve an external 'bridging' function, allowing the family firm to gain support of key stakeholders and extend the firm's external social capital (Sirmon & Hitt, 2003). Particularly in the context of the stability of stakeholder relations characteristic of family firms, this stakeholder support may be viewed as a potentially valuable pool of goodwill to be tapped if needed at a future time (Anderson, Jack, & Dodd, 2005; Aronoff, 2004; Déniz & Suárez, 2005; Dyer & Whetten, 2006; Godfrey, 2005; Hadani, 2007; Niehm et al., 2008; Sirmon & Hitt, 2003). Thus Miller, Le Breton-Miller, and Scholnick (2008) argue that the priority given building and maintaining family control implies building strong ties with both internal (e.g. employees) and external stakeholders (e.g. suppliers and customers).

Indeed, studies investigating the financial performance of family firms have often made such social capital or stakeholder arguments (Anderson, Mansi, & Reeb, 2003; Anderson & Reeb, 2003; Arregle, Hitt, Sirmon, & Very, 2007; Godfrey, 2005; Stavrou, George, & Filotheou, 2007). Thus, as argued by Siegel (2009) social performance may be particularly instrumental to family firms. Finally, concern for succession and maintenance of family control can promote socially responsible actions to preempt litigation, legal challenge, and poor publicity which could make family succession more divisive and difficult (Bjuggren & Sund, 2001; Chua et al., 2003; Sharma, Chrisman, & Chua, 2003). This reasoning suggests that family firms may avoid negative or poor social actions, and may engage in positive or pro-active social performance. For example, a survey by the Family Firm Institute (2007) found that 57% of respondents felt that being a family business influenced their social performance, and that 60% of family business respondents felt their ethical standards to be more stringent than those of competing firms.

Further, over two-thirds felt that their business involvement contributed significantly to their family's identity in the community (Family Firm Institute, 2007). Examples would include the Molson Foundation (established by the Molson Company, which donates approximately \$4.4 million a year to charitable organizations (Molson, 2001). Saputo, a large publicly traded dairy firm, has long promoted healthy eating, and an active lifestyle, and sporting events (Saputo Annual Report, 2006, 2007).

To the extent that such performance builds family reputation and visibility, and promotes activities important to family members, proactive/positive social performance may serve an internal bonding function (Sirmon & Hitt, 2003). Thus, Berrone et al. (2010), Gomez-Mejia et al. (2007), and Kets de Vries (1993) argue for the importance of prestige, reputation and 'socio-emotional wealth' to family firms. In essence, the strategic objectives of family firms are complex, incorporating both economic and non-economic objectives associated with socio-emotional, wealth, in addition to financial wealth. In addition, these authors note the importance of family ties in building human capital, commitment, and firm-specific knowledge. Certainly, non-family firms also pursue such objectives, and derive reputational benefits from socially responsible actions (Bear et al., 2010). However, the overlap between family and firm, make such motivations particularly relevant to family firms (Habbershon et al., 2003; Pearson et al., 2008; Sharma, 2008). For this reason as well, family firms may avoid negative or poor social actions, and may engage in positive or proactive social performance to maintain family reputation and visibility.

Indeed, these motivations play a significant role in Schulze and his colleagues arguments for 'family altruism' (Lubatkin, Schulze, Ling, & Dino, 2005; Schulze, Lubatkin, & Dino, 2003b; Schulze et al., 2001, 2002), the priority of family interests over those of other stakeholders. Such family altruism can limit the firm's attention to broader stakeholder interests. It is possible that this internal focus could shift attention away from external constituencies by building boundaries between family and non-family constituencies (Barnett & Kellermanns, 2006).

However, existing research, focusing primarily on small family firms, support a positive family firm-social performance relationship.

H1. Family firms have stronger social performance than non-family firms.

2.2. Corporate governance and social performance

Research into the relationship between corporate governance and social performance has focused on the social performance implications of specific corporate governance mechanisms such as firm ownership, executive compensation, and board of director characteristics. Despite some contradictory evidence, the preponderance of findings suggests that these governance mechanisms promote social performance. Insulation from corporate governance pressures, in contrast, appears to be associated with lower social performance. Congruent with arguments that outsider influence in corporate governance promotes social performance, research has generally found that reliance on outside directors and board diversity promote social responsibility (Bear et al., 2010; Coffey & Wang, 1998; Johnson & Greening, 1999; Webb, 2004). Congruent with the monitoring role of institutional investors, other studies have found a positive association between institutional ownership and social performance (Coffey & Fryxell, 1991; Cox, Brammer, & Millington, 2008; Graves