Corporate social responsibility: Why family businesses get more bang for their buck than non-family firms

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When it comes to turning corporate social responsibility (CSR) into profit, research shows family businesses have the advantage. CSR is a form of self-regulation where businesses make concerted efforts to be socially and ethically accountable to themselves, their stakeholders and the public.

In our recent study on S&P 500 firms' CSR strategies, we found that family businesses get more bang for their buck. While family owners can sometimes be bad for business—the desire for control can result in family-owned businesses under-investing in things like innovation and diversification—they can also be beneficial.

Family owners tend to focus on the long term because, unlike CEOs in non-family firms, they want their firm to benefit their children and grandchildren.

Because family owners think in terms of generations, they invest more in enhancing their company's reputation and building deeper connections with employees, suppliers and communities.

Family firms are also able to dedicate the time needed for high quality CSR strategies, unlike non-family firms that might neglect CSR because of short-tenured leadership and concerns about quarterly earnings.

Symbolic CSR distracts from problems

There are two types of CSR strategies: symbolic and substantive. Symbolic CSR strategies are low-cost actions designed to garner media attention without solving underlying problems. They are reactive, self-serving and distract from current problems.

An extreme and tragic—but powerful—example of symbolic CSR comes from a study on a Malaysian forestry firm's operations in Guyana. The researchers found that the company's Forest Stewardship Council certification diverted attention away from the systemic rape of local women by employees of the company. It took years for global environmental groups and agencies to see through the company's CSR deception and believe the accusations.

While the initial positive effect of symbolic CSR can distract from a company's wrongdoings, the impact usually wears off once stakeholders see through its facade. This is what happened during BP's massive Deepwater Horizon Oil Spill in the Gulf of Mexico in 2010.

Initially, stakeholders were impressed with BP's reaction to the crisis, but once they realized the company had cut back on environmental protections—including equipment meant to prevent oil spills—they quickly withdrew their support.

Substantive CSR solves problems

Substantive CSR, in contrast to symbolic CSR, is long term and actually addresses pressing societal problems. It is backed by meaningful investment and implementation. Organizations engaged in substantive CSR will change processes, suppliers and their entire value chains.

Outdoor clothing company Patagonia is an example of an organization pursuing substantive CSR. On its website, Patagonia discusses climate change and the global rise of CO_2 emissions. Such proclamations might seem symbolic, but Patagonia addresses environmental issues substantively and has committed to only using renewable energy across all its facilities by 2025.

Substantive CSR can detract from financial performance in the short term because it takes time and money to implement, but it can eventually lift the firm's reputation and excite stakeholders about its products and services. A favorable reputation, in turn, improves customer loyalty, sales and profits.

CSR has long-term benefits

Our research found that CSR strategies at family-owned businesses significantly improved firm performance. This benefit wasn't felt immediately, but in the third year after the initial CSR investment. Positive benefits endured throughout the fourth and fifth years of the strategies being implemented.

Our analysis found that a 20 percent increase in substantive CSR improved the annual return on assets (a financial ratio that measures a company's profitability in relation to its assets) to 5.78 percent from 4.30 percent within three years. This change equalled a 34 percent return on assets increase.

When it came to stock market performance (the annual change in the price of the company's shares on the stock market), the increase was 15.5 percent.

Non-family firms, on average, did not benefit financially from substantive CSR. Their inability to sustain investments across CEOs and time might have reduced stakeholders' enthusiasm in the company's CSR efforts.

Non-family firms must work harder to convince stakeholders their intentions are real and sustainable before they are able to reap above-average financial benefits from substantive CSR.

CSR has short-term benefits

Family-owned businesses also benefited more than non-family firms when it came to using symbolic CSR strategies. We found that symbolic CSR improved firm performance immediately for family firms.

A 20 percent increase in symbolic CSR increased their average return on assets within one year to 5.74 percent from 4.30 percent—an overall increase of 33 percent. For stock market performance, the increase in the price of the company's shares was 5.1 percent.

Their favorable reputations and relationships with customers, suppliers and the local community gave family-owned firms a buffer if things went wrong.

In the event of a scandal—or a symbolic CSR strategy being exposed as surface-level and insufficient—stakeholders were more likely to trust family owners to address underlying issues and convert their symbolic claims into substantive actions.

Similar investments in symbolic CSR among non-family firms helped them keep up with peers, but not get ahead. Stakeholders were simply more skeptical of non-family firms' symbolic CSR activities.

Though the average non-family firm may not see significant gains from CSR investments, some do. By building credibility around long-term CSR commitments, more businesses could overcome stakeholders' skepticism and gain more bang for their CSR buck.

Profitable in more than one way

Research shows that the older generations of family business owners often under-invested in CSR. This has the potential to lead to considerable conflict with younger generations because for many millennials and Gen Zs, the environment, community and society can matter as much—or more—than profit.

Our research shows that investing in CSR can be about reaping financial gain while also making societal contributions. Aligning people, the planet and profits is not only worthwhile and laudable—it might also help the next generation identify more strongly with the family business and motivate them to become responsible owners for another generation.

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