







## Family Control, Political Risk and Employment Security: A Cross-National Study

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**ABSTRACT** Combining insights from the socioemotional wealth and institutional perspectives, we hypothesize that firms controlled by families offer greater job security to employees relative to non-family firms, and this positive employment effect is amplified in riskier institutional environments around the world. Using an unbalanced panel of 3181 listed firms from 33 countries over a 10-year period, we provide strong support for our hypotheses: family-controlled firms on average are less likely to reduce their workforce compared to their non-family counterparts, and this differential effect is magnified in weak institutional environments characterized by high political risk. These findings indicate that socioemotional wealth in family firms has a positive impact on employee welfare and that the use of a cross-country design serves to bridge discrepancies or inconsistencies in single country studies that have been done in the past. From a practical perspective we conclude that the beneficial role of socioemotional wealth on employment relations is more evident when it is needed the most, namely under a dysfunctional institutional environment.

**Keywords:** employment security, institutional voids, family firms, socioemotional wealth

### INTRODUCTION

Employment security is without doubt an important issue for most workers, since their ability to cover essential expenses depends on having stable employment. Yet even in good

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economic times, many lose their jobs, as it is now standard practice for most organizations to reduce their workforce to meet financial targets (Cascio et al., 2021; Landman and Shemersch, 2020). This has become a worldwide phenomenon, even in those countries such as Japan and Korea where lifetime employment was the norm (Ellul et al., 2018). Labour costs represent more than 70 per cent of total operating expenses for most firms, and employment level is an easy lever to pull downward when top management decides to reduce costs (Gomez-Mejia et al., 2014). A factor that remains poorly understood is the role of ownership structure in the firm's willingness to use this lever. We address this issue by comparing the employment security behaviour of family-controlled firms (FCF) which employ 60 per cent of the global workforce with non-family-controlled firms (NFCFs) that employ the remainder of the global workforce (Neckebrouck et al., 2018). We find that FCFs offer greater employment security than NFCFs across a global sample of countries, and that the job security advantage enjoyed by the FCF workforce over the NFCF workforce is greatest where employees need it most, namely in weak institutional contexts characterized by political risk.

Firms around the world are embedded in environments with different levels of institutional development, and those with weak institutions are less likely to enact and enforce employment policies that protect workers in their jurisdiction (Ellul et al., 2018; Kaufmann et al., 2009; Mueller and Philippon, 2011). For example, in settings with high political risk the legal and regulatory framework governing labour relations is often in a state of flux leading to arbitrary and unpredictable state action (for instance, in taxes, tariffs, mandated benefits and such) (Hansmann, 2000; Stulz, 2005). Firms operating under these conditions face the choice of whether to provide job security to workers thus sheltering them from political turbulence or use employment level as a mechanism to cushion possible financial losses. In contexts where individual firms have considerable discretion in whether to provide job security or not we argue that ownership structure can explain this choice, with FCFs adopting a more stable employment policy relative to that provided by NFCFs, a difference that becomes more pronounced when firms operate under conditions of high political risk.

While most firms can derive some benefits from the provision of employment security (for instance, greater investment in firm-specific human capital and lower training costs), we hypothesize that across multiple institutional environments FCFs have stronger incentives to offer employment security than NFCFs. We attribute this FCF-NFCF differential to a variety of self-interests unique to FCFs that are conducive to ensuring employment security. Primary among these self-interests is the desire to preserve socioemotional wealth (SEW) representing the 'stock of affect related value that the family has invested in the firm' (Gomez-Mejia et al., 2007, p. 107). Importantly, we hypothesize that a weak institutional environment typified by high political risk creates employment insecurity due to the absence of worker protections. Firms therefore choose whether or not to mitigate that insecurity by how they manage workforce levels. We argue that FCF attributes ensure employment security across environments of varying political risk and that the positive gap between FCFs and NFCFs in employment security is magnified in high political risk countries. More broadly, we revisit the ongoing controversy in the literature over whether family firms are good or bad employers (Christensen-Salem et al., 2021; Eddleston and Kellermanns, 2007; Neckebrouck et al., 2018; Pittino et al., 2016) by highlighting both the role of family

ownership in promoting employment security globally and how political risk accentuates instrumental differences in employment security between FCFs (higher) and NFCFs (lower). While an individual could experience great job security and still have perceptions of other negative treatment by the firm (for instance, limited training, lower career advancement, and low pay, factors that we do not examine here) most lay people and scholars would agree that among the many factors that enhance employee satisfaction, job security would be among the more important contributors given its role in supporting employee welfare (e.g., Bockerman et al., 2011; Sagier et al., 2012). Thus, other things equal, we support the ‘good employer’ side by showing that FCFs do better than their NFCFs counterparts in ensuring workers’ continued employment, particularly when operating in a harsh context characterized by political upheaval where institutional protection for workers is most uncertain.

To test our hypotheses, we assembled a large sample of 3181 listed firms located in 33 countries worldwide, spanning the period from 2007 to 2016 (inclusively). Using this sample, we calculated comparative 1-, 2- and 3-year changes in employment levels for FCFs and NFCFs. We then analysed these changes across different institutional environments with varying degrees of political risk. To mitigate potential endogeneity of family involvement and survivorship bias, we exploit the longitudinal nature of our data and use an endogenous-treatment regression estimator. We also conducted several robustness tests to rule out possible alternative explanations related to other variable definitions and estimation techniques.

We make several important contributions to the family business, human resources, and more broadly to the international business literatures. First, we demonstrate that family control and employment security go hand in hand across a wide variety of institutional settings that may affect employment practices differently. Second, utilizing SEW theory we provide new insights on the mechanisms underlying employment dynamics in FCFs, thus offering a coherent set of theoretical explanations for the obtained confirmatory results on a cross national basis. Third, we demonstrate that the positive FCF-NFCF gap in employment security increases as a function of macro institutional weakness, suggesting that FCFs not only provide greater employment security than NFCFs around the world, but importantly that these salutary effects are most salient in noxious institutional contexts where citizens are at the mercy of unpredictable external forces. In other words, family firms are more likely to provide job security where this is needed the most (under conditions of greatest institutional weakness, which we capture through a commonly used political instability index). Job security is arguably one of the most important aspects (and many would say the most desirable feature) of an employment contract (Levine and Parkin, 1994; Muffels, 2014). Thus, understanding how ownership structure and institutional context combine to influence employment security would seem very relevant to policy makers seeking to manage their domestic economies. Importantly, our findings hold even after considering regulatory systems in various countries that ‘on paper’ make it more difficult for firms to voluntarily lay off employees.

Last, by using a large cross-national sample of FCFs and NFCFs, and focusing on macro environmental forces, we extend prior research on whether FCFs or NFCFs make better employers, which have mainly investigated firm-level factors in single country settings (e.g., Block et al., 2019; Colombo et al., 2014; Sanchez-Bueno et al., 2020; Stavrou et al., 2007).

## THEORETICAL FRAMEWORK AND HYPOTHESES DEVELOPMENT

The human resource literature has long provided reasons as to why firms may derive benefits from employment security, regardless of family control status. These include the generation of ‘organizational rents’ by inducing employees to invest effort in developing firm specific human capital (Hashimoto, 1981), fostering employee commitment (Ghoshal and Bartlett, 1995), stimulating ‘extra role behaviors’ in the workforce (Galumic and Anderson, 2000), avoiding loss of talent that would be redeployed to serve competitors (Waterman et al., 1994), lower training costs (Griffeth et al., 2000), better customer satisfaction (Cameron et al., 1993), and lower ‘compensation risk premium’ to attract and retain qualified workers (Gerhart et al., 2023), among others. Of course, firms must balance those purported benefits against the ease of cutting labour expenses to maintain or improve the bottom line in order to meet financial targets established in the CEO compensation contract, satisfy short term investors and meet capital market expectations.

A key variable that is likely to enter the picture when gauging the pros and cons of employment security is the utilities of the dominant owners. Below we argue that family and non-family owners may seek to maximize different utility functions, and these differences may result in divergent perspectives regarding the importance of maintaining a stable workforce. Specifically, we suggest that family owners have a more complex utility function that includes both financial and socioemotional utility dimensions (SEW) that are not fully fungible (Gomez-Mejia et al., 2018, p. 1370). Martin and Gomez-Mejia (2016) propose that the dual pursuits of these ‘currencies’ in FCFs are not necessarily at odds with each other. Yet prior research would suggest that financial goals are often subordinate to protecting SEW among family firms (Gomez-Mejia et al., 2007, 2011). This more encompassing perspective of family owners’ motives rests on research suggesting that they may hold a more paternalistic view than non-family managers and owners as well as being more concerned about a broader set of factors than short-term financial gains (Gomez-Mejia et al., 2014, 2014; Gomez-Mejia and Herrero, 2022). Using this lens, we offer several reasons why we would expect that across different institutional contexts FCFs around the world are more likely to offer employment security than NFCFs.

### Family Firms and Employment Security. The Role of Socioemotional Wealth (SEW)

As confirmed by much of the family business literature, owners of FCFs are concerned with protecting not only their financial wealth but also their socioemotional wealth (SEW), with the latter being mostly irrelevant to NFCFs (Davila et al., 2022; Gomez-Mejia et al., 2007, 2010, 2011, 2018; Gomez-Mejia and Herrero, 2022). Applying the various SEW dimensions of the FIBER model suggested by Berrone et al. (2012)<sup>[1]</sup> employment insecurity lessens FCFs’ SEW for a variety of reasons that are of little import to NFCFs. As employee downsizing diminishes SEW for FCFs, consequently

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this counter-balances or nullifies the attractiveness of any financial gains associated with this action. Indeed, prior studies reveal that FCFs engage in more concern for employees than NFCFs as reported by employees themselves and that SEW appears to be the driver of that difference (Christensen-Salem et al., 2021). Thus, we suggest that due to differences between FCFs and NFCF regarding the value placed on SEW we would expect to see a difference between FCFs NFCFs regarding employment security.

*Family influence and control (F).* Family firms differ from other types of organizations due to the existence of two interlinked systems, the family and the business (Berrone et al., 2012; Gomez-Mejia et al., 2007). Family members that hold key ownership or management positions will seek to secure and extend their control over the firm through maintaining positive relationships with internal stakeholders (Cennamo et al., 2012). Thus FCFs will be more likely to exercise control over employees by cultivating affective commitments and establishing norms of reciprocity rather than on a desire to use their skills and talent solely to improve financial performance (Christensen-Salem et al., 2021). More specifically, the adoption of practices that are damaging to employees (internal stakeholders) and cause detrimental effects such as stress, fear, lack of commitment, lack of motivation, sickness and other negative feelings (Stavrou et al., 2007) may therefore be discouraged in FCFs, and employment insecurity is perhaps the most overt manifestation of poor employee treatment (Flanagan and O'Shaughnessy, 2005). As a result, FCFs might not consider job cuts as attractive mechanisms to decrease costs or eliminate overstaffing (see Cascio et al., 2021 about antecedents of downsizing).

*Identification of Family Members with the Family Firm (I).* Family principals tend to closely identify with the organization at a very personal level and often experience a 'family handcuff' to the firm (Gomez-Mejia et al., 2003; Sageder et al., 2018). As a result, negative experiences among the work force, such as the anxiety associated with actual or potential employment loss, may be felt symmetrically by family firm owners whose reputation as an employer is on the line (Deephouse and Jaskiewicz, 2013). Relatedly FCF owners are far more exposed to the loss of personal prestige and image than the anonymous investors and equity holders of NFCFs (Berrone et al., 2010). Media reporting of workforce reduction events may negatively affect a family firm's reputation, given their high exposure to the public eye (Amato et al., 2023). Therefore, practices such as job cuts that employees would consider insensitive to their needs are avoided in FCFs because they invoke a negative family image, bringing potential embarrassment to family owners and thus hurting the family's pride derived from association with the firm. In the words of Block (2010, p. 110): '[employment cuts] are often broadcast in the media and send a signal that the firm is not willing to honor its commitments and that it is not loyal to its employees'. Thus, FCFs would be more likely than NFCFs to avoid the reputational damage that can result from employment reductions.

*Binding Social Ties (B).* Binding social ties are likely to be frayed if the firm were to engage in workforce reduction, as employees in most units tend to be socially intertwined,



and turnover of one or more individuals within a unit tends to provoke exit among those who remain (Griffeth et al., 2000). Thus, FCFs have an incentive to maintain the social structure within the firm as intact as possible, something that should be of less import to NFCFs. Concerning external ties, FCFs tend to be more embedded in the local community than NFCFs and thus the social repercussions of their actions are likely to be felt in the surrounding area (Amato et al., 2023; Berrone et al., 2010). The existing literature suggests that FCFs tend to adhere to a community logic when making strategic decisions (Berrone et al., 2010, 2022) while NFCFs, measuring success by economic goals, tend to make those decisions following a financial logic (Waddock and Graves, 1997; Yan et al., 2019). The community logic stems from ‘strong, affective, and enduring ties among members of small and bounded groups’ (Almandoz, 2012, p. 1382), and thus FCF should be more mindful than NFCFs of the impact of strategic decisions such as downsizing on the firm’s internal and external social ties.

*Emotional Attachment of Family Members (E).* Emotional attachment of family owners to their firm is likely to enhance employees’ perception that the firm cares for them and provides them with a safe workplace (Christensen-Salem et al., 2021). Owners of FCFs tend to govern the organization as an extended family (De Massis et al., 2018), and this paternalistic attitude should contribute to an employee’s expectation of stable employment and being looked after by management as a person and not only as a disposable production input (Aycañ et al., 2013; Colombo et al., 2014). Indeed, ‘family firms invest in their staff training, offer broad jobs and responsibilities for their employees’ (Samara and Arenas, 2017, p. 35). Therefore, fostering stability in employment relationships becomes essential to avoid the potential loss of committed human capital (Hauswald et al., 2016). This lends credibility to the implicit if not explicit promise of employment security that NFCFs are reluctant to provide.

Relatedly, much of the literature on family businesses emphasizes that exit is generally not an option for family owners and managers and thus they tend to be ‘inextricably attached to the firm over the long haul’ (Berrone et al., 2010, p. 84; Chirico et al., 2020). This makes employment security more valuable to family owners as they can derive extended benefits from the contributions of a stable workforce that is committed to the firm. In particular, the long-term association between employees and the firm is likely to encourage employee investment into developing human capital specialized to serving the firm. In return, employee commitment to the firm is reinforced by the greater trust that is likely to develop between the leadership of FCFs and their employees due to the stability of family ownership over time. Conversely, ownership and leadership turnover among NFCFs is much higher than among FCFs (in fact Cruz et al. (2010) report that the tenure of CEOs in NFCFs is about five times shorter than their counterparts in FCFs); this turnover of senior management is likely to result in changes in practices and policies that hinder the development of trust and mutual commitment between leadership and employees in NFCFs. Thus, the long-standing relationship between family owners of a FCF and its employees is likely to evolve beyond that of a financial transaction, and instead develop into what Gomez-Mejia et al. (2001) refer to as ‘relational contracts’ (see also MacNeil, 1987). In other words, an implicit contract (c.f., Rousseau, 1998) may develop between employees and the owners of a FCF that carries

assurances of mutual commitment to the relationship, with employment security being an unspoken part of the deal.

*Renewal of Family Bonds through Intrafamily Succession (R)*. FCFs may deliberately provide employment security to its workforce as a trade-off for lower financial inducements and fewer advancement opportunities. Because FCFs are often more resource constrained, they are more inclined to provide employment security to employees in order to secure much needed human capital for the firm (Christensen-Salem et al., 2021). From an instrumental perspective, employees of FCFs are likely to be viewed as a critical stakeholder to facilitate firm survival. Thus, providing employment security may be instrumental to the family firm's continuity for future generations given that FCFs may have less to offer employees than NFCFs in the way of career advancement or higher wages (see, Ellul et al., 2018; Neckebrouck et al., 2018). This may allow FCFs to attract higher quality employees at relatively lower compensation costs (Balkin and Gómez-Mejía, 1987, 1990; Gomez-Mejia, 1992; Wiseman et al., 2000) enhancing the firm's long-term survival. In other words, providing employment security may add economic value and represents an organizational asset, thereby enabling the passing of the firm to future generations and preserving the firm's legacy.

### **Non-Family Firms and Employment Security**

Protecting SEW is less likely to be of concern for NFCFs for several reasons. First, investor pressure to achieve financial goals and eschew actions that fail to support those goals is likely to encourage a laser-like focus on financial success. Indeed, the reputation of managers of NFCFs is more likely to rest on the firm's financial success than on how the firm manages stakeholder relations in pursuit of that success. Further, the performance goals contained in the contracts of professional managers of NFCFs are generally designed to align the interests of managers with those of investors (Barkema and Gomez-Mejia, 1998; Diaz and Gomez-Mejia, 1997; Gomez-Mejia and Wiseman, 1997). This puts further pressure on NFCFs to achieve financial goals to the exclusion of other objectives (Tosi et al., 1999).

Second, due to the typically shorter tenure of managers of NFCFs, these managers are less prone than their FCF counterparts to develop binding social bonds with employees. Thus, NFCFs are unlikely to foster implicit contract arrangements with employees; instead, they are likely to engage in transactional relationships in which the value of the economic exchange between employees and the firm determines whether to maintain or end the employment relationship.

Finally, managers of NFCFs enjoy greater flexibility to adjust employment levels up and down as they see fit. This occurs because NFCFs are prone to have greater access to capital than FCFs and this allows them to view employment as a variable expense that can be ratcheted up or down as economic conditions warrant. In other words, responding to the fiscal obligation to external shareholders, managers of NFCFs have both the discretion and strong incentives to shift economic risk to employees thus using them as a buffer against changing economic and competitive circumstances that could negatively impact profits. Thus, the financial risk of ensuring employment security is likely to have been factored into NFCF strategies for managing employment levels resulting in lower employment security overall than that offered by FCFs.

In summary, the above arguments lead to the following hypothesis about the positive impact of FCFs on promoting job security relative to that offered by NFCFs across diverse institutional contexts found in different countries around the world.

*Hypothesis 1:* Across diverse institutional settings family-controlled firms are more likely to provide employment security than non-family-controlled firms.

### **The Role of Institutional Risk in Driving a Stronger Positive Gap between Family- and Non-Family-Controlled Firms in Employment Security**

Business practices take place within unique national institutional forms (Meyer and Peng, 2016; North, 1990; Peng and Jiang, 2010; Peng and Luo, 2000; Peng et al., 2009; Zhu et al., 2019), and as a result, countries develop ‘distinctive managerial rationalities and practices’ over time, which results in ‘particular ways of organizing, controlling and directing enterprises’ (Whitley, 1992, p. 7; see also Gomez-Mejia and Palich (1997) and Palich and Gomez-Mejia (1999)). Consistent with this view, scholars generally agree that employment relations are largely dependent on the institutional context (see review by Vidal and Hauptmeier, 2019). For instance, job insecurity is far more common in countries with weak institutional frameworks where organizations are exposed to unforeseen hazards, business cycles tend to be severe, managers make ‘seat of the pants’ decisions unencumbered by formal or informal institutional norms and employee voice is limited (Croucher et al., 2012; Johnson et al., 2017). A common thread in much of this literature is that organizations and individuals across the globe face different degrees of risk (or the probability of harm) depending on the extent to which institutions provide a reliable framework to protect their prerogatives (what Peng, 2003, refers to as ‘a rule based, impersonal exchange regime’ rather than ‘personalized transaction structures’). For workers in particular the degree to which there are well established effective rule-based mechanisms to protect employment rights and responsibilities is likely to vary across institutional contexts (Carney et al., 2011; Peng and Jiang, 2010; van Essen et al., 2012).

A key factor in creating institutional weakness or strength is the degree of political risk present in the country. *Political risk* concerns the extent to which the country faces actual or potential disruptions in its governance system (for instance, through coups, revolutions, radical changes in leadership, or sudden swings in government policies and legal requirements), and/or weak popular support, all of which may lead to arbitrary and capricious political decisions, uncertainty about continuity of government policy and practice, and a lack of commitment to fulfil contractual obligations within its jurisdiction (Kobrin, 1979). For example, under conditions of high political risk investors are subject to the possibility of expropriation by the state in various forms (through taxation, tariffs, corruption, nationalization, and such) and by majority investors who may expropriate value from minority investors. Political risk also increases economic uncertainty and instability that undermines the value of owner/shareholder investment (Johnson et al., 2002). In other words, the social structure that governs the conditions of ownership and control of the means of production depends on the political environment within which firms are organized (Campbell and Lindberg, 1990).



In settings with high political risk ‘a dependable legal and regulatory framework is generally lacking, exposing firms to twin agency problems of state expropriation, controlling shareholder expropriation, as well as hazards associated with macro-economic turbulence’ (Stulz, 2005, p. 252).

In practice, settings characterized by high political risk means that contracts cannot be relied on and enforced in the long term, and the government generally fails to provide a reliable set of rules and procedures that organizations might use to plan current and future operations (Kaufmann et al., 2009). By extension political risk creates uncertainty about the institutional infrastructures supporting employment and economic security such as the strength of social safety nets as well as the strength and continuity of labour market regulations. Conversely, a strong rule of law implies the likelihood that specific ‘rules on the book’ designed to protect stakeholder interests including employment contracts will in fact be enforced (Levitsky and Murillo, 2009).

While many aspects of the rule of law are important in this regard, some political risks emerge as more fundamental challenges to employment security, such as sudden changes in political leadership (Kaufmann et al., 2011), unexpected alteration of relevant government policies (Brewer, 1983, 1993), and arbitrary government intervention in the market (Liu, 2020). These forms of political turbulence have been linked to employee welfare (Gazdar, 2011), employer downsizing (Cascio et al., 2021) and declines in business investment (Jens, 2017; Julio and Yook, 2012). For example, Gazdar (2011) describes how social support for vulnerable portions of the population in Pakistan such as unskilled labour is susceptible to political turbulence. In tracing the history of employment regulations in Norway and Germany, Engelstad (1997) shows how their respective regulatory oversight has diverged over time regarding the degree of latitude afforded by employers to engage in employee downsizing. Inoue (2020) finds that governments temporarily manipulate state-owned firm employment levels to enhance re-election, especially in economically disadvantaged sectors. Even within rule-based systems where institutional infrastructure supporting employment security should be relatively stable, regime changes in government can affect the degree of regulatory support for employment security (Cooke and Gautschi, 1982). Indeed, changes in political regimes has been shown to play a stronger role in predicting employment downsizing than differences in institutional structures (Goergen et al., 2013), suggesting that political upheaval is an important factor in explaining employment security.

When formal legal and regulatory institutions are dysfunctional or when political turbulence is likely such as when political risk is high, employees are more vulnerable to economic losses from termination, especially if they are viewed as a variable cost. That is, when operating in institutional contexts characterized by high political risk, firms can choose to maintain employment levels (thus absorbing the costs of committing to employment security) or transfer risk on to employees by adjusting workforce levels to meet financial goals. Thus, in contexts of high political risk characterized by inconsistent or inadequate regulatory oversight, firms may opportunistically take advantage of weak institutional oversight to reduce employment costs by downsizing during periods of economic uncertainty. The choice to provide employment security would then seem to rest on what actions best serve the utility functions of firm leaders and the opportunities available to them.

Despite recent research into differences between family and non-family firms across different institutional contexts (e.g., Berrone et al., 2022; Gomez-Mejia et al., 2023; Luo and Chung, 2013; Morck and Yeung, 2004) one issue that remains poorly understood is the role of ownership structure in protecting employees from institutional risk such as that created by political turbulence. We propose that the superior employment security provided to the workforce by FCFs relative to NFCFs (as per Hypothesis 1) will be more evident in settings with high political risk. Unlike prior work that suggests a normative view in which FCFs voluntarily fill labour market weakness (e.g., Ellul et al., 2018), we argue for a more encompassing instrumental view whereby the self-interests of FCFs diverge from those of NFCFs leading to differences between FCFs and NFCFs in how they manage employment relations under high political risk conditions. Given that both FCFs and NFCFs could extract political concessions from host governments by filling institutional voids, we suggest that FCFs have an additional incentive to provide employment security given its role in protecting SEW, something that is of less importance to NFCFs.

Weak institutional environments characterized by high political risk make employment protection much more discretionary and privatized for firms that operate in such context (Gomez-Mejia et al., 2023). FCFs are likely to increase employment security during periods of political duress due to their desire to ensure long-term commitment from employees to the firm, prevent the SEW losses associated with terminations, and avoid breaking the implicit contract that arises over time between family owners and the workforce. From this perspective, FCFs are likely to view employees as an asset to be protected from the vagaries of political turbulence. The value that FCFs attach to employment security contrasts sharply with the goals of NFCF managers who are unencumbered by these concerns and are more focused on meeting shareholder demands. This difference in perspectives on the contribution of employees to achieving the goals of each ownership structure should drive a larger wedge in observed employment security between FCFs and NFCF where worker protections under the overarching institutional system are in a state of flux. That is, under strong environmental threats (i.e., high political risk in our case), FCFs are likely to become more mindful of their role in sheltering employees from harm and this translates into the provision of greater employment security when it is needed the most.

Consistent with our previous discussion, FCFs driven by SEW concerns should have a stronger motivation to protect employees from political risk than NFCFs. In contrast, NFCFs are less inclined to adjust their employment strategy in response to political risk. Though NFCFs are unlikely to be immune to the consequences of political risk, they have at their disposal alternatives to limit the consequences of political risk that may be unavailable to FCFs bound to their host country. For example, NFCFs may have calculated the financial consequences of political risk into their employment strategy making it less likely that they need to respond to changes in political risk. In addition, NFCFs are more likely to have the ability to exit from a country if dissatisfied with a political situation (Chirico et al., 2020). Thus, governments may be more reluctant to take drastic actions prejudicial to NFCFs as they may simply shift their operations elsewhere versus FCFs who are less able to exit their home country and escape the vagaries of political upheaval and the whims of political leaders (Berrone et al., 2022).

Because high political risk and fragile property rights tend to go hand in hand (Stulz, 2005), and exit is not a viable option, family owners may seek to create a safe harbour from the dangers arising from political risk – dangers that NFCFs can avoid given their ability to exit politically unstable environments. To insulate themselves from the threats arising from higher political risk FCFs may devote special effort into pro-social initiatives, such as ensuring continued employment of the local workforce, with the objective of avoiding criticism or unfavourable assessment by the regime in charge. This may help minimize vulnerability to government intervention in such hazardous settings where property rights are fragile. In other words, FCFs may experience a more acute need to fill institutional voids by providing employment security that offers legitimacy as a shield to reduce unwelcomed government meddling in the firm's affairs. Alternatively, NFCFs may respond to political risk by using their access to capital to make side payments to members of the host government, thus purchasing a form of insurance against arbitrary and capricious host government actions.

Finally, increased political risk may provide an opportunity for FCFs to engage in political rent-seeking that is known to occur in environments characterized by corruption and low trust features that are consistent with high political risk (Morck and Yeung, 2004). Since political risk can create social unrest and threaten political leadership, family firms may offer to fill institutional voids in order to seek favourable treatment from the government (see, Inoue, 2020). The quid pro quo sought from the government is protection from foreign entry that could threaten the FCF's position within the local market. That is, because family firm owners may be more reliable social and political actors, local governments may favour supporting FCFs over NFCFs by restricting foreign direct investment—especially if FCFs fill institutional voids during periods of political and social unrest by ensuring employment security at a time when it is most needed. Thus, family firms may establish legitimacy with the local government by filling institutional vacuums that if left empty could aggravate social unrest and political turmoil. In other words, environments characterized by political turbulence should increase the opportunity for political rent-seeking by FCFs. This in turn should enable FCFs to preserve SEW in a hazardous environment. That is, it should help maintain family control, enhance the family's image, protect family owners' social ties, and facilitate a continuation of the family's dynasty. Hence:

*Hypothesis 2:* The positive gap between family- and non-family-controlled firms on employment security becomes larger as political risk increases.

## METHODS

### Sample

We used a worldwide sample of publicly traded firms to investigate the relationship between family control and employment reduction, and the moderating effects of country-level institutional risks. The database was constructed from various sources. First, we accessed the NRG Metrics Family Firms Dataset created by a team of expert analysts who manually enter, review, and cross-check data with senior analysts,

and subject it to frequent random audits. NRG Metrics draws on sources of publicly available documents, such as annual reports, corporate governance reports, firm presentations, SEC filings, and press releases. Customized software programs verify all levels of data entry for inconsistencies and errors using a combination of quality control measures. The dataset covers publicly traded (active and non-active) firms from America, Europe, Asia, and Africa beginning in fiscal year 2007, where the cross-listings are excluded. NRG has been validated in both the management and finance literatures (Cho et al., 2019; Delis et al., 2019). We excluded all financial firms following common practice (Bozzi et al., 2017). Next, we further collected firm-level financial and accounting data from Thomson Reuters Datastream. Country-level political risk data were added from the International Country Risk Guide (ICRG) database of the PRS Group. ICRG is a widely used authoritative source that provides country-specific risk assessments for nations around the globe (Bekaert et al., 2014; Eden and Rodriguez, 2004). Lastly, we collected country-level data on strictness of employment regulations (regulations that can hinder downsizing efforts) for both regular and temporary contracts from the Organization for Economic Co-operation and Development (OECD).

There are three types of listed firms available in our dataset covering the period 2007 to 2016 (inclusive): (1) companies for the entire period of analysis; (2) companies that entered during the period; and (3) companies that exited during the period due to becoming privately held, merging, liquidating, or becoming inactive. We retain firms in the analysis as long as they remain as an ongoing concern in the marketplace, that is until the moment they become unlisted. That way we ensure that reductions in employment are not attributed to business exit. In addition, it allowed us to limit the effects of survivorship bias on our results (Elton et al., 1996).

The distribution of our sample by firm type and country are provided in Table S1 of Supplemental Document. We did not include the USA in our main analysis because labour laws vary substantially across states within the USA even though federal regulations apply nationwide (Employment Law Handbook, 2022; Gomez-Mejia et al., 2020). However, results from a supplemental analysis that includes USA data (see Table S3 in the Supplemental Document) continue to support our hypotheses.

The sample of 33 countries includes many emerging economies or countries with political issues (such as Brazil, Croatia, Greece, Hungary, India, Indonesia, Malaysia, Mexico, South Africa etc.). While impressive, ideally of course it would be better to have more countries in the sample but data availability, particularly for less developed third world countries (such as in Africa and parts of Latin America) was limited. We note that the 33 countries included in our sample closely mirrors the global wealth distribution (Credit Suisse, 2019).

Regarding the distribution of our sample by firm type and industry (see Table S2 in the Supplemental Document), industrial, consumer goods, and services are the largest sectors in our sample (58 per cent). We observe that FCFs are found across all sectors, yet they tend to be more concentrated in industrial goods, and services (approximately 22 per cent of our sample), with the lowest presence in telecommunications (2.66 per cent of our sample). In total, our final sample is an unbalanced panel of 3181 listed firms from 33 countries covering the period 2007 to 2016, inclusive.

## Variables

*Dependent variable.* To measure employment security for each firm, we created several *employment reduction* variables that capture both the existence of a reduction as well as the severity of a reduction in a firm's employment levels. An employment reduction is defined as a percentage decrease in the number of employees for company  $i$  from country  $c$  between time  $t$  and  $t-1$  (e.g., Sanchez-Bueno et al., 2020; Vicente-Lorente and Zuñiga-Vicente, 2012). Specifically, we calculated this in two ways. First, the presence of a drop is operationalized as a dummy variable that equals 1 if an employment reduction event occurred during the period being considered, 0 otherwise. We will refer to this variable as 'overall reduction'. Adoption of different time periods (2-, 3- and 4-year periods) with overall employment reduction does not alter our findings. Second, to capture the severity of the reduction we tested three cut offs of at least 3 per cent, 5 per cent and 7 per cent employment reductions. A firm is coded as 1 for each of these thresholds if it has reduced its workforce at that level in a particular year in relation to the preceding year, 0 otherwise. We will refer to these numbers as 'reduction severity'. We did not extend the thresholds beyond 7 per cent because workforce reductions in a particular year outside these parameters (for instance, more than 10 per cent or 15 per cent) were extremely rare. Our database does not allow us to separate involuntary terminations (forced or induced exit by managerial decision) versus discretionary (voluntary) terminations. However, this is not unique to our setting and database. It would be very difficult to reliably separate these two sources of turnover as they might in fact overlap (e.g., an individual may decide to leave when 'the writing is on the wall') (Griffeth et al., 2000). And self-reported data of this kind would be subject to all sorts of biases (e.g., employers may not want to admit forced terminations, employees may not want to confide that they are being terminated and would rather say that they are looking for better opportunities, individuals with high self-efficacy are less likely to confess involuntary termination and the like) (Hom et al., 2017). Furthermore, several meta-analyses indicate that no matter how turnover is measured the indicators are highly correlated (Heavey et al., 2013; Park and Shaw, 2013).

*Independent variables.* Following Anderson and Reeb (2003), we constructed the *family control* variable that equals 1 for firms with fractional equity ownership of the founding family and/or the presence of family members on the board of directors, 0 otherwise. This family business definition has been used by some of the most influential studies in the field (Anderson and Reeb, 2004; Chen et al., 2010; Lee, 2006; Villalonga and Amit, 2006). FCFs represent approximately 34 per cent of all firms in our sample in line with prior studies of listed firms (Anderson and Reeb, 2003; Villalonga and Amit, 2006). We also employed alternative family business definitions in a robustness test (to be discussed later), and our results are largely invariant. Thus, for the main analysis reported here we used the *family control* dummy variable because its heuristics are more intuitively meaningful yet more complex measures of family control produced essentially the same results.

To examine country-level *political risk*, we adopted ICRG's assessment of the extent to which the government has the ability to carry out its declared program(s), has a well-defined legislative system that enjoys widespread support so that its enacted



policies are likely to last, and is prone to remain in power for the foreseeable future. All of these reflect continuity of government policy and execution, and if lacking it increases uncertainty in the political system and hence the risk associated with it (Berggren et al., 2012; Nettet et al., 2019). It covers three subcomponents: government unity, legislative strength, and popular support in the country. The risk rating assigned is the sum of three subcomponents, each with a score that ranges from zero to 4 where a score of 4 points equates to very low risk and a score of 0 points very high risk. Therefore, *political risk* is reverse coded by multiplying it by  $(-1)$  creating a possible range of zero (highest risk) to  $-12$  (lowest risk).

*Control variables.* The ratio between net sales and number of employees is included in our model to control for a firm's *labour productivity* (Chrisman et al., 2017). *Financial leverage* or debt burden is captured by the ratio of total debt to total assets (Huyhn and Petrunia, 2010; Miroshnychenko et al., 2019). *Firm performance* is measured with a widely used economic indicator of firm success, namely return on assets (ROA). ROA is estimated as the ratio of earnings before interest, taxes, depreciation, and amortization divided by total assets (Miroshnychenko et al., 2020; Sánchez-Ballesta and García-Meca, 2007). To control for the degree of a firm's *internationalization*, we have adopted the ratio of foreign sales to total sales (Arregle et al., 2012). *Firm size* (natural logarithm of total assets) accounts for differences in organizational scale. *Firm age* (natural logarithm of number of years the firm has existed) allows controlling for family stage (in the case of FCFs; Gomez-Mejia et al., 2011), potential 'liability of newness' (Miller and Le Breton-Miller, 2005), and organizational lifecycle (Phelps et al., 2007). We also controlled for country, industry using a 2-digit ICB code (results are robust to a 3-digit ICB code), and year dummies to account for cross-country economic, cultural and social heterogeneity, industrial differences, and business cycles (Boudreaux, 2020; Lins et al., 2013). Firm-level fixed effects could not be incorporated into our model because family control status rarely changed in the period of analysis (Dyer Jr. and Whetten, 2006; Villalonga and Amit, 2006). Lastly, we controlled for 'strictness of employment regulations' that make it more costly for firms to lay off employees. This was done by adding an index of *employment regulations* variable for both regular and temporary contracts (Bennedsen et al., 2019). We used Principal Component Factor Analysis (PCFA) to derive an overall *employment regulations* index. Specifically, the PCFA produced a linear combination of all the components of employment regulations for both regular and temporary contracts with the highest variance. The *employment regulations* index variable has an eigenvalue of 1.94 and explains 65 per cent of the total variance.

All variables using financial and/or accounting data are winsorized at the 1 per cent level in both tails to mitigate the effects of extremes values following common practice in the field (Neckebrouck et al., 2018).

## Analysis

The main econometric challenge in our study is to estimate the effect of family control on employment stability using non-experimental data, where the treatment (being a

family firm) has not being randomly assigned to guarantee the equality of firms before the treatment. Consequently, our regression estimates can be subject to the selection-based endogeneity problem deriving from the self-selection problem. The self-selection problem associated with unobservables can bias our estimates, even though we control for a substantial number of organizational and environmental factors. The treatment effect can be heterogeneous across firms and could exert an influence on both the decision to become a family firm and on our dependent variable, and thus the endogeneity problem might arise. Therefore, to mitigate the endogeneity of family control (Evert et al., 2016), we estimate the endogenous treatment regression-model using the maximum likelihood estimator (Heckman, 1978; Maddala, 1983; Wooldridge, 2010), a quasi-experimental approach that can reveal the impact of family control by accounting for the counterfactual effect (Wooldridge, 2010). Specifically, it allows us to confront listed family firms with listed non-family firms as if a listed firm could be randomly assigned to being family-controlled or not.

Our endogenous treatment regression model includes two main equations: one for the endogenous treatment (*family control*), and one for the outcome variable (*employment reduction*). It allows a correlation between the unobservables that affect the treatment and the unobservables that affect the potential outcome (Maddala, 1983).

The endogenous treatment equation is a Probit regression that predicts the treatment condition (probability of being a FCF (=1) or NFCF (=0)) using two external instruments: *quotation time* (number of years for which the firm has been listed on the stock market) and *divorce rate* (number of divorces occurring among the population of a given geographic area in a given year, per 1000 mid-year total population of the given geographic area in the same year) as regressors. Our choice of the time of listing as an external instrument is justified by the fact that the level of concentrated ownership following an initial public offering (IPO) decreases steadily over time (Helwege et al., 2007), while *quotation time* is unlikely to affect employment reduction. Regarding the *divorce rate*, it has been shown that the probability of being a family-owned firm is inversely related to the country's divorce rate (Hennart et al., 2019), but divorce rate is unlikely to affect employment reduction. Thus, the aforementioned variables can be excluded from the outcome equation. In the outcome equation, the *employment reduction* variable is regressed against the treatment condition (*family control*), financial leverage, firm performance, internationalization, labour productivity, firm size, firm age, employment regulations, and dummy variables capturing industry, country, and time as described.

To test our moderating hypothesis, we interact our treatment condition (*family control*) with country *political risk* to check whether the nexus between family involvement and employment reduction is influenced by political risk (H02). The Huber-White sandwich estimation procedure has been adopted to control for the heteroscedasticity problem (Long and Ervin, 2000). We use the likelihood-ratio tests to examine the first null hypothesis of no correlation between the treatment-assignment errors and the outcome errors, and the second null hypothesis whereby the restricted model is nested within the full model. In addition, we perform four Wald tests to examine the joint significance of the reported regression coefficients, industry, country, and time dummy variables.

## RESULTS

### Descriptive Statistics and Correlations

The descriptive statistics and correlations for all the variables used in the analysis are shown in Table I. Firms in our sample exhibit significant variability in employment reduction, averaging 0.41, with a standard deviation of 0.49. We find that family control and employment reduction are negatively correlated ( $p < 0.01$ ). Also, employment reduction is negatively correlated with firm performance and internationalization ( $p < 0.01$ ), while positively correlated with the country-level variable of political risk ( $p < 0.01$ ). The highest variance inflation factor (VIF) is 4.81, suggesting that multicollinearity is not an issue (O'Brien, 2007). The proxy of political risk also exhibits substantial heterogeneity across countries in our sample, as shown in Table II.

### Main Results

Table III presents the results of the endogenous-treatment regressions of the relationship between family control and the overall employment reduction variable. Model 1 includes *family control*, Models 2 and 3 add the *political risk* and its interaction with *family control*.

The results of the endogenous treatment equation show that there is a significant negative relationship between *quotation time* and *family control* in all the models ( $p = 0.00$ ). This finding is consistent with prior research suggesting that the level of family involvement decreases with time from the firm's IPO (Helwege et al., 2007; Miroshnychenko et al., 2019). The coefficient of the *divorce rate* variable is negative and statistically significant ( $p = 0.00$ ) implying that the probability of being a family-controlled firm is much lower in countries with a high divorce rate, which is consistent with prior research (Hennart et al., 2019). In sum, both the *quotation time* and *divorce rate* variables are strong predictors of the treatment condition, family control of the firm. The likelihood-ratio test is statistically significant in all models ( $p = 0.00$ ), justifying the adoption of the endogenous-treatment regressions. Wald tests of the joint significance of country, industry and time dummies are statistically significant at the 1 per cent level in all models, thus justifying our inclusion of controls for heterogeneity across countries, industries and time.

Looking at Model 1 of Table III, we observe that *family control* has a negative and statistically significant ( $\beta = -0.266$ ,  $p = 0.00$ ) association with overall workforce reduction, strongly indicating that FCFs provide better employment security for their employees compared to NFCFs. Said another way, compared to the employment security offered by NFCFs, FCFs provide significantly greater employment security on average across countries. The economic impact of family control on employment reduction is large: on average, the probability of overall reduction decreases by around 27 per cent for FCFs, as compared to their NFCFs counterparts. Thus, we find that family control is strongly related to job security relative to that provided by NFCFs and this result is consistent on a global basis (thereby supporting our  $H_01$ ).

Table I. Descriptive statistics and correlations for all the variables

	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12
1 Employment reduction	0.41	0.49	1.00											
2 Family control	0.34	0.47	-0.05***	1.00										
3 Political risk	-7.29	1.17	0.02***	0.04***	1.00									
4 Financial leverage	0.25	0.18	0.10***	-0.02***	0.07***	1.00								
5 Financial performance	0.05	0.09	-0.21***	0.02***	-0.06***	-0.19***	1.00							
6 Internationalization	0.47	0.35	-0.03***	-0.00	-0.05***	-0.09***	0.00	1.00						
7 Labour productivity	6.55	2.09	-0.02**	-0.14***	0.16***	0.07***	0.06***	-0.16***	1.00					
8 Firm size	15.10	2.91	-0.03***	-0.20***	0.07***	0.14***	0.11***	-0.06***	0.77***	1.00				
9 Firm age	3.76	0.92	0.04***	-0.15***	0.03***	0.03***	0.08***	0.14***	0.07***	0.23***	1.00			
10 Quotation time	3.04	0.57	0.01	-0.09***	-0.02***	-0.02***	0.04***	0.08***	0.16***	0.28***	0.48***	1.00		
11 Divorce rate	1.98	0.48	-0.04***	-0.19***	-0.13***	-0.13***	0.07***	0.13***	0.05***	0.09***	0.01**	0.01	1.00	
12 Employment regulations	0.48	0.75	0.04***	0.22***	0.11***	0.12***	-0.06***	-0.02***	-0.15***	-0.18***	-0.02***	-0.06***	-0.36***	1.00

\*\*\*p < 0.05; \*\*p < 0.01; \*p < 0.05.

Table II. Average and range of political risk by country (2007–16)

<i>Country</i>	<i>Mean</i>	<i>S.D.</i>	<i>Min.</i>	<i>Max.</i>
Australia	-6.95	1.59	-10.50	-5.13
Austria	-7.31	1.09	-9.50	-5.88
Belgium	-7.23	0.45	-8.38	-6.50
Brazil	-7.20	1.40	-9.08	-5.08
Canada	-8.24	0.70	-9.17	-6.83
Croatia	-6.93	0.83	-8.21	-5.71
Denmark	-6.76	0.91	-8.50	-5.71
Finland	-7.04	1.23	-9.42	-5.50
France	-6.83	1.62	-9.08	-4.75
Germany	-8.30	1.25	-10.00	-5.88
Greece	-6.53	1.02	-8.63	-4.92
Hungary	-6.81	1.37	-8.33	-4.04
India	-7.08	1.17	-8.42	-5.33
Indonesia	-6.25	0.86	-7.67	-4.88
Ireland	-6.84	1.11	-9.17	-4.96
Israel	-7.49	0.54	-8.04	-6.46
Italy	-6.93	0.99	-8.96	-5.33
Japan	-6.91	1.11	-8.54	-5.58
Malaysia	-6.60	0.80	-7.54	-5.25
Mexico	-7.24	0.72	-8.08	-6.21
Netherlands	-6.97	0.42	-7.58	-6.33
New Zealand	-7.96	0.37	-8.88	-5.71
Norway	-7.37	0.37	-8.00	-7.00
Poland	-7.12	1.00	-8.54	-5.75
Portugal	-6.86	1.06	-8.58	-5.33
Slovenia	-7.24	1.06	-8.92	-5.92
South Africa	-7.10	0.52	-8.29	-6.50
Spain	-6.96	0.92	-8.33	-5.21
Sweden	-6.85	0.53	-7.88	-6.08
Switzerland	-8.87	0.24	-9.21	-8.50
Thailand	-6.89	0.66	-7.50	-5.96
Turkey	-7.75	0.67	-9.08	-6.75
United Kingdom	-7.50	0.51	-8.46	-6.54
<b>Total</b>	<b>-7.29</b>	<b>1.17</b>	<b>-10.50</b>	<b>-4.04</b>



Table III. Employment reduction in family and non-family firms

<i>Model</i>	(1)	(2)	(3)
VIF	4.81	4.77	4.72
Internationalization	-0.010 [0.466]	-0.010 [0.456]	-0.011 [0.437]
Financial leverage	0.103 [0.000]	0.103 [0.000]	0.105 [0.000]
Financial performance	-1.206 [0.000]	-1.207 [0.000]	-1.205 [0.000]
Labour productivity	0.010 [0.073]	0.010 [0.070]	0.010 [0.064]
Firm size	-0.003 [0.346]	-0.003 [0.337]	-0.003 [0.314]
Firm age	0.030 [0.000]	0.030 [0.000]	0.031 [0.000]
Employment regulations	0.033 [0.458]	0.031 [0.498]	0.026 [0.572]
Family control	-0.266 [0.000]	-0.269 [0.000]	-0.265 [0.000]
Political risk		-0.006 [0.197]	0.002 [0.623]
Family × Political risk			-0.027 [0.000]
Industry FE	Yes	Yes	Yes
Country FE	Yes	Yes	Yes
Time FE	Yes	Yes	Yes
Z <sub>1</sub>	[0.00]	[0.00]	[0.00]
Z <sub>2</sub>	[0.00]	[0.00]	[0.00]
Z <sub>3</sub>	[0.00]	[0.00]	[0.00]
Z <sub>4</sub>	[0.00]	[0.00]	[0.00]
Constant	0.359 [0.000]	0.363 [0.000]	0.363 [0.000]
Endogenous treatment equation: Family			
Quotation time	-0.284 [0.000]	-0.284 [0.000]	-0.284 [0.000]
Divorce rate	-0.416 [0.000]	-0.416 [0.000]	-0.416 [0.000]
Constant	1.224 [0.000]	1.224 [0.000]	1.225 [0.000]

(Continues)

Table III. (Continued)

<i>Model</i>	(1)	(2)	(3)
athrho	0.256 [0.000]	0.260 [0.000]	0.260 [0.000]
lnsigma	-0.748 [0.000]	-0.747 [0.000]	-0.748 [0.000]
Log likelihood	-16700.09	-16699.28	-16692.84
AIC	33526.17	33526.56	33515.67
LR test of indep. eqns.	[0.00]	[0.00]	[0.00]
LR test of restr. vs. full models	[0.00]	[0.00]	[0.00]
Observations	13,263	13,263	13,263

*Note:* This table presents the regression coefficients and p-values (in brackets) of the endogenous-treatment regressions using the maximum likelihood estimator with robust standard errors.  $Z_1$  is a Wald test of the joint significance of the reported coefficients (p-value).  $Z_2$  is a Wald test of the joint significance of the industry dummies (p-value).  $Z_3$  is a Wald test of the joint significance of the country dummies (p-value).  $Z_4$  is a Wald test of the joint significance of the year dummies (p-value).

Model 3 of Table III shows that the interaction effect between *family control* and *political risk* is negative and strongly significant ( $\beta = -0.027$ ,  $p = 0.00$ ) indicating that the presence of political risk greatly increases the difference between FCFs and NFCFs on employment reduction. That is, FCFs show increased employment security relative to that of NFCFs where political risk is high. Thus, political risk strengthens the association between family control and employment security (Murphy and Aguinis, 2022). Conversely, political risk has minimal effect on NFCFs employment security which would suggest that NFCFs have factored in the financial costs of political risk into their employment strategy resulting in overall lower employment security on average. We further tested the difference between the effect of political risk on employment reduction for different types of firms and found that that FCFs exhibit a lower probability of reducing their workforce ( $\beta = 0.02 - 0.027 = -0.025$ ,  $p = 0.00$ ) than NFCFs, and this difference is statistically significant as a function of political risk ( $\beta = -0.025 + 0.002 = -0.023$ ,  $p = 0.02$ ).

With respect to the effect sizes, the log likelihood value of  $-16692.84$  in Model 3 is greater than in Models 1 and 2 ( $-16700.09$ ;  $-16699.28$ , accordingly). Moreover, these differences are statistically significant, as suggested by the results of the likelihood ratio tests ( $p = 0.00$ ). Thus, Model 3 interacting family control and political risk offers the best fit for the data.

Table IV presents the probabilities of overall workforce reduction in FCFs and NFCFs at three levels of political risk holding all other variables constant: low (minimum value), average (mean value) and high (maximum value). As can be seen, the probability that FCFs downsize employment clearly diminishes as political risk increases. Conversely, the probability of downsizing by NFCFs increases slightly, though not significantly across the range of political risk. Consistent with Ho2, this indicates that the positive effect of family control

Table IV. Average predicted probabilities of employment reduction

	Level of political risk		
	Low	Average	High
FCF	0.311 [0.000]	0.222 [0.000]	0.142 [0.000]
NFCF	0.479 [0.000]	0.489 [0.000]	0.497 [0.000]
FCFs vs. NFCFs	-0.168 [0.000]	-0.267 [0.000]	-0.355 [0.000]

Note: This table presents the average predicted probabilities of employment reduction and p-values (in brackets) in FCFs and NFCFs at low (minimum value), average (mean value) and high (maximum value) levels of political risk, keeping all other variables constant.

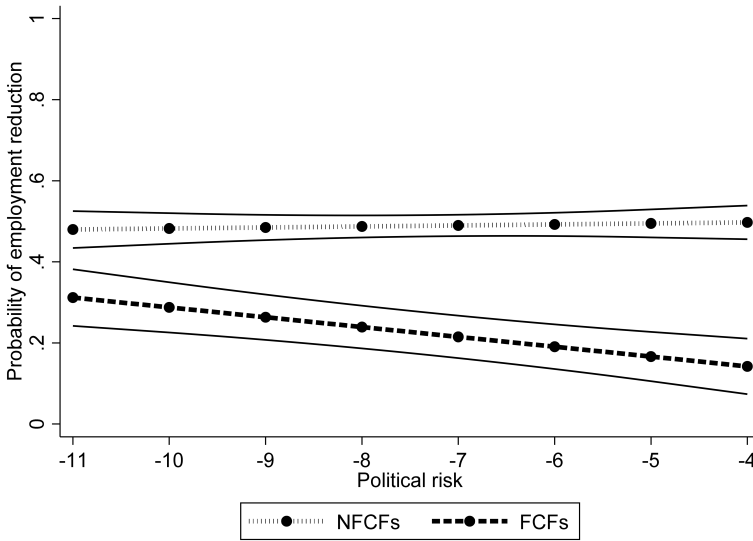


Figure 1. Average predicted probabilities of employment reduction

on employment security is stronger when political risk is highest. In addition, we plotted the marginal effect of *family control* on *employment reduction* for the full range of *political risk* in Figure 1 with a 95 per cent confidence interval to visualize our findings. As shown in the figure, the positive gap in employment security between FCFs and NFCFs increases as political risk increases. Collectively, these results provide strong support for Ho2: employment security becomes much more pronounced among FCFs than among NFCFs under conditions of high political risk.

We also conducted several supplemental analyses to test whether our results are robust to various assumptions underlying our model. First, in Table S5 of the Supplemental Document we estimated three models with alternative dependent variables using different

employment reduction thresholds: employment reduction if the firm has cut its workforce by at least 3 per cent (equivalent to 579 employees being terminated on average), at least 5 per cent (equivalent to 965 employees being terminated on average), and at least 7 per cent (equivalent to 1351 employees being terminated on average) over a 1-year period, 0 otherwise. Across the three employment reduction thresholds, family control continues to exhibit a negative and statistically significant association with employment reductions as hypothesized (i.e., 3, 5 and 7 per cent workforce reduction respectively). The interaction effect between the *family control* and *political risk* variables also is negative and strongly significant, in line with our prediction.

Table S6 in the Supplemental Document presents results regarding the persistence of workforce reduction over time. In this analysis we estimated the model using different time periods (2-, 3- and 4-year periods) with overall employment reduction as the dependent variable. Across the three time periods tested *family control* exhibits a negative and statistically significant association with employment reduction. Further, the interaction effects between the *family control* and *political risk* variables in all three models (using 2-, 3- and 4-year periods) are consistently negative and significant, confirming our principal findings.

To verify the sensitivity of our main findings to the adoption of alternative family business definitions, we replaced our *family control* variable with a variable calculated as the ratio of the number of shares of all classes held by the family to total outstanding shares (Kotlar et al., 2018). Thus, we replaced our dummy variable for family control with a continuous variable that captures the degree of ownership control. Results remain consistent across these analyses and are reported in Table S7 of the Supplemental Document. Ho1 and Ho2 are again supported. In addition, we also re-estimated the model by including a dummy variable to capture lone-founder firms such that it equals 1 for lone-founder firms, 0 otherwise, to account for the potential influence of lone-founder firms (Miller et al., 2011). After accounting for the cluster of lone-founder firms (Table S8 of the Supplemental Document), we continue to find support for our predictions.

Next, we explored the role of a firm's financial conditions on the association between *family control* and *employment security* by analysing firms having below-average leverage values (low-leveraged firms) and those having above-average leverage values (highly leveraged firms). Highly leveraged firms may be more vulnerable to business cycle effects and thus reduce employment levels when in an economic downturn. Findings from this analysis continue to support our predictions (see Table S9 of the Supplemental Document). We also estimated the model controlling for the country-level human capital (defined for each birth cohort as the expected years lived from 20 to 64 years of age and adjusted for educational attainment, learning or education quality, and functional health status using period-age-and-sex-specific rates) (see, Lim et al., 2018). These demographic characteristics may also influence employment reductions. Results from these tests again confirm our main predictions (see Table S10 of the Supplemental Document).

Finally, to verify the sensitivity of employment reduction of family firms to macro-environment conditions, we controlled for business cycle effects by distinguishing between financial crisis and normal economic periods (see Table S11 of the Supplemental Document). Results of this analysis finds that FCFs provide better employment security as compared to NCFs, regardless of the business cycle.

Overall, the highlight of our findings is that FCFs are much more reluctant than NFCFs to resort to job cuts and that the employment security advantage enjoyed by employees of FCFs over their NFCF counterparts is magnified in settings where employees need it most, namely in countries where the firm faces high political risk.

## DISCUSSION

Most prior literature on the societal impact of family businesses suggests that FCFs are better corporate citizens, for instance, with respect to the environment (e.g., Berrone et al., 2010, 2022; Samara et al., 2018). Yet when we shift attention to the treatment of employees, research is more contradictory, with some scholars arguing that family firms are better places to work (e.g., Block et al., 2019; Christensen-Salem et al., 2021; Colombo et al., 2014), while others using different measures of employee satisfaction or treatment reach the opposite conclusion (Miller and Le Breton-Miller, 2021; Neckebrouck et al., 2018). In this study we find evidence aligned with the positive camp when it comes to what is arguably the most important advantage a firm can provide its workforce: the assurance of having a job. Relying on a large cross-national comparison of the employment security practices of FCFs and NFCFs we demonstrate that FCFs are indeed less likely to reduce employment levels relative to their non-family peers. Moreover, we find that the gap in employment security between FCFs (higher) and NFCFs (lower) is more evident in macro settings where workers benefit the most (namely countries with high political risk). FCFs increase employment security of their workforce in riskier institutional environments, an issue that has not been examined before. Hence, we extend the current conversation examining employment practices in family-controlled firms with an explicit focus on risk variations across institutional contexts. By recognizing both the role of family control and external contingencies on employment security, we offer richer insights on the extent to which FCFs protect workers from potentially catastrophic situations (i.e., termination, which leads to the total loss of earnings and benefits).

Most prior research examining how well FCFs treat employees has rested on single country studies, such as Belgium (Neckebrouck et al., 2018), Brazil (Christensen-Salem et al., 2021), Germany (De Massis et al., 2018), Italy (Pompei et al., 2019), Spain (Amato et al., 2023; Gomez-Mejia et al., 2018; Sanchez-Bueno et al., 2020), Pakistan (Gazdar, 2011), or the United States (Block, 2010; Kim et al., 2020; Stavrou et al., 2007), thereby drawing conclusions that may be idiosyncratic to a country's institutional context. That is, single-country studies create issues regarding the generalizability of prior research especially given the wide divergence of institutional environments around the world (Furusten, 2023; van Essen et al., 2015). Indeed, failure to fully recognize how different institutional settings may interact with different ownership structures may have contributed to the confusion over whether family control is beneficial to workers or not. This may account for discrepancies or inconsistencies across single country studies. For instance using Belgian data Neckebrouck

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et al. (2018) conclude that FCFs treat employees worse than nonfamily firms while Christensen-Salem et al. (2021), using Brazilian data, reach the opposite conclusion. This provides an important rationale to justify multi-country designs that allow us to examine the salience of institutional context. Here we address this issue based on a longitudinal analysis of thousands of firms across dozens of diverse countries, and once again our results are strongly in favour of the employee advantages offered by FCFs: jobs are better preserved in firms with family control across diverse institutional settings. Further, our results find that FCFs are more likely than NFCFs to protect employment security particularly when this protection is needed the most (i.e., in countries with high political risk). In short, our empirical results are compelling and call into question conclusions from single country studies reporting that workers employed by FCFs are worse off (as employment security is a key desirable aspect of a job contract, albeit admittedly not the only one).

### Theoretical Implications

We argue that family owners are less likely to transfer risks onto employees in the form of employment insecurity because doing so threatens the family's SEW (through tarnished identity, emotional distress, unravelling binding social bonds among employees, and such). For a variety of instrumental reasons that also may have concomitant financial benefits (such as long-term employee commitment, employee investment in developing firm-specific human capital, facilitating recruitment and retention, and greater willingness of employees to work for lower wages and so forth), FCFs are likely to be more inclined to protect jobs than NFCFs. This brings SEW theory into a new domain, showing its potential to explain the differential employment practices of family and non-family-controlled firms and why this seems to apply across a wide variety of settings. Indirectly we enter the recent conversation among family business scholars as to whether socioemotional and financial goals are at odds with each other or may be complementary (Combs et al., 2023; Martin and Gomez-Mejia, 2016; Richards, 2022). Combs et al. (2023), for instance, argue that SEW driven actions among family firms (corporate social responsibility in their study) can be a 'resource generator' in terms of credibility, legitimacy and stakeholder support and that this in turn has positive instrumental implications for family firms in terms of financial gains. While in our research we did not empirically examine desirable firm outcomes (such as labour productivity, survival and performance) that may be associated with SEW driven employment stability policies this would seem to be a logical hypothesis emanating from our theory and findings.

Strong support for our first hypothesis indicates that FCFs across the board are more inclined to further employee welfare than NFCFs (in the form of job security). However, posing the question of whether FCFs are better or worse employers than NFCFs overemphasizes the importance of choices made by individual firms, while an institutional contingency perspective may lead to more refined theory on when, where, and why these choices are made. It has long been established that firms are both embedded in and affected by their institutional settings, and they are most likely to respond to those conditions that have a direct effect on organizational success and

survival (Akpınar et al., 2008; Bartley and Schneiberg, 2002; Scott and Davis, 2007). This simple view of firm goals subordinates the importance of ownership structure such that different ownership structures may hold distinct goals leading to diverse responses to institutional settings. A more systematic perspective on the contingent nature of employment strategy can deepen understanding of why the strategy is adopted and the effect of that strategy on factors that may be important to owners such as reputation, legitimacy and financial gain. This begs the question of whether a firm's employment strategy is entirely its own, or it is supported or suppressed by external factors. The implication of this question is important for both theoretical and practical reasons. If a firm's employment strategy and its consequences are moulded by external conditions, then previous studies that emphasize the main effects of ownership form isolated from the environment may be inaccurate, resulting in imprecise or even incorrect conclusions. If the employment strategy is contingent on both the ownership form and the institutional environment, this would require scholars to take enabling or constraining external conditions into account when trying to understand the influence of ownership on policy choices. The orienting premise of our second hypothesis is that ownership form interacts with environmental conditions in the adoption of an employment policy. We argue that family owners are less likely to transfer external institutional risks to the workforce due to the costs it may impose on family SEW, and this is supported by our data. NFCFs, on the other hand, are more willing to flexibly redeploy the workforce in response to economic and environmental factors, as they are not burdened by SEW considerations, in essence transferring that risk as needed to those employees most prone to termination. In other words, external factors in the institutional environment (political risk in our case) can make SEW more or less salient as a driver of family firm behaviours (provision of employment security in our case). Looked at another way, the goals of FCFs appear aligned with the need to fill an institutional void created by high political risk, whereas the goals of NFCFs inhibit their interest in filling this void. This suggests that more work is needed in the future to better understand how SEW interacts with the institutional environment to influence family firm choices.

The literature has provided formal institutional arguments to explain cross-country differences in FCFs' prevalence, strategy, and performance, suggesting that legal and regulatory institutions (La Porta et al., 1998; Peng and Jiang, 2010), and institutional imperfections or 'voids' (Khanna and Yafeh, 2007; Luo and Chung, 2013) are important contingencies affecting FCFs' ownership and control, strategic choices, and performance. Much of the literature grounded in finance recognizes that family firms fill institutional voids when the macro institutional framework is unstable, ill defined, and fails to enact and/or enforce norms, procedures, and regulations to protect private property. At the same time, it takes a decidedly negative view of the social consequences of family owners occupying that vacuum (resulting, for instance, in minority expropriation and monopolistic nepotism through pyramidal structures) (Bennedsen et al., 2010; Bertrand and Schoar, 2006; Djankov et al., 2008). This negative view of family firms may be explained by the view dominating much of financial research that the primary purpose of business is to maximize financial wealth. By recognizing that some ownership structures may have more complex objective functions that

encompass other forms of wealth, we provide a more positive interpretation, suggesting that the institutional void filled by FCFs can also be socially redeeming by sheltering internal stakeholders from the vagaries of a risky external environment while also fulfilling owner prerogatives.

Our study suggests that examining SEW under the lens of institutional theory contributes to enhancing the validity of SEW theory. Because we cannot observe SEW directly and it is typically used as an abstract explanatory construct, this has led some authors to refer to it as a 'ghost' (Miller and Le Breton-Miller, 2014). Contrasting its theorizing under different institutional settings and comparing the behaviour of family and non-family firms in those settings can help overcome this criticism about the weakness of SEW. We encourage scholars to conduct future studies that test SEW derived hypotheses using other firm outcomes as well as other variables to capture differences among institutional settings.

### **Implications for Policy and Practice**

This study also has direct practical and policy implications. Given the ongoing debates in regulatory and business circles on policies to improve employment security worldwide, our study reveals that family control has an important impact on employment security, and this impact is most critical in institutional conditions where employment security is most threatened and NFCFs are less likely to support employment security. Thus, our study cautions policymakers and potential investors to pay regard to the diffusion of FCFs in a country and its institutional environment when evaluating employment security. Indeed, policymakers should consider the potential role FCFs can play in calming social unrest during periods of political turbulence by supporting FCF efforts to ensure employment security. That is, our study highlights the important societal contributions played by firms under family control, and alerts practitioners to take into account the motivation of dominant owners to fully understand when firms are more likely to ensure employment security. What is more, it underscores the importance for a firm's internal stakeholders to consider the mutual influence between workforce reduction decisions and the external environment to understand organizational choices regarding job security and the advantages that a firm can provide its employees.

### **Limitations and Future Research Directions**

We cannot conclude the paper without considering some of its limitations and how these can open avenues for future research. First, we could only consider downsizing since we could not distinguish between voluntary and involuntary turnover. As noted earlier, the turnover literature (Griffeth et al., 2000) indicates that it is exceedingly difficult to reliably separate voluntary quits from dismissals because many of those who presumably leave on their own accord may be counselled or induced to exit rather than be terminated outright. The current tools available for assessing individual intentions to exit are fraught with measurement issues too numerous to review here (see Hom et al., 2012, 2017). In addition, as indicated earlier, several meta-analytical works suggest that various collective indices to measure turnover are generally highly

correlated lending confidence to our measures and results (Heavey et al., 2013; Park and Shaw, 2013). One interesting related issue that is currently discussed in the popular press is the so called ‘the great resignation’ in the United States, whereby approximately 4.5 million have voluntarily left their jobs each month in recent years (Indeed.com, 2023). While this phenomenon may be time (pandemics and post-pandemics) and labour market specific (a high income country such as the USA), one wonders if family firms are less likely to be affected by voluntary turnover. For instance, in a study of the German Mittelstand (owner-managed small and medium sized enterprises in Germany) De Massis et al. (2018) conclude that family firms enjoy higher employee retention and longer employee tenure as compared to non-family controlled firms. Importantly, our hypotheses focus on the role of family control to ameliorate workforce reductions in situations of political risk. Under these country conditions when a worker loses his or her job there is little in the way of ‘silver lining’ given that unemployment insurance, transfer payments, and alternative attractive employment opportunities are rather scarce in such environments (Ellul et al., 2018). Hence for the countries that matter most to this study (those at the high-risk spectrum) it is reasonable to expect that overwhelmingly observed workforce reductions are involuntary.

Second, as is the case with most studies examining different aspects of SEW in family business and their consequences (Berrone et al., 2010; Gomez-Mejia et al., 2007; King et al., 2022; Kotlar et al., 2018), we do not directly measure the SEW preferences associated with a firm’s decision to reduce or maintain its workforce nor can we empirically separate this SEW loss prevention driver from other instrumental drivers which are likely differentially intertwined across diverse national and institutional settings. Given our empirical results strongly favour a positive FCF effect on employment security, it is likely that multiple factors discussed previously are involved in tandem. Though we perform a range of sensitivity tests to rule out alternative explanations, and ensure our results are robust to various measurement and model specifications, exploring which goals dominate decisions to provide employment security across different institutional settings would provide new insight into the motivations of family-controlled firms.

Third, this study’s sample covers only listed firms. Studying the employment behaviour of private FCFs and NFCFs, which are generally smaller and more insulated from financial markets (Sharma and Carney, 2012), is another promising research avenue. It is worth noting in this regard that the study of Neckebrouk et al. (2018, p. 556) in Belgium was conducted with private firms, which the authors justify by stating that ‘[in listed firms] significant oversight by outsiders (non-family and institutional owners) limits the generalizability of related findings about family influence on firm governance’. This observation leads us to speculate that our results would be even stronger had we included a sample of private firms.

Lastly, the institutional measure we use to capture political risk and the corresponding interaction with ownership form could be broadened to include other indicators, such as political participation, presence of professional and informal associations, fairness of the court system, as well as macro cultural considerations, such as religion, historical background, and cultural heterogeneity (Berrone et al., 2022; Gomez-Mejia, 1984; Gomez-Mejia and Palich, 1997).

## CONCLUSION

Our study has shown that firm ownership structure not only plays a major role in employment practices but interacts with the institutional environment in moulding these practices. Specifically, we argue and empirically support the hypothesis that FCFs on average offer greater job security than NFCFs, and that the difference between these two ownership forms is more pronounced in countries with high political risk. Our results remain robust to correcting for endogeneity of family ownership, accounting for potential survivorship bias, and to alternative variable definitions and estimation techniques. Taken together, our findings strongly support the notion that family-controlled firms represent a positive social force in most countries around the world. We hope that our findings will raise questions about the employment security of different FCFs in different institutional environments that others could explore both conceptually and empirically.

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## NOTE

- [1] The FIBER dimensions of SEW were derived by Berrone et al. (2012) based on an extensive literature review. We use these dimensions to organize our discussion as FIBER is by far the most widely known and cited conceptual model of the content structure of SEW. Several attempts to measure FIBER psychometrically have generally found support for FIBER as a whole even though there is some debate about the specific items to be included in the measures (see Debicki et al., 2016; Gerken et al., 2022; Gomez-Mejia and Herrero, 2022; Hauck et al., 2016; Naldi et al., 2023).

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