



Ownership versus management effects on corporate social responsibility concerns in large family and founder firms



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ABSTRACT

Based on socioemotional wealth theory, we argue that family and founder firms differ from other firms with respect to corporate social responsibility concerns. We further argue that the ownership and management dimensions of founder firms have opposite effects. Using a dataset of large public firms in the US, we show that family and founder ownership is associated with fewer corporate social responsibility concerns (CSR concerns), whereas the presence of a family and founder CEO is associated with greater CSR concerns. We conclude that it is reasonable to distinguish between family and founder firms and their respective ownership and management dimensions when analyzing CSR in large firms.

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Introduction

Family-controlled firms give a high priority to emotion-related goals such as identity, longevity, and the preservation of a positive family image and reputation (Astrachan & Jaskiewicz, 2008; Botero, Thomas, Graves, & Fediuk, 2013; Kepner, 1983; Lee & Rogoff, 1996; Westhead, Cowling, & Howorth, 2001; Zellweger & Astrachan, 2008). Gomez-Mejia, Haynes, Núñez-Nickel, Jacobson, and Moyano-Fuentes (2007) refer to these emotion-related goals as socioemotional wealth. Berrone, Cruz, Gomez-Mejia, and Larraza-Kintana (2010) apply the concept of socioemotional wealth to the environmental performance of family and non-family firms and find that family firms have fewer environmental concerns than do non-family firms. Our paper analyses corporate social responsibility concerns (hereafter CSR concerns) in family, founder and other firms (the latter used as a benchmark group). In doing so, we extend the literature on CSR in family firms (e.g., Berrone et al., 2010; Block & Wagner, 2014; Dyer & Whetten, 2006; Wagner, 2010a; Wiklund, 2006) in two ways: first, we distinguish between family and founder firms and second, we distinguish

between the respective ownership and management effects of family and founder firms on CSR concerns.

Our Bayesian analysis shows that both family and founder ownership are associated with fewer CSR concerns. The effect of founder ownership, however, is found to be somewhat larger than the effect of family ownership. With respect to the management dimension, our findings indicate that both the presence of a family and a founder CEO is associated with more CSR concerns. Thus, family and founder firms seem to go to extremes and have two faces with respect to CSR. Whereas family and founder ownership have strong positive effects on CSR, a family and founder CEO has negative effects on CSR.

The remainder of the paper is organized as follows. The next section develops hypotheses regarding CSR concerns in family and founder firms. We then introduce our dataset and method (Bayesian fixed-effects panel regressions). The subsequent section shows our empirical results, which are then discussed in the final section.

Theory and hypotheses

Family ownership and CSR concerns

We argue that family owners care more about corporate reputation than do other firm owners (Block, 2010; Deephouse & Jaskiewicz, 2013). Consequently, they aim to avoid CSR concerns. Our theoretical lens is the concept of socioemotional wealth

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(Gomez-Mejia, Cruz, Berrone, & De Castro, 2011; Gomez-Mejia et al., 2007), through which we argue that family business owners, more than other types of firm owners, gain noneconomic utility from their ownership stake in their firms. This utility includes, among other things, creating and maintaining a positive family image and reputation (Adams, Taschian, & Shore, 1996; Westhead et al., 2001), receiving recognition for social activities and enjoying prestige in the (local) community (Litz & Stewart, 2000; Uhlaner, Goo-Balk, & Masurel, 2004). In this paper, we shall further posit that the desire to preserve socioemotional wealth leads family business owners to care more than other types of firm owners about corporate reputation and CSR concerns. Family owners feel a greater degree of organizational identification and often are also interested in later handing over the firm to other family members (Ashforth & Mael, 1989; Riketta, 2005); in addition, consumers attach higher importance to the reputational aspects of family firms than of other types of firms (Binz, Hair, Pieper, & Baldauf, 2013). Therefore, family owners should be particularly concerned about socioemotional wealth and should be more inclined than other owners to prevent the firm from engage in reputation-damaging actions. Unlike other owners, families as owners are often easily identifiable by society at large and by the local community in which a firm is located. Negative reputation spillovers can occur (e.g., Astrachan, 1988; Carrigan & Buckley, 2008; Uhlaner et al., 2004; Wiklund, 2006). Compared to other types of firm owners, family owners should therefore be more likely to care about their reputations for social responsibility in the community in which their firm is located and should have a higher degree of interest in avoiding being connected to CSR concerns by the general public.

These considerations lead to the following hypothesis:

H1a. Family ownership is associated with a lower number of CSR concerns.

Family CEOs and CSR concerns

The concept of socioemotional wealth has primarily been used in the context of family ownership. However, family firms consist of (at least) two dimensions, namely, family ownership and family management (Klein, Astrachan, & Smyrniotis, 2005). We shall argue that socioemotional wealth concerns and their consequences for CSR also apply to family management, especially when a family CEO is running the firm. Family CEOs identify more strongly with the firm as a social entity than do non-family CEOs, which is why they are more likely to be concerned about corporate reputation. This more intense concern leads them to avoid developments that have a negative effect on corporate reputation (Flanagan & O'Shaughnessy, 2005; Love & Kraatz, 2009; Zyglidopoulos, 2004). Because of a family CEO's strong bond with the firm and its history, he or she is less likely to consider outside options than is a non-family CEO. Family CEOs do *not* compete on the market for executives: therefore, they are less inclined to maximize the firm's financial performance as a signal to the market (Block, 2010; Campbell & Marino, 1994). In addition, because of their family bonds, family CEOs cannot easily leave their firms, which is why they must bear any negative reputation caused by low levels of CSR. Thus, provided the firm is not exposed to the immediate risk of bankruptcy, a family CEO will attempt to avoid actions that damage the firm's reputation. Prior research proposes that family management can lead to a stronger stewardship orientation within a firm (Corbetta & Salvato, 2004), of which a stronger CSR orientation is one element. In addition, the involvement of family members in firm management increases the breadth and extent of interaction between the owning

family and the firm's various stakeholders. Assuming that this interaction also increases the CSR demands imposed on the family, the presence of a family member as a CEO should be associated with a stronger avoidance of CSR concerns than occurs in a firm with a non-family CEO. Based on these arguments we propose the following hypothesis:

H1b. The presence of a family CEO is associated with a lower number of CSR concerns.

Founder ownership and CSR concerns

The concept of socioemotional wealth is also not often used in the context of founder ownership. However, founders as owners are similar to families in many aspects of corporate governance. Similar to family owners, founder owners often identify strongly with their firms and their products; they are psychologically attached and committed to their firms (Smith & Miner, 1983; Wasserman, 2006). In addition, founders are often large shareholders in their firms (He, 2008). This strong ownership position together with their deep knowledge about the firm and its business model gives founders as owners a strong influence over corporate strategy. Similar to families as owners, founders as owners are well known to the public and often the public directly associates them with any (positive or negative) firm developments. They are not faceless, anonymous shareholders, and the public associates any negative actions by their firm directly with them as individuals. Therefore, founders as owners will care more than other firm owners about corporate reputation and CSR. Based on these considerations, we posit the following hypothesis:

H2a. Founder ownership is associated with a lower number of CSR concerns.

Founder CEOs and CSR concerns

Recent research, however, also suggests important differences between family and founder firms (Miller, Le Breton-Miller, & Lester, 2011; Miller, Le Breton-Miller, Lester, & Cannella, 2007). Our study of S&P 500 firms shows that founders have created large enterprises. As such, they are unusual individuals. They see themselves more as entrepreneurs rather than as pure administrators of family wealth. Previous research suggests that entrepreneurs as individuals have high levels of internally localized control (Boone, de Brabander, & van Witteloostuijn, 2007; Rotter, 1966), need for achievement (Carland, Hoy, Boulton, & Carland, 1984; McClelland, 1961), risk orientation (Forlani & Mullins, 2000; Sarasvathy, Simon, & Lester, 1998), and overconfidence (Busenitz & Barney, 1997; Koellinger, Minniti, & Schade, 2007). We argue that founders as CEOs have a more entrepreneurial character and are more likely to follow growth-oriented firm strategies relative to professional managers as CEOs. These differences in the character of the CEO and the goals pursued will likely have an influence on how the firm addresses CSR issues. CSR practices in founder-run firms reflect the founder's personality and attitudes. If firm growth is the founder's primary concern, CSR may be perceived as a limiting factor rather than as an ultimate goal in itself. Caring for CSR and corporate reputation is costly and may limit firm growth (Barringer, Jones, & Lewis, 1998; Brammer & Millington, 2008). In their roles as entrepreneurs and CEOs, founder CEOs will avoid investments in CSR that endanger their firms' growth and competitive position.

This argument leads us to the following hypothesis:

H2b. The presence of a founder CEO is associated with a larger number of CSR concerns.

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