

ARE FAMILY FIRMS REALLY MORE SOCIALLY RESPONSIBLE?

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The authors want to acknowledge financial support by the Spanish Ministry of Economy and Competitiveness through the following research projects: ECO 2012-33099 (Cristina Cruz), ECO2010-21393-C04-03 (Martin Larraza and Lucia Garces) and ECO2012-33018 (Pascual Berrone).

Pascual Berrone also indebted to the Schneider-Electric Sustainability and Business Strategy Chair for providing financial support.

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ABSTRACT

This paper conducts an empirical study as to whether family firms are more socially responsible than their non-family counterparts, and explores the conditions in which this difference in social behavior occurs. We argue that family firms, given their socioemotional wealth bias, have a positive effect on social dimensions linked to external stakeholders, yet have a negative impact on internal social dimensions. Thus, family firms can be socially responsible and irresponsible at the same time. We also suggest that institutional and organizational conditions act as catalysts in the relationship between firm type and CSR. General support for our thesis that family firms neglect internal social dimensions came from the study of a sample of 598 listed European firms over a period of 4 years. Moreover, while national standards and industry conditions influence the degree of CSR in non-family firms, these factors do not affect family firms. However, family firms' social activities are more sensitive to declining organizational performance.

INTRODUCTION

During the last few decades, family business literature has extensively studied how family firms make strategic choices that are consistently different from those made by non-family firms [see Gomez Mejia, Cruz, Berrone & De Castro (2011) for a recent review]. Among the many issues addressed by family scholars, corporate social responsibility (CSR) has received increasing attention. However, despite the efforts to disentangle the role of the family dimension in the adoption of social initiatives (i.e., actions that appear to further the social good, beyond the interest of the firm (McWilliams & Siegel, 2001: 117), there is a lack of agreement about whether family firms are more or less socially responsible.

While some scholars have argued that family firms are more prone to proactively engaging in social activities because, by doing so, they preserve and enhance their non-financial preferences and socioemotional wealth (SEW) (Cennamo, Berrone, Cruz & Gomez Mejia, 2012), others have advocated that family firms may not be more socially responsible. Amoral familism (Banfield, 1958), distrust of outsiders (Fukuyama, 1995), and the “dark side” of SEW (Kellermanns, Eddleston & Zellweger, 2012) make family members more concerned with their own interests than those of others, thus negatively affecting social actions (Morck & Yeung, 2004). Evidence also seems to be mixed and contradictory. For instance, Berrone, Cruz, Gomez-Mejia & Larrazza-Kintana (2010) showed that controlling families adopt environment-friendly strategies more frequently than non-family firms in polluting industries. Dyer & Whetten (2006) found no significant differences between family and non-family firms, with regard to positive social initiatives, but discovered that family firms were more concerned with avoiding social concerns. Interestingly, Bingham, Dyer, Smith & Adams (2011) show exactly the opposite.

There are various possible reasons behind these contradictory views and evidence. Firstly,

though with some exceptions (i.e., Bingham et al., 2011), most research dealing with the link between family firms and CSR has focused almost exclusively on a single dimension of companies' social actions, namely the environment, whilst when several dimensions have been considered, they have been treated in a preliminary way (Dyer & Whetten, 2006). Secondly, and perhaps more importantly, these works also focused on a single dimension of family SEW, namely the family's concern with its image and reputation. This provides an incomplete picture of the uniqueness of family firms (Berrone, Cruz & Gomez Mejia, 2012). Lastly, previous studies have largely neglected the role of contextual factors that amplify or mute the relationship between firm type and social actions.

We address the above gaps in the literature by arguing that because family firms are concerned with their image and reputation as a way to protecting their SEW, they are likely to be more responsive to external stakeholders' demands (more specifically, the environment, the community, and their customers) than non-family firms. However, their concern with control and influence within the company and their strong emotional attachment to it (another two key SEW dimensions) are likely to deter social actions related to internal stakeholders (namely, employees and governance). Moreover, we explore how institutional and organizational conditions affect the link between family ownership and CSR. Specifically, we argue that national differences in economic, cultural and social terms, industry, and declining organizational performance, have a different impact on the degree of CSR in family and non-family firms. We tested our theoretical tenets on family and non-family controlled companies in 22 European countries during a period of 4 years, using a unique and original collection of data.

This study contributes to the literature in several ways. Firstly, we reconcile the seemingly contradictory views about the role of family firms in terms of CSR. We argue and show that

family firms can be socially responsible (vis-à-vis external stakeholders) and socially irresponsible (vis-à-vis internal stakeholders) at the same time, suggesting that family firms can simultaneously “be good and bad”. In doing so, we expand stakeholder theory by providing fine-grained arguments and more evidence about the role of diverse principals in enacting varying responses to stakeholder pressures. Our analysis of the moderating factors between ownership and CSR also contributes in this direction. Unlike prior works, we take into account organizational and institutional moderators in the relationship between family firms and CSR outcomes. We argue and show that in responding to stakeholder claims, family owners act differently, not only depending on the type of stakeholders (internal versus external), but also depending on whether pressures to implement social practices come from institutional or organizational factors. Finally, studying firms from different countries enables national differences to be taken into account, an issue which has been neglected in almost all family studies up until now (Dyer & Whetten, 2006).

THEORETICAL FRAMEWORK AND HYPOTHESES

Corporate Social Responsibility (CSR) is considered as an overarching construct that encompasses the set of business policies and practices reflecting corporate responsibility for some of the wider societal good (McWilliams & Siegel, 2001). Yet, the precise manifestation and direction of these social practices are left to the discretion of the corporation, largely affected by who owns the company, and dependent on the varying owners’ preferences (Berrone, et al., 2010; Walls, Berrone & Phan, 2012). Concerns over legitimacy influence firms by pushing them to adopt certain managerial practices that are expected to be socially valued by stakeholders (Deephouse, 1999). However, given the conflicting voices amongst different stakeholders, it is

not clear how firms give priority to the diverse social claims made by these stakeholder groups based on their degree of salience and importance (Mitchell, Agle & Wood, 1997).

The confusion is highly visible in the case of family firms. The stakeholder view considers the family as an internal stakeholder because it is linked to the company through ownership, employment, or family ties (Mitchell, Agle, Chrisman & Spence, 2011). Initial studies ignored family interaction with external stakeholders assuming that family owners were shielded from outside pressures because of their strong ownership position. New research has challenged this view, finding that family firms are also responsive to the claims of external stakeholders (Berrone, et al., 2010; Bingham et al 2011). However, understanding how families give priority to internal and external stakeholder claims is an unresolved issue (Mitchell et al., 2011).

To fill this void, we propose a combined framework drawing on organizational identity theory, the socio-emotional wealth approach and stakeholder theory. Organizational identity refers to elements that are central, unique and enduring about an organization (Scott & Lane, 2000). When applied to the reasons why social practices are adopted, organizational identity predicts that firms are more likely to engage in social actions if, in doing so, these reinforce their self-professed desires. By helping the firm to define what it needs to look at, organizational identity also explains how firms prioritize different stakeholder claims (Brickson, 2007).

Scholars agree that the preservation of the non-financial aspects or “affective endowments” of family owners, what Gomez-Mejia et al. (2007) refer to as “socioemotional wealth” (SEW), is the most salient aspect of family firm identity. Proponents of the SEW view suggest that family owners are more likely to engage in social practices even when there is no clear evidence that this engagement implies economic rewards, because there is socioemotional reward for the family (Berrone et al., 2012).

Implicit in this claim is the assumption that SEW is a monolithic concept, a unique reference point that guides family owners' strategic decisions. Moreover, it is also assumed that responses will be homogeneous regardless of the type of stakeholders, their proximity or the form of legitimacy they grant. We challenge these assumptions by drawing on recent studies that suggest that SEW has different dimensions, which can explain the existence of different reference points among family principals (Berrone, et al., 2012; Cennamo, et al., 2012), associated with positive or negative valence (Kellermanns, et al., 2012). We argue that, when deciding about social actions, family owners are concerned with protecting their SEW. Still, given the multidimensional nature of SEW, and the existence of multiple claims from diverse stakeholders, response to this concern may elicit varied answers from family owners. As argued below, this implies that family firms can "be good and bad" at the same time, in terms of social practices.

Family and non-family firms, and responses to internal and external stakeholders

Extant research suggests that, as family firms are concerned with corporate reputation, they should be particularly inclined to satisfy the demands of internal stakeholders (i.e. those that are directly related to the company through ownership or employment) by pursuing responsible work practices (Zellweger, Nason, Nordqvist, & Brush, 2011). However, with some exceptions (e.g., Miller & Le Breton-Miller, 2005), family business literature is full of examples that show exactly the opposite. Family ownership is often associated with the design of unfair compensation systems (Chua, Chrisman, & Bergiel, 2009), use of lower peer appraisal processes (Fiegener, Brown, Prince, & File, 1994), managerial entrenchment (Gomez-Mejia, Nuñez-Nickel, & Gutierrez, 2001), nepotism (Burkart, Panunzi, & Shleifer, 2003), scapegoating of non-family executives and employees (Gomez-Mejia, Larraza-Kintana & Makri, 2003), and gender

discrimination (Jimenez, 2009). Implicitly, the bulk of evidence shows the existence of two distinct types of internal stakeholders (family vs. non-family) in family firms, who are treated differently when it comes to social practices.

The “emotional attachment” dimension of SEW can explain this differential treatment. Due to the type of social links family members have with their firms, family companies become the place where their needs for affection and belonging are satisfied (Berrone et al., 2012). This results in family altruism (Schulze, Lubatkin, & Dino, 2003). Although family altruism is generally reputed to temper self-interest inside the family business (Chrisman, Chua & Litz, 2004), it also has a negative side. Specifically, the presence of altruism fosters a set of interdependent relationships among family members that differentiates them from people outside the family (Chrisman, Chua & Bergiel, 2009). Thus, the presence of family altruism can cause inconsistencies in the application of organizational rules depending on whether the employee is a family or non-family member.

Another important dimension of family SEW that also leads to asymmetric treatment of employees (family vs. non-family) lies in the family owners’ desire to keep full control over the organization. Some authors suggest that this is the most salient factor affecting family company behavior (Chrisman, Chua, Pearson & Barnett, 2012). The SEW approach predicts that, in order to preserve SEW, family owners need to control the firm on a permanent basis (Berrone, et al., 2012). Hence, they engage in strategies that empower them to retain and/or extend their power over the firm’s operations. Employing family members, even though they are not qualified (Chua et al., 2009), or decoupling family members’ compensation from performance outcomes (Cruz, Gomez-Mejia & Becerra, 2010) are examples of strategies directed at preserving the “family control and influence” dimension of SEW. This asymmetry is contrary to the existence of social

practices toward employees that imply fair treatment of the workforce and equal opportunities for all of them. The “emotional attachment” and the “family control and influence” dimension of SEW also explain family owners’ responses to internal stakeholder claims related to governance. When a family owns a large portion of shares, family owners are likely to see governance structures as a tool to reinforce their control and to force top executives to pursue the family’s objectives (Kellermans et al., 2012). In this case, instead of using corporate governance mechanisms to legitimize the firm, the family uses them to reinforce family control in the company and protect other family members (Jones, Makri & Gomez-Mejia, 2008), adopting mechanisms which go against good governance practices. Evidence supports this view. Family firms are known to have less independent directors (Anderson & Reeb, 2004), be more likely to have CEO duality (Voordeckers, Van Gils & Van den Heuvel, 2007), and make fewer disclosures of their corporate governance practices in their proxy statements (Ali, Chen & Radhakrishnan, 2007).

Therefore, although literature points to the implementation of social practices related to internal stakeholders as essential to bringing legitimacy to firms (Mayo, Gomez-Mejia, Berrone, Firfiray, & Villena, 2012), we argue that this “legitimacy-seeking logic” operates differently in the case of family businesses. If engaging in proactive stakeholder management with internal stakeholders jeopardizes family control and exposes family members to higher risks compared to non-family firms, family businesses will be more reluctant to implement social practices related to internal stakeholders. Formally stated, this leads us to posit the following statement:

H1a: Family firms are less likely to adopt social practices related to internal stakeholders (i.e., employees and governance) than non-family firms.

A different picture emerges when it comes to responding to external stakeholder demands. In

this case, the family owners' main concerns are to protect and enhance the family image and reputation, which is another important dimension of SEW (Berrone et al., 2012). As opposed to internal stakeholders, external stakeholders are not seen as a direct threat to the family's emotional attachment or influence over the company. Nevertheless, they can be powerful elements in affecting a company's reputation and image (Berrone, Gelabert, Fosfuri & Gomez-Mejia, 2013).

Family members are sensitive about the external image they project to external stakeholders (Craig & Dibrell, 2006). This is because the identity of the family owner is so closely tied to the organization that external stakeholders perceive the firm as an extension of the family itself. In many cases, the family even connects its name and reputation to the product it sells (Birghman et al., 2012). Consequently, family firms are expected to be more willing to endorse any social practice that improves their image and legitimacy in the outside world (Cennamo, et al., 2012). At the same time, the SEW approach argues that since family owners are not faceless owners, they are far more exposed to losses of SEW, as a result of socially irresponsible behavior, than anonymous investors (Berrone, et al., 2010). Thus, they avoid engaging in any actions that may lead external parties to stigmatize them as irresponsible corporate citizens (Deephouse & Jaskiewicz, 2013). Thus, we propose:

Hypothesis 1b. Family firms are more likely to adopt social practices related to external stakeholders (i.e., the environment, and the community) than non-family firms.

Institutional and organizational factors as moderators of the relationship between ownership and CSR

By building on the multidimensional nature of SEW, the framework developed so far has argued that, when compared to non-family owners, family owners respond differently to internal

and external stakeholders, when it comes to social actions. In this section, we also contend that given the SEW preservation concern that characterizes family owners, the determinants of CSR decisions in terms of both internal and external stakeholders may differ in family and non-family firms¹. Based on different disciplines that have supported the notion that “country matters” and that geographic and competitive environments have an enduring influence on organizations (Marquis & Battilana, 2009), we first examine the effect of national and industry references on both family and non-family firms, when they make CSR decisions. We also analyze the effect of declining firm performance” since this is a key variable in understanding decisions pertaining to CSR activities (Roberts, 1992), and it is shown to have an impact on family owners’ SEW preservation goals (Gomez-Mejia et al., 2007).

Institutional factors: national CSR standards and industry conditions, and their effect on social activities

Strategic conformity refers to the extent to which a firm’s behavior adheres to central tendencies and industry norms, and emphasizes the isomorphic processes that underlie conforming behaviors (Geletkanycz & Hambrick, 1997). When applied to CSR, research suggests that, when deciding on social initiatives, firms often adopt similar “best practices” to avoid experimentation (and the associated risks of it), and secure an appropriate response that will grant expected legitimacy (Jennings & Zandbergen, 1995). Indeed, some would argue that external forces have transformed CSR “from heresy to dogma” for modern corporations (Lim &

¹ Given that the arguments presented in this section apply to both internal and external stakeholders, and for the sake of parsimony, we have not made a distinction between different types of stakeholders. Nonetheless, empirical analyses do reflect this difference.

Tsutsui, 2012). Literature also shows that the reference that firms use to benchmark their practices is influenced by national and cultural boundaries (Campbell, Eden & Miller, 2012), and by the characteristics of the industry in which the company operates (Surroca, Tribo & Waddock, 2010). Therefore, firms are expected to follow national and industrial references when deciding on their CSR activities.

When it comes to social practices, one country that actively sets national standards for CSR, and is often used as a role model, is the United States (USA). Academic evidence points to the USA as a pioneer in incorporating CSR to the business agenda (Kolk, 2000). Therefore, it is reasonable to expect that firms located in a country that is closer in economic, social, geographical, and cultural terms to the USA, are more likely to observe social practices and perceive greater pressures to engage in social activities than firms located in countries further away from the USA. This is particularly true for public-traded companies who are subject to the scrutiny of global stakeholders. Hence, the distance of a country with respect to the USA can be considered an indicator of national CSR practice standards.

Companies are also likely to conform to industry practices (Matten & Moon, 2008) in Europe, a community in which CSR initiatives are largely driven by industry associations. Indeed, a recent European study (Zollo et al., 2011) observed that the industry in which a firm operates is one of the key external factors that determines the degree of cognitive alignment between managers and stakeholders in terms of CSR activities. More specifically, they indicate that high technology industries are among the sectors with the highest alignment (narrowest gaps), which results in them being more willing to engage in social practices. In line with this argument, Surroca, Tribo & Waddock (2010) suggested that in high-growth industries, such as the high-tech sector, firms are more likely to engage in social practices because in doing so, they obtain greater

reputational benefits than firms competing in more mature sectors. The reasoning is that in a high technology sector, a firm's business and reputation tend to be built in one area, while in more mature industries, they are spread over several domains. As a result, firms in technological sectors benefit more from the implementation of social practices, in terms of achieving social legitimacy. Additionally, these gains are crucial to accessing key resources for younger, and growing companies (Zott & Huy, 2007), a scenario which is common in high technology sectors.

Despite its contribution to understanding CSR, this "legitimacy-seeking" perspective overemphasizes the blanket role of institutional forces and neglects the role of principals in shaping firms' response to institutional pressures in the form of conforming or non-conforming behavior. Based on a SEW approach, we argue that pressure to conform to these two CSR catalysts, i.e. national CSR standards and industry conditions, is lower for family firms. Firstly, as the family is the dominant shareholder, family business managers have greater power to act unilaterally than their non-family business counterparts (Carney, 2005). Moreover, the use of an idiosyncratic reference point (SEW) to guide strategic decision-making is likely to imply different logic in assessing the benefits and costs of implementing social practices and, above all, diverse and peculiar interests in driving the decision to respond to stakeholder claims. The combination of the two arguments, family owners' discretion to behave idiosyncratically, and the pursuit of unique family goals, also suggests that family firms' strategic responses are likely to be more heterogeneous than those of non-family firms (Chrisman & Patel, 2012). As a result, family firms' behavior has greater variations in terms of social practices.

The above arguments suggest that non-family firms, which are driven by goals that are mainly financial in nature, offer similar responses to stakeholder claims, and are thus more likely to follow national and industry references as a way to gaining social legitimacy and securing key

resources. Specifically, externally and internally oriented social practices increase when non-family firms are located in countries that are closer to the USA in economic, social, geographical, and cultural terms, and for non-family firm operating in high technology industries. The influence of national CSR standards and industry conditions is weaker for family firms. Powerful family owners tend to tailor their responses to stakeholder pressures in order to meet their SEW protection target instead of implementing off-the-shelf solutions, even when these solutions have been accepted as standard. Formally stated, we posit the following:

Hypothesis 2a. Compared to non-family firms, the social practices of family firms are less likely to be influenced by national CSR standards (i.e., distance with respect to the USA)

Hypothesis 2b: Compared to non-family firms, the social practices of family firms are less likely to be influenced by industry conditions (i.e., technological intensity of the sector)

Organizational factors: Declining performance and social activities

Literature on CSR indicates that the financial return on social practices is, at least in the short term, questionable from an economic viewpoint (McWilliams & Siegel, 2000). When firms experience a decline in performance that may even put firm survival at stake, it may be advisable for them to focus scarce resources on core activities with more certain returns (Starbuck & Hedberg, 1977). March & Shapira (1992) argued that under declining performance, firms tend to shift their attention from aspirations to survival, emphasizing the dangers rather than the gains, which, in turn, results in more conservative behavior. Thus, when performance diminishes, firms may respond by limiting their engagement in social practices.

We expect this tendency to reduce social activities as firm performance declines to be greater for family firms. One of the characteristics of owner families is the concentration of a large

amount of their personal wealth in a single business (Faccio & Lang, 2002). This concentration allows them to control the firm, feeding SEW, but also links their financial and socio-emotional capital to the destiny of the business. In the extreme, the family loses everything if the firm does not survive. As Chrisman & Patel (2012) states, “as performance weakens, family firms are expected to frame decisions more negatively than non-family firms ..., owing to the prospect of both economic losses and losses of socioemotional wealth.” (p.980). Therefore, the decisions made by family firms are more sensitive to declining performance than non-family firms.

We expect this greater sensitivity to business decline in family firms to be reflected in the CSR arena as well, leading family firms to limit their social activities more than their non-family counterparts. When performance declines, controlling families not only tend to pay more attention to survival (March & Shapira, 1992), but also use control as the key reference point to gauge SEW (Gomez-Mejia, et al., 2007). That is, families shift their attention from other potential SEW reference points, such as image or legitimacy to control, because the increasing threat to their firm’s survival is also a threat to the family’s undiversified wealth, and may put their capacity to manage the firm under question. Following the logic of the arguments presented in Hypothesis 1a, this emphasis on the control dimension of SEW will further deter families from investing in internally oriented CSR practices. In addition, as reflected in Hypothesis 1b, externally oriented CSR activities are expected to be fuelled by the family’s interest in protecting their image and legitimacy. If families turn their attention to control when performance declines, this will translate into fewer externally oriented CSR activities. Consequently, we expect that:

Hypothesis 3. Compared to non-family firms, family firms are more likely to reduce social practices in the face of declining performance.

METHODS

Sample and Data Collection

We used the universe of publicly-held companies in Europe whose market capitalization was over €50 million.² To be included in our sample, a firm had had to be listed for the whole 2001-2010 period. This prevented any potential bias associated with recent entrants. Following previous studies, we excluded companies from the finance sector. This initial process resulted in 1,617 companies. This figure was reduced to 598 after matching companies with available data on social practices.

We used several sources to collect data for our research, such as the CSRHub database, the world's largest corporate social responsibility (CSR) database providing social, environmental, community, and governance ratings on around 7,000 companies from 135 industries in 91 countries. It is also the first database that combines data from five of the leading socially responsible investment (SRI) analysis firms (also known as Environment, Social, Governance-ESG), and over 120 influential NGOs. Thus, the data are relatively objective, and are not based solely on self-reported measures. Therefore, they are less likely to suffer from social desirability biases. While not as widely used in management as the KLD database, the CSRHub has recently been used in the context of social responsibility, both in academic (Bu, Wagner, & Yu, 2013) and practitioner environments (Gidawani, 2013). Lastly, like KLD, it includes employee and governance performance indicators, so its categorization of social practices fits with the

² We had to inspect each company's annual report on an individual basis to determine its family/non-family status. Thus, we decided to set €50M market capitalization as a cut-off point to limit the search to reasonable limits. Further analyses showed that about 10% of European companies have a market capitalization below €70 million. Thus, our cut-off point did not reduce the representativeness of the sample.

distinction we have made between internal and external socially oriented practices.³

We used the “ultimate owner” criteria from the ORBIS (Bureau Van Dyck) database to identify companies in which there was an owner or group of owners who held at least 20% of the shares. Then, we manually inspected the annual and governance reports of each company to obtain the percentage of family ownership in any of the sampled years and the influence of the family in the management and governance of the company. Based on previous studies (Gomez-Mejia et al., 2003), we classified the company as a family firm if two criteria were met: a) an individual or a family group owned at least 20% of the shares during the whole period 2001-2010. In line with Villalonga & Amit (2006), we took members with the highest percentage of shares as the focal family and b) at least one member of the family was on the board of directors. Following this process, we ended up with 107 family firms and 491 non-family firms. Thus, our final panel consisted of 598 European listed firms, 18% of which were classed as family firms. Accounting and market data were drawn from the BLOOMBERG database, whilst the remaining data on the characteristics of the firm (country, industry, and age) were taken from the ORBIS database. Data to construct the CAGE Index were generously provided by Pankaj Ghemawat (www.ghemawat.com).

We collected data on CSR from 2008 (the first year in which CSRHub data were available) to 2012 (last year available). In order to guarantee time causality, ownership and financial information for a given year was matched with the average CSRHub rates of the two subsequent years. For example, financial and ownership information for 2007 was matched with the average

³ More information about CSRHub rates is provided in the subsection describing the dependent variable of the study

CSRHub rates for 2008 and 2009. We ended up with four blocks of matched data that constituted an unbalanced four-year panel.

Dependent Variable: Social Practices

CSRHub is an independent organization (www.csrhub.org) that provides information on social practices in over 7,000 companies from 135 industries in 91 countries. The CSRHub methodology maps each element of data it receives from a data source into one or more subcategories and converts it to a numeric scale from 0 to 100 (100 = positive rating). Subsequently, it compares the scores from different data sources for the same company and adjust all the scores from a source to remove bias and create a more consistent rating. It finally aggregates these ratings to category level. Five main categories became apparent, two related to internal stakeholders (employees and governance), and three related to external stakeholders (the environment, the community and customers).

Internal stakeholders

The *Governance category* covers the disclosure of policies and procedures, board independence and diversity, executive compensation, attention to stakeholder concerns, and evaluation of a company's culture of ethical leadership and compliance.

The *Employees category* includes disclosure of policies, programs, and performance in diversity, labor relations and labor rights, compensation, benefits, including those that engage employees and improve worker development, and employee training, health and safety. The latter covers workplace policies and programs that boost employee morale, workplace productivity, company policies and practices to engage employees, and worker development. The evaluation focuses on the quality of policies and programs, compliance with national laws and with internationally recognized worker rights, as well as proactive management initiatives.

External stakeholders

Environment category data covers a company's interactions with the environment at large, including use of natural resources, and company impact on the Earth's ecosystems. The category evaluates corporate environmental performance, compliance with environmental regulations and many other environmental initiatives, such as the mitigation of a company's environmental footprint, leadership in addressing climate change through appropriate policies and strategies, energy-efficient operations, and the development of renewable energy, and other alternative environmental technologies.

The *Community category* covers the company's commitment and effectiveness within the local, national and global community in which it does business. It reflects a company's citizenship, its charitable-giving programs, and volunteerism.

The *Customers category* covers the responsibility of a company for the development, design, and management of its products and services, and their impacts on customers and society at large. This reflects a company's capacity to reduce environmental costs, create new market opportunities through new sustainable technologies or processes, and produce or market goods and services that enhance the health and quality of life for consumers. It also relates to product safety, quality, and the company's response to problems with safety and quality.

Independent Variables

In order to test Hypotheses 1a and 1b, we included a dummy variable (family) that took the value of 1 when the firm was controlled by a family and 0 if it wasn't. This coding was based on the methodology mentioned above, to identify firms under family control.

To test Hypothesis 2a, we proxied national CSR standards in terms of the cultural, economic and social distance from the USA, a benchmark country in social activities. We labelled this variable “*national standard distance*”. The distance between countries is a valid instrument to approach the national standards for a given country, because distance measures provide metrics to gauge the similarity or differences between the cultural, economic and social characteristics of nations (e.g. Gomez-Mejia, et al., 2010). Then, if a country is identified that may be deemed to have high standards for CSR activities, the distance from that country indicates how close the standards of the focus country are compared to those of the benchmark country. In our case, we selected the USA as the reference country. As previously argued, the USA is often used as a role model for social practices. In addition to its visibility in the social standards arena, it is outside the sample universe (i.e., Europe).

We followed previous studies that considered distance as a construct with multiple dimensions that captures different types of distances between countries (Campbell, et al., 2012). In our case, we used Ghemawat’s (2001) CAGE index, where CAGE represents Cultural, Administrative, Geographic and Economic distances. Compared to traditional cultural measures used in previous studies (Hofstede, 1980), the CAGE measurement suggests that countries can be ranked according to administrative, geographic and economic features, as well as cultural aspects. In our case, we considered the CAGE index between the European country the company belonged to and the USA, for each company in the final sample.

Regarding the influence of industry (Hypothesis 2b), we relied on international standards to divide firms in two groups, according to the technological intensity of their industrial sector. We created a dummy variable (*HT sector*) that took a value of 1 when the company belonged to a high technology sector and 0 when it did not.

Lastly, *declining performance* (Hypothesis 3) was measured as the natural logarithm of the firm's ROA ratio at year t-1 to firm performance at year t. To avoid problems with the log transformation of negative returns, we added 1 to all original ROA values before calculating the logarithm. The declining performance variable took a negative value when firm performance at year t was above firm performance in the previous year, zero when it remained the same, and a positive value when the company's ROA declined. Hence, this variable increases as firm performance declines.

Control Variables

We included several control variables to control for other potential determinants of company CSR. We first controlled for *firm size*, since larger firms are subject to closer scrutiny by the public from media, special interests, and stakeholders than their smaller counterparts (Rindova, Pollock & Hayward, 2006), thereby raising the likelihood of them acting in more socially responsible ways (Fombrun & Shanley, 1990). Companies' total assets were used to approach firm size. To correct for skewness in multivariate analyses, we included the logarithm transformation of these total assets. We also controlled for *firm age*, in terms of the number of years since the firm's creation and used the logarithm transformation in a multivariate analysis. We considered two additional variables to capture the potential effect that market forces may have on a firm's social behavior. The first one was *Tobin's Q*, to account for a firm's growth opportunities (Dyer & Whetten, 2006). We measured this as the market capitalization ratio plus the book value of debt, as a percentage of a firm's total assets (Chung & Pruitt, 1994). The second measure was *volatility*, calculated as the standard deviation of the company's stock returns. Finally, since high debt costs may limit the firm's access to the resources needed to

develop CSR activities, we included *Cost of debt*, measured as the financial interest expenses as a percentage of financial debt.

Estimation Methods

We used random-effect panel data to estimate the influence of family control on CSR. According to the Breusch-Pagan Lagrangian Multiplier test, a random-effect model is more suitable than a fixed-effect model. Moreover, due to the time-invariant nature of the family firm dummy, a fixed-effect model cannot be estimated without dropping the family business variable (Dyer & Whetten, 2006). To test Hypotheses 1a and 1b, we considered the full sample of family and non-family firms, and looked at the estimation of the family dummy. For the rest of the hypotheses, we ran separate panel data models in the subsample of family and non-family firms. The split sample method is appropriate when theory predicts independent-dependent variables relations by subgroups (family vs. non-family) and has been extensively used in previous family business studies (Gomez-Mejia et al 2003; Berrone et al., 2010).

RESULTS

The descriptive statistics and correlations for the variables used in this study are reported in Table 1. Results show a high correlation between the five different dimensions of CSR and negative correlations between the five dimensions of CSR and the family firm dummy. It also shows that although all four correlations are negative, those between the family dummy and the externally oriented dimensions of CSR (i.e., the environment, the community and customers) are weaker. Nonetheless, it should be taken into account that such negative correlations may be capturing a size effect, since larger firms seem to invest more in social activities (Fombrun & Shanley, 1990), and it has been argued that family firm preferences for SEW protection may

have a negative impact on their size (Gomez-Mejia, et al., 2007). Multivariate analyses are necessary to provide a more qualified test of Hypotheses 1a and 1b.

The national CSR standard measure, approached in terms of the distance between the country the firm belongs to and the USA, correlated negatively with the five CSR dimensions. This suggests that, as expected, the more dissimilar the country is to the USA, the weaker the social performance of firms. This aligns with the notion that the existence of standards, norms, and ultimately, pressures towards the adoption of certain practices in a given country, increases the number of firms that adhere to such practices and standards.

 Insert Table 1 about here

Table 2 summarizes the results of the panel data models to determine the effect of family firms on the hypothesized four dimensions. There is a negative, and highly significant effect of the family on the two internal dimensions (i.e., governance and employees) that provides strong support for Hypothesis 1a. However, the impact of this dummy on the three external dimensions of CSR, namely the environment, the community and customers, was non-significant. Therefore, there was no significant difference between the externally oriented social activity of family and non-family firms, resulting in Hypothesis 1b not being supported.⁴

⁴ We reran the analysis using the continuous “family ownership” variable, which measures the percentage of shares owned by the focal family in each of the sampled years. The measure has been the most common proxy used to capture the intensity of SEW in prior studies and has been validated in many articles in top journals (e.g., Berrone et al. 2010; Gomez-Mejia 2007; Gomez-Mejia, et al. 2011). As expected, the family ownership variable had a negative and significant effect on social initiatives related to internal stakeholders. Its effect on external practices was also insignificant as was the case when using the dummy variable. Thus, our conclusions remain unchanged.

Insert Table 2 about here

To test Hypotheses 2a, 2b and 3 we estimated two separate models, one for the subsample of family firms, and another for the subsample of non-family firms. Table 3 summarizes the results of this estimation process. The variable national standard distance was, with the exception of the customer dimension, highly significant, and with the expected sign, in the subsample of non-family firms. However, it was only significant for the governance dimension in the subsample of family firms. This provides support for Hypothesis 2a.

Insert Table 3 about here

The effect of industry conditions, represented in our analyses by the technological intensity of the sector in which the firm operates, was also non-significant for family firms but was positive and highly significant, with the exception of the community dimension, for non-family firms. This indicates that while non-family firms' social activity is greater in technologically intense sectors, family firms show similar social behavior irrespective of the industry and its characteristics. This provides support for Hypothesis 2b.

Finally, we also found differences between the two subsamples in terms of the influence of declining performance on firms' CSR policy. More specifically, and as predicted, the influence of the variable that captured firm performance evolution on CSR dimensions was negative in the family firm subsample. However, this negative effect was only significant for the environment and customer dimensions, and was not significant for governance, employees or the community. Interestingly, the influence of this variable on the non-family firm subsample was positive and

significant for the governance dimension. This indicates a different reaction, in terms of social activities, to declining performance between family and non-family firms. While family firms tend to reduce their social activity, particularly in external dimensions, non-family firms tend to increase activities in the internal governance dimension. These findings support Hypothesis 3.

We ran additional analyses to test the endogenous nature of the family firm variable in our sample, one of which was a pooled regression, for each of the four CSR dimensions, with instrumental variables using robust standard errors that took into account the clustered nature of the panel data set. In addition, we ran a treatment regression that considered individual clustering. The results demonstrate there was no endogeneity bias in our panel data estimations.

DISCUSSION AND CONCLUSION

Our theoretical and empirical analyses provide new ways of understanding the role of ownership structures in the adoption of practices to respond to different stakeholder demands, and thus provide several academic and practical contributions.

Contributions to research

While prior literature in the area has studied the role of family ownership and CSR, there has been debate about how this influences social practices. The distinction between internal and external stakeholders, and the acknowledgment of the multidimensional nature of SEW, sheds light and helps reconcile contrasting positions. Our work shows that family firms can spur social initiatives and be as socially responsible as non-family firms, when they are linked to external stakeholders (as a way to protect their reputation and image, and thus increase their SEW). At the same time, they abate social practices when they are oriented towards internal stakeholders (as a

way to secure control and emotional bonds, and enhance their SEW). Thus, 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 negative effect of the family firm on the employee dimension of CSR seems surprising in light of the numerous studies suggesting that family businesses tend to manifest a deep sense of personal responsibility towards their employees (e.g., Le Breton-Miller & Miller, 2006). Our proposed framework also reconciles these apparently contradictory findings. We show that families are reluctant to attend employees’ claims regarding social practices, if they have the potential to challenge family control over the business or put family employees at risk. Thus, although family owners may be aware of the instrumental value of social behavior in terms of internal stakeholders, the need to guarantee family control over company operations leads them to neglect this, and they become short-sighted in this respect.

The lack of support for the hypothesis predicting the positive effect of family ownership on social activities aimed at external stakeholders also merits some discussion, in light of accumulated findings that demonstrate that family control induces CSR activities. While we failed to find support for hypothesis 1b, results indicate that when it comes to external stakeholders, family firms are not significantly different from non-family firms. We interpret this as a balancing process in which family firms engage, acting in socially responsible terms towards external stakeholders (at least to an extent which is comparable with non-family firms) while behaving less responsibly towards internal stakeholders. Moreover, the fact that our results do not confirm previous evidence showing that family firms engage more actively in initiatives aimed at external stakeholders, such as the environment (Berrone et al., 2010), can be explained in the national contexts in which our research was conducted (European countries). Differences

with respect to prior work can be explained, at least partially, as a consequence of national differences. When we considered differences in terms of national standards, this was done with respect to the USA as a reference point. However, we believe that issues at regulatory level (e.g., specific environmental laws and norms, regulatory stringency and enforcement mechanisms), may explain the different results. Future research should investigate to what extent these differences interact with the identity of the owners (i.e. family versus non-family), to explain cross-national variations in company responses to stakeholder claims.

Our work also contributes to the growing literature that frames phenomena under the SEW approach. Our evidence, suggesting that the underlying drivers that push social initiatives in both ownership forms are significantly different, confirms the uniqueness of family company identity, through the use of SEW as a reference point to guide strategic decisions (Berrone, et al., 2012). Going further, our results indicate that because family firms use SEW preservation as a reference point rather than using far-off targets defined by institutional factors (i.e., national standards or industry conditions), they are less likely to “follow the norm” when responding to social claims from internal and external stakeholders. However, concern with SEW preservation also implies that family firms’ social practices will be more responsive to organizational factors that may jeopardize family SEW, and specifically to the evolution of firm performance. As noted, family firms tend to reduce their externally oriented social activities when faced with a decline in performance. This finding is in line with previous research (Chrisman & Patel, 2012; Gomez-Mejia, et al., 2007) that shows how the strategic behavior of family firms varies when firm survival is perceived to be at stake. Interestingly, the evidence provided shows that non-family firms react in a different, and to some extent, unexpected way when they face weakening economic performance. Contrary to their family counterparts, our results suggest that non-family

firms are more prone to engage in governance-improving activities as performance deteriorates. A cynical interpretation of this is that managers of non-family firms use social initiatives in a context of decreasing performance as a tool to entrench themselves in the firm (Cespa & Cestone, 2009). An alternative explanation may lie in the instrumental approach to stakeholder management that suggests that firms use social practices as an instrument to gain legitimacy, reputation, and other critical intangible assets to operate in a given context (Hillman & Keim, 2001).

Overall, our results show that family firms do not operate in a vacuum and that institutional and organizational factors can affect the way they function and operate. Family firms' relative isolation from external forces and their greater sensitivity to organizational factors has an almost homogeneous effect across internal and external CSR dimensions. However, future research should examine the specific effect of these factors by stakeholder type. Similarly, additional institutional and organizational factors should be included in this analysis.

Contributions to practice

Managers who are keen to pursue social actions need to know that their chances of adoption are contingent on the firm's ownership structure. The chances of implementing practices are higher in family firms, as long as they are related to external stakeholders. However, if managers intend to focus on actions that improve the conditions of internal stakeholders, they will encounter resistance in family firms. Paradoxically, family firms see these practices (or the lack of them) as a valuable way to preserve their socio-emotional endowments.

As noted, we have observed that, compared to their non-family counterparts, family firms decisions concerning social actions are less influenced by external managerial trends and

standards. Such relative isolation may be an advantage for family firms, to the extent that this can protect the firm from management practices that are simply fads, and are not driven by efficiency considerations. However, there is also a flip side, as family firms may lag behind in the adoption of practices that, at least in certain contexts, are deemed to have a positive impact on firm results. Family firm managers should be aware of these circumstances and engage themselves in the search for truly efficient management practices.

Limitations

Our work has its limitations. At least four aspects must be highlighted. Firstly, we did not measure SEW directly, but instead proxied it by using a dummy that considers both family ownership, and a family member on the board of directors. Although this is not perfect, we believe it is a valid initial approach for a SEW construct, for several reasons. Family ownership has been the most common proxy used to capture the intensity of SEW in prior studies and many articles in top journals have validated it (Berrone et al. 2010; Gomez-Mejia et al., 2007; Gomez-Mejia, et al. 2011). Moreover, as the concentration of company ownership in family hands increases, the family has greater influence over the firm's strategic decisions (Anderson & Reeb, 2003; Miller et al., 2010), reinforcing the control dimension of SEW, the level of personal attachment and identification, and the emotional bonds between family members and the firm (French & Rosenstein, 1984). In addition, as Berrone et al. (2012) argued, the percentage of shares owned by a family is "perhaps the only available alternative when using large archival databases" (p. 264). Additionally, controlling family influence over company affairs increases with the presence of at least one member on the board of directors (Anderson et al., 2003). Nonetheless, future research should try to measure SEW and its link to CSR directly.

Secondly, our distance variable considered the USA as our reference point. We noted the use of country distances, as proxies for the relative presence of high standards for CSR, demands the selection of a reference country with high CSR standards. This limitation should be kept in mind when implementing this approach. We also ran our analyses taking a European country, the United Kingdom, as a reference. Results (available on request) are very similar to those obtained when the USA was used as our benchmark. However, we consider that future research should explore the availability of alternative measures to capture national CSR standards.

Thirdly, our empirical setting only took in publicly traded firms. Subsequent studies should explore these relations in privately-owned companies. While it is widely agreed that publicly held companies are more exposed to institutional pressures, further studies should examine how family control issues and emotional bonds interact with CSR outcomes in the case of private family firms. Moreover, private family firms are likely to use less formal internal and external practices. In fact, as we see it, the formality of social practices in the case of listed firms can be a valid response to an important stakeholder: the shareholders. Future studies should address what happens to the relationship between family influence and CSR in contexts in which this formality is not required, as is the case of privately-owned firms.

Moreover, although including firms that were listed for the entire 2001-2010 period avoided the effect of new entrants, it does not completely rule out the presence of survivor bias. Nonetheless, we explored this issue by looking at the firms excluded from our sample. Evidence indicated that they were not included, in most cases, as a result of missing data, or because the firm stopped trading as public concerns. Only a handful of them went bankrupt. We interpret this as evidence that survival bias was not a concern in our sample.

Concluding Remark

This study reveals that the SEW protection concern that characterizes family firms leads them to show a double face in their relationships with stakeholders. While they are as responsible as non-family firms in their relationships with external stakeholders, they show a more restrictive behavior with internal ones. Such behavior is less influenced by external norms and standards, but is more sensitive to performance decline.

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Table 1. Means, Standard Deviations, and Correlations

	Mean	S.D.	Governance	Employees	Environment	Community	Customers	Family	National Std. distance
Governance	53.48	9.85	1						
Employees	56.30	9.49	0.755 ***	1					
Environment	54.54	10.45	0.714 ***	0.726 ***	1				
Community	51.39	9.19	0.735 ***	0.760 ***	0.753 ***	1			
Customers	49.84	11.35	0.549 ***	0.520 ***	0.682 ***	0.535 ***	1		
Family firm	0.17	0.374	-0.189 ***	-0.172 ***	-0.095 ***	-0.130 ***	-0.017	1	
National std. distance	3.76	2.05	-0.266 ***	-0.243 ***	-0.048 *	-0.208 ***	0.045	0.189 ***	1
HT sector	0.39	0.49	0.002	0.018	0.021	-0.041	0.175 ***	0.027	0.129 ***
Declining.P.	0.06	1.23	-0.009	0.011	0.000	-0.013	0.007	-0.007	-0.003
Volatility	0.36	0.21	0.004	-0.043	-0.059 *	-0.046	-0.026	-0.015	-0.065 **
Firm size	8.31	1.73	0.296 ***	0.252 ***	0.376 ***	0.263 ***	0.341 ***	-0.002	0.268 ***
Firm age	3.75	0.92	-0.067 **	-0.063 **	-0.005	-0.036	0.083 ***	0.153 ***	0.197 ***
Tobin's Q	1.53	0.83	-0.093 ***	-0.051 *	-0.096 ***	-0.055 *	-0.049 *	0.024	-0.054 *
Cost of debt	7.95	9.45	-0.012	-0.013	-0.029	-0.018	-0.037	-0.019	-0.015

Table 1. Means, Standard Deviations, and Correlations

	HT sector	Declining P.	Volatility	Firm size	Firm age	Tobin's Q	Debt
HT sector	1						
Declining P.	0.036	1					
Volatility	-0.002	-0.081 ***	1				
Firm size	-0.057 *	0.006	-0.190 ***	1			
Firm age	0.060 **	0.002	-0.007	0.102 ***	1		
Tobin's Q	0.150 ***	0.054 *	-0.192 ***	-0.323 ***	-0.088 ***	1	
Cost of debt	-0.020	0.005	-0.007	-0.043	-0.025	0.025	1

* $p < .05$; ** $p < .01$; *** $p < .001$

Table 2. Panel data estimations for the influence of family firms on CSR

	Governance		Employees		Environment		Community		Customers	
Family firm	-3.150	***	-2.430	***	-1.026		-1.894		-0.374	
National std. distance	-1.500	***	-1.400	***	-0.657	***	-1.049	***	-0.318	
HT sector	1.515	*	1.546	***	1.386	*	0.140		4.471	***
Declining P.	0.191	*	-0.134		-0.050		0.069		-0.272	*
Volatility	7.461	***	2.561	***	5.554	***	5.685	***	7.384	***
Firm size	2.331	***	2.021	***	2.531	***	1.822	***	2.412	***
Firm age	-0.218		-0.027		0.136		-0.252		1.063	*
Tobin's Q	-0.338		-0.189		-0.711	*	-0.350	*	-1.268	**
Cost of debt	-0.001		-0.001		-0.004		-0.011		0.002	
N	1771		1755		1741		1580		1518	
Wald χ^2	282.00	***	215.56	***	211.28	***	131.31	***	199.24	***

* $p < .05$; ** $p < .01$; *** $p < .001$

Table 3. Panel data estimations on the determinants of CSR in family (FF) and non-family (NFF) firms.

	Governance			Employees			Environment		
	FF		NFF	FF		NFF	FF		NFF
National std. distance	-0.848		-1.567 ***	-0.328		-1.539 ***	-0.431		-0.691 ***
HT sector	-2.130		2.110 ***	-1.603		2.008 ***	-1.781		1.889 **
Declining P.	-0.176		0.206 *	-0.762		-0.108	-1.718 ***		0.015
Volatility	8.538 **		7.485 ***	6.411 *		2.230 *	4.050		5.931 ***
Firm size	2.055 ***		2.368 ***	1.279 **		2.135 ***	1.610 *		2.625 ***
Firm age	0.023		-0.191	-0.255		0.086	1.652		0.027
Tobin's Q	-0.904		-0.216	-0.831		-0.060	-1.567		-0.611
Cost of debt	1.001		-0.001	0.019		-0.001	0.034		-0.004
N	290		1471	288		1467	286		1553
Wald χ^2	41.41 ***		249.80 ***	25.90 **		193.77 ***	37.50 ***		139.39 ***

* $p < .05$; ** $p < .01$; *** $p < .001$

Table 3. Panel data estimations on the determinants of CSR in family (FF) and non-family (NFF) firms (cont.).

	Community		Customers	
	FF	NFF	FF	NFF
National std. distance	-0.785	-1.092 ***	-0.3432	-0.334
HT sector	-2.761	0.657	-1.323	5.463 ***
Declining P.	-1.049	0.113	-1.250 *	-0.236 *
Volatility	7.996 **	5.647 ***	11.399 **	7.048 ***
Firm size	1.130	1.918 ***	1.671	2.439 ***
Firm age	0.191	-0.241	3.273 *	0.880
Tobin's Q	-1.812 **	-0.077	-1.739	-1.312 **
Cost of debt	0.895	-0.011 *	-0.160	0.002
N	253	1327	239	1279
Wald X ²	30.60 ***	109.87 ***	33.51 ***	177.49 ***

* $p < .05$; ** $p < .01$; *** $p < .001$