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**A dynamic capabilities perspective to socially responsible family business:
Implications on social-based advantage and market performance**

Abstract

Despite the significant role played by family business firms in the economy, society, and environment of almost every country, there is limited knowledge as to their socially responsible conduct. This article presents the results of a study focusing on the drivers and outcomes of both internal and external CSR strategies adopted by these firms. Based on a sample of 193 family business firms in Cyprus, we confirm that certain dynamic capabilities, namely sensing, adaptive, and strategic flexibility, have a favorable effect on the development of both internal and external CSR strategy in family business. The implementation of these CSR strategies was also found to generate a social-based competitive advantage, which was conducive to heightened market performance. This impact of social-based advantage on market performance was revealed to be positively moderated by both competitive intensity and social public concern.

Keywords

CSR; dynamic capabilities; market performance; social-based advantage.

1. Introduction

Corporate Social Responsibility (CSR) is a philosophy adopted by organizations, resting on the ground of lessening businesses' negative social impact but also achieving a positive contribution to the society at large (Barnett, Henriques & Husted, 2020). It has a multidimensional and relativistic nature which goes beyond addressing the objectives of shareholders, by encompassing a wide array of topics ranging from workforce quality and business ethicality to environmental protection and community engagement (Barnette et al., 2020; De Clercq & Voronov, 2011). CSR has gained increasing momentum in recent decades by many firms in different parts of the world due to intensified competition, rising role of various pressure groups, stringent governmental regulations, and the emergence of more knowledgeable, demanding and socially sensitive buyers (Khojastehpour & Shams, 2020; Thøgersen & Alfinito, 2020).

By genuinely engaging in socially responsible (SR) activities, firms can reap a number of benefits, such as: (a) improve their relationships with community members, partners, employees, and other stakeholders, who will facilitate access to critical resources and legitimize their actions (Khojastehpour & Shams, 2020; Stoian & Gilman, 2017); (b) reduce their risk of experiencing crisis situations, as a result of mapping potential neglected or sensitive issues that may cause negative publicity, unnecessary financial penalties, or reduced sales and profits (Coombs & Holladay, 2015; Kang, Slaten & Choi, 2020); and (c) introduce, upgrade, or redesign methods, processes, and products in a more effective and efficient way that will help to reduce costs and differentiate their market offerings (Porter & Kramer, 2011).

Although family business firms¹ (especially those of smaller size) represent a significant proportion of businesses in many countries and collectively have a considerable impact on the economy, the society, and the environment of each country (Allouche, Amann, Jaussaud & Kurashina, 2008; De Massis & Foss, 2018), their SR role has received limited attention in the

extant literature (Broccardo, Truant & Zicard, 2018; Peake et al., 2017). This can be attributed to an erroneous perception that, on the one hand, these firms are not capable enough and/or are reluctant to engage in SR activities, and, on the other hand, they are not resourceful enough to reap any beneficial outcomes from a potential SR engagement or create a significant impact to society out of these activities (Randerson, 2022; Stoian & Gilman, 2017).

Indeed, there is plenty of evidence showing that family business firms really care about SR and are applying related practices, contributing in this way positively to the communities within which they operate (Nejati, Quazi, Amran & Ahmad, 2017; Peake, Cooper, Fitzgerald & Muske, 2017). This is because the ownership and management of these firms is aligned within one or more families who are active and represent the majority of shareholders, and, as such, they have a vested interest in preserving reputation and maintaining continuity (Kallmuenzer, Nikolakis, Peters & Zanon, 2018; Steiger, Duller & Hiebl, 2015). Despite the fact that the majority of these firms are of small to medium size, having limited financial, human, and other resources, they are characterized by greater flexibility, willingness to learn, and readiness to adapt (Spence, 2016).

All these reflect the possibility of family business firms possessing specific dynamic capabilities, that is, abilities to integrate, build, and reconfigure their resources and competencies, to accommodate SR needs stemming from a rapidly changing environment (Teece et al., 1997). In fact, the mainstream management literature (e.g., del Reys et al., 2019; Khan et al., 2020) has repeatedly demonstrated that various dynamic capabilities, such as those relating to environmental sensing, resource reconfiguration, and organizational flexibility, are associated with CSR development and success. **Appendix 1** provides a list of general business studies examining the connection between dynamic capabilities and CSR, as well as studies focusing on dynamic capabilities within the context of family business.

To shed light on the subject, our overarching research question is to examine the role of dynamic capabilities in shaping a CSR strategy among family business firms and how this strategy subsequently helps them to gain a differential advantage and improve their performance results. Specifically, we have four objectives to accomplish: (a) to explore the effect of three key dynamic capabilities, namely sensing, adaptive, strategic flexibility, on the development of both internal and external dimensions of the CSR strategy of family business firms;² (b) to identify the impact of internal and external aspects of CSR strategy on the family business firm's social-based advantage; (c) to examine the influence of this advantage on the firm's market performance; and (d) to assess the moderating role of competitive intensity and social public concern on the relationship between internal and external CSR strategy and market performance.

There are four compelling reasons justifying the execution of this study among family business firms. *First*, the fast-changing nature of today's business environment, characterized by heightened uncertainty, great volatility, and excessive stakeholder pressures, stresses the importance of family business firms possessing the right set of dynamic capabilities that would enable them to accommodate the numerous social challenges confronted, such as acting in an ethical and transparent way, protecting people's health and safety, and preserving the natural environment (Buzzao & Rizzi, 2020). However, although dynamic capabilities were examined in the past in connection to either CSR activities or family business, our study is the first to investigate the conducive role of dynamic capabilities as a means to craft sound CSR strategies by family business firms.

Second, these firms tend to avoid irresponsible actions which can damage their image within the community (Dyer & Whetten, 2006; Mullens, 2018). This is because: (a) they want to preserve a sense of belonging, prosperity, and succession from one generation to another,

and, in doing so, they are more willing to undertake such activities (Gomez-Mejia, Haynes, Nunez-Nickel, Jacobson & Moyano-Fuentez, 2007; Randerson, 2022; Samara, Jamali, Sierra & Parada, 2018); and (b) they have a high degree of personalization in the way they run their business, which has to do with the individual characteristics and relationships of the owner-manager (Spence, 2016). In fact, there are indications showing that family firms can even be more socially responsible than their non-family counterparts on certain dimensions, such as caring about employee rights, providing a decent work environment, and being more responsive to community needs (Abeysekera & Fernando, 2020; Broccardo et al., 2018; García-Sánchez, Martín-Moreno, Khan & Hussain, 2020; Vazquez, 2018). This calls for a better understanding of the factors that drive their CSR strategies, with one set of drivers centering on the firm's dynamic capabilities (Mariani, Al-Sultan & De Massis, 2021).

Third, family members usually hold managerial positions, sit on the board of directors, and sometimes are the core decision-makers in family business firms, which make the organization's strategic approach to CSR activities highly dependent on their personal values, ethical orientation, and business philosophies (Allouche et al., 2008). Indeed, to protect the reputation of their families, family members with an active role in the family business are careful in strictly avoiding the firm's engagement in socially irresponsible actions (Dick, Wagner & Pernsteiner, 2020). Thus, the family's values will have a critical role in determining the strategic posture of the firm toward SR activities, such as the degree of resource allocation (e.g., limited versus extensive), type of engagement (e.g., proactive versus reactive), and locus of the emphasis placed (e.g., internal versus external) (Chrisman, Chua & Steier, 2003).

Fourth, family firms bear unique features, such as closer relationships with local community members, higher personal interactions with employees, and more direct contacts with supply chain partners, which, if wisely exploited, will make their engagement in SR

activities more conducive toward improving their competitive edge through enhanced reputation in the marketplace (García-Sánchez, Martín-Moreno, Khan & Hussain 2020; Mariani et al., 2021; Mullens, 2018). In fact, there is evidence indicating that an increasing number of family business firms are considering CSR as a strong competitive weapon (Iaia, Vrontis, Maizza, Fait, Scorrano & Cavallo, 2019). This is more imperative nowadays, since increasing competitive pressures and growing social public concern, necessitate family business firms having a more socially responsible role to play within the market, rather than strictly focusing on meeting their financial goals (Mariani et al., 2021).

We organize this article as follows. First, we provide a review of prior research on the SR activities of family business. Then, we explain the theoretical foundations of our study. This is followed, by an explanation of the conceptual model and the development of the research hypotheses. The research methodology adopted is subsequently presented. We then explain the analysis of the data conducted and present the results. In the final sections, we discuss the study findings, offer theoretical and managerial implications, and suggest directions for future research.

2. Prior research on SR and family business

Although prior research on the SR activities of family business is relatively limited, this has shown a significant growth over time, particularly in recent years (Mariani et al., 2021). Despite its diverse nature, this can be categorized into six broad areas, which are elaborated in the following.

The *first* group of studies focuses on various *organizational characteristics* of family business driving their SR engagement. Firm size was the most widely examined organizational factor, with larger family business, compared to their smaller counterparts, showing a greater

tendency to act in a SR manner due to greater resource availability (Esparza-Aguilar, Reyes & Fong, 2019; Huang, Yang & Wong, 2016) and/or using different ways of implementing and communicating their SR activities (Le Breton-Miller & Miller, 2016). Firm age was also investigated, with some studies (e.g., Broccardo et al., 2018; Dyer & Whetten, 2006) indicating that the older the family firm the more likely to adopt SR activities, mainly because of possessing higher levels of socio-emotional wealth compared to younger firms that makes it to care more about preserving its reputation.

The *second* group delved into *control/governance dimensions* of the family business and how this is related to sensitivity to SR issues. For example, the degree of family involvement was found to lead to high levels of sustainability commitment (Marques, Presas & Simon, 2014; Ye & Li, 2021), while the share of company ownership/control by family members was associated with a higher degree of attention to CSR-related issues by the management team (Fehre & Weber, 2019), as well as a greater personalization of CSR activities due to the individual characteristics and personal relationships of the owner-manager (Spence, 2016). The role of governance structure was also examined, with some studies (e.g., Campopiano, Rinaldi, Sciascia & De Massis, 2019; Cordeiro, Profumo & Tutore, 2020) indicating that the greater the proportion of women sitting on the board of directors, the higher the tendency to adopt SR practices, especially as regards those relating to environmental protection. It was also revealed that when the CEO is a member of the family, it is more likely for the firm to invest in SR activities (Cui, Ding, Liu & Wu, 2018; Endo, 2020; Lamb & Butler, 2016; López-González, Martínez-Ferrero & García-Meca, 2019).

The *third* stream of research concentrated on the *personal characteristics* of the family members who are directly involved in running the family business. Two studies, namely those by Kallmuenzer et al. (2018) and Labelle, Hafsi, Francoeur and Ben Amar (2018), focused on

the role of the socioemotional wealth of individual family members, revealing that this is an important driving force in acting in a SR way. Other studies (e.g., Broccardo et al., 2018; Kallmuenzer et al., 2018; Labelle et al., 2018) also found that the more religious the owners/managers of the family business are, the greatest the potential for the firm to engage in SR activities. It was also revealed that in the case of highly educated family members, there is a greater likelihood for the firm to be loyal and responsive to stakeholder demands and needs, especially as regards sustainability issues (Le Breton Miller & Miller, 2016). Some other personal characteristics of family business managers that were found to be conducive to a SR behavior refer to the level of their ethicality, honesty, and fairness (Blodgett, Dumas & Zanzi, 2011; Laguir & Elbaz, 2016).

The *fourth* line of research paid attention to various *external factors* influencing family business operations. With regard to industry effects, although differences in industry practices were found to be responsible for variations in acceptable SR behavior by family firms, there are other forces beyond industry conditions that set the norms of acceptable SR practices (Cruz et al., 2014). The munificent context within which the family business operates was also reported to be conducive toward adopting a SR behavior (Lopez-Gonzalez et al., 2019). With regard to socioemotional bias, although these were found to drive firms to be more sensitive toward external stakeholders' needs (e.g., community), they paid little attention to issues relating to internal stakeholders (e.g., employees) (Cruz, Larraza-Kintana, Garcés-Galdeano & Berrone, 2014) Operating in business environments characterized by high levels of corruption was also revealed to inhibit the adoption of SR practices by family business firms (Dyer & Whetten, 2006; Le Breton-Miller & Miller, 2016).

The *fifth* group of studies dealt with the *specific CSR practices* adopted by family business, with a particular focus on community aid (e.g., Niehm, Swinney & Miller, 2008),

philanthropic activities (e.g., Du, 2015; Du et al., 2015), business ethicality (e.g., Fassin Rossem & Buelens, 2011), product responsibility (Kashmiri & Mahajan, 2014), eco-friendly initiatives (e.g., Endo, 2020; Huang et al., 2016; Le Breton-Miller & Miller, 2016), green innovation (Huang et al., 2016), sustainability (Bhatnagar et al., 2019), and SR reporting issues (e.g., Bansal et al., 2018; Martinez-Ferrero, Rodríguez-Ariza, García-Sánchez & Cuadrado-Ballesteros 2017). With the exception of few studies (e.g., Cuadrado-Ballesteros, Rodríguez-Ariza & García-Sánchez, 2015; Lamb & Butler, 2016; López-González et al., 2018), the bulk of research examined CSR dimensions in isolation from each other, while other studies (e.g., Labelle et al., 2018) treated CSR in a generic way. Notably, only a few studies (e.g., Cruz et al., 2014; Ye & Li, 2020) attempted to distinguish between internal and external dimensions of CSR.

The *final* group of studies, and the one that attracted the least attention, focused on the *outcomes resulting* from the implementation of CSR activities by family business firms. A number of studies (e.g., Déniz & Suárez, 2005; Dyer & Whetten, 2006; Uhlaner, van Goor-Balk & Masurel, 2004) concentrated on the enhanced reputation or improved image derived from these activities, which provide a form of competitive advantage. Some other positive outcomes of CSR activities were an increase of consumer happiness (e.g., Schellong, Kraiczy, Malar & Hack, 2018) and an enhanced sustainable survival (e.g., Ahmad et al., 2020). Another set of studies showed a positive impact of the family firms' SR engagement on financial performance, measured in terms of cost of capital, earnings, or revenues (Gavava, Gottardo & Moisello, 2018; Niehm et al., 2008; Singal, 2014). Finally, other studies (e.g., Binz, Ferguson, Pieper & Astrachan, 2019; Choi, Han & Kwon, 2019; Nirmala, Kamela, Djakman & Adhariani, 2020; Noor, Saeed, Baloch & Awais, 2020) paid particular attention to the favorable effects SR practices on enhancing the family business firm's value.

3. Theoretical background

Our study is anchored on the *Dynamic Capabilities (DCs)* theory, which contends that it is not organizational resources *per se* that can lead to a competitive advantage, but the way these are configured and coordinated by certain organizational capabilities that can continuously upgrade, update, and/or change the resource base of the firm according to changes in the marketplace (Lado, Boyd & Wright, 1992; Teece, Pisano & Shuen, 1997). Dynamic capabilities essentially refer to the “firm’s ability to integrate, build and reconfigure internal and external competencies to address rapidly changing environments” (Teece et al., 1997, p. 516). As such, these capabilities are important in helping the firm to develop and implement value-enhancing strategies that lead to the achievement of a competitive advantage and subsequently to an enhanced performance (Knott, 2003; Pavlou & Sawy, 2011).

The dynamic nature of these capabilities refers to the firm’s capacity to renew competences so as to achieve congruence with the changing business environment, where the nature of future competition and market conditions are difficult to determine, thus requiring timely and immediate response (Teece et al., 1997). Dynamic capabilities help the firm: (a) to sense and shape opportunities and avoid threats arising from the environment; (b) to seize and exploit opportunities in an effective and efficient way; and (c) to maintain its competitiveness by enhancing, combining, protecting, and reconfiguring its intangible and tangible assets (Teece et al., 1997). Dynamic capabilities lie more on the firm’s ability to achieve new combinations of ‘not-so-scarce’ resources, rather than on the mere possession of resources that are valuable, rare, inimitable, and non-substitutable. Thus, they are particularly suitable for smaller firms (which comprise the overwhelming majority of family business) that are resource constrained (Collis & Montgomery, 1998).

Dynamic capabilities are inherently change-oriented and, apart from configuring organizational resources to align with customer demands and competitors' strategies, help to reassemble the firm's 'ordinary capabilities' in order to accomplish its strategic and tactical goals in a fast-changing environment (Pavlou & El Sawy, 2011). They have a "first-order" role to play, because they aim to make changes inside (e.g., production processes) or outside (e.g., customer focus) the organization (Winter, 2003). In fact, the firm uses dynamic capabilities to create, modify, or extend ordinary capabilities, which describe how effectively routines are executed in relation to competition (Winter, 2003). However, although dynamic capabilities and ordinary capabilities are collections of routines, the former describes an ability to reconfigure and change, while the latter denotes an ability to "make a daily living" (Winter, 2003). In the context of CSR, the role of dynamic capabilities is vital since they offer the means for constant adaptation to the growing requirements of external and internal stakeholders regarding social-related issues, enabling the firm to obtain a competitive advantage over time (Zollo & Winter, 2002).

The role of dynamic capabilities in family business firms has surprisingly received scant empirical attention (Daspit et al., 2019). The few studies conducted mainly focused on how family firms adapt to changing business environments (Alonso, Kok & Shea, 2019), how these changes in the economic environment drive firms to adapt in terms of developing an innovative response (Park, Misra & Jaber, 2019), and how management, ownership and governance affect the development of innovation capabilities (Camison-Zornoza, Fores-Julian, Puig-Denia & Camison-Haba, 2020). Within the field of CSR, dynamic capabilities were the focus of only a recent study by Tiberius, Stiller and Dabic (2021), which concluded that having an open, innovative, participative, and fun culture, as well as showing care for employees, are vital elements for family firms to advance the social aspects of sustainability.

4. Model and hypotheses

Figure 1 presents the conceptual model of our study which is based on the DC theory. This comprises three key dynamic capabilities, namely sensing, adaptive, and strategic flexibility, that act as antecedents to an effective CSR strategy, which is distinguished into internal and external. The implementation of an effective CSR strategy, having either an internal or external focus, is hypothesized to lead to the generation of a social-based advantage, which is expected to have a favorable impact on the firm's market performance. The association between internal and external CSR strategy and social-based advantage is hypothesized to become stronger under conditions of high competitive intensity and strong social public concern. Finally, firm size, business experience, and focal market are used as controls on the adoption of both internal and external CSR strategy.

...insert Figure 1 about here...

4.1 Dynamic capabilities and CSR strategy

Sensing capability refers to the firm's ability to spot, interpret, and pursue opportunities arising in the environment (Pavlou & El Sawy, 2011). This is an important capability to accommodate today's fast changing market conditions by accurately and swiftly transforming organizational resources into realized outcomes (Zhang & Wu, 2013). As such, this capability requires extensive research of the firm's stakeholders, markets, and customers in order to trace opportunities to be exploited and threats to be avoided (Hodgkinson & Healey, 2011). The fact that family business, especially those of smaller size, tend to personally connect with customers, community members, and other stakeholders helps to quickly grasp their concerns and requirements regarding CSR issues (Coviello, Brodie & Munro, 2000). This will help family business managers to speedily and correctly identify CSR areas, both within and outside the firm, that warrant attention and make the necessary improvements (Pavlou & El Sawy, 2014; Vanpoucke, Vereecke & Boyer, 2014). They will also be in a better position to prioritize the

most important CSR issues and identify opportunities to be addressed in order to manage their limited organizational resources more effectively and efficiently. The possession of a sensing capability enables also the adoption of a more proactive stance toward CSR, preventing in this way unexpected pressures and/or unpleasant situations by various internal and external stakeholder parties (Hernández-Linares, Kellermanns & López-Fernández, 2020). Therefore, we can hypothesize that:

H_{1a}: The possession of high levels of sensing capability by the family business firm will positively influence the development of an effective internal CSR strategy.

H_{1b}: The possession of high levels of sensing capability by the family business firm will positively influence the development of an effective external CSR strategy.

Adaptive capability has been defined as the cushion of actual or potential resources which allows an organization to adapt successfully to internal or external pressures, and initiate appropriate changes in the firm's strategy (Eshima & Anderson, 2016). This is particularly relevant to family business firms, especially those of smaller size, because of their inherent nature to quickly adjust to changes in the environment (Torugsa, O'Donohue & Hecker, 2012). This can be attributed to the fact that these firms are characterized by informal structures, undefined control systems, less documentation, and fewer procedural barriers that allow them to have shorter lines of communication and more flexible structures which help to become more responsive to changes taking place in the firm's internal and external environment (Beaver, 2002). Such changes may refer, for example, to internal (e.g., improving employee conditions) and external (e.g., adopting eco-friendly practices) CSR dimensions, which are critical to be accommodated in light of increasing public concern of and demand for more SR behavior by business organizations (Cruz et al., 2014). An adaptive capability enables also the family business firm to reconfigure its resources based on the results of a scanning process of internal

and external stakeholders to respond quickly to SR pressures (Gibson & Birkinshaw, 2004).

The following hypotheses can therefore be made:

H_{2a}: The possession of high levels of adaptive capability by the family business firm will positively influence the development of an effective internal CSR strategy.

H_{2b}: The possession of high levels of adaptive capability by the family business firm will positively influence the development of an effective external CSR strategy.

Strategic flexibility is the “the degree to which a firm is willing to change its strategy in response to opportunities, threats and changes in the external environment” (Zahra, Hayton, Neubaum, Dibrell & Craig, 2008: 1043). According to Teece (2007), strategic flexibility acts like a “translator”, as it translates business information into a firm’s efforts in resource management through a repeated circle. In a CSR context, stakeholders have expectations which change rapidly, are more informed and active, and can exert pressure, which necessitate the recalibration of the firm’s current strategy and reallocation of organizational resources to satisfy their demands (Wu et al., 2014). This is more imperative in the case of family business firms (especially those of smaller size), which, due to their limited resources, are more vulnerable to pressures exerted by various stakeholder groups (Cruz et al., 2014; Spence, 2016). These firms need to be strategically flexible in order to take a more proactive stance and be able to swiftly divert their current CSR focus to new internal and external requirements (Guo & Cao, 2014). Such strategic flexibility will also help to restructure and leverage their limited organizational resources to more effectively seize opportunities and avoid threats (Ireland et al., 2003). Firms characterized by high levels of strategic flexibility are able to identify the right amount of resources needed to strategically respond to internal and external stakeholder social demands in an effective way (Shimizu & Hitt, 2004). Hence, we may posit that:

H_{3a}: The possession of high levels of adaptive capability by the family business firm will positively influence the development of an effective internal CSR strategy.

H_{3b}: The possession of high levels of adaptive capability by the family business firm will positively influence the development of an effective external CSR strategy

4.2 CSR strategy, competitive advantage, and performance

CSR strategy outlines SR issues identified within the internal or external environment of the firm that should be embedded into policies, procedures, and actions to reflect the values and expectations of its stakeholders (Cruz et al., 2014; Popoli, 2011; Tang et al., 2012). *Internal CSR strategy* represent efforts by the family business firm to establish initiatives relating to employment quality (e.g., work-life balance, supporting diversity, promoting equality), health and safety (e.g., hygiene conditions, safe equipment, use of harmless substances), and financial integrity (e.g., financial reporting, transparent financial dealings, correcting misconducts) (Cruz et al., 2014; Ye & Li, 2020). By engaging in internal CSR practices can help the family business firm to gain a social-based advantage against its competitors because: (a) it contributes to employee satisfaction, which is subsequently transmitted to the community through positive word-of-mouth (Vlachos, Tsamakos, Vrechopoulos & Avramidis, 2009); (b) it conveys a message that the firm is truly a good citizen within the wider community that it operates, caring for the welfare of people (Tang et al., 2012); and (c) it denotes an organization that is honest and truthful in its business conduct both internally (e.g., operating processes) and externally (e.g., contractual agreements with supply chain partners) (Tang et al., 2012). This argumentation leads us to the following hypothesis:

H₄: The development of an effective internal CSR strategy will have a positive effect on the creation of a social-based competitive advantage.

External CSR strategy refers to dimensions such as community engagement (e.g., donations, partnerships with NGOs, sponsoring social events), environmental protection (e.g., energy saving, water conservation, recycling), and ethical conduct (e.g., abiding by the code of

conduct, avoiding bribery, including ethical clauses in business contracts). By communicating CSR activities to the wider community, the family business firm is expected to create a social-based advantage because: (a) they give greater visibility within its operating environment and strengthens its relationships with various stakeholder groups (Lev, Petrovits & Radhakrishnan, 2010; Sanchez & Benito- Hernández, 2015); (b) they help to generate positive publicity and improve reputation of the firm, as well as boosting branding efforts to satisfy stakeholder expectations (Cruz et al., 2014; Ye & Li, 2020); (c) they provide legitimacy to the firm in order to be able to freely operate in the market (Ye & Li, 2020); and (d) they minimize the risk of confronting unpleasant situations, such as negative media attention or consumer boycotts, safeguarding in this way its image (Godfrey, Merrill & Hansen, 2009; Hawn & Ioannou, 2016; McDonnell & King, 2013). Based on the above, we may posit that:

H5: The development of an effective external CSR strategy will have a positive effect on the creation of a social-based advantage.

A *social-based advantage* is formed when the firm has effectively managed to neutralize threats posed by socially responsible issues, while exploiting social-related opportunities to build unique, positive relationships with its stakeholders (Barney, 1991; Mishra & Modi, 2016). By capitalizing on this social-based advantage, the family business firm can gain multiple benefits, such as: (a) saving time and resources from engaging in rescue-related activities after a mishap occurs, thus experiencing less damage in terms of customer withdrawal, sales reduction, or possible penalty payments (Barnette, 2007); (b) creating a fertile atmosphere within the organization that will improve employee morale, increase productivity levels, and attract more talented people (Nazir, Islam & Rahman, 2021); and (c) cultivate stronger and mutually beneficial relationships with various stakeholders (e.g., local communities) that will facilitate the way its business is run (Ashby, Leat & Hudson-Smith, 2012). All these are expected to enhance customer satisfaction and loyalty levels, as well as generate more

customers because they will perceive that they are engaging with a firm that respects people, gives back to society, and fulfils its social contract (Homburg, Stierl & Bornermann, 2013; Harrison, Bosse & Philips, 2010). Hence, we can hypothesize that:

H₆: The possession of a social-based advantage, deriving from the family business firm's implementation of effective internal and external CSR strategies, will have a positive impact on market performance.

4.3 Competitive intensity and social public concern as moderators

Competitive intensity refers to key distinctive forces, such as power distribution, price competition, and responses to competitors' movements, that explain the level of rivalry among firms within a specific industry (Barnerjee, Iyer & Kashyap, 2003; O'Cass & Weerawardena, 2010). There is evidence (e.g., Dupire & M' Zali, 2018; Murillo & Lozano, 2006; Reyes-Rodríguez, Ulhøi & Madsen, 2014) indicating that by engaging in CSR activities firms can enhance their competitive edge and therefore be in a better position to confront situations where there is cut-throat competition. This is because the adoption of an effective internal or external CSR strategy is seen as a value-creating practice, which differentiates the company from its competitors and gives an extra boost to the generation of a social-based competitive advantage (Porter & Kramer, 2011). Under conditions of high competitive intensity, firms are motivated to engage in SR activities to enhance their social-based advantage in order: (a) to attract new customers who are sensitive about social issues (Benn, Todd & Pendleton, 2010; Bagnoli & Watts, 2003; Dupire & M' Zali, 2018); (b) to convince buyers to switch from competition because of providing a better social performance (Dupire & M' Zali, 2018; Flammer, 2015); and, (c) retain its existing customers, by demonstrating higher social ratings than its competitors (Fernández-Kranz & Santaló, 2010). The following hypothesis can be made:

H₇: The existence of high levels of competitive intensity will strengthen the positive effect on the firm's social-based advantage of: (a) internal CSR strategy; and (b) external CSR strategy.

Social public concern refers to the increasing trend of people living in a specific society to show care and sensitivity about various social issues, such as preserving the environment, improving community welfare, and protecting human rights (Wang, Han, Vries & Zuo, 2012). Social public concern is an external force exerted on business firms to adopt CSR practices, which, if properly implemented, will create a ‘good corporate citizen’ image, with all the benefits that this may entail for the firm (Banerjee et al., 2003). It is basically an ‘informal regulation’ created by various stakeholders, such as activists, buyers, and citizens, which exerts serious pressures on firms to act in a SR way (Banerjee et al., 2003). Under conditions of high public concern, the family business firm’s adoption of internal or external CSR strategies is expected to give an extra boost to the generation of a social-based advantage, because of: (a) heightened sensitivity for social issues by various stakeholder groups, as a result of intensifying social problems and increasing cases of company misbehavior (Vitolla, Raimo, Rubino & Garzoni, 2019); (b) increased power of stakeholders and greater tendency by them to punish irresponsible firms, resulting from the accessibility to more information from social media, sustainability reports, and activists’ actions (Coombs & Holladay, 2014); and (c) the emergence of new business models and philosophies embracing social elements, which have changed today’s business landscape and the rules of competition (Coombs & Holladay, 2014; Vitolla et al., 2019). The following hypothesis can therefore be set:

H₈: The existence of high levels of social public concern will strengthen the positive effect on the firm’s social-based advantage of: (a) internal CSR strategy; and (b) external CSR strategy.

5. Research methodology

This section explains the methodology of our study, particularly focusing on the scope of research, sampling procedures, construct operationalization, research instrument, and data collection.

5.1 Scope of research

Our study was conducted in Cyprus (a member country of the European Union), which, despite its small size, provides a fertile ground to investigate CSR issues within the context of family business. This can be attributed to the following reasons: (a) family businesses, especially those of smaller size, represent the vast majority of firms in the country, contributing almost half of its GDP; (b) irrespective of firm size, there is at least one active family member in the management team of these firms; (c) CSR issues have attracted significant attention in the last years among the local business community, with the first CSR association established in 2016; (d) the country's population is very educated, with a high sensitivity to the SR practices of firms; and (e) local consumers are very demanding in their purchasing decisions, with a growing number of them showing particular preference for ethical, green, and safe products (CCCI and EY Report, 2017; Hadjigeorgiou, Talias, Soteriades, Philalithis, Psaroulaki, Gikas & Tselentis, 2014). Although family business cut across a wide range of economic sectors, we opted to focus on manufacturing firms due to their higher involvement in SR activities (Luo & Zheng, 2013; Paulraj, 2011).

5.2 Sampling procedures

Our sample was drawn from the 'Directory of Cypriot Manufacturers 2019', issued by the Cyprus Chamber of Commerce and Industry (CCCI), which contains more the 5000 manufacturing firms operating in the island. Of those, we have randomly selected 1000 firms, which were contacted by telephone to clarify whether they had a family business status in order to be eligible to participate in the study. However, to achieve variability in our sample, we covered a variety of industrial sectors that have a different social impact, ranging from foodstuffs and clothing to furniture and chemicals. As expected, the overwhelming majority (i.e., 943) of these firms were family business, using the eligibility criteria set by the European Commission definition of what constitutes a family business firm (which is also aligned with

the most widely adopted definitions found within the pertinent literature).³ These firms were contacted to explain the purpose of the study, identify key informants, and obtain consent to participate in the survey. The outcome of this process was for 531 family business firms to be willing to participate, while those refusing to take part in our study cited mainly as reasons the limited availability of time, company policy for not disclosing information, or temporary absence of the key informant.

5.3 Operationalization of constructs

All scales for measuring the constructs used in our model were obtained from prior research published in reputable journals, which were adapted for the purposes of our study (see **Appendix 2**). These were further refined following a discussion with a panel of family firms' managers operating in the manufacturing sector of Cyprus. With regard to dynamic capabilities, *sensing capability* is a five-item scale derived from the work of Pavlou & El Sawy (2011), *adaptive capability* is also measured with five items taken from Zhou & Li (2010), while the six-item operationalization of *strategic flexibility* was extracted from Zahra et al. (2008). CSR is the central construct of our study, which was divided into internal (i.e., focusing on SR aspects within the firm) and external (i.e., outward looking SR activities of the firm). *Internal CSR* was a higher-order construct comprising *employment quality* (five items), *health and safety protection* (six items), and *financial integrity* (five items). *External CSR* was also a higher-order construct which included *environmental responsibility* (five items), *philanthropy* (six items), and *ethical conduct* (five items). All CSR scales were adapted from Durand & Jacqueminet (2015), El Akremi, Gond, Swaen, De Roeck & Igalens, ISM (2020), Meisenberg & Ehrmann (2012), and Turker (2009). *Social-based advantage* was a five-item scale adopted from Paulraj (2011) and *market performance* comprised five items taken from Vorhies & Morgan (2005). The measurement scales of the two moderator variables were derived from Banerjee et al.'s

(2003) work, with *competitive intensity* having six items and *social public concern* consisting of four items.

5.4 Research instrument

To collect our data, we designed a structured, self-administered questionnaire. In the initial part of this questionnaire, we requested information about the company, such as year of establishment, number of employees, and focal market. The main body of the questionnaire incorporated a series of pre-coded questions, using the scales identified earlier from the extant literature. Answers to these questions were measured on a seven-point Likert scale, ranging from strongly disagree (1) to strongly agree (7). However, for both social-based advantage and market performance the measurement was against the firm's key competitors, using a seven-point scale ranging from much worse (-3) to much better (+3), with 0 being the mid-point. At the end of the questionnaire, we incorporated a set of questions aiming to assess the suitability of the key informant with regard to: (a) knowledge about the specific company's activities; (b) familiarity with the various issues raised in the questionnaire; and (c) confidence in answering the questions incorporated (Cannon & Perreault, 1999). The questionnaire was initially prepared in English and then translated into Greek, which is the main official language in Cyprus. However, to ensure that the translation was properly done, the Greek version of the questionnaire was back-translated to English revealing no particular problems (Babin & Zikmund, 2015). The questionnaire was subsequently pre-tested with five Cypriot family business managers to verify its workability, flow, and ease of response, revealing only some minor issues for correction.

5.5 Data collection

Those firms that expressed a willingness to take part in our study were approached in various ways (i.e., personally, electronically, or by telephone) to complete the questionnaire. To boost

participation, these were reminded by telephone and/or e-mail twice. The outcome of this process was to have 209 returned questionnaires (i.e., 39.3% response rate), of which only 193 were usable. A non-response test, using the procedures recommended by Armstrong & Overton (1977), where the answers of early respondents were compared to those of late respondents, revealed no statistically significant differences. Key informants were in the majority of cases (especially for firms of smaller size) the owner-manager, and, to a lesser extent, other company managers, such as those responsible for marketing/sales, production/operations, and human resources. In analyzing the answers of the questions referring to key informant suitability, two questionnaires had to be removed, because of not providing satisfactory ratings.

6. Data analysis and results

6.1 Measurement model

The analysis of the data collected was based on structural equation modeling using the EQS program. In testing the measurement model, we first conducted a confirmatory factor analysis of all constructs included in the conceptual model, where each item was restricted to load on its *a priori* set factor and the underlying factors were allowed to correlate (Anderson & Gerbing, 1988). The estimation of the measurement model was based on the elliptical re-weighted least-square procedure, indicating an acceptable fit to the data ($\chi^2 = 2991.19$, $p = .00$, $df = 1610$; NFI = .91; NNFI = .93; CFI = .93; RMSEA = .07) (see **Table 1**).

...insert Table 1 about here...

With regard to *convergent validity*, this was met because the *t*-value for each item was always high and significant, the standard errors of the estimated coefficients were very low, and the average variance extracted for each construct was equal to or above the threshold level of .50 (Hair et al., 2018). *Discriminant validity* was also evident, since the confidence interval around the correlation estimate for each pair of constructs never included 1.00 (Anderson &

Gerbing, 1988), while the squared correlation for each pair of constructs never exceeded their average variance extracted (Fornell & Larcker, 1981) (see **Table 2**). *Construct reliability* was satisfactory because all constructs in the model had Cronbach's alphas greater than .7, while composite reliability was also satisfactory with all coefficients being greater than .7.

...insert Table 2 about here...

To verify that common method bias was not a problem in our study, we first employed the Harman's single-factor test (Podsakoff & Organ, 1986), where all items of the questionnaire were analysed using the principal component method with varimax rotation. This had as a result to derive from the unrotated factor solution eleven separate factors with eigenvalues greater than 1.0, which explained 69.0% of the total variance extracted (with the first factor explaining 24.7% of this variance). A confirmatory factor approach, where all items included in the measurement model were restricted to load on a single factor, showed fit indices with very poor values which are below the commonly acceptable cut-off points (i.e., $\chi^2 = 10259.44$, $p = .00$; $df = 1769$; $NFI = .58$; $NNFI = .61$; $CFI = .63$; $RMSEA = .15$) (Venkatraman & Prescott, 1990).

6.2 Structural model

We analyzed the structural model to test the hypothesized direct and moderating effects. Both the Chi-square to the degrees of freedom ratio ($\chi^2/df = 1.85$) and the values obtained for all fit indices ($NFI = .91$; $NNFI = .93$; $CFI = .93$; $RMSEA = .09$) indicate an acceptable model fit (see **Table 3**).

...insert Table 3 about here...

With regard to main effects, our results support both H_{1a} and H_{1b} , since sensing capability was found to have a significant positive effect on internal CSR strategy ($b = .17$, $t = 1.80$, $p = .07$) and external CSR strategy ($b = .27$, $t = 2.60$, $p = .01$) respectively. H_{2a} and H_{2b} are also confirmed, because adaptive capability exhibited a significant positive impact on both

internal ($b = .77$, $t = 3.75$, $p = .00$) and external ($b = .74$, $t = 3.61$, $p = .00$) CSR strategy. The same significant positive association was also established with regard to the effect of strategic flexibility on internal CSR strategy ($b = .16$, $t = 1.73$, $p = .08$) and external CSR strategy ($b = .22$, $t = 2.23$, $p = .03$), thus supporting H_{3a} and H_{3b} respectively. The positive impact of the family business firm's CSR strategy on gaining a social-based advantage was also verified, and this was true for both internal aspects ($b = .32$, $t = 1.77$, $p = .08$) and external aspects ($b = .37$, $t = 1.98$, $p = .05$) of CSR strategy, which lends support to H₄ and H₅ respectively.

Concerning the results of the moderation analysis, competitive intensity was found to have a significant moderating effect on the association between internal CSR strategy and social-based advantage, as well as between external CSR strategy and social-based advantage, thus accepting H_{7a} and H_{7b} respectively. Specifically, under conditions of high competitive intensity, the positive effect of internal CSR strategy on social-based advantage becomes stronger ($b = .38$, $t = 6.70$, $p = .00$), and the same is also true with regard to the positive impact of external CSR strategy on social-based advantage ($b = .55$, $t = 7.11$, $p = .00$). Similar moderating effects were also observed in the case of social public concern. Specifically, we confirmed H_{8a}, since it was found that under high levels of social public concern the impact of internal CSR strategy on social-based advantage becomes stronger ($b = .44$, $t = 6.89$, $p = .00$). H_{8b} was also verified, because the association between external CSR strategy and social-based advantage is enhanced when social public concern is high ($b = .52$, $t = 7.06$, $p = .00$).

With regard to control effects, *firm size* (measured in terms of number of employees) was revealed to significantly influence both internal ($b = .67$, $t = 5.05$, $p = .00$) and external ($b = .72$, $t = 6.00$, $p = .00$) CSR strategies, which indicates that larger family business firms are in a better position to adopt such strategies compared to their smaller counterparts. *Business experience* also had a control effect on the CSR practices of family business, indicating that

older firms are more likely to engage in either internal ($b = .33, t = 2.71, p = .01$) or external ($b = .32, t = 2.61, p = .01$) CSR strategies. Finally, the type of focal market, whether business-to-consumer or business-to-business, was not found to have a significant control effect on CSR strategy adoption either internal ($b = -.02, t = -.31, p = .76$) or external ($b = -.05, t = -.45, p = .65$).

7. Discussion

This study has tackled two relatively neglected areas in family business research, namely that of dynamic capabilities and CSR. Our findings indicate that certain dynamic capabilities possessed by family business firms are conducive to successfully adopting a CSR strategy focusing on either internal or external company aspects. It was also verified that the implementation of both internal and external CSR strategies has beneficial effects for these firms to build a social-based advantage that helps to improve their performance in the market. These findings are in harmony with the results of prior research in the marketing/management field in general (e.g., Fainshmidt, Wegner, Pezeshkan & Mallon, 2019; Ko & Liu, 2017; Li & Liu, 2014) and the CSR field in particular (e.g., Flint & Golicic, 2009; Zhao, Meng, He & Gu, 2019), which stress the beneficial role of dynamic capabilities in achieving success in a fast-changing business environment.

With regard to dynamic capabilities, our results indicate that family business firms can redirect their resources more effectively and efficiently to build sound internal and external CSR strategies, when they have the ability: (a) to sense and scan the environment in an attempt to identify opportunities and challenges pertaining to societal needs of the market they operate; (b) to adapt to market changes by reconfiguring organizational resources in a way to accommodate areas of social concern, resolve problematic social issues, and adjust to various stakeholder requirements; and (c) to be flexible enough to strategically respond to SR

requirements and manage environmental uncertainties (Pavlou & El Sawy, 2011; Paulraj, 2011; Ramachandran, 2010).

The fact that CSR strategy, whether inward or outward looking, was found to generate a social-based advantage underlines the instrumental role that SR activities can play in enhancing the firm's societal position in the marketplace. This is particularly true in the case of family business firms, where their owners, compared to the owners of non-family organizations, tend to care more about the reputation of their firms and the protection of the name of the founder and his/her successors (Block & Wagner 2010). This reflects the family business firm's desire for preservation and continuity, by building sound, long-term relationships with various stakeholder groups, such as the local community, employee unions, and supply chain members (Abdelattif, Amann & Jaussaud, 2010; Venturelli, Principale, Ligorio & Cosma, 2021).

The positive effect of the family business firm's social-based advantage on market performance identified in our study is consistent with findings of prior research (e.g., Martinez & del Bosque, 2013; Saeidi, Sofian, Saeidi & Saeidi, 2015; Xie Jia, Meng & Li, 2017), which underscore the role of reputation gained from SR activities in acquiring new customers and/or retaining existing customers who care about social issues (Luo & Bhattacharya, 2006). Indeed, buyers respect and like products produced by firms that have a favorable CSR reputation (Bhattacharya & Sen, 2004), while at the same time they are willing to punish brands related to companies behaving in an irresponsible way (Ferreira & Ribeiro, 2017).

With regard to contingent factors, our findings revealed that under conditions of intense competition, the family business firm's CSR strategies (both internal and external) tend to have a stronger effect on creating a social-based competitive advantage. This implies that one way for family business firms to differentiate from their competitors is to capitalize on the positive image gained from their engagement in SR activities (Komodromos & Melanthiou,

2014). The fact that social public concern was also found to positively moderate the relationship between CSR strategies and social-based advantage, indicates that with growing public awareness of and sensitivity for social-related problems the need for acting in a SR manner will become increasingly more important in the future.

8. Implications

8.1 Theoretical implications

Our study has shown that the adoption of a Dynamic Capabilities perspective to CSR provides a fertile ground in explaining the engagement of family business firms in SR activities. This comes as a response to recent calls by scholars in the field (e.g., Broccardo et al., 2018; Mariani et al., 2021) to identify those “intrinsic elements” that determine successful CSR practices in a family business context. The identification of sensing, adaptation, and strategic flexibility as key factors driving firms to adopt CSR strategies provides a new theoretical angle for explaining CSR phenomena. This is particularly true within the context of family business firms, which seek for long-term orientation, intergenerational legacy, and succession continuity, rather than gaining short-term profits (Cennamo, Berrone, Cruz & Gomez-Mehia, 2012; Le Breton-Miller & Miller, 2006).

We also add to the theoretical debate on the subject, by drawing a distinction between internal and external aspects of the firm’s CSR strategy. Although it has been asserted that the company’s internal CSR aspects lack visibility (because they are usually not directly communicated to stakeholders outside the firm) and might not be able to provide evident positive outcomes (Ginder & Byun, 2022; Hawn & Ioannou, 2016), our study has shown that these are equally important to external dimensions of CSR in generating a social-based

advantage for family business firms. This is probably the result of the latter showing a “true commitment” toward SR issues, which is widely appreciated by various stakeholder groups.

Our study stresses the importance of family business firms adopting a CSR strategy that has both an inward-looking and outward-looking focus. Such an integrated CSR approach is vital in creating a good ‘citizen’ profile for the firm in the market that it operates. Interestingly, the extant literature (e.g., Hameed et al., 2016; Tang et al., 2012; Ye & Li, 2021) shows that even though internal CSR efforts are not as visible as external ones, they are vital in building the required knowledge, skills, and values within the organization, that will subsequently help to boost a genuine interest and commitment by the firm to perform outward-looking CSR activities, such as protecting the environment and acting in an ethical manner.

Despite skepticism (e.g., Cahan, De Villiers, Jeter, Naiker & Van Staden, 2016; Wang, Choi & Li, 2008) regarding the existence of a positive impact of the firm’s involvement in SR activities on its performance outcomes, our study has amply demonstrated that indeed there is such an association within a family business context, at least as regards market dimensions of performance (e.g., customer satisfaction, customer retention, customer generation). This corroborates the results of Saeidi et al.’s (2015) study, which also revealed positive associations between CSR, competitive advantage, and customer satisfaction.

8.2. Managerial implications

This study outlines that family business managers should invest in building and/or strengthening a specific set of dynamic capabilities (i.e., sensing, adaptive, strategic flexibility) to enable the effective implementation of CSR strategy taken into consideration the unique characteristics of family business firms. These capabilities are vital in allowing them to more effectively and efficiently utilize their limited resources to pursue appropriate SR activities (Tiberius et al., 2021). As such, there is a need to enhance these capabilities by adopting

appropriate training programs, changing and/or updating internal policies, and transforming processes and procedures (Combe & Greenley, 2004; Tiberius et al., 2021).

Our study introduces a new type of competitive advantage gained from operating in a SR way, namely that of social-based advantage, which is over and above the traditional generic advantages of product differentiation and cost reduction. This is an important advantage in the contemporary business scene, which family business managers need to further cultivate and refine in light of increasing sensitivity to various societal issues (e.g., promoting diversity, protecting the planet, reducing poverty) by various stakeholder groups. This unique competitive advantage creates and boosts a strong moral image, as well as denotes care on behalf of the family business firm about its internal and external stakeholders, which are essential in enhancing reputation in the marketplace.

Managers should also acknowledge the importance of a social-based advantage (resulting from the adoption of both an internal and external CSR strategy), since this is instrumental in gaining heightened market performance by meeting stakeholder's expectations and improving social welfare. Although SR is not always at the core of the firm's business activities, family business managers should demonstrate the required commitment in order to add extra value to their market offerings and improve their image (Husted & Salazar, 2005). There are indications that such commitment is highly appreciated by various stakeholder groups and help to achieve favorable attributions from customers (Du, Bhattacharya & Sen, 2010).

Family business managers should also recognize the importance of engaging in SR activities as a means to differentiate from their rival firms, especially when confronted by intensive competition and heightened social public concern. This is because the implementation of CSR strategies will help their firms to gain legitimacy and improve the image, which will subsequently facilitate their smooth operation in the market (Hawn & Ioannou, 2016). It is

important therefore to capitalize on these CSR activities and proceed with communicating their favorable effects to their current and potential customers through initiating sound public relations campaigns, issuing non-financial/sustainability reports, and receiving certification by independent bodies (Brotons & Sansalavador, 2020; Hawn & Ioannou, 2016; Vitolla et al., 2019).

9. Limitations and future research

The findings of our study should be seen within the context of certain limitations, which provide an impetus for further research on the subject. *First*, our study was conducted in Cyprus, which, although providing a fertile ground for carrying out research among family business firms (due to their dominant role in the island's business activity), necessitates replication to other countries with a different socio-economic profile. This is because CSR activities are influenced to great extent by the specific situation prevailing in a country, such as government policies, regulatory frameworks, institutional settings, cultural values, and economic conditions (Mariani et al., 2021).

Second, this research follows a cross-sectional design which prevents from identifying time lagged effects of the various constructs of the conceptual model, especially in light of the fact that our focus is on phenomena that are dynamic in nature (Tiberius et al., 2021; Wolf, 2014). Hence, it would be useful to embark on a longitudinal research, where the various constructs should be examined at different time intervals, because dynamic capabilities need time to implement an effective CSR strategy, the implementation of this strategy needs time to generate a social-based advantage, and the achievement of this advantage needs time to yield positive market performance results (Morgan et al., 2012).

Third, it would be illuminating to investigate the factors responsible for developing dynamic capabilities, as well as examine the effect of additional dynamic capabilities (e.g., absorptive capacity, organizational learning, entrepreneurial orientation) on the family business firm's CSR strategy (Broccardo et al., 2018; Hernández-Perlines & Rung-Hoch, 2017; Mullens, 2018). The interplay between dynamic capabilities and ordinary capabilities also warrants attention in successfully implementing a CSR strategy. Their role in properly re-configuring specific organizational resources to achieve maximum results also needs investigation (Fainshmidt et al., 2018).

Fourth, in this study we paid particular emphasis on a specific type of advantage, namely that based on social aspects. The effect of CSR strategy on other aspects of advantage could also be explored, such as that relating to reputation or image (e.g., Li et al., 2020). It would also be interesting to explore the effect of the family business firm's CSR practices on generic competitive advantages, such as that of product/service differentiation.

Fifth, the contingent role of other variables on family business CSR strategy, such as pressures by stakeholders with different power, legitimacy or urgency, is also useful to examine (Barnette, 2007; Randerson, 2022). It is also important to identify differences with regard to CSR strategy implementation between: (a) family firms which are publicly listed and those which were not; and (b) family firms managed by a successor of the family and those managed by a non-family member (Ahmad, Siddiqui & Aboaslahm, 2020).

Sixth, the outcome variable of our study is market performance, although other outcomes could also be explored with regard to the implementation of a sound CSR strategy, such as: (a) employee-related (e.g., productivity, satisfaction, loyalty); (b) financial-related (e.g., sales, profits, return on assets); (c) financial-market-related (e.g., Tobin's q, market return, earnings per share); and (d) other (e.g., reputation level, image, brand-equity). In doing so, it

would be interesting to find out which specific aspects of the CSR strategy positively affect specific dimensions of business performance.

Finally, a ‘think tank’, comprising key members from both the academic and practitioner communities, should be set up in order to jointly prioritize a future research agenda focusing on the socially responsible activities of family business firms. This would help to coordinate the actions of the two communities and bring to the surface other important issues that warrant attention, such as the family business firms’ contribution to the UN Sustainable Development Goals (SDGs). The partnership role of other stakeholders, such as various governmental and non-governmental organizations, should also be investigated in this research endeavor.

Notes

1. Although there are multiple definitions of what constitutes a family business firm (e.g., Mariani et al., 2021; Preslmayer et al., 2018; Zachary, 2011), these converge on three key dimensions: (a) *ownership*, that is, the founder or a member of his/her family owns a portion of the capital in the firm; (b) *management*, that is, the founder or a member of his/her family has an important managerial/decision-making role; and (c) *control*, that is, the founder or a member of his/her family has a leading and influential position (such as having a sit in the board of directors) to control the activities of the firm.

2. *Internal CSR strategy* refers to the firm’s inward-looking socially-responsible activities, such as preserving employment quality, safeguarding employee health and safety, and securing financial integrity, aiming to have a positive impact on its internal stakeholders (e.g., shareholders, managers, employees). On the other hand, *external CSR strategy* includes outward-looking socially-responsible activities of the firm, such as protecting the environment, engaging in philanthropy, and adopting an ethical conduct, which have a favorable impact on the firm’s external stakeholders (e.g., governments, local communities, customers) (Eteokleous, 2019; Ye & Li, 2021).

3. The European Commission defines a family business firm as one that: (a) the majority of decision-making rights (either indirect or direct) are in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child, or children’s direct heirs; (b) at least one representative of the family or kin is formally involved in

the governance of the firm; and (c) the person who established or acquired the firm (share capital) or their families or descendants possess at least 25 per cent of the decision-making rights mandated by their share capital (European Commission, 2009).

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Figure 1: The conceptual model

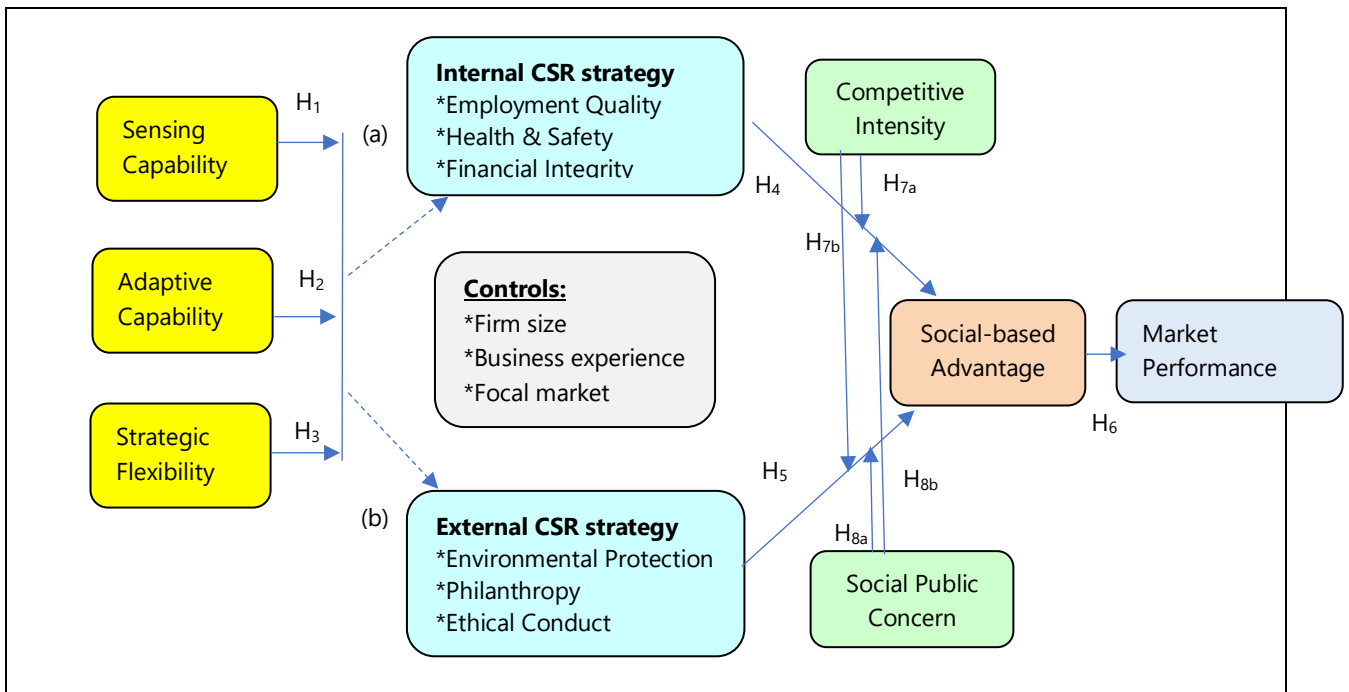


Table 1: Results of measurement model

Constructs	Scale items	Standardized loadings	<i>t</i>	<i>a</i>	<i>ρ</i>	AVE	Mean	Stand. dev.	Item mean	Item SD
Sensing Capability	SEC1	.61	*	.73	.74	.50	5.82	0.92	5.37	1.33
	SEC2	.80	6.31						5.85	1.22
	SEC3	.74	6.13						6.09	1.05
	SEC4	.65	5.77						5.99	1.21
Adaptive Capability	ADC1	.88	*	.84	.84	.63	5.83	1.00	5.89	1.12
	ADC2	.80	13.24						5.82	1.18
	ADC3	.71	11.09						5.55	1.33
	ADC4	.76	12.25						5.66	1.30
	ADC5	.80	13.28						6.22	1.05
Strategic Flexibility	SRF1	.61	*	.81	.80	.51	5.55	0.93	5.45	1.36
	SRF2	.79	8.05						5.52	1.29
	SRF3	.67	7.25						5.48	1.41
	SRF4	.71	7.52						6.03	1.07
	SRF5	.69	7.39						5.37	1.28
	SRF6	.70	7.46						5.43	1.29
^aINTERNAL CSR										
Employment Quality	LR11	.67	*	.79	.78	.51	5.81	1.14	6.04	1.33
	LR12	.79	8.67						6.05	1.37
	LR13	.70	7.93						5.22	2.09
	LR14	.69	7.84						6.10	1.29
	LR15	.67	7.63						5.63	1.57
Health and Safety	HSC1	.74	*	.79	.78	.50	5.80	1.15	6.27	1.20
	HSC2	.69	8.42						5.59	1.91
	HSC3	.68	8.28						5.95	1.44
	HSC4	.71	8.84						5.79	1.62
	HSC5	.69	8.41						5.42	1.80
Financial Integrity	FIT1	.65	*	.80	.80	.55	6.12	0.93	5.83	1.34
	FIT2	.81	8.75						6.07	1.23
	FIT3	.78	8.52						6.43	1.02
	FIT4	.76	8.36						6.15	1.21
	FIT5	.68	7.64						6.11	1.11
^bEXTERNAL CSR										
Environmental Protection	ENV1	.67	*	.79	.78	.51	5.48	1.30	5.65	1.50
	ENV2	.66	7.50						5.26	1.84
	ENV3	.76	8.45						5.83	1.65
	ENV4	.70	7.93						4.91	1.97
	ENV5	.74	8.29						5.74	1.53
Philanthropy	GLC1	.75	*	.81	.82	.59	4.79	1.54	4.69	1.96
	GLC2	.71	9.28						5.44	1.64
	GLC3	.82	10.90						5.01	1.95
	GLC4	.69	8.92						3.84	2.14
	GLC5	.85	11.21						4.95	1.93
Ethical Conduct	ETH1	.72	*	.68	.71	.52	6.31	0.89	6.32	1.10
	ETH2	.72	7.70						6.02	1.37
	ETH4	.73	7.84						6.59	.92
Social-based Advantage	SPE1	.77	*	.88	.88	.75	5.41	1.23	5.24	1.35
	SPE2	.89	12.99						5.45	1.38
	SPE3	.93	13.96						5.44	1.42
	SPE4	.85	12.51						5.48	1.36
	SPE5	.87	12.83						5.45	1.40
Market Performance	MPE3	.65	*	.78	.78	.67	5.65	1.10	5.95	1.11
	MPE4	.86	9.39						5.48	1.35
	MPE5	.92	9.62						5.52	1.32
Competitive Intensity	COM1	.90	*	.80	.80	.55	5.82	1.25	6.19	1.41
	COM2	.85	14.23						5.86	1.59
	COM3	.61	9.04						6.01	1.42
	COM4	.64	9.44						6.04	1.63
	COM5	.65	9.66						5.01	1.99
Social Public Concern	SPC1	.66	*	.80	.75	.61	5.41	1.53	5.78	1.59
	SPC2	.75	7.05						5.00	2.05
	SPC3	.91	8.34						5.45	1.84

* Item fixed to set the scale

^a Internal CSR is a higher-order factor (mean = 5.91, standard deviation = .88).

^b External CSR is a higher-order factor (mean = 5.40, standard deviation = 1.04).

Fit statistics of Model: $\chi^2 = 2991.19$, $p = .00$, $df = 1610$; NFI = .91; NNFI = .93; CFI = .93; RMSEA = .07

Table 2: Correlation matrix

	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.
1. Sensing Capability	1												
2. Adaptive Capability	.30	1											
3. Strategic Flexibility	.48	.49	1										
4. Employment Quality	.28	.17	.21	1									
5. Health and Safety	.17	.12	.15	.48	1								
6. Financial Integrity	.11	.16	.24	.46	.43	1							
7. Environmental Protection	.16	.16	.22	.41	.49	.35	1						
8. Philanthropy	.27	.24	.22	.38	.48	.28	.48	1					
9. Ethical Conduct	.25	.11	.30	.47	.46	.49	.36	.37	1				
10. Social-based Advantage	.25	.22	.36	.36	.26	.31	.26	.44	.40	1			
11. Market Performance	.42	.26	.36	.39	.39	.34	.18	.40	.39	.48	1		
12. Competitive Intensity	.20	.07	.18	.15	.31	.13	.17	.19	.20	.09	.16	1	
13. Social Public Concern	.37	.16	.24	.20	.12	.25	.16	.24	.18	.24	.36	.48	1

Note: Correlations greater than $|\pm 0.18|$ are significant at the .01 level.
Correlations greater than $|\pm 0.14|$ are significant at the .05 level.

Table 3: Results of the structural model

Hypothesis	Hypothesized association	Standardized path coefficient	t-value	p-value
<i>Direct effects:</i>				
H _{1a}	Sensing Capability → Internal CSR Strategy	.17	1.80	.07
H _{1b}	Sensing Capability → External CSR Strategy	.27	2.60	.01
H _{2a}	Adaptive Capability → Internal CSR Strategy	.77	3.75	.00
H _{2b}	Adaptive Capability → External CSR Strategy	.74	3.61	.00
H _{3a}	Strategic Flexibility → Internal CSR Strategy	.16	1.73	.08
H _{3b}	Strategic Flexibility → External CSR Strategy	.22	2.23	.03
H ₄	Internal CSR → Social-based Advantage	.32	1.77	.08
H ₅	External CSR → Social-based Advantage	.37	1.98	.05
H ₆	Social-based Advantage → Market performance	.89	6.31	.00
<i>Moderation effects:</i>				
	Competitive Intensity → Social-based Advantage	.24	5.73	.00
H _{7a}	Competitive Intensity × Internal CSR Strategy → Social-based Advantage	.38	6.70	.00
H _{7b}	Competitive Intensity × External CSR Strategy → Social-based Advantage	.55	7.11	.00
	Social Public Concern → Social-based Advantage	.21	3.80	.00
H _{8a}	Social Public Concern × Internal CSR Strategy → Social-based Advantage	.44	6.89	.00
H _{8b}	Social Public Concern × External CSR Strategy → Social-based Advantage	.52	7.06	.00
<i>Control effects:</i>				
	Firm Size → Internal CSR Strategy	.67	5.05	.00
	Firm Size → External CSR Strategy	.72	6.00	.00
	Business Experience → Internal CSR Strategy	.33	2.71	.01
	Business Experience → External CSR Strategy	.32	2.61	.01
	Focal Market → Internal CSR Strategy	-.02	-.31	.76
	Focal Market → External CSR Strategy	-.05	-.45	.65

Fit statistics of Model: $\chi^2 = 332.07$, $p = .00$, $df = 179$; NFI = .91; NNFI = .93; CFI = .93; RMSEA = .09

Appendix 1: CSR and family business studies focusing on dynamic capabilities

A. CSR studies focusing on dynamic capabilities			
Study	Objectives	Methodology	Key findings
Choi et al. (2018)	To assess whether knowledge access, co-development, supply chain partner development, supply chain rebuilding, and flexibility, moderate the relationship between customer pressure and CSR.	A survey among 333 Chinese small- and medium-sized suppliers in manufacturing industries.	All five dynamic capabilities examined had a moderating effect on the relationship between customer pressure and most of the CSR practices examined.
Kumar et al. (2018)	To study the role and impact of dynamic capabilities and a misaligned collaboration on the social, economic, and environmental performance of supply chains.	A survey was conducted among 171 large-sized firms in India coming from different industries.	Dynamic capabilities were found to be critical in achieving sustainable performance outcomes, while mediating the relationship between a misaligned collaboration and performance.
Mousavi et al. (2018)	To examine how sensing, seizing, and reconfiguring dynamic capabilities contribute to the firm's sustainable innovation.	Secondary data obtained from 2642 German companies in the manufacturing and service sectors.	Sensing, seizing, and reconfiguring are important capabilities positively influencing sustainable innovation.
Eikelenboom & de Jong (2019)	To study how external integrative and internal integrative dynamic capabilities can facilitate SMEs' responses to environmental and social goals.	A survey in 297 SMEs in the Netherlands, covering various industries ranging from agriculture to business services.	Compared to internal integrative capabilities, external integrative dynamic capabilities were found to have an important impact on sustainability performance.
Zhao et al. (2019)	To examine the moderating effect of organizational learning, resource integration, and innovation on the link between CSR practices and competitive advantage.	A survey among 112 domestic and foreign-owned enterprises in China, belonging to the private and public sector.	Through the enhancement of resource integration and organizational learning, CSR indirectly creates a competitive advantage.
Best et al. (2021)	To shed light on how tensions of a Social Purpose Organization (SPO) network, which has a social and economic mission can be managed through dynamic capabilities.	A case study method focusing on a network of seven SPOs in the UK that deliver disability-related programs.	Sensing, seizing, and transforming were found to enable SPOs to manage different types of tensions stemming from their dual role.
Li et al. (2021)	To investigate how the dynamic capabilities of sensing, seizing, and transforming influence strategic CSR.	A study using secondary data extracted from 134 Chinese listed manufacturing firms.	Firms possessing dynamic capabilities that are at a non-average industrial level were found to less likely engage strategically in CSR.
B. Family business studies focusing on dynamic capabilities			
Chirico and Nordqvist (2010)	To explain the process of how knowledge can generate dynamic capabilities to acquire, exchange, and transform internal and external resources in order to achieve high entrepreneurial performance.	A longitudinal, multiple case study research in Switzerland and Italy among firms belonging to the beverage industry.	Dynamic capabilities were found to moderate the relationship between knowledge and entrepreneurial performance.
Jones et al. (2013)	To examine how ownership through generations has led to the	A case study in a single family-owned shipping company, the	Entrepreneurial cognition and strategic flexibility were

	creation of dynamic capabilities that contributed to the family business firm survival.	only one survived in its region, conducted in the UK.	identified as dynamic capabilities, which together with other assets contributed to the firm's survival.
Fitz-koch and Nordqvist (2017)	To understand how technology-based innovation capabilities (i.e., sensing, seizing, transforming) affect socioemotional wealth and <i>vice versa</i> .	A longitudinal and in-depth case study of a technology-based, medium-sized Swedish firm, conducted at multiple levels.	Innovation-related outcomes stemming from the implementation of dynamic capabilities were shown to have an impact on socioemotional wealth and <i>vice versa</i> .
Alonso et al. (2019)	To examine how knowledge-based attributes, together with sensing, seizing, transforming, alliancing, and networking capabilities contribute to adaptations in a dynamic business environment.	A qualitative approach, using interviews and on-site observations, focusing on a small in a small enterprise, family firm based in the UK.	The family business firm's resilience was found to build on a combination of knowledge-based attributes and dynamic capabilities.
Camison-Zornoza et al. (2020)	To investigate how ownership, management and governance structures affects technology-based innovation capabilities (i.e., sensing, seizing, and transforming).	Interviews with 748 family business firms in Spain, belonging to the tourist industry.	A strong family board participation and an effective management structure lead to the development of technology-based innovation capabilities.
Soluk et al. (2021)	To examine the mediating role of knowledge exploitation, risk management, and marketing capabilities on the relationship between family influence and digital business innovation.	A survey among 1444 German medium- and large-sized firms having some degree of family influence, belong to various industries in the private sector.	Knowledge exploitation, risk management, and marketing capabilities act as mediators between family influence and digital business innovation.
Tiberius et al. (2021)	To identify the micro foundations of sustainable dynamic capabilities and how these contribute to sustainability.	An exploratory study using semi-structured interviews with 11 German and Swiss family business firms, having different size and belonging to different industries.	Micro foundations of dynamic capabilities relate more with economic sustainability, less with social sustainability, and not at all with environmental sustainability.

Appendix 2: Operationalization of constructs and their sources

Constructs	Code	Item description	Source
Sensing Capability	SEC1	We frequently scan the environment to identify new business opportunities and trends.	Pavlou and El-Sawy, (2011)
	SEC2	We rarely review the likely effect of changes in our business environment on customers. (R) We often review our products/services development efforts to ensure they are in line with new customer preferences.	
	SEC3	We devote a lot of time reviewing our products/services to ensure they are in line with societal trends	
	SEC4	We devote a lot of time implementing ideas for new products and services to accommodate the needs of the market.	
	SEC5	We adjust our processes/products according to competitors' movements.	
	SEC6		
Adaptive Capability	ADC1	We are capable of adapting properly to changes in the market.	Zhou and Li, (2010)
	ADC2	Our existing competency can accommodate changes in the industry.	
	ADC3	We can withstand the challenges brought about by societal needs.	
	ADC4	We are competent in adapting to changes brought about by competitors.	
	ADC5	We are capable of satisfying the needs/ preferences of buyers.	
Strategic Flexibility	SRF1	We are taking advantage of opportunity shifts due to changes in economic conditions. We are flexible to exploit an unexpected market opportunity.	Zahra et al., (2008)
	SRF2	We are flexible in adopting a new technology which may adversely affect your existing business.	
	SRF3	We are flexible in responding in customer needs/preferences.	
	SRF4	We are flexible to respond to the entrance of a new competitor into the market.	
	SRF5	We try to respond in a strategically flexible way to adverse changes in government regulations that influence our line of business.	
	SRF6		
<u>^aINTERNAL CSR</u>			
Employment Quality	LRI1	Our company provides workers a fair compensation scheme.	ISM (2020); Durand and Jacquemint (2015); Meiseberg and Ehrmann, (2012); Turker, (2009)
	LRI2	We have processes in place to ensure understanding and application of employment rights and laws.	
	LRI3	Our company allows the establishment of labor/management relations through collective agreements.	
	LRI4	We support employee diversity and provides non-discriminating access to employment and promotion opportunities.	
	LRI5	We provide training to employees for skill development and programs to support continuous employability and manage career endings.	
Health and Safety	HSC1	Our company provides a proper working environment for employees and abides by health and safety practices.	Turker, (2009)
	HSC2	We communicate the health and safety plan to internal and external stakeholders.	
	HSC3	We design/ redesign products/ services to ensure product/ services safety.	
	HSC4	Our company embeds health and safety specifications into work documents and contracts. We support the continuous development and diffusion of health and safety practices in our company.	
	HSC5		
Financial Integrity	FIT1	We update knowledge on generally accepted financial standards and requirements. Our company promotes and practices responsible financial behavior by making sustainable guidelines explicit in agreements with external collaborators.	
	FIT2	We apply sound financial practices and ensure transparency in financial dealings.	
	FIT3	Our company establishes processes for corrective action and compliance in terms of financial misconduct.	
	FIT4	Our company develops strategies, policies, and procedures to support sustainability goals.	
	FIT5		
<u>^bEXTERNAL CSR</u>			
Environmental Protection	ENV1	Our company develops a complete understanding of environmental footprint and establishes relevant strategies and takes measures to reduce or eliminate it.	ISM, (2020); Durand and Jacquemint (2015); Meiseberg and Ehrmann, (2012);
	ENV2	We offer products/ services that can be designed/ redesigned for disassembly, reuse, and recycling.	
	ENV3	We use recycling practices and set waste reduction goals.	
	ENV4	We include environmental aspects in agreements with external collaborators.	
	ENV5	We support the use of environmentally responsible products/services in our operations.	

Philanthropy	GLC1	We provide support and add value to surrounding communities through the sponsoring of various programs.	Turker, (2009)	
	GLC2	We evaluate business decisions in the surround community in a favorable way.		
	GLC3	We set goals and objectives for philanthropic practices, such as contributions and donations. Our company encourages employees to be away from the job to work in the community.		
	GLC4	We acknowledge and support community programs.		
GLC5				
Ethical Conduct	ETH1	Our company is knowledgeable of and complies with the code of conduct in the context of the industry and country in which business is taken place.	Paulraj et al., (2011)	
	ETH2	We actively promote and incorporate ethical conduct language in agreement documents with external collaborators.		
	ETH3	We establish policies and programs to prevent the unethical and/or corrupted conduct by our employees.		
	ETH4	We respect and protect personal data, proprietary information and intellectual property rights. Our firm has a formal tracking system to identify the ethical problems and report achievement of ethics objectives and documents corrective action and compliance processes.		
	ETH5	We communicate socially responsible practices implemented in our company in a truthful and accurate manner to the outside world.		
	ETH6			
Social-based Advantage	SPE1	Improvement in the overall stakeholder welfare or betterment of the community.		Vorhies and Morgan, (2005)
	SPE2	Reduction of the negative impacts and risks to the society.		
	SPE3	Improvement in the protection of the claims and rights of the community.		
SPE4	Meeting social expectation and needs of the community.			
SPE5	Minimization of the overall social impact in the community.			
Market Performance	MPE1	Customer satisfaction	Banerjee et al., (2003)	
	MPE2	Customer retention		
	MPE3	Rate of acquiring new customers		
	MPE4	Market share		
	MPE5	Market share growth		
Competitive Intensity	COM1	Competition in the market that we operate is cutthroat.	Banerjee et al., (2003)	
	COM2	There are many “wars” between firms in our market.		
	COM3	A competitor’s offering in our firm's market can be readily matched by others.		
	COM4	Price competition is a major hallmark of our market. (R)		
Social Public Concern	COM5	We hear of a new competitive move almost every day in the market we operate in.	Banerjee et al., (2003)	
	SPC1	Social responsibility is a critically important issue facing our society today.		
	SPC2	The public is concerned about socially responsible issues in the market we operate in. The public is increasingly demanding socially responsible products/ services.		
	SPC3	The public is more worried about the economy than about socially responsible issues (R).		
	SPC4			

* R denotes reverse scale