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RESEARCH LETTER #3

WORKING IN A FAMILY BUSINESS

Do social relations in family businesses differ from those in non-family businesses? In this letter, we offer a summary of the academic literature on:

- the reasons that might explain any differences in the quality of industrial relations, depending on the company's shareholder structure
- empirical findings on different aspects of industrial relations: dismissals, compensation, organizational structures, job satisfaction, absenteeism and conflict.

The results underline that the quality of social relations is better in family-owned companies than in non-family-owned companies, while pointing to the paradox of slightly lower average wages in the former. This paradox can be clarified by the differences in organizational structures in these two types of companies. On average, family businesses have fewer hierarchical levels - and therefore fewer managers - than non-family businesses, which explains part of the differences in average salaries. They also have less formalized management practices. This type of structure allows for shorter decision-making circuits, greater agility, and less pay inequality within the company, all of which, combined with greater job security, may help to explain the greater satisfaction of employees in family-run businesses, and the lower level of conflict observed.

This research letter represents a shorter version of a “white paper” on social relations in family firms, which offers a more comprehensive review of the literature on this topic: François Belot and Edith Ginglinger, “Family businesses and labor relations”, available here.

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WHY DO FAMILY BUSINESSES HAVE DIFFERENT LABOR RELATIONS?

Risk behavior of family businesses

Unlike institutional investors, employees and family shareholders cannot diversify the company's specific risk.

Company risk is borne unequally by shareholders and employees. While employees have a contractual claim against the firm (pre-specified wages and benefits), shareholders hold residual claims and bear the company's residual risk. The risk borne by shareholders can be split into market risk (or systematic risk), which affects all companies to a greater or lesser degree, and company-specific risk (including the risk of bankruptcy). Shareholders holding a portfolio of shares, notably institutional investors, can easily eliminate specific risk through diversification. In contrast, most family shareholders, because they own a significant fraction of their company's capital, are unlikely to diversify their wealth optimally. Employees remain highly exposed (notably through their investment in human capital) to the fluctuations and hazards experienced by their company through the business cycles. Like family shareholders, they bear the company's specific risk.

Therefore, sensitivity to specific risk (including bankruptcy risk) is the first point of alignment of interests between family shareholders and employees. Because they are poorly diversified, family shareholders are likely to adopt less risky strategies and make diversification acquisitions, choices that reduce the risk of bankruptcy. The decreased risk also benefits employees, who can expect to stay with the company longer.

The implicit contract approach

Because of their risk aversion, employees may be inclined to make wage concessions in exchange for greater job security. These long-term commitments, which are difficult to formalize in writing, take the form of an “implicit contract” between employer and employee. As this “implicit” nature implies a risk to its durability, the contract can only be accepted if the company's management is sufficiently credible from the employees' point of view. Translated with DeepL.com (free version)

WHY DO FAMILY BUSINESSES HAVE DIFFERENT LABOR RELATIONS?

Thanks to the long-term presence of family shareholders, employees can accept lower wages in return for greater job security.

Various arguments can be put forward to justify the greater "credibility" of family shareholding compared with other shareholders. First, family shareholding is a long-term form of ownership, characterized by the desire to pass on the company to future generations. Second, the renegotiation risk involved in a change of ownership is limited, as the family firm is generally immune to hostile takeovers.

To sum up, the implicit contracts approach allows us to hypothesize a different job security/wage profile in family firms. Employees would be more willing to make wage concessions in exchange for an insurance against layoffs. This implicit contract is accepted because of the credibility of the co-contracting party (the family shareholder invested for the long term).

Family values

Family managers may have objectives that are not only financial, but also reflect the values of the family shareholder. The quality of social relations may be one of these dimensions.

Moreover, family shareholders are not driven by the sole objective of value maximization, but seek other "affective" (non-pecuniary) benefits grouped under the heading of "socio-emotional wealth" (such as imposing one's own identity, the prestige associated with control, visibility within a community, the opportunity to develop a corporate culture, or the perpetuation of family values and dynasty).

Among the socio-emotional components of the family manager's utility function is the satisfaction associated with good social relations within the company. In this context, a family manager may be less inclined than a professional manager judged solely on the basis of his or her financial performance to engage the company in strategies likely to damage relations with the workforce. These theories lead to the prediction of greater job security, lower pay and better social relations in family-run companies, compared with non-family-run companies.

A TRADE-OFF BETWEEN JOB SECURITY AND COMPENSATION

What about job security?

Table 1 summarizes some of the findings of the academic literature relating to job security. These results, established over different periods and in different countries, all point to a lower propensity for family firms to lay off their employees, and therefore greater job security.

Family businesses offer greater job security, with a higher proportion of permanent contracts and fewer layoffs.

Table 1. Job security and family firms: empirical results

Authors	Country	Data	Firms	Résults
Andrieu, Toubal and Villanueva (2024)	France	Administrative	Non listed, French groups only	The proportion of permanent contracts is 7.7% higher in family businesses than in non-family businesses.
Bach and Serrano-Velarde (2015)	France	Administrative	CEO successions	Dynastic transitions result in an employee separation rate 3.3% lower than that observed when a professional manager replaces a family manager.
Bassanini et al. (2013)	France	Administrative	> 20 employees	Layoff rate in family businesses 0.15% lower per quarter.
Ellul et al. (2018)	41 countries	Commercial	Listed firms	if an industry is hit by a recession resulting in a 10% drop in sales, employment in a non-family business will fall by 2.05%, and only 0.19% for family businesses.
Gómez-Mejía et al. (2023)	33 countries	Commercial	Listed firms	family control reduces the probability of downsizing by 27%.
Yeh and Liao (2021)	Taiwan	Commercial	Listed firms	The turnover rate is increasing during non-family transitions.

A TRADE-OFF BETWEEN JOB SECURITY AND COMPENSATION

Do salaries differ in family businesses?

Table 2 summarizes the results of empirical studies carried out in various countries. The average results observed mask considerable heterogeneity depending on company characteristics.

The trade-off for greater job security is lower pay on average, mainly at the top end of the salary pyramid

Tableau 2. Wages in family businesses

Authors	Country	Data	Firms	Résults
Andrieu, Toubal and Villanueva (2024)	France	Administrative	Non listed, French groups only	1.6% pay gap to the disadvantage of employees in family firms.
Bassanini et al. (2013)	France	Administrative	> 20 employees	After correcting for establishment-specific effects (size, presence of union representation, etc.) and workforce-specific effects (gender, age, seniority, fixed-term/permanent employment status, etc.), there is a significant differential of 2.4% to the disadvantage of family-run businesses.
Di Porto et al. (2024)	Italy	Administrative	All	10% pay gap to the disadvantage of employees in family firms.
Ellul et al. (2018)	41 countries	Commercial	Listed firms	Wage discount of around 7% for employees of family firms.

These wage differentials are not uniformly distributed across the workforce. Di Porto et al (2024) show that the wage gap is particularly high at the top of the wage pyramid (i.e., for top managers) and tends to narrow for the least qualified employees.

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A DIFFERENT ORGANIZATION AND GREATER SATISFACTION

An organizational structure with fewer hierarchical levels

Family businesses have far fewer senior and middle managers than non-family businesses, especially when they are run by their founder.

The organizational structures of family businesses differ from those of non-family businesses. Mullins and Schoar (2016), in conjunction with the World Bank, conducted an extensive survey of 800 managers of listed and unlisted companies in 22 emerging countries. They show that founder-led companies are highly centralized, with almost half having fewer than five managers reporting directly to the CEO, whereas in non-family businesses of comparable characteristics, and in family businesses run by heirs, 80% of managers have more than five managers in direct contact with them.

The aforementioned study of Italian companies by Di Porto et al (2024) shows that family-run companies have half as many top managers, and four times fewer middle managers, as non-family-run companies. As a result, they are characterized by lower wage inequality. Fewer hierarchical levels mean greater agility and faster decision-making, but can also lead to fragility in the event of the death of the family manager.

And less formalized management processes

Family businesses practice less formalized management, with less reporting.

This organization also has consequences for management methods. Bloom and Van Reenen (2007) show that family businesses use a less formalized management style, with fewer management and formalized reporting. This different organization of family businesses, combined with lower wage inequality and greater job security, may be keys to understanding job satisfaction, which appears to be higher in family businesses.

A DIFFERENT ORGANIZATION AND GREATER SATISFACTION

Leading to greater employee job satisfaction

In most countries, employees express greater satisfaction with family businesses

Studies of employee satisfaction are based on surveys carried out in most countries today, or on platforms for evaluating the social practices of companies by their employees. Table 3 summarizes some of the results.

Authors	Country	Data	Firms	Résults
Christensen-Salem et al. (2021)	Brazil	Survey « *Best places to work in Brazil* »	412 firms	In family-run businesses, employees perceive the organization to be more benevolent, all the more so when they are at a lower hierarchical level. This perceived benevolence leads to improved productivity.
Huang et al. (2015)	US	Glassdoor	993 listed firms	Employees are more satisfied with family businesses than with non-family businesses, both overall and in terms of career opportunities, compensation and non-wage benefits.
Querbach et al. (2022)	Germany	Kununu, (Glassdoor equivalent in German)	2180 family firms (850) and non family firms (1330)	Employee satisfaction with non-wage benefits is higher in family businesses than in non-family businesses.

And less absenteeism and strikes

Higher satisfaction translates into 18% less absenteeism and a lower propensity to strike.

Quality of working life indicators commonly include employee absenteeism and propensity to strike. Using administrative survey data for Danish companies with between 10 and 250 employees over the period 2007-2013 (representing more than 674,000 employees), Bennedsen et al. (2019) show that absenteeism is significantly lower by 1.36 days, or 18%, in family businesses than in non-family businesses. Belot and Waxin (2017) use 2004 data from the Dares REPONSE survey in France to examine the occurrence of industrial disputes in 1001 establishments controlled by 390 listed companies, 34% of which are family-owned. According to this study, family-run companies experience fewer conflicts, particularly strikes. When they do occur, they involve fewer employees and last less time.

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FAMILY BUSINESS AND LONG-TERM INVESTMENT

Developing research on family-owned companies and their dynamics

Family businesses at all levels - global, European, and French - represent a significant portion of the economy in terms of numbers and business share.

What are these companies' performance, strategies, economic and social models? Are they equipped to meet the challenges of ongoing digital and environmental transitions? These are the questions that the new “Family Businesses and Long-Term Investment” Chair at the University Paris Dauphine - PSL aims to address.

This Chair is affiliated with the Dauphine Research in Management Laboratory (DRM) and the Dauphine Research in Economics Laboratory (LEDA).

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