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# Family businesses and labor relations

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# Family businesses and labor relations

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**Abstract**

Do social relations differ in family businesses compared to non-family businesses? To answer this question, we examine the theoretical foundations and the empirical findings on the most debated issues: job security, compensation, organizational choices, job satisfaction, and territorial anchoring. Most findings indicate that the propensity of family firms to lay off employees is lower than in non-family firms, at the cost of lower average earnings, especially at the top of the wage pyramid. Family-run businesses report higher employee satisfaction, lower absenteeism, and fewer strikes on average. We analyze these results and suggest further explanations.

Keywords: Family businesses, job satisfaction, implicit contracts, compensation, job security, literature review.

## 1 Introduction

While environmental aspects are now an essential part of corporate and asset manager strategies, social issues have not been given the same prominence despite several studies highlighting the positive impact of employee satisfaction on corporate financial performance. (Edmans, 2011 ; Guiso et al., 2015). A recent Survey conducted by the British NGO ShareAction among the world's leading asset managers shows that interest in corporate social performance is growing, even if it remains confined to ESG funds, and if only a third of them are aware of the social practices of companies in the supply chain. They all point to the difficulty of obtaining quality data to assess social performance.

From 2025 onwards (over several years, depending on size), companies must comply with the CSRD's social disclosure standards. Although the CSRD (in its social standard ESRS S1) directly concerns only the largest companies (which exceed the thresholds of at least two of the following three criteria: more than 250 employees, balance sheet total above €20m, sales above €40m), smaller companies will be called upon by their corporate customers, who are themselves required to disclose information on the employees in their value chain (standard ESRS S2). Data characterizing social behavior will thus become increasingly available, offering stakeholders relevant and comparable information on social aspects.

Our literature review focuses on the impact of corporate ownership structure on social performance, employee satisfaction, compensation levels, and employment in general. We are particularly interested in the social performance differences between family-owned and non-family-owned companies. Because their shareholders potentially span several generations, family-run businesses can adopt the long-term vision and objectives that the advocates of responsible capitalism are now calling for. The involvement of shareholders in the company's management and the potential for generational transmission reinforce the importance of the values and reputation of these companies. As shareholders have residual rights to the company, this long-term horizon can encourage implicit contracts with employees, implying a shared long-term commitment. On the other hand, the family business can also give rise to specific agency conflicts, which could adversely affect the quality of social relations.

After a review of the theoretical foundations that may justify differing social performance in family businesses, this article examines the results of numerous empirical studies analyzing employment, working conditions, labor relations, and employee involvement in these companies. These studies do not all adopt the same definition of the family business, which makes it possible to identify universal facts and sometimes shed light on the reasons for different results stemming from the heterogeneity of definitions of family businesses. In addition, the studies have been carried out

in different institutional environments (Europe, USA, Asia) for companies of various sizes, both listed and unlisted, providing a broad perspective on social relations in family businesses.

## 2 Theoretical foundations underlying the analysis of social relations in family businesses

We mobilize several theoretical perspectives to analyze the quality of social relations in family firms. We develop the risk behavior approach (2.1.), which stems from financial theory, the implicit contract approach (2.2), which originated in economic literature, and the socio-emotional value approach, which is now mainly developed in managerial literature (2.3).[1] While these approaches suggest a positive impact of family control on social relations (in particular, its lower propensity to lay off workers), family firms can create tensions between employers and employees (2.4).

### 2.1 Risk behavior of family businesses

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 ((Faccio et al., 2011)) and make diversification acquisitions ((Miller et al., 2010)), choices that reduce the risk of bankruptcy. The decreased risk also benefits employees, who can expect to stay with the company longer.

[1] Other influential theoretical perspectives include the resource approach, stewardship theory and institutional theory (Odom et al., 2019). The first two have been widely used to model social relationships (see the review by Belot and Waxin (2017)). While the mechanisms are partly different from those of the socio-emotional approach, these theories also suggest that family firms are more attentive to the quality of social relationships.

## 2.2 The implicit contract approach

The implicit contract approach explores the question of employees' sensitivity to risk in greater depth. Because of their risk aversion, employees appear inclined to make concessions (particularly wage concessions) in exchange for greater job security (Baily, 1974). These commitments, however, are difficult to formalize in writing and thus take the form of an "implicit contract" between employer and employee. As this "implicit" nature inherently entails a risk to its durability (for example, if the employer decides to reconsider his commitment and renegotiate with the employees), employees can only accept the contract if the company's management is sufficiently credible.

Various theoretical arguments can justify the greater "credibility" of family shareholding compared to other forms of control. First, family shareholding is a long-term form of ownership characterized by the desire to pass on the company to future generations. Second, the risk of renegotiation involved in a change of ownership is limited, as family firms are generally immune to hostile takeovers (Pagano and Volpin, 2008). Many articles show that family shareholders use legal mechanisms and financial arrangements that enable them to hold voting rights well above their capital rights, thereby solidifying their control (see, for example, the study by Belot et al. (2024) devoted to double voting rights). Shleifer and Summers (1988) argue that the descendants of a family dynasty are actual figures of trust for the company's employees as they grew up in contact with the company and had a sense of loyalty to its stakeholders. Last but not least, family firms are characterized by much longer terms of office for their CEOs, which automatically reduces the risk of renegotiating implicit contracts that may emerge during managerial transitions.[2]

In summary, the implicit contracts approach allows us to hypothesize a different job security/wage profile in family businesses. Employees would be more willing to make wage concessions in exchange for an assurance against lay-offs. Employees accept this implicit contract because of the credibility of the co-contracting party (the family shareholder invested for the long term). The proponents of this approach do not make direct predictions about the quality of social relations and employee satisfaction with the company. Still, as Gómez-Mejía et al. (2023) point out, job security is undeniably one of the main determinants of this satisfaction.

[2] A survey by Bandiera et al. (2018) of 1,114 CEOs in 6 different countries shows that family managers have been in place for 15.6 years, compared with 6.6 years for non-family managers. Guenzel et al (2023) observe that CEOs become more reluctant to lay off staff during their tenure, as they develop more relationships within the company. With this longevity argument, we can therefore expect fewer layoffs in family businesses.

## 2.3 The socioemotional wealth approach

This managerial theory is currently the most frequently used to justify the specific characteristics of family firms. The seminal article by Gómez-Mejía et al. (2007) analyzes the choice made by Spanish oil mill owners to join a cooperative, a strategic choice that is financially attractive but akin to a loss of control. They found that "family-owned" mills were significantly less likely to make the move. The reason is that the sole objective of value maximization does not drive family shareholders. They seek other "affective" (non-pecuniary) benefits grouped under the term "socio-emotional wealth" (such as imposing one's own identity, the prestige associated with control, visibility within a community, the possibility of developing a corporate culture, or the perpetuation of family values and dynasty). This approach mobilizes the behavioral theory of Kahneman and Tversky (1979) since it assumes a strong aversion to the loss of these socio-emotional benefits. Thus, the family shareholder is no longer the risk-neutral agent described in the previous section.

Among the socio-emotional components of the family CEO's utility function is the satisfaction associated with good social relations within the company.[3] Waves of redundancies and poor working conditions (stress, harassment, occupational illness, etc.) are particularly likely to adversely affect the company's reputation[4], a major issue for family shareholders (Deephouse and Jaskiewicz, 2013) due to the interconnection between the shareholding and the company (we think of the controlling family when we think of the company, and vice versa). In this context, a family CEO is likely to be less inclined to commit their company to strategies likely to damage relations with the workforce than a professional manager judged solely based on financial performance (Gómez-Mejía et al., 2023).

To apply the socio-emotional approach to the analysis of social relationships, we can, following Gómez-Mejía et al. (2023), mobilize the (F-I-B-E-R) model of Berrone et al. (2012). The latter defines the nature of the five major dimensions of socio-emotional benefits (Table 1). The hypothesis derived from this model is that family firms have better relations with their workforce (in particular, greater job stability and a better workplace quality of life). It should be noted, however, that this theory does not necessarily provide a clear prediction of compensation levels. Its proponents point out that family firms are often more financially constrained and that employee loyalty and the greater attention paid to the workforce are levers that justify lower pay (we return to

[3] Note that this argument appeared well before the emergence of the socio-emotional approach, since Jensen and Meckling (1976, p. 314), adopting a radically different theoretical perspective, already mentioned: "[...] the manager derives non-pecuniary benefits such as [...] the friendliness of employee relations".

[4] The reputational damage caused by downsizing is considerable. Based on a US sample, Love and Kraatz (2009) show that firms that lay off large numbers of employees see their reputation score (used by Fortune to rank "Most Admired Companies") fall by 71%.

the conclusion of section 2.1). These lower remunerations will facilitate the survival of the business and its transmission to subsequent generations ("R" component of the Berrone et al. (2012) model) in the best conditions (Gómez-Mejía et al., 2023).

**Table 1: Using the Berrone et al. (2012) model to operationalize the influence of family shareholding on social relations.**

The model defines and characterizes the 5 main dimensions (F-I-B-E-R) of socio-emotional benefits (first 3 columns). The associated utility and the attention paid to these dimensions by family shareholders enable us to theorize the impact of family control on employee relations (last column).

| | *Dimension* | **Description** | **Prediction for employee relations** |
|---|---|---|---|
| F | *Family influence and control* | The family wants to influence strategic decisions and exercise control over the company. | Control will be easier if the family has a good relationship with the workforce. |
| I | *Identification of family members with the family firm* | A family business intertwining characterizes the family firm. Any adverse event affecting the business reflects on the family shareholder. | Poor labor relations harm a company's reputation. Family shareholders are much more affected than anonymous shareholders in a widely-held company. They will, therefore, be particularly attentive to the quality of labor relations. |
| B | *Binding social ties* | Beneficial relationships (trust, interpersonal solidarity) are created between family members and external stakeholders (especially employees), especially in the community where the company is based. | Family firms have strong territorial roots, and their decisions significantly impact their communities. They will, therefore, be reluctant to implement downsizing policies that would jeopardize social ties within a community. |
| E | *Emotional attachement of family members* | Family shareholders are emotionally attached to their company. This attachment implies a willingness to hand down the company and a propensity to run it as an extension of the family. The result is a certain paternalism in management. | Emotional attachment and the paternalistic approach of shareholders lead employees to perceive the family business as more likely to ensure job stability. The result is better labor relations and a greater willingness on the part of employees to invest their human capital in the company. |
| R | *Renewal of family bonds through intrafamily succession* | The family firm is characterized by a desire to pass the firm on to subsequent generations. | Good social relations are an intangible asset to be passed on to future generations. Moreover, it's a key factor in a company's survival. |

## 2.4 Agency theory and social relations in family businesses

The agency theory of Jensen and Meckling (1976) has been widely used to analyze the delegation of authority from the company's owners (principal) to its managers (agent) in a widely-held company. This situation generates agency costs, such as monitoring expenses incurred by the principal to limit the opportunism of an agent maximizing his utility (in contradiction with the creation of shareholder value) in a context of asymmetric information relative to managerial action. One of the specificities of the family firm is that it does not fit this description, especially when the manager comes from the founding family, since, in this case, the principal and the agent are the same. However, it would be illusory to see the family firm as an answer to agency problems since it will be the site of the emergence of other forms of conflict (see Villalonga et al. (2015) for a synthesis). First, family shareholders may use their control over the company to extract private benefits (pecuniary and non-financial advantages) to the detriment of minority shareholders, if any. Second, the family manager must deal with the interests of the wider family. Villalonga et al. (2015) evoke the notion of "super-principal agency conflict" to justify decisions contrary to the company's interests. Even though he would prefer to use the funds to finance growth, the family CEO might, for example, be forced to implement a generous dividend distribution policy to satisfy the expectations of a cash-strapped family branch.

An often decried element that can materialize these two forms of agency conflict is nepotism, i.e., the appointment to key positions of family members lacking sufficient skills and legitimacy. Such a policy can also be seen as a "dark side" of the socio-emotional approach since it can be part of the desire to control strategic decision-making and preserve the family dynasty. Nepotism is not neutral for employees from outside the family: it limits their opportunities for promotion, leads to their being sidelined from strategic decision-making, and often involves a failure to share information, the most important of which was restricted to the family circle (Tetzlaff and James, 2024). The result is lower employee satisfaction, leading to a higher turnover rate in family firms (Neckebrouck et al., 2018).

The mechanisms of agency theory may also justify lower executive compensation in family firms. Since the principal and the agent are the same, there is less need for incentive compensation to align the interests of CEOs and shareholders. Combs et al. (2010) observe lower CEO compensation in firms where several family members are involved in the executive team or board of directors. The cascade effect will harm lower managerial levels as there is generally a hierarchy of salaries within the company. Pagano and Volpin (2005) developed another argument. In the context of diffuse shareholding, CEOs risk losing their jobs in the event of a hostile takeover. They may, therefore, be tempted to implement a very generous compensation policy to make employees their

allies in the face of a potential raider. Of course, this theoretical argument has little resonance for the family firm, which is, by definition, protected from the takeover market. In short, the agency-theoretic approach suggests less generous pay policies in family firm.

For Neckebrouck et al. (2018), the agency theory approach finally leads to the assumption that family firms will be more inclined to lay off their employees. Due to the nepotism described above, the family firm has a reduced pool of candidates from whom to hire. The probability of hiring "good" employees is lower, leading to a greater obligation to terminate employment contracts to replace a less efficient workforce.

Table 2 summarizes the predictions developed in this theoretical section. It summarizes the expected relationships between family control and three dimensions of social relations: job security, wages, and job satisfaction. The following two sections, through a presentation of the main empirical studies on these three themes, will enable us to judge the relevance of these theoretical approaches.

**Table 2: Family firms and labor relations: theoretical predictions**

| Impact of family control on ⇨ | Job security | Wages | Work satisfaction |
|---|---|---|---|
| Risk behavior | **+** | **?** | **?** |
| Implicit contracts | **+** | **-** | **?** |
| Socio-emotional wealth | **+** | **?** | **+** |
| Agency theory | **-** | **-** | **-** |

## 3 The family business: job security, compensation, and organizational structures

In this section, we present the results of empirical studies that have analyzed the impact of family control on lay-offs (3.1), compensation levels (3.2), and organizational structures (3.3). We show in 3.4 that these results may be contingent on the context (local and institutional) in which the family firm operates.

### 3.1 Greater job security

Studies devoted to analyzing the relationship between family firms and job (in)stability have reached a clear consensus: employees of family firms are less likely to be laid off. In this section, we describe some of the articles and methodologies that have contributed to this area of academic research over the last 20 years.

#### *3.1.1 Fewer lay-offs*

Studies by Stavrou et al. (2007) and Block (2010), carried out on samples of S&P 500 listed companies, highlight a negative correlation between family control and downsizing, particularly for lay-offs representing more than 5% of the company's workforce: eager not to jeopardize its reputational capital, the family firm wishes to avoid massive lay-offs that would attract the attention of the general public (Block, 2010). These two studies also analyze family control as a moderating variable in the relationship between financial performance and lay-offs. While lay-offs are generally negatively correlated with operating profitability (ROA), the relationship is less pronounced in family-owned companies. As discussed in section 2.3, family shareholders seem willing to accept lower financial performance to maintain good relationships with their workforce.

In contrast to previous studies carried out on samples of listed companies, Bassanini et al. (2013) use French administrative data on establishments with over 20 employees (from the REPONSE survey - Relations PrOfessionnelles et NégociationS d'Entreprise) matched with individual salary data, thus having information for a sample of more than 500,000 employees working in around 2,000 different establishments. They demonstrate that the employee departure rate is 0.15% lower each quarter in family firms. They also show that family firms have different strategies for adjusting their workforce downwards: compared with their non-family counterparts, they tend to reduce hiring while limiting lay-offs, thus ensuring greater job security for contract employees. One of the original features of Bassanini et al (2013) study is that it adopts a longitudinal approach (focusing on establishments interviewed in two successive waves of the REPONSE survey - 1998 and 2004) to identify establishments that change ownership. It then appears that establishments under family control have lower layoff rates.

Studies carried out on samples from Spain (Greenwood et al., 2010; Sanchez-Bueno et al., 2020), Switzerland (Masset et al., 2023), and Finland (Heino et al., 2024) provide similar results. Gómez-Mejía et al. (2023) go beyond the single-country framework and select a sample of 3181 listed firms from 33 countries (excluding the US) over ten years (34% of firms in this sample are considered family-owned). The analysis confirms previous results: family control reduces the probability of downsizing by 27%. A robustness test shows that the negative correlation between family control and lay-offs is not specific to periods of crisis (the period studied by Gómez-Mejía et al. (2023) includes the 2008 financial crisis); thus, the protective character of family firms does not derive solely from their greater resilience to economic shocks (van Essen et al., 2015).

### 3.1.2 A differentiated response to shocks

While the studies mentioned above generally consider the absolute level of company performance (measured, for example, by ROA), others analyze the company's response to a negative shock (apprehended by a decline in sales in the company's sector). In a sample of 7822 companies from 41 countries over the period 1988-2013, Ellul et al. (2018) show that family businesses have a lower propensity to lay off their employees when faced with a demand shock. The economic scale of the phenomenon is significant: if an industry is hit by a recession, leading to a 10% drop in sales, employment in a non-family business will fall by 2.05%, compared to 0.19% in a family business.

To analyze these results further, Sraer and Thesmar (2007) distinguish between family firms run by the founder / a descendant / a manager from outside the family. Using a sample of French-listed firms, they demonstrate that the ability of family firms to limit the impact on employment of a negative sectoral shock is attributable solely to family firms managed by heirs. This result is consistent with Shleifer and Summers' (1988) argument for a relationship of trust between family shareholders and employees. These findings shed light on the strategic choices made by family firms, which seem to opt for less risky projects in return for insurance for their employees in the event of an economic downturn, as discussed in section 2.1.

### 3.1.3 Transitions and Employment

Sraer and Thesmar's (2007) analysis is based on cross-sectional data, making it difficult to establish causality. Bach and Serrano-Velarde (2015) circumvent this empirical difficulty by analyzing the impact of variations in the company's shareholding or management. Such transitions are important in the logic of implicit contracts developed above: new shareholders/managers may consider that they are not parties to the contracts set up by their predecessors. Bach and Serrano-Velarde (2015) pay particular attention to "dynastic" changes (where the new CEO's surname is identical to that of his predecessor), which account for 20% of the 14,000 managerial successions observed in France between 1997 and 2002. On average, dynastic transitions result in an employee separation rate of 3.3% lower than when a professional CEO replaces a family CEO.

Yeh and Liao (2021) propose an extension of this work by distinguishing, within non-family managerial transitions, those involving a manager who is a long-term employee of the company and those resulting in the arrival of an outside CEO. For their sample of listed firms in Taiwan, the turnover rate increases during non-dynastic transitions (a result similar to that of Bach and Serrano-Velarde (2015)). It appears, however, that this effect is only attributable to new CEOs with no experience in the company. According to the authors, managers working alongside family

shareholders for a long time have internalized their preferences, resulting in stronger attachment and attention to employees.

## 3.2 Safety to the detriment of wages

### *3.2.1 Lower average earnings*

For most studies, lower average wages in family-run businesses represent the counterpart to the implicit contract with employees that has just been documented. However, to fully understand this, we need to look at the composition of the workforce, which may differ depending on whether or not the company is family-owned. Using a simple descriptive statistic based on the French sample of Bassanini et al. (2013), employees of family firms earn 19.8% less. After correcting for establishment-specific effects (size, presence of union representation, etc.) and workforce-specific effects (gender, age, seniority, CDD/CDI status, etc.), a significant differential of 2.4% to the disadvantage of family firms remains. As the authors point out, this result may be due to various statistical artifacts, particularly a specific matching between employees and companies. To overcome this empirical difficulty, Bassanini et al (2013) study the evolution of compensation for employees who remain with a given company even as its shareholding changes between 1998 and 2004. Wage growth is 3.4% lower for establishments that change to family control. These results are in line with those of Andrieu et al (2024), who show a 1.3% pay gap between family and non-family businesses in a sample of over 20,000 French groups in 2021. Similarly, the analysis by Ellul et al (2018) documents, on a sample of several countries, a wage discount amounting to around 7% for employees of family firms. Putting these results into perspective with those of the previous section corroborates the predictions of implicit contract theory: employees of family firms would be well inclined to make wage concessions in exchange for greater protection against job loss. The wage discount in family firms managed by descendants is also confirmed by Sraer and Thesmar (2007).

### *3.2.2 Differences are seen mainly at the upper end of the pay scale*

In a recent study, Di Porto et al. (2024) analyze the compensation of over 19 million employees in 900,000 Italian companies (two-thirds of which are family-owned) between 2006 and 2017. They show that the profitability (measured by ROA) of family businesses is slightly higher than that of non-family businesses, while their productivity, measured by value added per employee, is lower. A lower wage bill in family businesses explains this result. After addressing the issues of non-

random matching between firms and employees and productivity differentials between family and non-family firms, the authors document a 10% pay gap to the disadvantage of employees in family firms. One of the contributions of this study is to show that this wage differential does not affect all employees in the same way: it is particularly high at the top of the wage pyramid (i.e., for top managers) and tends to narrow for the least qualified employees. For the authors, this result suggests that the most qualified employees face a glass ceiling in family businesses and have less attractive career prospects.[5] However, the results highlighted may also stem from different choices family businesses make in their organizational structures.

## 3.3 Do differences in remuneration result from different organizational structures?

### *3.3.1 A more centralized structure with fewer hierarchical levels*

In conjunction with the World Bank, Mullins and Schoar (2016) conducted an extensive survey of 800 CEOs of listed and unlisted companies in 22 emerging countries. They distinguish four categories of firms: those run by their founder, family firms run by a family member, those run by an external CEO, and finally, non-family firms. These companies are organized differently. Founder-led companies are highly centralized, with almost half of them having fewer than five managers reporting directly to the CEO. In contrast, in non-family businesses of comparable characteristics and family businesses run by heirs, 80% of CEOs have more than five managers reporting directly to them. Founders and CEOs who are members of the shareholder family emphasize the importance of stable relations with employees. This result is consistent with the socio-emotional approach developed in section 2.3. CEOs of non-family firms prioritize the interests of shareholders and have a less partnership-based vision, which is also the case for external CEOs of family businesses. These CEOs feel invested in a mission to change strategies. The main difference between external CEOs in family and non-family businesses is their reduced ability to replace the executive team in place when they arrive and, thus to change strategies.

Di Porto et al. (2024) confirm significant differences in hierarchical levels in Italian family and non-family businesses. Family businesses have more than half as many top managers and four times fewer middle managers. They are characterized by lower wage inequalities. These results align with those of Mullins and Schoar (2016) of an organizational structure with fewer hierarchical levels,

[5] These results concur with those of Karpati et al (2024), who surveyed 909 Dutch unlisted family businesses with an average of 59 employees. In a third of these companies, promotions were offered primarily to members of the shareholder family.

which implies greater agility and quicker decisions, but can also induce fragility in the event of the disappearance of the family CEO.

#### *3.3.2 Greater dependence on the CEO*

Going a step further, Di Porto et al. (2024) examine the impact of the CEO's death on firm productivity. They show that in family businesses, productivity falls significantly in the three years following the CEO's death, whereas in non-family businesses, the effect is limited to the year of the CEO's death. Wages in family businesses fall over the period, and employees lose their jobs more often. In addition, the promotion of employees to managerial positions is always lower than in non-family firms. These results suggest that family firms remain committed to flatter management structures, even after the CEO's death.

### 3.4 Are these results linked to the context in which the family business operates?

#### *3.4.1 The institutional environment*

Recent literature identifies the institutional environment as a moderating variable in the relationship between family shareholding and job/wage preservation. Beyond factors specific to the company (its level of performance) or sectoral changes (the emergence of new technologies), Cascio et al. (2021) identify political risk as a significant determinant of restructuring and downsizing policies. A government that cannot provide an institutional framework that allows companies to organize their activities with serenity creates uncertainty for economic life and job stability.[6] The Gómez-Mejía et al. (2023) analysis considers inter-country differences, with political risk measured by an index derived from the International Country Risk Guide. These authors demonstrate that the negative impact of family control on lay-offs is all the more significant when the environment is uncertain. Beyond political risk, Bennedsen et al. (2019a) use the degree of protection offered to employees by labor legislation based on data from the International Labor Organization. While family businesses are not generally characterized by lower volatility in their employment levels, the authors observe that this volatility diminishes as soon as the legislative environment is unfavorable to

[6] Extreme risks include expropriation by the state, or the introduction of legislation facilitating the expropriation of minority shareholders by controlling shareholders (Stulz, 2005). Political risk has a strong impact on business life, since it tends to slow down investment by companies exposed to it (see, for example, Chen et al. (2023)).

employees. These results validate the hypothesis that family shareholders are keen to preserve long-term contracts with their employees against political uncertainty or unprotective regulations.

Ellul et al. (2018) assess the potential substitutability between institutional protection and the firm's protection at the microeconomic level. They test the willingness of firms to stabilize employment when the insurance offered by the government dwindles, with the central hypothesis for our purpose of a higher substitutability between these mechanisms in family firms. The degree of insurance is captured by the replacement rate (the ratio between the wage offered by unemployment insurance after redundancy and the wage level in employment). Assuming that a negative shock affects the economy, it appears that the family firm will protect employees (the negative shock will not affect employment) if the protection offered by unemployment insurance is zero. Conversely, at a replacement rate of 50%, the company's ability to absorb the shock will be limited by a third. To wrap up, the insurance against unemployment offered by the family business proves less strong in the context of increased worker protection. Ellul et al. (2018) also assess the wage impact. If the government grants no protection, the wage of family firm employees is 6% lower than that of non-family firms, corroborating the hypothesis of a lower salary in exchange for increased protection. If the level of protection is increased, the wage differential is reduced: the insurance offered by the firm is less valued, and employees are, therefore, less inclined to make wage concessions.

### *3.4.2 Territorial anchoring*

In addition to their employees, family businesses' vision of partnership extends to their local community and considers geographical proximity. Landier et al. (2009) have shown that production sites closer to head office are less likely to experience waves of lay-offs or to be sold off. This effect is further reinforced by the proximity to the CEO's residence (Bassanini et al., 2024). One of the reasons put forward is that company managers and shareholders interact more frequently with employees who are geographically close to them, making it more difficult for a manager to lay off or reduce the wages of employees he or she knows personally (here we return to the arguments discussed in section 2.3). This effect is assumed to be all the more important when the firm operates in a small community in which it is particularly visible.[7]

[7] See, for example, « Entreprises familiales, au service des territoires », Décideurs Magazine, February 29, 2024. "*Family businesses are a godsend for many towns and cities. They can count on leaders with a strong social conscience who energize employment areas, prevent rural exodus, celebrate regional identities, reindustrialize the country and improve our balance of trade*."

Several studies validate this hypothesis: it is only when the head office is located in a low-density city (Kim et al. (2020) for the US) or for "rural" family firms (as opposed to "urban" family firms based in the country's five largest cities) (Masset et al. (2023) for Switzerland) that family shareholding shows a negative correlation with redundancies. Based on a sample of unlisted Spanish companies, Cirillo et al. (2022) show that the degree of internationalization of the company (as measured by the proportion of sales made abroad) negatively moderates the relationship between family shareholding and job stability. For the authors, this result corroborates the hypothesis that a family firm is less concerned with the well-being of its employees when it pursues a foreign development objective: it is, above all, the quality of its products rather than its image and reputation as an employer, that will ensure its success.

Attachment to the region can also take the form of corporate philanthropy. The study by Karpati et al. (2024) in the Netherlands shows that half of family businesses make donations to various charitable organizations. The « baromètre du mécénat » (sponsorship barometer) produced by the Admical association, based on DGFIP tax data, confirms a dynamic trend since 2010 in the number of companies involved and the amounts donated, particularly for mid-sized companies and SMEs, most of which are family-owned. Their philanthropic actions are carried out at the local and regional level (for 80% of SMEs and 84% of ETIs). 47% of ETIs cite strengthening their territorial roots as the primary motivation for sponsorship, just ahead of the embodiment of the company's values.

## 4 Family businesses and job satisfaction

Does family ownership enable different relationships with company stakeholders and, first and foremost, with employees? This section aims to answer this question by first presenting studies that suggest that family firms are characterized by greater job satisfaction among their employees (4.1). This result may be explained by different managerial practices (4.2). We will then see whether this satisfaction affects labor conflicts and absenteeism (4.3).

### 4.1 Greater job satisfaction

Numerous studies show that family-run businesses experience fewer agency conflicts between shareholders and CEOs due to the frequent proximity between the two or the closer control exercised when the CEO is not from the family (Demsetz and Lehn, 1985).[8] According to Ferrell et al (2016), companies less affected by agency conflicts have more developed social and environmental

[8] See also &2.3.

responsibility policies. This could explain why family-run businesses offer employees a more favorable working environment, particularly from a long-term perspective.

According to a recent Glassdoor survey, 80% of employees say they prefer additional benefits in terms of working conditions (flexibility, vacations, health insurance, etc.) to a pay rise. However, employee satisfaction is also linked to the working environment and atmosphere, which can be challenging to measure. What is the situation in family businesses? The following studies provide an overview of employee satisfaction in various countries.

#### *4.1.1 Brazil*

Christensen-Salem et al. (2021) propose a measure of organizational benevolence and compare 412 family and non-family businesses in Brazil. To do so, they use data from the "Best places to work in Brazil" survey of Brazil's largest companies and their employees to assess organizational practices and employees' quality of work life. A benevolence indicator is constructed from questions to employees on the quality of relations with managers, trust in colleagues, help with work, listening to employees, and respect for customers. The authors also compare the formal human resources management programs the company put in place and the non-wage benefits offered. They find that family businesses are less inclined to provide formal HR benefit programs than non-family businesses but that their employees perceive greater benevolence from the organization towards them, and all the more so when they are at a low hierarchical level.

Furthermore, the authors find that this organizational benevolence improves productivity in family businesses. In conclusion, despite less generous formal HR programs, employees in family firms paradoxically feel better than their counterparts in non-family firms, leading to greater involvement in their work and higher productivity. The authors also show that their results are not linked to specific company characteristics since they hold regardless of the size, industry, age, or risk of the firm and whether or not the CEO is a family member.

#### *4.1.2 Germany*

Querbach et al. (2022) study the link between non-wage benefits and employee satisfaction for 2180 German companies, family-owned (850) and non-family-owned (1330) in 2018. They use data from the Kununu platform, comparable to the Glassdoor platform for German-speaking countries. Employee satisfaction corresponds to average satisfaction on four indicators (management support, job demands, work environment, team). Non-salary benefits are classified as attention (e.g., cafeteria, health insurance, parking), autonomy (flexibility, telecommuting, car or telephone), and

quality of life at work (accessibility, nursery). The authors show that employee satisfaction is higher overall in family businesses and increases with the level of non-wage benefits for all companies. While family businesses offer non-wage benefits in terms of attention and autonomy slightly less frequently than non-family businesses, when they do, employee satisfaction is higher than in non-family businesses, all other things being equal. These results concur with and complement those established for Brazil by Christensen-Salem et al. (2021) in that the non-wage benefits offered reinforce a value system specific to the family business.

#### *4.1.3 United States*

Huang et al (2015) examine employee satisfaction using Glassdoor data for a sample of 993 listed companies in the US. Their results show that employees have higher satisfaction in family businesses than in non-family businesses, whether overall or for career opportunities, compensation, and non-wage benefits. This result applies to family businesses where the founder is present as a CEO, board member, or owner of more than a third of the capital. On the other hand, family businesses where the founder is no longer present do not differ from non-family businesses, except for a significantly higher approval rate for CEO decisions than non-family businesses.

#### *4.1.4 Europe*

Block et al. (2019) look at employee preferences based on the European Commission's Flash Eurobarometer survey, one component of which is based on the following question: "Suppose you could choose to work for different types of company, which would you prefer?" (with two possible answers: family firm or listed/unlisted non-family firm). In a sample of 12,746 employees from 40 different countries, 39% of those surveyed chose the family-run option, and this result cannot be explained by gender, age, or job type (manager, employee, manual worker). On the other hand, the perception of entrepreneurship plays a major role: employees who perceive business owners as job creators and providers of goods and services that benefit society rather than as economic agents maximizing their profits at the expense of their workforce will be more likely to join a family business. Block et al. (2019) also observe that the degree of protection offered by labor regulations is a significant determinant of choice: employees prefer family firms when the Labor Code provides little protection. We're back to the idea of family firms providing insurance in less favorable environments. Interestingly, it seems that employees are also well aware of the lower wages paid by family firms since they are more inclined to join such companies in countries that impose centralized minimum salaries, which mechanically tend to erase the gap between family and non-family firms.

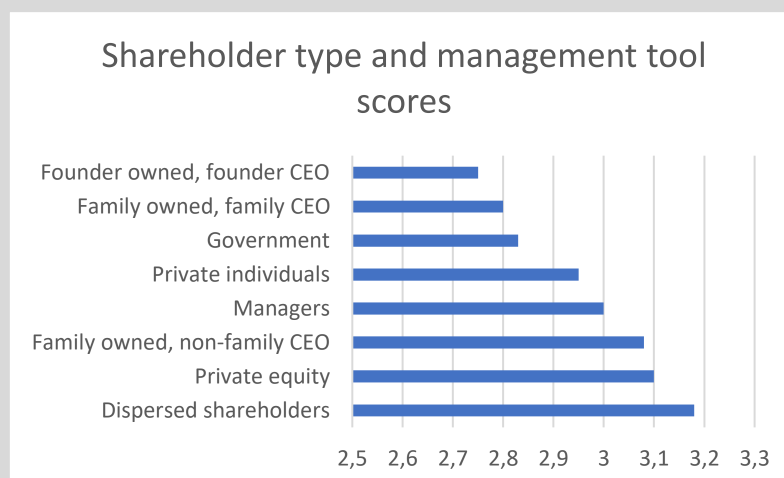
## 4.2 Different management practices

Several studies have compared management practices in family and non-family businesses and found significant differences. Bloom and Van Reenen (2007) propose, for companies with 50 to 10,000 employees, a management quality score made up of four components: production efficiency (lean management practices, for example), employee performance evaluation, objectives set, and how they are managed, and incentives (promotions, remuneration, possible dismissals). The results are widely dispersed, underlining the heterogeneity of practices. As Figure 1 shows, family businesses have lower scores on average and appear to adopt less formal management standards, particularly when managed by the founder or his heirs. In contrast, scores rise when family businesses are managed by CEOs from outside the shareholder family. These results also relate to the differences in organizational structures outlined above. Indeed, formalized managerial practices of goal-setting, appraisals, rewards, and sanctions are more relevant in organizations structured with more hierarchical levels, in which different levels of managers manage their teams and are accountable. As the performance of family businesses shows, there can be several types of balance involving different organizational structures and management practices, with some family businesses opting for less formalized practices with few hierarchical levels and less reporting.

**Figure 1 : Shareholder type and management scores**

Source: Bloom et al. (2012, p. 22)

The companies with the highest scores maximize the formalization of managerial action in three main areas: performance control, objective setting, and human resources and incentive management.



### 4.3 A favorable working environment which has an impact on social relations quality indicators

#### *4.3.1 Family businesses experience less absenteeism and fewer conflicts.*

Quality of workplace 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 over 674,000 employees), Bennedsen et al. (2019b) show that absenteeism is, in general, highly heterogeneous, with a difference of 15 days between the top and bottom deciles of their sample. Absenteeism is significantly lower by 1.36 days, or 18%, in family businesses than in non-family businesses. If we consider sector fixed effects to neutralize the fact that family businesses may be present in different sectors than non-family businesses, the difference is reduced to 6%, but remains significant. This result can be attributed to the higher quality work environment and greater employee satisfaction documented in the studies cited in the previous section, which motivates employees and reduces their propensity for absenteeism.

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. Of these 1001 establishments, 604 belong to French companies. This study shows that family-owned companies experience fewer conflicts, particularly strikes, and when they do occur, they mobilize fewer employees and last less time.

More generally, Kang and Kim (2020) use KLD extra-financial ratings for the US to construct a composite indicator of employee relations quality, combining six strengths and four weaknesses. While the overall indicator does not differ according to whether the company is family-owned, family-owned companies have a significantly lower number of weaknesses, which tends to show that family-owned companies invest more in social relations to prevent conflicts or controversies.

#### *4.3.2 Family businesses are better able to manage social relations in uncertain institutional contexts*

For Mueller and Philippon (2011), family businesses have a comparative advantage when dealing with hostile social relations. Indeed, on the one hand, because of their long-term horizon and the implicit long-term contract with employees mentioned in section 2.2, employees may adopt more cooperative behavior in family firms. On the other hand, family CEOs may be more inclined to bear the costs of hostile relations because of their capital ownership. In contrast, CEOs of a

dispersed-capital firm might prefer to avoid conflict (opting for social peace and a "quiet life" in the words of Bertrand and Mullainathan (2003)). In their article, Mueller and Philippon (2011) show that family businesses are more numerous in countries where social relations are notoriously complicated. These findings are also confirmed by Holderness (2017), who proposes an additional explanation for the prevalence of family businesses, based on cultural factors, notably the index of egalitarianism in society[9], which seems to correlate with a high degree of employee legal protection. According to the author's hypothesis, family-run businesses are better able than widely-held companies to manage industrial relations when employees enjoy a high degree of protection, and this would explain why they account for a larger fraction of companies in these countries.

## 5. Conclusion

Compared to companies with a dispersed shareholder base, which may face takeover risks, family-run businesses, because of the long-term presence of their shareholders, can establish implicit contracts with their employees, resulting in fewer lay-offs in the event of temporary difficulties and less sensitivity of employment to the economic climate. Many studies show that the quality of social relations is better in family businesses than in non-family businesses while at the same time highlighting the paradox of 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 largely explains the differences in average salaries. They also have less formalized management practices. While this type of structure can induce a degree of fragility, particularly in the event of the death of the CEO, it also allows for shorter decision-making circuits, greater agility, and less pay inequality within the company, all of which may help explaining employees' higher job satisfaction, and the lower level of conflict observed.

[9] This index is an average measure for each country of the belief that all individuals have the same value and should be treated in the same way by society (see Siegel et al. (2011)).

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