Family businesses and labor relations

Finance Working Paper N° 1039/2025
February 2025

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ECGI Working Paper Series in Finance

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We thank Farid Toubal and Mattia Girotti for their helpful comments. This research was supported by the "Family Business and Long-Term Investment Chair", Paris-Dauphine University.

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Keywords: Family firm, job satisfaction, implicit contracts, wage, job security, literature review

JEL Classifications: G32, J31, J50, M14

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1 Introduction

While environmental factors 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 survey conducted by the British NGO ShareAction among the world's leading asset managers revealed that interest in corporate social performance is growing, even if such interest remains confined to ESG funds, and that only a third of the surveyed managers were aware of the social practices of companies in the supply chain. All these factors point to the difficulty faced in obtaining quality data to assess social performance. From 2025 onward (over several years, depending on size), European companies must comply with the Corporate Sustainability Reporting Directive (CSRD) in terms of its social disclosure standards. Although the CSRD directly concerns only the largest companies[1], smaller companies will be called upon by their corporate customers, who are themselves required to disclose information on the employees in their value chain. Data characterizing social behavior will thus become increasingly available, offering stakeholders relevant and comparable information on social issues.

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 companies 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 such companies' 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 the creation of implicit contracts with employees, implying a shared long-term commitment. On the other hand, specific agency conflicts can arise in a family business, adversely affecting the quality of its social relations.

[1] The CSRD directive concerns companies which exceed the thresholds of at least two of the following three criteria: more than 250 employees, balance sheet total above €25 m, sales above €50 m.

After a review of the theoretical foundations that may justify differing levels of 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 a 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 family business definitions. In addition, studies have been carried out in different institutional environments (Europe, the USA, and 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 adopt the risk behavior approach (2.1.), which stems from financial theory, the implicit contract approach (2.2), which originated in the economic literature, and the socioemotional value approach, which is now mainly employed in managerial literature (2.3).[2] While our analysis based on these approaches suggests a positive impact of family control on social relations (in particular, the lower propensity of such firms to lay off workers), family ownership 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 their firm (prespecified wages and benefits), shareholders hold residual claims and bear the company's residual risk. Shareholders' risk can be split into market risk (or systematic risk), which affects all companies, and company-specific risk (including the risk of bankruptcy). Shareholders who hold a portfolio of shares, notably institutional investors, can eliminate specific risk through diversification. In contrast, most family shareholders, because they own a

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[2] 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 somewhat different from those of the socioemotional approach, these theories also suggest that family firms are more attentive to the quality of social relationships.

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 faced by their company throughout business cycles. Like family shareholders, employees bear the company's specific risk. Therefore, sensitivity to the specific risk of the company is the first point of interest alignment between family shareholders and employees. Because they are generally poorly diversified, family shareholders are likely to adopt fewer risky strategies (Faccio et al., 2011) and make diversification acquisitions (Miller et al., 2010). These choices reduce the risk of bankruptcy. The decreased risk also benefits employees, who can expect to stay with the company longer.

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 employers and employees. As this implicit nature inherently entails a risk in terms of its durability (for example, if the employer decides to reconsider his commitment and renegotiate with the employees), employees can accept the contract only 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 studies 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 of the company (see, for example, the study by Belot et al. (2024) concerning double voting rights). Shleifer and Summers (1988) argue that the descendants of a company’s family dynasty serve as actual figures of trust for the company's employees, as they grow up in contact with the company and have a sense of loyalty to its stakeholders. Last but not least, the CEOs of family firms remain in office for much longer than those of nonfamily firms, which automatically reduces the risk of implicit contract renegotiation that may emerge during managerial transitions.[3]

In summary, the implicit contracts approach allows us to hypothesize that a unique job security/wage profile exists in family businesses. Employees are more willing to make wage concessions in exchange for insurance against layoffs. Employees accept this implicit contract because of the credibility of the co-contracting party (the family shareholder who is invested for the long term). The proponents of this approach do not make direct predictions about the quality of social relations or employee satisfaction with the company. Nevertheless, as Gómez-Mejía et al. (2024) note, job security is undeniably one of the main determinants of this satisfaction.

2.3 The socioemotional wealth approach

This managerial theory is currently the most frequently used theory to explain 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. This strategic choice is financially attractive but akin to a loss of control. They found that "family-owned" mills were significantly less likely to make the move, as value maximization is not the sole objective that drives family shareholders. They seek other "affective" (nonpecuniary) benefits grouped under the term "socioemotional wealth" (such as the imposition of 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 dynasties). This approach operationalizes the behavioral theory of Kahneman and Tversky (1979) since it assumes a strong aversion to the loss of these socioemotional benefits. Thus, in this case, the family shareholder is no longer the risk-neutral agent described in the previous section.

Among the socioemotional components of the family CEO's utility function is the satisfaction associated with good social relations within the company.[4] Waves of redundancies and poor working conditions (stress, harassment, occupational illness, etc.) are particularly likely to adversely affect a

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[3] A survey by Bandiera et al. (2018) of 1,114 CEOs in 6 different countries shows that family managers remain in place for an average of 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 as their tenure progresses, as they develop more relationships within the company over time. On the basis of this longevity argument, we can expect fewer layoffs in family businesses.

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

company's reputation[5], posing a major issue for family shareholders (Deephouse and Jaskiewicz, 2013) owing to the interconnection between the shareholders 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 who judges solely on the basis of financial performance (Gómez-Mejía et al., 2024).

To apply the socioemotional approach to the analysis of social relationships, following Gómez-Mejía et al. (2024), we can mobilize the FIBER model of Berrone et al. (2012). This model defines the nature of the five major dimensions of socioemotional benefits (Table 1). According to this model, the leaders of family firms have better relationships with their workforce (in particular, these firms offer greater job stability and a better workplace quality of life). Notably, however, this theory does not necessarily provide a precise prediction of compensation levels. Its proponents note that family firms are often more financially constrained and that employee loyalty and the greater attention given to the workforce are levers that justify lower pay (we return to the conclusion of section 2.1). These lower remunerations facilitate the survival of the business and its transmission to subsequent generations (the "R" component of the Berrone et al. (2012) model) in the best conditions (Gómez-Mejía et al., 2024).

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

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 five main dimensions (FIBER) of socioemotional benefits (first three columns). The associated utility and the attention given 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 is easier if the family has a good relationship with the workforce.
I	*Identification of family members with the family firm*	The intertwining of family and business characterizes the 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 by this than anonymous shareholders in a widely held company. They are, therefore, 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 are, therefore, reluctant to implement downsizing policies that would jeopardize their social ties within a community.
E	*Emotional attachment of family members*	Family shareholders are emotionally attached to their company. This attachment implies the willingness to pass the company to subsequent generations and a propensity to run it as an extension of the family. The result is a certain paternalism in management.	The emotional attachment and paternalistic approach of shareholders lead employees to perceive the family business as relatively 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, they are 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 a company's owners (principal) to its managers (agent) in a widely held company. This situation generates agency costs, such as the monitoring expenses incurred by the principal in limiting the opportunism of an agent aiming to maximize 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 in the case of managers who are a part of 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 the family nature of such firms is the source of other forms of conflict (see Villalonga et al. (2015) for a synthesis). First, family shareholders may use their control over their company to extract private benefits (financial and nonfinancial advantages) to the detriment of minority shareholders, if any exist. Second, a family manager must address the interests of the wider family. Villalonga et al. (2015) evoke the notion of "super-principal agency conflict" to justify decisions contrary to company interests. Even if he or she would prefer to use funds to finance growth, a 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 factor that can manifest as these two forms of agency conflict is nepotism, i.e., the appointment of family members who lack sufficient skills and legitimacy to key positions. Such a policy can also be seen as a "dark side" of the socioemotional approach since it can stem from 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, causes them to be sidelined from strategic decision-making, and often involves a failure to share information, the most important of which is restricted to the family circle (Tetzlaff and James, 2024). The result is lower employee satisfaction, leading to an increased turnover rate in family firms (Neckebrouck et al., 2018).

The mechanisms of agency theory may also explain the lower executive compensation in family firms compared to nonfamily firms. Since the principal and the agent are the same in family firms, there is little 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 harms lower managerial levels, as there is generally a hierarchy of salaries within the company. Moreover, Pagano and Volpin (2005) develop another argument. In the context of diffused 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 allies among their employees in the face of a potential raider. Of course, this theoretical argument has little importance for the family firm, which is, by definition, protected from the takeover market. In short, the agency–theoretic approach suggests that compared to nonfamily firms, family firms have less generous pay policies.

According to Neckebrouck et al. (2018), the agency theory approach ultimately leads to the assumption that family firms are more inclined to lay off their employees than nonfamily firms are. Owing to the nepotism described above, a family firm has a reduced pool of candidates from whom to hire. Their 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, 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	**+**	**-**	**?**
Socioemotional 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 layoffs (3.1), compensation levels (3.2), and organizational structures (3.3). We show in section 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 that have analyzed 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 than those of nonfamily firms. 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 layoffs

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 in cases of layoffs involving more than 5% of the company's workforce: eager to preserve its reputational capital, the family firm seeks to avoid massive layoffs 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 layoffs. While layoffs are generally negatively correlated with operating profitability (ROA), the relationship is less pronounced for family-owned companies. As discussed in section 2.3, family shareholders seem willing to accept weaker 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 using information for a sample of more than 500,000 employees working in approximately 2,000 different establishments. They demonstrate that the employee departure rate is 0.15% lower each quarter in family firms than in nonfamily firms. They also show that family firms have different strategies for adjusting to a smaller workforce size: compared with their nonfamily counterparts, they tend to reduce hiring while limiting layoffs, thus ensuring greater job security for contracted employees. One of the original features of Bassanini et al.’s (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 thus appears that establishments under family control have lower layoff rates than their nonfamily counterparts.

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) report similar results. Gómez-

Mejía et al. (2024) go beyond the single-country framework and select a sample of 3,181 listed firms from 33 countries (excluding the US) over ten years (34% of the 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 layoffs is not specific to periods of crisis (the period studied by Gómez-Mejía et al. (2024) includes the 2008 financial crisis); thus, the protective characteristic 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 response of companies to a negative shock (triggered by a decline in sales in the company sector). In a sample of 7,822 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 that leads to a 10% drop in sales, employment in a nonfamily business will decrease by 2.05%; in contrast, this decrease is 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, or 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 of a negative sectoral shock on employment is attributable solely to the management of heirs. This result is consistent with Shleifer and Summers' (1988) argument regarding 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 a company's shareholding or management. Such transitions are important in the logic regarding implicit contracts developed above: new shareholders/managers may not consider themselves 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 that is 3.3% lower than the corresponding rate when a professional CEO replaces a family CEO.

Yeh and Liao (2021) propose an extension of this work by distinguishing between nonfamily managerial transitions that involve a manager who is a long-term employee of the company and those resulting in the arrival of an outside CEO. In their sample of listed firms in Taiwan, the turnover rate increases during nondynastic transitions (a result similar to that of Bach and Serrano-Velarde (2015)). It appears, however, that this effect is attributable to only new CEOs with no experience in the company. According to the authors, managers who work alongside family shareholders for a long time have internalized their preferences, resulting in stronger attachment and greater attention to employees.

3.2 Safety to the detriment of wages

3.2.1 Lower average earnings

Most studies show that the lower average wages in family-run businesses serve to balance the aforementioned implicit contract with employees. However, to fully understand this, we need to look at the composition of the workforce, which may differ depending on whether the company is family owned. A simple descriptive statistic based on the French sample of Bassanini et al. (2013) shows that employees of family firms earn 19.8% less than those of nonfamily firms. After the inclusion of controls 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 note, this result may be due to various statistical artifacts, particularly specific matches between employees and companies. To overcome this empirical difficulty, Bassanini et al. (2013) analyze the evolution of compensation for employees who remain with a given company through changes in shareholding between 1998 and 2004. Wage growth is 3.4% lower for establishments that change to family control. These results align with those of Andrieu et al.

(2024), who also report a negative pay gap between family and nonfamily businesses in a sample of over 90,000 French groups in 2021. Similarly, in a sample of several countries, Ellul et al. (2018) document a wage discount amounting to approximately 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 are substantially inclined to make wage concessions in exchange for greater protection against job loss. Sraer and Thesmar (2007) confirm the wage discount in family firms managed by descendants.

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

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 greater than that of nonfamily companies, whereas their productivity, measured by value added per employee, is lower. The lower wage bill in family businesses explains this result. After addressing issues related to nonrandom matching between firms and employees and productivity differentials between family and nonfamily firms, the authors document a 10% pay gap, with the wages of employees in family firms being lower than those of employees in nonfamily firms. One of the contributions of this study is that it shows that this wage differential does not affect all employees in the same way: it is particularly pronounced at the top of the wage pyramid (i.e., for top managers). It tends to narrow for less skilled employees. For the authors, this result suggests that the most highly skilled employees face a glass ceiling in family businesses and have less attractive career prospects.[6] However, the results highlighted may also stem from the choices family business make regarding their organizational structures.

[6] These results are consistent 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 shareholding family.

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: firms run by their founders, family firms run by family members, firms run by external CEOs, and finally, nonfamily firms. These types of 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 nonfamily businesses with 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 shareholding family emphasize the importance of stable relations with employees. This result is consistent with the socioemotional approach developed in section 2.3. CEOs of nonfamily 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 involving strategic change. The main difference between external CEOs in family businesses and those in nonfamily businesses is that those in family businesses have a reduced ability to replace the executive team in place when they arrive and, thus, to change the strategies of the business.

Di Porto et al. (2024) confirmed that significant differences exist between the hierarchical levels of Italian family businesses and those of nonfamily Italian businesses. Family businesses have more than half as many top managers and four times fewer middle managers than nonfamily businesses, and they are characterized by lower wage inequalities. These results align with those of Mullins and Schoar (2016), who reported an organizational structure with relatively few hierarchical levels. A flatter organization implies greater agility and quicker decisions but can also induce fragility in the event of the departure of the family CEO.

3.3.2 Greater dependence on the CEO

Furthermore, Di Porto et al. (2024) examine the impact of a CEO's death on firm productivity. They show that in family businesses, productivity falls significantly in the three years following the

CEO's death. In contrast, in nonfamily businesses, the effect is limited to the year of the CEO's death. Wages in family businesses fall over this period, and employee job loss increases. In addition, the promotion of employees to managerial positions is always lower in family firms than it is in nonfamily firms. These results suggest that family firms remain committed to flatter management structures, even after a CEO death.

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

3.4.1 The institutional environment

Recent studies identify the institutional environment as a moderating variable in the relationship between family shareholding and job/wage preservation. In addition to highlighting factors specific to a 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 allowing companies to organize their activities under stable conditions creates uncertainty for economic life and job stability.[7] The Gómez-Mejía et al. (2024) analysis considers intercountry differences, with political risk measured with an index derived from the International Country Risk Guide. These authors demonstrate that the negative impact of family control on layoffs is more significant under an uncertain environment. In addition to employing political risk, Bennedsen et al. (2019a) use the degree of protection offered to employees by labor legislation on the basis of data from the International Labor Organization. While family businesses are not generally characterized by reduced volatility in their employment levels, the authors observe that this volatility diminishes as soon as the legislative environment becomes unfavorable to 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 firm protection at the microeconomic level. They test the willingness of firms to stabilize employment when

[7] 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 investment by companies exposed to it (see, for example, Chen et al., 2023).

the insurance offered by the government dwindles; for our purposes, the central hypothesis concerns increased 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). Under a negative shock that affects the economy, it appears that family firms protect their employees (the negative shock will not affect employment) if no protection is offered by unemployment insurance. Conversely, at a replacement rate of 50%, the company's ability to absorb the shock is limited by one-third. To summarize, the insurance against unemployment offered by a family business is weaker in the context of increased worker protection. Ellul et al. (2018) also assess the corresponding wage impact. If the government grants no protection, the wages of family firm employees are 6% lower than those of employees at nonfamily 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

Family businesses' vision of partnership extends beyond their employees and reaches their local communities based on geographical proximity. Landier et al. (2009) find that production sites closer to head offices are less likely to experience waves of layoffs or to be sold. This effect is further reinforced by proximity to the CEO's residence (Bassanini et al., 2024). One of the reasons put forward for this phenomenon is that company managers and shareholders interact more frequently with employees who are geographically close to them, making it more difficult for such a manager to lay off or reduce the wages of such employees, as he or she knows them personally (here, we return to the arguments discussed in section 2.3). This effect is assumed to become more pronounced when the firm operates in a small community in which it is particularly visible.[8]

Several studies have validated this hypothesis: it is only for firms with a head office in a low-density city (Kim et al. (2020) for the US) and for "rural" family firms (as opposed to "urban" family firms based in one of the country's five largest cities) (Masset et al. (2023) for Switzerland) that family

[8] 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*."

shareholding shows a negative correlation with redundancies. On the basis of a sample of unlisted Spanish companies, Cirillo et al. (2022) show that the degree of internationalization of a 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 family firms are less concerned with the well-being of their employees when they pursue a foreign development objective: the quality of the firm’s products, rather than its image and reputation as an employer, ensure its success abroad.

Attachment to a region can also take the form of corporate philanthropy. A study conducted by Karpati et al. (2024) in the Netherlands shows that half of family businesses make donations to various charitable organizations. The sponsorship barometer produced by the Admical Association, which is based on French tax data, confirms a dynamic trend since 2010 in the number of companies involved and the amounts donated, particularly for mid-sized companies and small and medium-sized enterprises (SMEs), most of which are family owned. Their philanthropic actions are carried out at the local and regional levels. Forty-seven percent of mid-sized companies cite strengthening their territorial roots as the primary motivation for sponsorship, placing this motivation 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 employees (4.1). Different managerial practices may explain this result (4.2). Then, we will determine 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 their shareholders and CEOs due to the greater proximity between the two or the closer control exercised when the CEO is from outside the family (Demsetz and Lehn, 1985).[9] According to Ferrell et al. (2016), companies that are less affected by agency conflicts have more developed social and environmental responsibility policies, which could explain why family-run businesses offer employees a more favorable working environment, particularly from a long-term perspective.

According to a Glassdoor survey (a platform allowing employees to rate their companies), 80% of employees say that they prefer enhanced benefits in terms of working conditions (flexibility, vacations, health insurance, etc.) to pay increases. However, employee satisfaction is also related to the working environment and atmosphere, which can be challenging to measure. The following studies provide an overview of employee satisfaction in family businesses in various countries.

4.1.1 Brazil

Christensen-Salem et al. (2021) propose a measure of organizational benevolence and compare 412 family and nonfamily businesses in Brazil. 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 on the basis of questions posed to employees on the quality of their relations with managers, their trust in colleagues, the help they receive with work, whether employees are listened to, and respect for customers. The authors also compare the company's formal human resources management programs and the nonwage benefits offered. They find that family businesses are less inclined to provide formal HR benefit programs than nonfamily businesses are. However, their employees perceive greater benevolence from their organizations, especially those at a relatively 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 nonfamily firms do, leading to greater involvement in their work and increased 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 the CEO is a family member.

[9] See also &2.3.

4.1.2 Germany

Ehmann et al. (2024) use a linked employer–employee dataset that is representative of German establishments with more than 50 employees (1560 firms from 2012 to 2020). The data are presented in two parts. On the one hand, there is a company section, with a survey on management practices, which we analyze in section 4.2, and on the other hand, there is an employee section, where employees are interviewed about their perceptions of their jobs. Employees are asked questions about their job satisfaction, and well-being, perceived management practices, interactions with colleagues, and turnover intentions are measured. Finally, leadership quality, procedural fairness (fairness and transparency of internal rules), and formalized performance evaluations are also assessed. The research findings show that employee satisfaction is greater in family businesses than in nonfamily businesses in terms of leadership quality and procedural fairness. Turnover intentions do not differ according to company ownership.

Querbach et al. (2022) use a different dataset to produce similar results. They rely on data from the Kununu platform, which is comparable to the Glassdoor platform for German-speaking countries. They examine the link between nonwage benefits and employee satisfaction for 2,180 German companies, both family-owned (850) and nonfamily owned (1,330), in 2018. The level of employee satisfaction identified in these firms corresponds to average satisfaction in terms of four indicators (management support, job demands, work environment, team). Nonsalary benefits are classified as corresponding to attention (e.g., cafeteria, health insurance, parking), autonomy (flexibility, telecommuting, car or telephone), or 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 nonwage benefits for all companies. While family businesses offer nonwage benefits related to attention and autonomy slightly less frequently than nonfamily businesses do, when they do offer these benefits, employee satisfaction is higher than it is in nonfamily businesses, all other things being equal. These results are consistent with and complement those established for Brazil by Christensen-Salem et al. (2021), as the nonwage benefits reinforce a value system specific to family businesses.

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 greater satisfaction in family businesses than in nonfamily businesses, both overall and in relation to career opportunities, compensation, and nonwage benefits. This result applies to family businesses where the founder participates 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 nonfamily businesses, with the exception of the approval rate for CEO decisions, which is significantly higher than that of nonfamily businesses.

4.1.4 Europe

Block et al. (2019) examine employee preferences on the basis of the European Commission's Flash Eurobarometer survey, one component of which relies on the following question: "Suppose you could choose to work for different types of companies; which would you prefer?" (with two possible answers: family firm or listed/unlisted nonfamily firm). In a sample of 12,746 employees from 40 different countries, 39% of those surveyed chose the family-run option, and this result could not 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 are 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. This finding connects 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 a national-level minimum wage, which mechanically tend to erase the gap between family and nonfamily firms.

4.2 Different management practices

Several studies have compared management practices in family with those in nonfamily businesses and reported significant differences.[10] On the basis of a sample of more than 10,000 management interviews across 20 countries, Bloom and Van Reenen (2007) propose, for companies

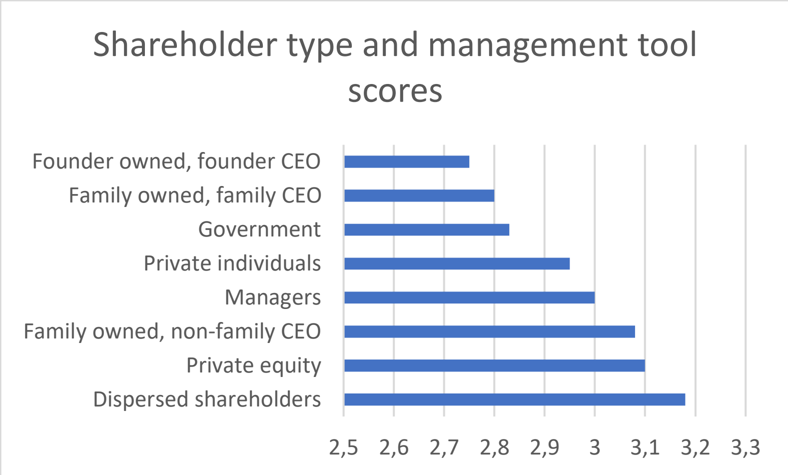
[10] Tsoutsoura (2021) provides a review of the literature on managerial practices in family firms.

with 50 to 10,000 employees, a management quality score composed of four components: production efficiency (lean management practices, for example), employee performance evaluations, objective formation and management, and incentives (promotions, remuneration, possible dismissals). The results are very diverse, highlighting the heterogeneity of practices. As Figure 1 shows, family businesses have lower scores on average and appear to adopt relatively informal management standards, particularly when managed by the founder or his or her heirs. In contrast, scores rise when nonfamily CEOs manage family businesses. These results also relate to the differences in organizational structures outlined above. Indeed, the formalized managerial practices of goal setting, appraisals, rewards, and sanctions are more relevant in organizations structured with many 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 relatively informal practices with few hierarchical levels and little 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 resource and incentive management.



Using an administrative German survey linking employer–employee data, Ehmann et al. (2024) analyze a variety of management practices, including recruitment, performance management and monitoring (including performance-related pay schemes and formal target agreements), and employee development and participation. The results show that management practices in the three aforementioned dimensions are much less developed in family businesses than in nonfamily businesses. When the authors of the research compare family-run businesses with family-owned firms run by a nonfamily manager, they find that management practices are even less developed in the former. These results show that an informal management style is more common in family businesses, especially those run by a family member. These results hold all other things being equal (firm characteristics, size, productivity, etc.). As employee satisfaction also appears to be greater in family-run companies (see above), a more informal management style may lead to better-quality social relations in family-run companies.

4.3 Favorable working environments with an impact on social relationship quality indicators

4.3.1 Decreased absenteeism and conflict in family businesses

Quality-of-workplace-life indicators commonly include employee absenteeism and the 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 1.36 days lower (18%) in family businesses than in nonfamily businesses. If we consider sector fixed effects to neutralize the fact that family businesses may be present in different sectors than nonfamily businesses are, the differ

ence 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 that when conflicts do occur, they mobilize fewer employees and do not last as long.

More generally, Kang and Kim (2020) use KLD extrafinancial ratings for the US to construct a composite indicator of employee relationship 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 significantly fewer weaknesses, which seems to show that family-owned companies invest more in social relations to prevent conflicts and controversies.

4.3.2 Enhanced ability of family businesses to manage social relations in uncertain institutional contexts

According to Mueller and Philippon (2011), family businesses have a comparative advantage when dealing with hostile social relations. On the one hand, because of such firms' long-term horizon and implicit long-term contracts 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, the CEO of a dispersed-capital firm might prefer to avoid conflict (opting for social peace and a "quiet life", as Bertrand and Mullainathan (2003) suggest). In their article, Mueller and Philippon (2011) show that there are more family businesses 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 on the basis of cultural factors, notably, the index of egalitarianism in society[11], which seems to be correlated with the degree of legal protections for employees. According to the author's hypothesis, family-run businesses are better able than widely held companies to manage industrial relations when employees enjoy strong protections, which explains why they account for a relatively large fraction of the companies in these countries.

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

5. Conclusion

Compared with 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 layoffs 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 it is in nonfamily businesses while highlighting the paradoxically lower average wages in the former. This paradox can be clarified by the differences in the organizational structures of these two types of companies. On average, family businesses have fewer hierarchical levels—and therefore fewer managers—than nonfamily businesses do, which largely explains the differences in average salaries. They also have relatively informal 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 time, greater agility, and less pay inequality within the company, all of which may help explain employees' greater job satisfaction and the lower level of conflict observed.

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