

Firm Philanthropy in Small and Medium-Sized Family Firms: The Effects of Family Involvement in Ownership and Management

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Research Applied précis prepared by Andrew Hier, Senior Partner, Cambridge Advisors to Family Enterprise

This study of 130 small and medium sized firms in northern Italy was conducted with the purpose of learning about the effects of family involvement in ownership and management on firm philanthropy. (Small and medium-sized firms are defined as having an annual turnover of between 2 and 50 million Euros.) The authors describe “firm philanthropy” as:

- altruistic activities intended to serve others
- the act of donating money, goods and services to support a socially beneficial or humanitarian cause
- a discretionary wealth transfer of net income to stakeholders

The study draws on stewardship theory, which considers the family as a source of competitive advantage based upon three main aspects:

- significant investment in the business and its future
- virtually unconditional funding of this investment
- a strong willingness to pursue long-term goals even at the expense of short-term gains

Social networks and reputational capital, which can be fueled by philanthropy, are key resources to maintain competitive advantages.

The authors describe the study results as supporting the propositions that the propensity for philanthropic activity in a family firm:

- increases with the degree of family ownership
- increases as ownership becomes more dispersed among family members

Reasons for this propensity include the higher motivation in family owned businesses to create a multi-generational family enterprise which, in turn, depends upon a number of factors, some of which are strengthened through firm philanthropy, such as:

- building the reputation of the firm
- helping to build a working environment that rewards support and collaboration
- fostering and developing a skilled workforce
- making connections to stakeholders in the community

As the number of family owners involved in the business increases, their social networks are likely to expand as well.

In a somewhat counterintuitive perspective, the authors interpret some mixed survey data to conclude that a greater concentration of family members as managers, in proportion to all family members involved in the company, reduces the propensity for firm philanthropy. They argue that a significant number of family managers leads to more conflict, more divergent views of priorities, less stewardship behavior and more allocation of resources inwardly toward business needs. Further studies are needed to determine whether these propositions apply to larger family firms or might change with a larger sample size across countries and cultures.

Practitioners should consider some useful lessons that arise from the authors' work. To maximize the positive impact of firm philanthropy on the long-term success of a family firm, efforts are needed to help family firms understand the benefits of firm philanthropy and its relationship to business sustainability. Governance efforts are important to help align family managers, family employees and family ownership goals for firm philanthropy. The larger the number of family managers in the firm, the more challenging the governance process to focus and sustain firm philanthropy commitment.