Family Firms and Practices of Sustainability: A Contingency View

– *Isabelle Le Breton-Miller and Danny Miller*

Corporate sustainability and environmental responsibility of businesses has evinced a lot of research interest in the last decade. Growing income inequalities, industrial pollution levels and exploitation of natural environment has raised human and social costs of doing business across the globe. Family business scholars suggest that family firms are more socially and environmentally responsible compared to non-family firms. However, some studies have also cited examples contrary to that. This paper explores the positive and negative linkages between family business and sustainability practices. They propose that certain conditions may make family firms adopt or shun sustainability practices.

Sustainability and Family Business

The authors define sustainability practices as those that aim at the long-term benefit of all stakeholders of an organization, including the larger community. These may include practices like equitable treatment of employees, minimizing the firm's ecological footprint or contributions to community. They view sustainability as integrative and strategic, and not as any piecemeal response to crises. The authors argue that by their very nature of organization or the way they function, family businesses share some key positive and negative linkages with sustainability.

1. Positive Linkages: Family managements' desire to pass on the business to later generations gives family firms a long-term orientation. The family business leaders often take up the role of stewards. They work hard to ensure that the business remains robust and take care of the well-being of all stakeholders, including the larger community. The desire to uphold family values is another factor, which ensures family firm managements' alignment with community sustenance.

Family business managements are also aware that they are the guardians of family reputation, which is a multi-generational asset. This also makes them function in a socially responsible manner as they hesitate to risk their family reputation for quick gains that may endanger the larger good. In addition, as the business ownership is concentrated within the family, the management is not driven by short-term opportunism but more attuned to sustainable use of resources.

2. Negative Linkages: Several factors work against sustainability practices in family firms. For instance, family conflicts often create different factions within the family, which may work with different objectives and priorities. This may lead to neglect or discontinuity of sustainable practices. Another negative factor is family managements' pursuit of non-economic goals to protect their socioemotional wealth. This may lead to hyper-conservatism, nepotism or cronyism, which would benefit a few stakeholders but harm other stakeholders, thus affecting the larger good.

Yet another adverse factor is owner-owner agency cost. It is the tendency of the major or dominant family owner to enrich themselves at the cost of the minor owners. In all the above cases, only few stakeholders derive benefits at the cost of others and sustainability practices take a back seat.

Contextual Factors

The authors also identified certain contextual factors that influence sustainability practices. These include the following:

1. Family and educational background: Family values, moral standards, parenting and disciplined nurturing of the next generation and good education can help family members develop themselves as responsible business leaders who remain committed to societal welfare.

2. Governance: Dispersed ownership is likely to lower the family firm's commitment to sustainability practices. Capable and talented executives engaged with long-term orientation with the firm are likely to be a positive influence on the firm's sustainability practices. However, long entrenchment may also lead to strategic inertia that can curtail sustainability initiatives.

3. Macro Environment: Family firms that are a part of smaller communities may feel greater social responsibility. Firms adhering to institutional logics like that of religion or ethnicity are also more likely to be socially responsible. A hostile competitive environment or times of scarcity like financial crisis may adversely affect the firm's sustainable behaviour.

4. Organisation: When a sustainable initiative leads to a competitive edge, it is more likely to be adopted. Large and bureaucratic firms may not display socially responsible behaviour. Institutional voids such as in emerging markets, may give rise to cronyism, which can adversely affect sustainable practices.

5. Critical Events: A critical event like birth of a grand child can change the perspective of family firm management to a more long-term view and the business may adopt a pro-sustainability stance. On the contrary, loss of a key family leader may make others detached to the idea of preservation.

Practical Implications

The study has important implications for family businesses. Family managements need to realize the criticality of sustainability practices for their own larger good and long-term sustenance. It is important to keep in mind what factors may adversely affect these practices and make continuous efforts to minimize those hindrances. Incumbent leaders would do well to adopt and integrate sustainability in their strategic thinking and initiatives. This must be reflected in multiple areas like, family business governance, organisational procedures and practices, and most critically, in the process of next generation development.

Source: *Journal of Family Business Strategy, 2016, 7(1), 26-33.*