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How Family Firms Can Ensure Being Sustainable Pays Off

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One of the greatest challenges today for any firm is to operate a sustainable business model. Besides helping to address climate change, such a model can help improve firm performance. When a firm is perceived to be acting sustainably, it can motivate potential customers to buy its products, potential investors to bet on its future success, or potential employees to apply for a job there. However, these stakeholders must know about a firm's sustainability endeavors before any positive influence can begin to take effect. This is precisely why many businesses today publish "sustainability reports" that highlight those endeavors. However, these reports won't unlock the potential rewards for the firm unless stakeholders perceive them as believable and credible.

To start with the good news, family businesses are generally perceived as more credible than non-family firms when they talk about their sustainability efforts. But just **how** credible depends mainly on whether stakeholders see them as "benevolent." Cultivating a benevolent image involves highlighting the firm's family ownership and the owning family's responsible traditions and values in their communications with stakeholders. As family firm researchers, we were particularly interested in the question of whether family firms that issue sustainability reports have a credibility advantage or disadvantage in this regard, as compared to non-family firms. Furthermore, in either case, do these advantages or disadvantages have an impact on interactions with important stakeholders?

Our main finding is that family firms are perceived as being more benevolent, and therefore have a trust advantage when they publicize their sustainability efforts. This can be a decisive factor for those interacting with the firm, especially as potential customers or employees. However, our research also shows that many individuals struggle to identify a family firm as actually managed and owned by a family, so the stated advantages sometimes do not materialize.

Our Study

To answer our questions and arrive at these findings, we conducted experimental studies with over 550 participants. Under our experimental approach, each participant was shown a profile of either a family or a non-family firm. They were asked to envision themselves as customers, investors, or potential employees of the firm, and were then shown an identical sustainability report, which we told them had been issued by the firm. In a next step, participants had to rate the perceived credibility of the report (i.e., according to your perception, how much do you agree that the information and statements from the sustainability reports are: credible; convincing; truthful?) In doing so, we were able to demonstrate how the family status of a firm directly impacted the credibility of the information in their sustainability statement.

Our analyses showed that when family firms are perceived as being a business managed and owned by family members, they have a credibility advantage over non-family firms. This effect most likely occurs because family firms are perceived as being more benevolent. This credibility advantage then translates into positive stakeholder behavior -- in the form of customers having a greater intention to buy, and job-seekers having a greater intention to apply for a job. However, our research revealed one unexpected finding: a credible sustainability report did not make investors more likely to invest in the firm.

Overall, our findings suggest that a family firm's sustainability reporting can trigger positive engagement from external stakeholders, if the stakeholders perceive

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it as credible. The family can shape that credibility by ensuring that they project an image of benevolence -- through how they manage business operations and the messages they send about the firm's values, traditions and relationships with the community.

The Takeaway

Our research offers four key takeaways for family business owners, managers, and advisors:

- Stakeholders have higher trust in information issued by family firms compared to those released by non-family firms, because the family firm status acts as a credibility signal. This applies especially to non-verifiable information such as sustainability reports (greenwashing suspicion!).
- The trust advantage only occurs if the firm is actually perceived as a *family firm*. Therefore, it is important for family firms to prominently communicate their family firm status (e.g., in their tagline, or on their website).
- The credibility advantage stems specifically from whether the stakeholder perceives the family firm as benevolent. When the firm has communicated how the owning family's traditions, values, and social relationships have shaped it, in an emotional way, stakeholders are more likely to see the firm as benevolent.
- The study suggest that sustainability reports can be considered to be a strategic management tool when approaching firm stakeholders, and seeking to influence interactions with them in a positive way. Not all stakeholders, however, are impacted in the same way by sustainability communication. Therefore, it is worth adapting the information provided in sustainability reports to specific stakeholder groups, according to their particular needs.

Explore the Research

In family firms we trust – Experimental evidence on the credibility of sustainability reporting: A replication study with extension (https://ideas.repec.org/a/eee/fambus/v13y2022i4s187785852200016x.html) . Adrian Stutz, Sabrina Schell and Andreas Hack, Journal of Family Business Strategy, 2022

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