7 Are family firms more locally embedded than non-family firms?

Findings from the finnish context

*Stefano Amato, Mikaela Backman and
Juhana Peltonen*

Introduction

The important contributions of family firms to the employment growth, gross domestic product, and innovativeness of both nations and regions is widely recognized (Astrachan & Shanker, 2003; Block & Spiegel, 2013). Hence, the growth of research concerning family businesses is not surprising and, consequently, neither is the progressive legitimacy that these organizations have gained among academicians, practitioners, and policymakers (Rodríguez & Basco, 2011). However, while existing research has focused on explaining the paradox of two highly intertwined domains—namely the family and the business—being able to shape firm behavior and its consequence on firm outcomes, the family business debate has overlooked the role of the geographical space in which the economic activity takes place (Basco, 2015). While, until the 1970s, space was mainly conceived in physical terms (i.e., as existing irrespective of any objects or relationships, space as a “container”), the concept of “relational space” (i.e., space as created by and consisting of a set of relationships among economic actors) has become the most influential paradigm in both economic geography and regional studies (Capello, 2016). According to this view, space arises as an independent productive factor and can be a source of both static (e.g., higher productivity) and dynamic (e.g., enhanced innovation capabilities) advantages (Capello & Faggian, 2005; Parr, 2002) and also the basin of social influence for corporate decisions (Lähdesmäki, Siltaoja, & Spence, 2019).

The relational view interprets space in terms of “social space” or networks of relationships (Dicken & Malmberg, 2008) in which economic actors arise not as separate agents but rather as participants in a flow of actions and interactions with the economic activity that is “embedded in concrete, ongoing systems of social relations” (Granovetter, 1985, 487). As opposed to traditional and sociological interpretations (Granovetter, 1985, 2005), the concept of embeddedness has attracted growing interest in both economic geography (Hess, 2004) and regional studies (Cooke, Clifton, & Oleaga, 2005), wherein it has been fundamentally conceived in spatial terms. The emphasis is now placed on the social nature of economic processes and their

manifestation in territorial bounded areas (e.g., regions). According to this view, to be embedded is the firm (“who”) in the community networks and institutional settings (“what”) with local networks and localized social relationships that arise as the spatial logic of embeddedness (Hess, 2004; Kalantaridis & Bika, 2006). In light of this, “local embeddedness” can be defined as the nature, depth, and the extent of a firm’s ties to the local social and economic environment.

However, it is reasonable to assume that not all firms distinguish themselves by having the same level of embeddedness in their socio-economic *milieu*. In other words, there may exist different types of firms with varying anchoring in territories—i.e., different kinds of firms may reflect varying intensities with which they absorb and engage in, and in some cases become constrained by, the economic activities and social dynamics of these places (Oinas, 1997). From this perspective, the local embeddedness of family and non-family firms may differ because the former are generally regarded as being inextricably tied, physically, socially, and emotionally, to the territories in which they are located (Basco, 2015). In addition, the quality and depth of social connections they establish with the local community are deemed to be instrumental in keeping a family’s control over a firm’s operation and ownership, for perpetuating the family dynasty, and, last but not least, for sustaining family image and reputation across time (Naldi, Cennamo, Corbetta, & Gomez-Mejia, 2013).

While local embeddedness has traditionally been the main paradigm used to examine the unique way family firms and geographical space interact (Backman & Palmberg, 2015; Bird & Wennberg, 2014), existing research has not empirically proven *whether* and *to what extent* family firms are more locally embedded than their non-family counterparts. In order to address this research gap, we relied on micro-level data of Finnish firms. The Finnish case provides important insights as it allows us to make a detailed analysis of local embeddedness of family firms. It further provides us an opportunity to assess the relationship in a country characterized by large regional differences and where family firms make a large contribution to the overall economy (Statistics Finland, 2017). In particular, we employed two different and complementary measures of local embeddedness—the place tenure and the geographical distance between multiple and influential stakeholders at ownership, managerial, and organizational levels (i.e., CEOs, owners, managers, non-managers/employees, chairpersons, and other board members) of the local firm. Our results show a positive association between the family nature of the firm and the degree of local embeddedness across different types of stakeholders. Thus, the paper shows, through both descriptive statistics and regression analysis, that stakeholders in family firms tend to be more locally embedded, through both place tenure and shorter distance to their local firms, compared to stakeholders in non-family firms. All stakeholders, except the owners of the firm, have a greater level of embeddedness in terms of place tenure, if they are part of a family firm. The same is true with regard to

the shorter distances of family firms' stakeholders such as employees of the firms and the chairperson. Of all the stakeholders, the chairperson stands out and tends to be more locally embedded in family firms.

This chapter contributes to the existing literature in several ways. First, for family business studies, we provide further evidence about the micro-territorial foundation of family firms. While the study of the interrelationship between family and business systems has traditionally represented the main area of interest in the investigation of the family firm phenomenon, it is only recently that an outward perspective, that is, one looking at the "family-firm territory nexus," has gained growing interest (Basco, 2015). Second, to regional studies; by emphasizing the spatial dimension of embeddedness (Hess, 2004), our chapter offers new evidence about the association between the family nature of the firm and the degree of anchorage of the firm in its home territory. Family firms arise as peculiar regional actors that are distinctly affected by and able to influence the geographical space in which both the economic activity of the firm and the social life of the family take place.

Finally, our contribution has policy-making implications. Recognizing the existence of long-lasting, pervasive, and socially influential local actors such as family firms is deemed instrumental for enhancing the effectiveness of regionally-based strategies and implementation structures in support of the competitiveness of territorial innovation models (TIM) as well as local production systems (e.g., industrial districts, business clusters), the promotion of local entrepreneurship, and the correction of regional disparities. In particular, including family business dimensions in public policy would mean tailoring family-oriented policy interventions aimed at fostering their survivability and longevity, firm growth, innovation, internationalization, and entrepreneurship among others, which the economic development of a given region or locality ultimately depends on.

Theoretical background

In the analysis of firms across space, the concept of firms' heterogeneity—that is, the acknowledgment of a firm's internal characteristics affecting its outcomes in conjunction with the regional context in which the firm itself is embedded—has attracted growing interest (López-Bazo & Motellón, 2018). The increasing availability of fine-grained data at the micro and macro levels has allowed the estimation of, among other things, the impact of spatial economic and socio-institutional differences on a firm's innovation capability (Beugelsdijk, 2009) and efficiency (Aiello, Pupo, & Ricotta, 2014; Fazio & Piacentino, 2010). Among the sources of firm heterogeneity, the family nature of the firm stands out as a pivotal attribute in explaining the distinctive behavior of some organizations across regional contexts (Baù et al., 2018) and the extent to which particular types of firms are affected by (Dekker & Hasso, 2016) and able to influence the wider socio-spatial environment (Block & Spiegel, 2013) in which they dwell.

Family firms stand out as enduring economic actors that are characterized by the strong historical, cultural, and social connections with the community in which they are located (Bird & Wennberg, 2014). The social relationships among family members—which are built on the basis of trust, reciprocity, identification, and obligations—usually spread out from a family firm’s boundaries (Adjei, Eriksson, & Lindgren, 2016), permeating the way these businesses develop and nurture social ties that, because of geographic boundaries, become “territorialized” (Rutten, Westlund, & Boekema, 2010). In exploring the micro-territorial foundations of family firms, the local embeddedness has been widely advocated as the foundation of the unique way these organizations and the territories in which they are located interact (Stough et al., 2015). That being said, understanding family firms’ local embeddedness requires unveiling what makes these organizations so strongly anchored to their home territory and which are mainly attributable to their strong territorial identity (Capello, 2018; Pallares-Barbera, Tulla, & Vera, 2004) and economic integration at the local level (Courtney, Lépicier, & Schmitt, 2008; Kalantaridis & Bika, 2006).

The territorial identity of family firms has its first source in what is generally known as “similarity,” that is, common and shared values, traditions, culture, and language prevailing in a particular local milieu (Capello, 2018). Similarity is generated by ongoing historical and social actions in which the family, as an enduring, pervasive, and influential institution, performs a crucial role in their formation (Soleimanof, Rutherford, & Webb, 2018). Because of their historical roots, long-term orientation, and social ties with their communities, family firms are able to influence both political processes (i.e., formal institutions) (Craig & Moores, 2010) and the establishment of norms, values, and codes of conduct (i.e., informal institutions) (de Blasio & Nuzzo, 2010).¹ These institutions, that prescribe the appropriateness of certain societal behaviors (North, 1991) and that regulate the interaction of economic actors become “crystallized” in the local and regional setting. They are deemed to shape the internal characteristics of a given territory (Pallares-Barbera et al., 2004) and to guarantee the reproduction of a “collective regional consciousness and a shared sense of belonging to a place” (Capello, 2018, 143). In addition to a symbolic meaning, as reflected in the institutionalized patterns influencing the way and the extent to which actions are coordinated, the territorial identity can be attributed a patrimonial value (Pollice, 2003). In particular, territory becomes a *locus* of highly recognizable and local-specific products and, hence, an important site of meaning and identity construction for current and future family members.

The recognition of the product as being family business heritage—whose knowledge, traditions, and production methods are handed down each generation—and the perception of the family—whose status and reputation stem historically from the success of the business—result in these factors being inextricably linked with the territory, forming a background wherein the entrepreneurial dynasty is regenerated over time (Jallinoja, 2017; Smith, 2016). Moreover, similarity results in a sense of “solidarity” toward the

territory where both the owning family and the firm are located. Solidarity, which refers to a sense of togetherness and anchorage to the territory, manifests in concrete social actions in support of the local community (Capello, 2018). The strong desire to develop and preserve the positive reputation and legitimacy of the family business from external and non-family stakeholders leads these organizations to engage in philanthropic activities (Campopiano, De Massis, & Chirico, 2014) aimed at supporting scientific, educational, religious, and healthcare institutions, among others (Feliu & Botero, 2016). From this perspective, it is quite common for a foundation to be created, generally bearing the name of the founder or the owning family, as a vehicle tasked with the coordination of local community-oriented initiatives (Lähdesmäki & Takala, 2012). Additionally, the feeling of attachment to a given local area strongly influences the investment strategies of family firms, whose evaluation incorporates the issues, concerns, and expectations of physically and socially proximate stakeholders (Mitchell, Agle, Chrisman, & Spence, 2011).

In this regard, it has been shown that family businesses have better environmental performance than non-family counterparts, and these difference are even more remarkable when family firms are more locally embedded (Berrone, Cruz, Gomez-Mejia, & Larrazza-Kintana, 2010; Dekker & Hasso, 2016).² From a socio-emotional perspective, because at the local level the distinction among family and firms becomes more blurred, “social monitoring of family owners is strengthened, and the likelihood of enforcing social sanctions increases” (Berrone et al., 2010, p. 91). Hence, local roots deeply influence family firms’ behavior in terms of the preservation of the family’s status and the quality of valuable and location-specific social ties, which would be irreparably damaged in the case of socially irresponsible actions (Amato, 2019).

Along with identification with the territory, a strong level of local economic integration stands out as a complementary element of the foundation of local embeddedness of family firms. This refers to the extent to which a given firm relies on the local context as a source of labor, materials, and a market for final output and information (Courtney et al., 2008). Family firms depend heavily on the local setting as a source of generic and strategic inputs with local contextual factors and circumstances that, therefore, may strongly influence their behavior, survival, and competitiveness (Backman & Palmberg, 2015). The attributes and historical background of the family appears to be crucial for the intensity—expressed in terms of duration, frequency, and monetary value³—of the firm carrying out its economic transactions locally (Kalantaridis & Bika, 2006). A firm’s headquarters corresponds typically with the place the founder was born, where the business venture started, and where the entrepreneurial dynasty is continuously nourished (Pallares-Barbera et al., 2004). This link, which is physical, emotional, and socioeconomic, is rarely severed; rather, it becomes the socio-spatial platform from which new growth paths, mainly through

expansion in extra-local/regional markets, begin (Kontinen & Ojala, 2012; Amato, Basco, Backman & Lattanzi, 2020).

By virtue of their historical connections with a given place, family firms are in a position to adhere to and influence the establishment of a set of common habits, routines, established practices, and value of conducts prevailing in the socioeconomic *milieu* (Pallares-Barbera et al., 2004); to develop a common knowledge base and expertise characterizing the local area (De Massis et al., 2016); and to build trust-based and reciprocal relationships with physically proximate local actors (Stough et al., 2015). This, in turn, “facilitates contacts, improves bargaining capacity, and attracts and maintains favorable conditions for the firm” (Pallares-Barbera et al., 2004, 648). This is deemed to explain performance divergences among family and non-family firms in more remote regions, such as rural areas (Backman & Palmberg, 2015; Baù et al., 2018; Greenberg, Farja, & Gimmon, 2018), and local production systems, such as industrial districts (Cucculelli & Storai, 2015) and business clusters (Pucci, Brumana, Minola, & Zanni, 2017), whereby family firms tend typically to exhibit stronger economic integration in the locality (Amato, Basco, Gomez-Anson, Lattanzi, 2020; Courtney et al., 2008). What’s more, proximity dimensions become crucial for acquiring tangible and intangible resources and, hence, for competing successfully (Boschma, 2005). Finally, the strong local roots of family firms are found to shape the competitiveness of the region itself. By aggregating the collective actions of family firms, current empirical evidence shows how the regional innovation output is related to the density of family firms present in that region (Berleemann & Jahn, 2016; Block & Spiegel, 2013).

Therefore, given the aforementioned arguments, we posit the following hypothesis:

Hypothesis: Being a family firm is positively associated with the degree of local embeddedness.

Empirical design

Data and variables

In order to empirically analyze how the ownership of a firm—where we distinguish between family and non-family firms—relates to its local embeddedness, we used register data from Statistics Finland covering the years from 2006 to 2014. The data has restricted public access as it allows for detailed analysis by providing information about the firm, its employees, CEO, managers, and also the connection to other important stakeholders such as the chairperson and other board members. It is further possible to assess information at the individual level regarding where the different stakeholders live and work. The data are longitudinal, which means that we can track individuals and firms over time. By combining information about

the individual and the firm, we built several measures that capture the local embeddedness of the different stakeholders.

First, local embeddedness is measured as *place tenure*, which refers to the number of years an individual has lived in the same municipality as the local firm. The second measure entails the geographical distance between the stakeholder and the local firm—that is, *distance to firm*—measured in kilometers. To capture local embeddedness from a wider perspective, both place tenure and the distance to the firm were calculated for each firm stakeholder. We used several stakeholders engaged in a firm through management, ownership, and at the organizational level, who are important for the firm's development: (i) the CEO, (ii) the owner, (iii) other managers, (iv) non-managers, that is, employees, (v) the chairperson of the board, and (vi) other board members. Thus, we get a composite measure of local embeddedness with 12 indicators in total, each corresponding to different categories of stakeholders for both place tenure and distance to the local firm.

In order to differentiate family firms from non-family firms, we used the Finnish Longitudinal Employer-Employee Data (FLEED) combined with data from the Population Register Centre. For the purpose of differentiating firms' family ties, information on each individual's spouse and matches between children to their parents was utilized. By using this, we identified the parents of the lion's share of the individuals in the working population and also many of the grandparents. The family ties were used to identify family firms. Data accessed through the FLOWN (Finnish Longitudinal Owner-Employer-Employee Data) database further allowed us to assess the ownership structure of each firm where the individual data could be matched to the ownership data, thus enabling us to identify who owns different shares of a firm. Family firms are, in this chapter, defined as firms where the majority of the owners belong to the same family, following (Litz, 1995; Villalonga & Amit, 2006). Families are defined as individuals, who (i) own shares of the firm either directly or indirectly, are (ii) connected by family ties, and (iii) jointly own the highest share of the firm, compared to other individuals. For detailed information about the construction of the variable, please see Peltonen (2018). To distinguish the different firms, a binary variable was used, denoted "1" for family-firms and "0" for non-family firms.

In the empirical estimations, we control for the basic firm and municipal features that influence the local embeddedness of individuals: firm age, firm size in terms of number of employees, financial development in terms of turnover and total assets, whether the firm is part of a multi-establishment firm, and the size of the municipality. The following table presents the descriptive statistics for the variable of interest (local embeddedness), divided into family and non-family firms (Table 7.1).

The descriptive statistics for local embeddedness separated into family and non-family firms show a coherent picture where the former are more locally embedded compared to the latter. Family firms have a higher level of place tenure—i.e., all the different stakeholders have lived in the same municipality as the local firm for a longer time—compared to their non-family

counterparts. In some cases, there are significant differences. For example, the average years a chairperson in a family firm has lived in the same municipality is 12.6 compared to 10.5 for the chairperson in non-family firms. In relation to the distance to the local firms, we observe the same pattern where stakeholders in family firms have on average a shorter distance to their firm compared to stakeholders in non-family firms. Based on the embedded measures used in this chapter, we find that family firms are more locally embedded than non-family firms in terms of their stakeholders. The relationship between local embeddedness and firm performance is something that has been discussed in previous studies (Backman & Palmberg, 2015; Baù et al. 2018; Bird & Wennberg, 2014). It should be noted that there is a large variation in both the place tenure and distance to local firms among stakeholder, regardless of ownership structure, as indicated by the large standard deviations.

In relation to firm-specific characteristics, family firms are on average older and larger compared to non-family counterparts. That the firms are older can naturally lead to stakeholders having greater embeddedness in terms of place tenure. This is reasonable since we measured the number of years the individual has lived in the same location as the firm. Older firms that have not changed location thus enable a person to live longer in the same location as the firm and for the person to be engaged in the firm for a longer period of time compared to a younger firm.

Table 7.1 Summary statistics of the focus variables of local embeddedness in family and non-family firms

<i>Variable</i>	<i>Family firms</i>		<i>Non-family firms</i>	
	<i>Mean</i>	<i>St.dev</i>	<i>Mean</i>	<i>St.dev</i>
Place tenure				
<i>CEO, place tenure</i>	13.06	7.37	11.99	7.49
<i>Owner, place tenure</i>	12.10	6.51	11.86	6.92
<i>Managers, place tenure</i>	11.89	7.31	10.65	7.30
<i>Non-managers, place tenure</i>	10.35	5.92	9.85	6.13
<i>Chairman, place tenure</i>	12.63	7.73	10.51	8.14
<i>Other board members, place tenure</i>	12.59	7.07	11.85	7.22
Distance to focal firm				
<i>CEO, distance to focal firm</i>	22.72	58.62	27.49	62.70
<i>Owner, distance to focal firm</i>	28.31	59.54	30.15	62.86
<i>Managers, distance to focal firm</i>	26.62	54.76	32.37	59.83
<i>Non-managers, distance to focal firm</i>	31.59	53.05	35.74	58.24
<i>Chairman, distance to focal firm</i>	26.44	70.13	38.09	81.23
<i>Other board members, distance to focal firm</i>	26.58	62.61	29.76	64.48
<i>Firm age</i>	16.79	12.93	11.97	10.37
<i>Firm size</i>	11.60	75.88	7.39	36.59

Note: *, **, and *** indicates significance at 5%, 1% and 0.01%. Errors clustered at the firm level.

Empirical model and results

The descriptive statistics show that stakeholders in family firms are on average more locally embedded. In addition, they show that family firms are on average older, which, in fact, could enable the stakeholders of the firm to be more rooted to the territory, as measured through place tenure. Thus, there seem to be factors associated with family firms that relate to the level of local embeddedness. In the next step, we therefore perform a random effects estimation to capture whether stakeholders in family firms are more embedded, controlling for firm and location specific effects. The estimations performed are described in Equation 1.

$$Loc. emb_{i,t} = \alpha + \beta_1 Family firm_{i,t} + \gamma X' + Year_t + Industry_{i,t} + u_{i,t} + \varepsilon_{i,t} \quad (1)$$

Here *Loc. emb_{it}* is the local embeddedness measure for both place tenure and distance to their respective local firm for all six stakeholders; there are 12 variables in total. *Family firm_{it}* is a dummy variable that is “1” for family firms and “0” otherwise. *X'* is a vector that captures the control variables at the firm and municipal level. β_1 and γ are the parameters to be estimated. *Year* captures the fixed effects for the different years (2006 to 2014) and *Industry* controls for the 2-digit industry codes of the firm. *u_{it}* is the between-entity error and ε_{it} is the within-entity error. Standard errors are clustered at the firm level.

Having access to panel data allows us to explore the data in more detail compared to using a cross-section or a time-series model. Normally, when using panel data, a fixed or a random effects model is used. An advantage of the random effects model in our case is that it allows us to add time-invariant variables that would otherwise be captured by the individual/firm fixed effects. In this case, the family structure—that is, being a family firm—is normally something that does not change over time, and by using a fixed effects estimation, only the firms that change ownership structure would be captured in the estimations. Because we are interested in the differences between family and non-family firms, it is more appropriate to use the random-effect model. There are also disadvantages to choosing the random effects model over the fixed effects one; one such issue is omitted variable bias, as you need to control for the aspects that are time invariant as they are not captured by the fixed effects. We added several control variables to mitigate the problem of omitted variable bias.

The following tables show the results of how the ownership structure of firms influences the local embeddedness of different stakeholders. Table 7.2 gives the results for the place tenure while Table 7.3 presents the findings in relation to local embeddedness, defined as distance to local firms. The number of observations change across the different models due to missing values when measuring local embeddedness for some of the stakeholders.

Table 7.2 Empirical findings: random effects model by using place tenure as dependent variable

	<i>CEO</i>	<i>Owner</i>	<i>Management</i>	<i>Non- management</i>	<i>Chairman</i>	<i>Other board members</i>
<i>Family firms</i>	0.195*** (0.043)	-0.317*** (0.039)	0.241*** (0.055)	0.172*** (0.026)	0.680*** (0.057)	0.141*** (0.038)
<i>Firm age</i>	0.067*** (0.002)	0.064*** (0.002)	0.071*** (0.003)	0.077*** (0.002)	0.054*** (0.003)	0.064*** (0.002)
<i>Number of employees</i>	-0.001 (0.001)	-0.002* (0.001)	-0.001* (0.001)	-0.001 (0.000)	-0.001 (0.001)	-0.002* (0.001)
<i>Turn over (log)</i>	-0.129*** (0.017)	-0.098*** (0.013)	-0.150*** (0.032)	-0.548*** (0.014)	-0.039 (0.023)	-0.121*** (0.014)
<i>Total assets (log)</i>	-0.036* (0.017)	-0.039** (0.013)	-0.236* (0.030)	-0.210*** (0.013)	-0.094*** (0.024)	-0.040* (0.014)
<i>Number of establishments</i>	0.117* (0.051)	0.118* (0.047)	-0.000 (0.007)	0.046** (0.051)	0.083 (0.046)	0.118* (0.047)
<i>Municipal size</i>	0.001*** (0.000)	0.000*** (0.000)	0.001*** (0.000)	0.001*** (0.000)	0.001*** (0.000)	0.000*** (0.000)
<i>Year control</i>	YES	YES	YES	YES	YES	YES
<i>Industry controls (2-digit level)</i>	YES	YES	YES	YES	YES	YES
<i>N</i>	431,058	608,782	600,412	268,396	268,396	603,447

Table 7.3 Empirical findings: random effects model by using distance to the local firm as the dependent variable

	<i>CEO</i>	<i>Owner</i>	<i>Management</i>	<i>Non- management</i>	<i>Chairman</i>	<i>Other board members</i>
<i>Family firms</i>	-0.147 (0.392)	1.332*** (0.386)	-0.782 (0.478)	-0.742* (0.276)	-4.754*** (0.644)	-0.279 (0.372)
<i>Firm age</i>	-0.525*** (0.019)	-0.490*** (0.018)	-0.587*** (0.023)	-0.536*** (0.014)	-0.551*** (0.027)	-0.498*** (0.018)
<i>Number of employees</i>	0.005 (0.005)	0.009 (0.005)	0.003 (0.004)	0.008 (0.006)	0.003 (0.005)	0.007 (0.005)
<i>Turn over (log)</i>	-0.269 (0.164)	-0.226 (0.133)	-0.362 (0.0320)	1.544*** (0.152)	-0.194 (0.255)	-0.160 (0.0146)
<i>Total assets (log)</i>	0.179 (0.165)	0.464*** (0.0132)	2.035*** (0.294)	1.346*** (0.140)	1.057*** (0.266)	0.439** (0.146)
<i>Number of establishments</i>	-0.915* (0.449)	-1.226* (0.555)	0.076 (0.078)	-0.410* (0.187)	-1.020* (0.517)	-1.063* (0.495)
<i>Municipal size</i>	0.005*** (0.001)	0.006*** (0.000)	0.004*** (0.000)	0.005*** (0.000)	0.007*** (0.001)	0.006*** (0.000)
<i>Year control</i>	YES	YES	YES	YES	YES	YES
<i>Industry controls (2-digit level)</i>	YES	YES	YES	YES	YES	YES
<i>N</i>	431,058	608,782	177,436	600,412	268,396	603,447

Note: *, **, and *** indicates significance at 5%, 1% and 0.01%. Errors clustered at the firm level.

We can confirm the previous findings from the descriptive statistics where most stakeholders in family firms overall had greater local embeddedness compared to stakeholders in non-family firms. The results hold also when controlling for firm-specific characteristics where the age of the firm might be particularly important as a control variable. All stakeholders have a greater level of local embeddedness if part of a family firm, in terms of place tenure, except the owner of the firm. This is an interesting and also rather surprising finding as the owner of family firms is often a person that belongs to the family. The results indicate that the owners of family firms are less locally embedded in terms of place tenure compared to those of non-family firms. One reason for this could be generational shift in family firms where the new owner could have a lower local embeddedness if he/she has lived somewhere else before the ownership shift.

The positive association between being part of a family firm and the local embeddedness of the stakeholders can be derived from several different factors. One aspect is the historical roots of family firms that relate to their probability of operating mainly locally and thus being embedded in the local *milieu* (Amato, 2019; Kalantaridis & Bika, 2006). One example is their strategy in competence development and hiring where a strategy to be more local would lead to more employees, managers, and board members being hired from the local community. The ability of members in family firms to build strong and long-lasting relationships, as noted by Stough et al. (2015), is a key component in being locally embedded. The local embeddedness can in turn shape the competitive advantage of the firm (Pallares-Barbera et al., 2004). Another factor that builds the local embeddedness among stakeholders in family firms is if the firm is founded and run in the same location where the firm founder was born (Pallares-Barbera et al., 2004).

Comparing the different stakeholders, the magnitude of the coefficient for the chairperson stands out, as it is much larger compared to the other values and, in most cases, is triple the size. Thus, it seems that the chairpersons of family firms have a much stronger local connection compared to other types of firms.

It is interesting to observe the negative association between family firms and the owner as this indicates that the owners in family firms have lived a relatively shorter time period in the same municipality as the firm, compared to owners of non-family firms. Based on the previous theoretical section, one would assume a positive association. As the owners in family-firms are, according to our definition, family members, one would assume that they would be more locally embedded. One possible explanation is that families also capture marital links where spouses are considered as family. Spouses have a higher probability of being born and having lived outside the municipality the local firm is located in and are, in many cases, part of the team that owns the firm.

The results in Table 7.2 also highlight the possibility of reverse causality. It might also be that family firms are less able, compared to non-family counterparts, to attract stakeholders from outside their own municipality. Family

firms might actively engage in activities to recruit and attract stakeholders from outside but are less successful in this endeavor as they might not be perceived as attractive employers by individuals outside of the family. If this is the case, local embeddedness might act as a hindrance for family firms to grow and develop and to get new insights from external stakeholders. Thus, local embeddedness and being a family firm will, in this case, act as lock-in effect.

In the next table, the results for local embeddedness defined as distance to the local firm are presented.

The same patterns that were found for local embeddedness in terms of place tenure are not mirrored for the distance measure. In this case, we only find a significant relationship between being part of a family firm and local embeddedness in three out of the six measures. For employees that are not managers in the firm and for the chairperson of the firm, being part of a family firm increases their local embeddedness. The negative association between the family firm dummy translates into a shorter distance between the stakeholder and the firm, and hence a greater local embeddedness. On the other hand, for the owner of the firm, we once again find that being part of a family firm decreases the local embeddedness of the individual.

When analyzing the control variables, we observe that older firms increase the level of local embeddedness for each of the stakeholders. This is an expected finding as the age of the firm also affects how long a stakeholder can be locally embedded in terms of place tenure. The relationship between the size of the firm, in terms of employees, and local embeddedness is less clear and is only positively and significantly related to local embeddedness in a few estimations. The financial size of the firm, in terms of turnover and total assets, lowers the local embeddedness of the stakeholders. This can be viewed as supporting evidence for the argument that there is selectivity in how successfully different firms are able to attract stakeholders external to the local community. More successful firms are plausibly more able to attract individuals from different regions as they are seen as an attractive possibility and people will be willing to move to the firm, and hence lower the local embeddedness of the different stakeholders. Being part of a multi-establishment firm increases the local embeddedness of the stakeholders as employees have not only more options to change positions within the firms but also across establishments and through this find new career paths. The size of the municipality seems to be weakly related to the local embeddedness of stakeholders.

Conclusion

Examining the relationships between family firms and territories, or “family firm-territory nexus,” using an outward perspective, has only recently begun to attract interest in the field of family business studies. Family firms, like other types of firms, are intrinsically territorial—that is, their operations take place in spatially bounded areas. But, differently from their non-family counterparts, the territory is more intensively local for family-led businesses

in such a way that these economic actors, due to physical, emotional, and socioeconomic attachments, are uniquely affected by and able to influence the local *milieu* in which they dwell. In particular, the firm's embeddedness in spatial structures of social relationships—i.e., local embeddedness—has been advocated as the foundation of the micro-territorial perspective of family businesses. While previous studies have shed light on the distinctive conditioning of local embeddedness on family firms' decisions (Dekker & Hasso, 2016) and sources of differential performance as compared to non-family counterparts (Baù et al., 2018), the current literature is somewhat silent on *whether* and *to what extent* family firms are more locally embedded than non-family counterparts.

By relying on a large dataset of Finnish firms, we explore the association between the family nature of the firm and local embeddedness, as expressed in place tenure and the spatial distance, of six different categories of influential stakeholders of the firm. Our results reveal that stakeholders tend to reside for a longer period of time in the same place as local family firms, which, hence, rely greatly on more persistent and geographically proximate stakeholders. Thus, family firms are more locally embedded where the chairperson of the family firm tends to be a relevant link with their home-territory. Additionally, our findings show a negative association between family firms' status and spatial distance, with some categories of stakeholders unveiling the higher responsiveness of family firms to geographic distance in the availability of resources (i.e., labor and directorial skills and capabilities) provided by some stakeholders (i.e., workers and chairperson). These two results, taken together, reveal how family firms, as compared to their non-family counterparts, are more embedded in the local setting.

Our book chapter contributes to the convergence efforts between regional and family business studies. While family business research has traditionally overlooked the regional context in which the economic activity of the firm and the social life of the family take place, the interaction between family firms and territory is steadily emerging as a piece missing in the comprehension of family firms' distinctiveness (Basco, 2015; Stough et al., 2015). For family firms, region arises not only as a socio-spatial platform to which they are functionally and economically bonded, but also as symbolic and emotional constructs inside of which these organizations evolve across generations. Therefore, introducing the "locality" in the study of family firms would account for the existence of sets of physical, social-institutional, and historical attributes that mesh with the attributes of both family and firm. On the other hand, for regional studies, the recognition of family firms enables investigations in the role of space as an independent production factor and generator of distinctive static and dynamic advantages for the firms located inside.

Finally, our book chapter has relevant public policy implications. First, as the study shows a substantial reliance of family firms on particular stakeholders, any "dis-embedding" event de-anchoring the firm from its own territory may potentially undermine the conditions of longevity and growth. This dis-embedding might be a result of the cooling of family ties, due to

generational transfers or, even worse, the presence of factors preventing intra-family succession, among others. From this perspective, the introduction of taxation relief in cases of inherited business transferring or tax allowances for the purchase of management consulting services needed for successful succession planning, may be extremely useful for the improvement of the legal and institutional contexts of family firms. Second, since our results reveal that family firms are more susceptible to geographic distance and spatial variation in the availability of essential resources, mainly labor and management skills, any policy-making interventions should be directed at correcting the qualitative and quantitative imbalances in the geographical distribution of the aforementioned resources. In fact, given the importance of family firms as both absolute (that is, in terms of the total number of operating businesses) and relative (that is, in terms of contribution to the GDP and economic well-being), the proper endowment of productive factors at both regional and local levels appears to be crucial for their competitiveness and, ultimately, survival.

While our chapter represents one of the first attempts to analyze in a systematic and detailed way whether and to what extent family firms differ in their local engagement and how anchored they are, future research should further investigate the role of local embeddedness in the exploitation of spatial advantages as reflected in higher productivity (i.e., static advantages) and innovation capabilities (i.e., dynamic advantages) of family firms. The embeddedness of family firms may result in a unique network position at the local level, potentially influencing the acquisition and exploitation of a spatially bounded flow of knowledge and information (i.e., local knowledge spillovers) that, in turn, affect their performance. Additionally, as our study uses administrative borders (i.e., municipalities) as geographical levels of analysis, future studies should investigate local embeddedness in settings such as local production systems (e.g., industrial districts and business clusters) wherein the strong territorial identity and high level of economic integration are deemed to play substantial roles in the behavior and competitiveness of family firms and in the evolution of the locations themselves. Finally, even though local embeddedness has been tested at the micro-level, an interesting future research avenue would be to aggregate the collective actions of family firms, that is, to adopt a macro-level of analysis, in order to test whether attachment to the region in which they are located results in a source of resilience of the region itself when adverse events (e.g., recessionary shocks, natural disasters) occur.

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Notes

- 1 In his seminal contribution, North (1991) defined institutions as “humanly devised constraints that structure political, economic and social interaction”

- (p. 97). They consist of formal rules (constitutions, law, and property rights) and informal constraints (sanctions, traditions, rules of conduct) that, throughout history, “have been devised by human beings to create order and reduce uncertainty in exchange” (p. 97).
- 2 Berrone et al. (2010) operationalized local embeddedness (referred to as “local roots”) as the average distance of a firm’s subsidiary from its headquarters by supposing that companies with subsidiaries closer to their main office would be more deeply embedded in their community than those with remote subsidiaries. Conversely, the measure of embeddedness employed by Dekker and Hasso (2016), that is, the local area as main market of the firm, is similar to one of the dimensions (i.e., percentage of sales accorded to the local/region) of the composite measure of local economic integration proposed by Kalantaridis and Bika (2006).
 - 3 While *duration* and *frequency* are respectively related to the mean numbers of years since the establishment of the relationship and the mean number of annual interactions with a given local actor (Kalantaridis & Bika, 2006), the *monetary value* refers to the average amount of financial resources involved in trades that have taken place locally. However, not all the local interactions have a monetary value that results in a financial inflow or outflow. There can also be knowledge and information flowing freely within the local *milieu* and which, therefore, can be exchanged among local actors (i.e., knowledge spillovers).

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