CSR in Small and Medium Companies and Stakeholder’s Relationships*

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Abstract

Through the stakeholder theory perspective, this paper goes in depth in understanding the important role of family intentions in building relationships with multiple kinds of stakeholders. In literature, the different approach of family and non-family businesses towards social and environmental issues has been extensively discussed without reaching a commonly accepted conclusion. A family business context is more favourable for proactive stakeholder engagement because the owner can take decisions without worrying too much about the economic outcome. Moreover, the long-term orientation of family businesses is an element that can reinforce the role of corporate social responsibility and its link with local stakeholders, without need for formal and structured processes, above all in SMEs.

Keywords: Stakeholder theory; Family business; Proactive stakeholder engagement; Integrated CSR

1. Family Business, Characteristics and Attitude toward CSR Activities

Family businesses influence the economic and social scenario of many countries all over the world (Shanker & Astrachan, 1996; Venter et al., 2005; Lee, 2006). In fact, they are the most common type of ownership structure and company management and, although there is an ongoing debate on the source of family firms’ performances (Zellweger et al., 2008), they often show better performance than public companies (Anderson & Reeb, 2003; Villalonga & Amit, 2006; Zellweger et al., 2007).

However, some authors affirmed that family businesses tend to live less than non-family firms and to remain small in size all along: only 30 percent of businesses reach the second generation and a mere 15 percent gets to the third (Matthews et al., 1999; Ibrahim et al., 2009).

Handler (1989) stated that “defining the family firm is the first and most obvious challenge facing family business researchers”. Since then, researchers, academics and experts in the field have tried to provide a number of definitions that have changed in time (Astrachan et al., 2002; Astrachan & Shanker, 2003; Villalonga & Amit, 2006). However, as of today, there isn’t a universally shared and widely accepted definition of family business (Littunen & Hyrsky, 2000).

The presence of the family in the business seems to be the determinant of some of...
the behaviors they tend to have: values, emotions, trust, work environment and long-term orientation are just some of their characteristics (Ward, 1987; Levring & Moskowitz, 1993; Tagiuri & Davis, 1996; Zahra et al., 2004); but in some cases, family presence can lead to conflicts, misunderstandings, nepotism and lack of professionalism, for example (Burack & Calero, 1981; Sharma et al., 2012).

From a business point of view, long-term orientation and family values favour the choice to adopt non-economic goals, even though there is a high level of heterogeneity among family firms (Chrishman et al., 2012).

Adoption of non-economic goals is a characteristics of family firms, since this evidence is unlikely to be present in non-family firms (Zellweger & Astrachan, 2008; Zellweger & Nason, 2008). Non-economic goals represent an important step to identify values such as altruism (Schulze et al., 2001), stewardship and socio-emotional wealth (Edlin & Kellermanns, 2007; Gomez-Mejia et al., 2007), as well as the propensity to implement Corporate Social Responsibility (CSR). In family firms and, in general, in small and medium sized companies this kind of activities are not formal and structured, but informal and spontaneous.

CSR pursues the objective to create social value and monitor environmental impact, social issues, employees’ welfare, stakeholders’ relationships (Casalegno & Civera, 2016) and it has a positive impact on firms’ reputation (Risso, 2012).

Implement the CSR in companies’ strategies has become very important (Brondoni, 2003) as well as having an external reporting to demonstrate the company involvement in CSR (Salvioni & Bosetti, 2014).

From a theoretical perspective, it seems that relationships with stakeholders are differently managed in family owned businesses.

Through CSR and stakeholder perspective, this paper goes in depth in understanding the important role of family intentions in building relationships with multiple kinds of stakeholders, and their relevant impact on local communities. The research focuses on small and medium size companies.

2. The Role of CSR in Small and Medium Sized Companies

Many researches focus their attention on the study of relationships between CSR and large corporations (Jamali et al., 2009; Donaldson & Preston, 1995; Freeman, 1984), following people’s requests and expectations about companies’ social involvement and the commitment toward a global responsibility concept (Brondoni, 2010).

However, in the last decade, SMEs have captured the attention of researchers, governments and institutions. There are two main reasons: the first one is linked to the important economic role that SMEs play in countries (Vallejo Martos & Grande Torraleja, 2007; Jenkins, 2006); the second one is linked to SMEs’ approach to CSR, which can be very different from the one of multinational companies (Jamali et al., 2009).

SMEs are generally managed by an owner, the structure of the company is simple, their operations are mainly concentrated in a particular area, and from a financial point of view they depend on internal sources (Vyakarnam et al., 1997). These considerations can support the statement that SMEs are more informal (Russo & Tencati, 2009; Spence et al., 2003).

There are some evidence and several studies on SMEs and CSR. Russo & Tencati (2009) studied 3,626 Italian companies to verify whether micro,
small and medium-sized companies are characterized by informal CSR strategies, used also to manage relations with stakeholders.

Authors gave evidence that there is stronger focus on strategies impacting “above all the bottom line”, and that the approach toward CSR is adopted in order to operate within their own community, favouring the relationship with stakeholders. An interesting outcome – confirming previous literature - is the unwillingness to formalize their CSR strategies despite being aware of them.

According to Russo & Tencati (2009) micro firms seem to implement responsible behaviour toward specific categories of stakeholders and the owners tend to have a personal relation with the society. The same evidence came up for small companies: owners and their life are very related with the business and the society. In general, SMEs have the objective to create value for employees, natural environment and local communities.

In a similar way, Jenkins (2006) studied the relations between SMEs and stakeholders, discovering a great difference in managing relationships, built on trust and personal engagement, which often have a positive influence on the community (Perrini, 2006; Jenkins, 2006).

Besides the attention toward external stakeholders, there is a different approach towards internal stakeholders – such as employees – giving priority to health, a good relationship between work and family, and motivation for their work (Vives, 2006; Jenkins, 2006).

SMEs’ great attention towards stakeholders and CSR activities is also connected with the concept of social capital (Putnam, 1993): “social capital refers to connections among individuals that can improve the efficiency of society by facilitating co-ordinated actions” (Putnam, 2001; Putnam, 1993).

To this regard Perrini (2006) affirmed that SMEs have the task to create value for different stakeholders and through their social capital “are able to promote career success and executive compensation, help workers find jobs, create more intellectual capital, strengthen the supplier relations and information sharing among firms, and facilitate entrepreneurship”.

In few words, SMEs have a stronger relationship with stakeholders than big corporations, due to the important role played by both managers and owners, who have the possibility to influence those relationships moving their values and beliefs on the stakeholders and the community (Vives, 2006). As underlined by Niehm et al. (2008), social capital is the value created by the relationships that family businesses can build with the community.

The evidence of Jamali et al. (2009) is in line with previous literature. The authors studied a group of SMEs operating in Lebanon and discovered that their attitude towards CSR activities is driven by inspiration “rooted in a blend of personal and religious motivations nuanced by discretionary and legitimacy principles and reflected in a spontaneous altruistic philanthropic CSR orientation”.

As to the governance of SMEs, it must be specified that a lot of studies analyse family firms or mention that very often there is a coincidence between SMEs and family owned businesses (Murillo & Lozano, 2006; Vallejo Martos & Grande Torreleja, 2007; Miller et al., 2008). In fact, the majority of SMEs (in Europe) are family businesses (Donckels & Frohlich, 1991; Carlson et al., 2006).

3. Family Business Behavior According to Theories
Among the main challenges of family businesses - as Tagiuri and Davis have illustrated with the three-circle model (1982) - is that, very often, business objectives and emotional factors, such as personal interest, tend to overlap. This dual approach tends to bring into evidence the role of both family and business. On the other hand, some experts found different ways to underline or minimize family influence (Miller & Rice, 1988; Levinson, 1971; Cohn & Lindberg, 1974) on company history and success.

The presence of the family has a positive influence on company management and consequently on stakeholders. It is recognized, for example, that employees tend to be more loyal and the work environment is positive (Ward, 1987); moreover, there is a lower turnover (Levring & Moskowitz, 1993) and the level of motivation and trust is generally higher in comparison with non-family firms (Tagiuri & Davis, 1996).

Another important characteristic of family firms is that their business approach has a long-term orientation (Zahra et al., 2004) and they are recognized for their integrity as well as for their commitment in building strong relationships.

They also tend to maintain their headquarters in the community where they were born and they are used to contributing to local community development (Gnan & Montemerlo, 2002; Lansberg, 1999; Ward, 1987).

Family businesses have also negative aspects. Burack & Calero (1981), for example, underlined the lack of managerial talent that can affect the family, the lower level of discipline and professionalism due to informal policies and procedures practiced, the necessity to maintain and preserve family tradition and values and the impact of family conflicts on business (Sharma et al., 2012).

However, there are three main theories characterizing family businesses according to their behaviors and overlapping zones: agency theory, resource based view theory and stewardship theory.

The agency theory refers to the risk sharing problem and the relationship between the agent and the principal, as happens for contracts (Eisenhardt, 1989; Jensen & Meckling, 1976; Ross, 1973). In particular, the agency problem occurs when the agent and the principal have different objectives and goals: when the agent (who normally has superior information) acts for the principal (owner), the agent might exploit or expropriate business resources (returns for the owner).

The problem is also linked to the different incentives the two actors receive (Ang et al., 2000): in order to eliminate the agency problem, the principal has to control the agent’s work, and this means sustaining costs.

In the family business context, some authors started to introduce the concept of altruism in order to lighten the agency theory (Simon, 1993; Schulze, 2001): in fact it can reduce relationship conflicts and help the creation of a participative strategy process (Eddleston et al., 2007).

The resource based view theory (Barney, 199; Grant, 1991; Peteraf, 1993) states that bundles of resources are the real essence for achieving competitive advantage; Habbershon et al. (1999) refer to a theoretical model that analyzes the relationships between “processes, assets, strategy, performance, and sustainable competitive advantage for the family firm”.

This means that researchers have to focus their attention on complex, dynamic and intangible resources rather than on products (Cabrera-Suarez et al., 2001), and family businesses have the right characteristics to be analyzed for their unique resources.

The stewardship theory reports that managers and leaders can take decisions not for the economic incentives they can achieve but for higher purposes, favouring a
positive relationship with the company and the stakeholders (Davis et al., 1997). As mentioned before, these persons are characterized by a high level of altruism, and this element is prevalent among family businesses (Miller & Breton-Miller, 2006) in which family, ownership and business are overlapping circles (Tagiuri & Davis, 1982).

Beyond these three theories there is another, relatively less analyzed theory: the stakeholder theory (Freeman and Reed, 1983). In a family business context, the stakeholder theory has to consider one more stakeholder who is not present in non-family businesses: the family (Cabrera & Deniz, 2001).

4. CSR, Stakeholders and Communities

Freeman et al. (2010) wrote in “The Stakeholder theory: the state of the art” that CSR, from the perspective of stakeholder theory, can be described by two different approaches: residual CSR and integrated CSR.

While residual CSR is the most common in the U.S.A., meaning that CSR is not considered a core activity for the company, but is recognized as a sense of obligation towards society, integrated CSR is seen as an “integration of social, ethical, and environmental concerns into the management criteria for corporate strategy” (Freeman et al., 2010). Integrated CSR is something fundamental for the company, not only a task or an obligation for the company.

Considering the attitude towards stakeholders and the two different approaches, there is a shift from focusing the attention on shareholders (first) and in a second moment on the community, to considering all company stakeholders on the same level. Freeman (1984) included in the term stakeholders all groups or individual that in some way can be affected by the choices made by a company to reach its goals.

In a later work, Lopez-De-Pedro and Rimbau-Gilabert (2012) have analyzed stakeholders expanding the model of Freeman (1984) and including new criteria.

In the family business context, CSR is a relatively new topic (De Massis et al., 2012): the majority of studies focus on samples of both family and non-family owned companies (Adams et al., 1996; Dyer & Whetten, 2006; Berrone et al., 2010), while others focus exclusively on family firms (Deniz & Suarez, 2005; Niehm et al., 2008; Uhlaner et al., 2004).

Other studies (Nekhili et al., 2017) analyze relations between CSR and market value in family and non-family firms, discovering that although family businesses give less information on CSR, it is more easily endorsed by shareholders.

Among authors comparing family and non-family businesses, Dyer & Whetten (2006) analyzed the level of CSR involvement of 500 US companies using the data from Standard&Poor’s 500. Authors found out that there is a certain similarity between family and non-family firms – so did Adams et al. (1996) in their study - although family firms seem to be more careful towards possible damage their reputation can suffer. Perrini & Vurro (2013) analyzed companies present in the Standard&Poor’500 without the division in family vs non-family businesses and found a positive relationship between stakeholder orientation and corporate reputation.

Wiklund (2006) commented on an article by Dyer & Whetten (2006), reinforcing the concept that “the financial value of positive moral capital goes hand-in-hand with the softer qualities of identity and pride derived from positive views held by the surrounding society. This provides reinforcement for the company to remain under
strict family control”. At the opposite, negative moral capital contributes to losing control on the identity of family firms and, consequently, deteriorating family control.

Deniz & Suarez (2005), analyzing a sample of Spanish family companies, identified three main clusters (the philanthropic group, the socio-economic group and the classic group) according to their attitude towards CSR; authors reached the conclusion that the social vision family business has is probably not a question of company size but of values. Values are the key elements that characterize relations with family members as well as external stakeholders and, in this case, formal information results unnecessary.

Interesting is the study conducted by Niehm et al. (2008) on family firms operating in small and rural markets. Authors found that commitment to the community, community support and sense of community are very important for the majority of family firms.

5. Methodology

A number of studies have been conducted on SMEs and CSR, while the increasing interest in family businesses and CSR is more recent.

Some researchers have addressed the issue comparing samples of family businesses and non-family businesses (Adams et al., 1996; Dyer & Whetten, 2006; Berrone et al., 2010), others have focused their attention on samples of family businesses (Deniz & Suarez, 2005; Niehm et al., 2008; Uhlaner et al., 2004) discovering that CSR is present inside the companies but often in an informal way.

Starting from the literature analyzed, the paper has the objective to investigate the role of stakeholders in a family business context and the link family presence creates with the local community, taking into consideration the experience of a specific case study.

From a methodological point of view the research process was based on two activities: the first one was a literature review trying to bring into evidence the major results both on SMEs and CSR and on family businesses and CSR; the second one was on the field: the headquarters of Botalla, as well as others two sites, were directly visited in order to understand the production process and identify the actors involved; it was possible to hear the history of the company and of products directly from the family as well as through the experience and knowledge of a non-family member operating in the commercial area of the company.

This second step was very important because it allowed to clarify and gather information on some important topics (Eisenhardt, 1989).

The visit to the company and family lasted for five hours.

Authors also gathered information from public sources (company website as well as other documents present on the web) and triangulated the information (Eisenhardt, 1989).

At the end, authors analyzed and processed the information gathered and had a direct confront with the family to reduce the subjectivity of data interpretation (Yin, 2003).

Authors decided to analyze a single case study in order to understand the meaning of events, activities, situations and actions undertaken by the participants, and be aware of the specific context in which participants act (Maxwell, 2008). As Eisenhardt (1989) wrote “theory developed from case study research is likely to have
important strengths like novelty, testability, and empirical validity, which arise from the intimate linkage with empirical evidence” and because of “its independence from prior literature or past empirical observation, it is particularly well-suited to new research areas or research areas for which existing theory seems inadequate”.

Moreover, case studies are used to give a description (Kidder, 1982), to test a theory (Pinfield, 1986) or to generate a theory (Eisenhardt & Graebner 2007, Eisenhardt 1989; Gersik, 1988) as they seem closely related to reality (Andrade, 2009). As Chetty (1996) wrote, a case study allows to identify new insights that “would not have emerged through a large survey”.

The paper, in this case, pursues the objective to investigate the role of stakeholders in family decisions and the link family presence creates with the local community, giving a description of the phenomenon and testing previous evidence.

Since the research focuses on family businesses, a qualitative approach has been adopted, in order to better understand all the dynamics, complexities and problems characterizing this type of company (Yin, 1984).

There are different reasons to consider Botalla a relevant case study. The selected company is clearly a family business: it has reached the second generations and at least two generations are working together (Upton & Sexton, 1987); the majority of power in in the hands of the family (Astrachan & Kolenko, 1994); at least one family member is involved directly in the company (Lansberg & Astrachan, 1994); strategic decisions are taken by the family (Galloy & Sveen, 1991); the business is operated by a family that employs several family members (Covin, 1994), there is a single family that control the company (Barry, 1975). The size of the family business is of small-medium size (15 million of turnover and 25 employees).

6. Case Study: Botalla

Botalla is a family business since 1947.

During its history two families have managed the company: the Botalla family and, since 1978, the Bonino family.

The tradition of the Bonino family in the cheese sector is forty years long, and the family vision influenced the way of managing both the company and the relationships with the external world.

The entire family is involved in the company: a second generation represented by two brothers and a sister, and a first generation with father and mother.

Andrea Bonino is responsible for commercial strategy and business development; Stefano Bonino is the chief of the production area; and Simona Bonino is responsible for the administrative office. The father (Sandro Bonino) is still working in the company in a production site while the mother (Maria Teresa Bonino) is working in the administrative office (together with Simona).

The Bonino family believes in the product quality which characterized the history of Botalla and is moved by a strong passion towards their products.

Nowadays, the company is structured on four sites in the Biella territory: the headquarters in the city center of Biella, Mongrando, Occhieppo Superiore and Albiano D’Ivrea.

Botalla is a SME family company, with 15 million of turnover in 2016 and 25 employees. They have received different awards for their products and reached constant growth in the last years.

Since 1978, the family tried to innovate process and product creation without
forgetting the company’s past and tradition.

Relations with territory and human aspect

Botalla is a company well rooted in the local territory; when the Bonino family talks about the history of the family and the company, the ties with the community come up strongly.

The company presentation states: “at the heart of everything there is a well monitored supply chain, guaranteed by direct relationships with every farmer, allowing maximum value to be added to an extraordinary raw material”.

In fact, control on supply chain and milk quality starts from milking (in 2016 more than 11 million liters of milk were produced in over 60 barns), continuing through production chain, aging and product commercialization.

The Bonino family decided to manage the business following not the “normal rules” of the sector, but its instinct and the necessity to involve all local actors in the business, sharing its outcomes.

The “Caseificio Valle Elvo”, located in Occhieppo Superiore, was established in 1999 thanks to an initiative of Valle Elvo farmers, with the objective to maintain and increase cattle rearing in the local community.

The Bonino family wishes to grow with its piedmontese farmers, through a direct relation based on trust with a long-term time horizon. As they argue, they want to be part of the process and be sure about the quality of the milk. Fresh cheese is almost entirely sold to Botalla for the aging process and commercialization, while fresh products are directly sold with the “Caseificio Valle Elvo” brand, which puts together all local farmers and the Bonino family.

Moreover, the Caseificio is involved in educational activities giving students a chance to visit the plant and learn how milk is processed. They are able to host more than 1200 students per year and the interest showed by local communities is very high.

Beside the involvement with their farmers in the supply chain, Botalla is also present on the territory through sponsorships in favour of local teams, playing different sports (volley-ball, basketball, mountain bike and bocce).

Partnership with other companies

The Bonino family stresses both the importance of creating a high-quality product and its interest in the territory. This interest is not only projected towards the entire production process but also towards other companies.

Botalla headquarters -in the Biella city centre- are located just opposite the headquarters of Menabrea (a beer producing company owned by the Thedy family).

The Bonino family has a strong relationship with the Thedy family; their friendship gave life to “Sbirro”, the first Italian cheese made with beer, and the only cheese made with Menabrea beer. Sbirro is the result of collaboration between two families believing in the same values, living in the same territory, sharing passion for their products. On one side of the street there are cheese cellars and on the other side beer fermentation tanks.

Sbirro cheese is produced with 100% Piedmontese milk and with Menabrea beer, awarded best “Pale Lager” in the world.

Following the collaboration with Menabrea, synergy with other Italian excellence products continued and originated “Il gusto al cubo”, a new format presented during trade fairs. Botalla, Menabrea and another family owned company, Capanna Prosciutti, are involved in the project.
Capanna Prosciutti is a ham producer located in Parma, sharing the same vision and values with the two above companies, i.e. enhancing the territory through collaboration among companies.

7. Discussion and Conclusions

At the heart of Botalla’s vision is the human being and the relationship that can be established with other human beings, before the figure of supplier or farmer. The importance of knowing each person involved in the supply chain is fundamental in order to be sure that the raw material has the right characteristics for producing a high-level cheese.

The relationship between family company and community is strong: it involves sponsorship activities towards local teams, presence of the family during events and trade fairs, direct relations with local Piedmontese farmers, partnerships with local family companies, and the will to share something with the community (e.g. educational activities).

The strong relationship with the territory is also underlined by “Sbirro”: a product entirely made through processing local raw material, the only cheese made with Menabrea beer, and created thanks to the friendship between two families living in same territory, sharing the same passion.

As underlined by Perrini (2006) and Jenkins (2006), relationships are built on trust and personal engagement and from this point of view the personal role is essential in order to foster and respect family values. The entire production chain is involved in the business from a personal perspective, and production is the final step of the business concept.

The role of both managers (family and non-family members) and owners (family members) has the possibility to strongly influence the kind of relations the company has with other stakeholders because they have the opportunity to transfer values and beliefs on both stakeholders and local community (Vives, 2006; Jamali et.al, 2009).

The impact on the territory and the local community is something natural and driven by the family attitude; the reward is the pride to be recognized as an important element for the health of the surrounding society (Wiklund, 2006; Dyer & Whetten, 2006).

All these processes are adopted spontaneously and there is not a formal role or code to follow concerning CSR (Russo & Tencati, 2009; Spence et al., 2003).

For family businesses, and above all SMEs family businesses, direct contact with the community is crucial and, in line with findings by Niehm et al. (2008), it is possible to confirm the perception of how the sense of community is very important for this kind of companies.

In the family business context experts and researchers have recently taken an interest toward CSR and stakeholders issues.

In this regard, an in-depth analysis about the role of the man and it values should lead to new insights explaining why some family businesses act in a certain way toward stakeholders.

In fact, the analysis of the human characteristics, the history of the family and the past experiences can have an influence on the actual behavior and consequently can predict the attitude of a family company toward the community, the territory and social activities.

Till today, in the family business context a lot of studies focused the attention on
the transgenerational entrepreneurship (Nordqvist et al., 2008; Zellweger et al., 2012; Jaskiewicz et al., 2014) or the way through which entrepreneurial skills can be passed over generations (i.e. past experiences, childhood, mentorship).

At the same way, can be analyzed how those past experiences and the family can influence the CSR attitude of the owner.

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