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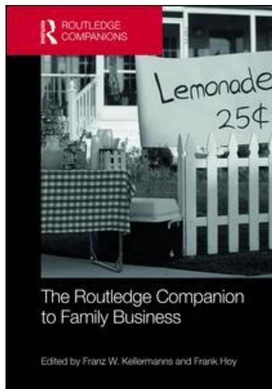

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Franz W. Kellermanns, Frank Hoy

Family Firms, Stakeholder Relationships, and Competitive Advantage

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8

FAMILY FIRMS, STAKEHOLDER RELATIONSHIPS, AND COMPETITIVE ADVANTAGE

A Review and Directions for Future Research

J. Kirk Ring, Jessica Brown, and Curtis F. Matherne

Introduction

Stakeholder theory is concerned with the relationships between the firm and stakeholders, as well as how these relationships affect processes and outcomes for all parties involved (Jones and Wicks 1999). Rather than only adhering to the demands of shareholders, stakeholder theory is founded upon the idea that all stakeholders have inherent worth that should be considered during managerial decision making (Donaldson and Preston 1995) and this multifaceted focus will potentially result in different decisions made than if only shareholders were important. A significant amount of research has been conducted on stakeholder theory and the variety of academic work by scholars from multiple disciplines has resulted in some authors continuing to disagree upon how to use the theory to explain performance, be it economic, social, environmental, etc. (Mitchell et al. 1997). Where authors do agree is companies have an assortment of relationships with groups of individuals who are affected by and can affect decisions made by the firm (Freeman 1984). These groups of individuals are called stakeholders.

It is widely accepted in management literature that Freeman is the source of stakeholder theory. Many authors also look towards multiple-constituency theory which preceded stakeholder theory. Similarities between the two theories are evident, although the concepts delivered in stakeholder theory are more closely aligned to factors affecting modern day business.

Overall, this theory concentrates on how the wants and needs of various groups affect decision-making processes (Hillman and Keim 2001), as well as how managers interact jointly with stakeholders to create value for the firm. If managers disregard certain groups' needs, these stakeholders may withhold participation, cooperation or commitment, leading to inefficiencies and the potential for reduced value creation and profitability. Therefore, skillfully managing stakeholder relationships to create as much value as possible, offers the potential for competitive advantage in the marketplace if competitors are not as adept. Additionally, executives must be able to reconsider ways to address problems when stakeholder interests conflict because they could, in turn, create additional value for distribution to multiple stakeholder groups (Harrison, Bosse, and Phillips 2010).

Family business research has received attention regarding stakeholder relationships and how the relationships affect the performances of these firms (e.g., Sharma 2001; Zellweger and

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Nason 2008). Family businesses are defined as businesses governed or managed by a family or group of families that have the intention to shape and pursue the vision of the business while also intending to pass on the business to future generations of the family (Chua, Chrisman, and Sharma 1999). Regardless of the family business definition utilized, one consistent issue arises. Family businesses are owned and/or operated by a group of individuals who are family. This distinct group of individuals who are family members provides an important area for focus when considering stakeholder theory. First, the family has both the opportunity and power to make decisions based on their own stakeholder group's needs. This level of power over decision-making is not as readily available to top management in non-family firms and non-family firm management does not have the common familial bond that family firms possess. Second, the family stakeholder group in family firms has been described as one that has more than economic performance of the business as an important goal (e.g., Gómez-Mejía et al. 2007; Zellweger and Nason 2008). Adhering to goals based on noneconomic issues that are often related to the family stakeholder group's needs or core values may significantly alter the strategic decisions of the business as compared to non-family businesses.

The remainder of this chapter will discuss family business strategy in regards to the tenets of stakeholder theory, which include the identification, competition, priority, and treatment of stakeholder groups. We will review what has been accomplished to date and areas that may be fruitful avenues for future research. Finally, suggestions for members of family businesses will be provided.

The Origins of Stakeholder

Stakeholder theory can be traced to Freeman (1984) where he argued management within organizations should be concerned about the interests of individuals and groups other than shareholders when making strategic decisions. Up until this time, the corporate governance literature relied heavily on the idea of maximizing shareholder returns and often this literature was identified as lacking a systematic way of taking into account more than profitability for shareholders. The two key assumptions (Tantalo and Priem 2015) that have guided stakeholder theory's development are: (1) the claims or goals of one stakeholder group are in competition with the remaining stakeholder groups and managers must balance these claims in through trade-offs (Bridoux and Stoelhorst, 2014; Freeman 2010; Freeman, Harrison, and Wicks 2007); and (2) shareholders hold a place of superiority over all other stakeholders. Freeman et al. (2007) explain that the classic process for managing stakeholders involves four fundamental actions when addressing a strategic issue: identify the stakeholder groups that can be affected or can affect the decision making process, assess the stakes of each group and their relevance, determine the management team's current effectiveness in meeting these stakeholder group's needs or expectations, and lastly, adjust managerial and company actions to adhere to the claims of the incongruent stakeholder claims (Tantalo and Priem 2015).

Governmental entities and the public at large have shown positive interest in the concept of making decisions that include the concerns of many types of stakeholders (e.g., Donaldson and Preston 1995). Although, within businesses and academic literature, one of the more significant debates results from disagreement upon whether or not the definition utilized for stakeholders is too broad or restrictive. In other words, what groups can be considered stakeholders and how do we demarcate between groups? What groups are most important and what groups can we ignore? Owing to this issue, Freeman's (1984) definition has been altered many times over in an effort to reduce the breadth of potential stakeholders but his definition remains as the foundation for the field in identifying stakeholders.

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Mitchell and colleagues (1997) reviewed the literature concerning the identification of stakeholder groups and proposed an interesting way to understand the process managers undergo. Their stakeholder identification process suggests that managerial perceptions of three stakeholder attributes—power, legitimacy, and urgency—may affect the salience of stakeholders, where salience is "the degree to which managers give priority to competing stakeholder claims" (Agle et al. 1999, 507). Indeed, the combination of the stakeholder's power to influence the firm, the legitimacy of the stakeholder's relationship with the firm, and the urgency of the stakeholder's claims on the firm will affect the decisions made by managers depending on how salient the managers perceive these attributes to be. This was a change in direction for stakeholder theory because it supplements efforts by others to simplify the stakeholder concept through classification schemes. By clarifying how stakeholder groups become salient in the eyes of managers it, in turn, is clearer how stakeholders can affect firm decision making (Bundy, Shropshire, and Buckhholtz 2013). Mitchell et al.'s (1997) argument presuppose that it is critical to stakeholder theory to understand that only when the manager perceives an identified stakeholder group to be salient will their needs be met. Please see Exhibit 8.1 for a list of the 20 most cited articles on stakeholder definitional and salience issues.

Mitchell et al.'s (1997) salience theory is helpful because of the disagreement concerning "who are the stakeholders of the firm?" This most basic question can be difficult to answer considering the broad nature of the definition of stakeholders first proposed by Freeman (1984). By looking at stakeholders as any person, group, or entity who can affect or is affected by the actions of the organization, research has been limited in the ability to rule out virtually any group or individual as a stakeholder.

Common themes amongst the relatively many views of what constitutes a stakeholder include identifying stakeholders based on their significance to the firm's core capabilities, their economic and moral interests, and survival (e.g., Berman et al. 1999). Stakeholders are often categorized as internal or external, primary or secondary, social or non-social, etc. There are even further nuanced categorizations such as how Clarkson (1995) describes stakeholders in terms of risk, be it involuntary (the firm can affect stakeholders regardless of affiliation with the firm), or voluntary (stakeholders who purposefully put themselves in harm's way through such activities as employment, investment, etc.). Describing stakeholders in this way effectively reduces those who can be stakeholders of a firm to only individuals or entities that can lose or gain something (a stake) (Mitchell et al. 1997). No matter how the categorization is developed, the literature has consistently taken said categories and then explained how stakeholders try to influence the organization's decision-making process so that it meets their needs. The strategic management literature also emphasizes the active management of stakeholder interests (Mainardes, Alves, and Raposo 2011). The actions directed toward improving stakeholder relationships with the firm and further integrating stakeholder claims into strategic planning and decision-making is a key objective (Cennamo et al. 2012).

As stakeholder theory developed in the last four decades, the research can be divided into three different approaches (Donaldson and Preston 1995; Friedman and Miles 2006): descriptive, instrumental, and normative. The instrumental and normative approaches received the most significant attention from academic research. The instrumental approach is goal-based, where stakeholders are seen as part of the strategy of the firm. This line of research is not surprising considering a central goal of all strategy research is to further understand what management practices can be related to company performance (Rumelt, Schendel, and Teece 1995). However, the normative approach is morality-based, where firms act in a more ethical sense (Chua et al. 2012). It provides an underlying basis for stakeholder theory in that its main assumption is the intrinsic value of any one stakeholder should not take priority over other stakeholders.

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Exhibit 8.1 – Top 20 Cited Stakeholder Definition and Salience Articles

Agle, B. R., Mitchell, R. K., and Sonnenfeld, J. A. (1999). Who matters to Ceos? An investigation of stakeholder attributes and salience, corporate performance, and Ceo values. *Academy of Management Journal*, *42*(5), 507–525.

Buchholz, R. A., and Rosenthal, S. B. (2005). Toward a contemporary conceptual framework for stakeholder theory. *Journal of Business Ethics*, *58*(1–3), 137–148.

Buysse, K., and Verbeke, A. (2003). Proactive environmental strategies: A stakeholder management perspective. *Strategic Management Journal*, *24*(5), 453–470.

Cragg, W., and Greenbaum, A. (2002). Reasoning about responsibilities: Mining company managers on what stakeholders are owed. *Journal of Business Ethics*, *39*(3), 319–335.

Driscoll, C., and Starik, M. (2004). The primordial stakeholder: Advancing the conceptual consideration of stakeholder status for the natural environment. *Journal of Business Ethics*, *49*(1), 55–73.

Dunham, L., Freeman, R. E., and Liedtka, J. (2006). Enhancing stakeholder practice: A particularized exploration of community. *Business Ethics Quarterly*, *16*(01), 23–42.

Eesley, C. E., and Lenox, M. J. (2006, August). Secondary stakeholder actions and the selection of firm targets. In *Academy of Management Proceedings* (Vol. 2006, No. 1, pp. B1–B6). Academy of Management.

Henriques, I., and Sadorsky, P. (1999). The relationship between environmental commitment and managerial perceptions of stakeholder importance. *Academy of Management Journal*, *42*(1), 87–99.

Jawahar, I. M., and McLaughlin, G. L. (2001). Toward a descriptive stakeholder theory: An organizational life cycle approach. *Academy of Management Review*, *26*(3), 397–414.

Jones, T. M., Felps, W., and Bigley, G. A. (2007). Ethical theory and stakeholder–related decisions: The role of stakeholder culture. *Academy of Management Review*, *32*(1), 137–155.

Knox, S., and Gruar, C. (2007). The application of stakeholder theory to relationship marketing strategy development in a non–profit organization. *Journal of Business Ethics*, *75*(2), 115–135.

Mitchell, R. K., Agle, B. R., and Wood, D. J. (1997). Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts. *Academy of Management Review*, *22*(4), 853–886.

Pajunen, K. (2006). Stakeholder influences in organizational survival. *Journal of Management Studies*, *43*(6), 1261–1288.

Parent, M. M., and Deephouse, D. L. (2007). A case study of stakeholder identification and prioritization by managers. *Journal of Business Ethics*, *75*(1), 1–23.

Phillips, R., Freeman, R. E., and Wicks, A. C. (2003). What stakeholder theory is not. *Business Ethics Quarterly*, *13*(04), 479–502.

Post, J. E., Preston, L. E., and Sachs, S. (2002). *Redefining the corporation: Stakeholder management and organizational wealth*. Stanford University Press.

Ryan, L. V., and Schneider, M. (2003). Institutional investor power and heterogeneity. *Business & Society*, 42(4)398–429.

Winn, M. I. (2001). Building stakeholder theory with a decision modeling methodology. *Business & Society*, *40*(2), 133–166.

Wolfe, R. A., and Putler, D. S. (2002). How tight are the ties that bind stakeholder groups? *Organization Science*, *13*(1), 64–80.

All stakeholders should receive equitable treatment when decisions are to be made. Emotional attachments and social ties are more likely to form and become quite important for the firm.

Although the descriptive approach has not been explored as vigorously as the instrumental and normative approaches, stakeholder theory has most frequently been approached from a descriptive viewpoint. This approach, "attempts to explain certain firm characteristics and behaviors based on how organizations view and interact with their constituencies" (Bingham et al. 2011). By being descriptive, authors provide a common language for the community of scholars to convey their understanding of the relationships between the firm and its stakeholders. While simply basing stakeholder theory in descriptive terms is inadequate (Waddok and Graves 1997), a description does offer necessary information to later be used when making instrumental predictions regarding causality and performance. Please see Exhibit 8.2 for the most influential scholarly articles published on the descriptive, instrumental, and normative approaches.

In summary, stakeholder theory seeks to understand how managers of companies identify stakeholders who can affect or be affected by firm activities. Firms enter into relationships with stakeholders who could be internal or external to the firm and may include groups such as employees, suppliers, buyers, government entities, charities, the environment, etc. Stakeholder theory is interested in how management decides which needs from which stakeholder group to adhere to and why they make these decisions. The benefits of stakeholder management include increased trust from stakeholders, stakeholder commitment to the firm, increased capabilities to create competitive advantage, greater firm legitimacy, and increased company financial and social performance (Choi and Wang 2009; Freeman 2010; Freeman et al. 2007; Freeman et al. 2010; Graves and Waddock 1994; Hillman and Keim 2001). Lastly, the theory is interested in success on multiple levels including both economic success and noneconomic success through better relationships, increased social performance, and ability to meet environmental goals (e.g., Kroeger and Weber 2014).

Family Firms as Nested Stakeholder Relationships

Stakeholder theory is especially relevant to family firm studies since the family unit that owns and/or controls the business comprises a major stakeholder group. In family firm research, there is general agreement that the definition of a family firm must take into account the role that family members play in the decision-making process, along with the family's ability to create capabilities and resources that are unique to the firm (Chrisman, Chua, and Steier 2003b; Habbershon, Williams, and MacMillan 2003; Pearson, Carr, and Shaw 2008). In addition to the family group, the family firm is regularly described as a heterogeneous entity consisting of two additional systems (Gersick, Davis, and Hampton 1997). These systems consist of the ownership group and the management group. Not only are these three systems a "useful tool for understanding different goals and expectations, sources of interpersonal conflicts, role dilemmas, priorities and boundaries in family firms" (Sharma 2001, 5), but they also identify the major internal stakeholders of family businesses: owners, managers, and family. Stakeholder management (Laplume, Sonpar, and Litz 2008) in family firm research has commonly focused upon how the needs, goals, or wants of the family have the potential to be as influential as the economic needs of the ownership or management group (Gómez-Mejía et al. 2007) because the leaders of the business may hold the position of being a family member, owner, and manager simultaneously. By having leaders in control of the decision-making process who are potentially members of several different and powerful stakeholder groups, the competing claims of stakeholders may increase the amount of conflict between stakeholders (Mitchell et al. 2011). In other words, stakeholder theory's assumption that claims of various stakeholders will be in competition for attention and resources from the top management team may be magnified in a family firm owing to this issue of power and control.

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Exhibit 8.2 – Contributions to Stakeholder Theory Approaches

Descriptive

Frooman, J. (1999). Stakeholder influence strategies. *Academy of Management Review*, *24*(2), 191–205.

Jawahar, I. M., and McLaughlin, G. L. (2001). Toward a descriptive stakeholder theory: An organizational life cycle approach. *Academy of Management Review*, *26*(3), 397–414.

Mitchell, R. K., Agle, B. R., and Wood, D. J. (1997). Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts. *Academy of Management Review*, *22*(4), 853–886.

Normative

Donaldson, T., and Dunfee, T. W. (1999). *Ties that bind: A social contracts approach to business ethics*. Boston, MA: Harvard Business Press.

Gibson, K. (2000). The moral basis of stakeholder theory. *Journal of Business Ethics*, *26*(3), 245–257.

Hendry, J. (2001). Missing the target: Normative stakeholder theory and the corporate governance debate. *Business Ethics Quarterly*, *11*(01), 159–176.

McWilliams, A., and Siegel, D. (2001). Corporate social responsibility: A theory of the firm perspective. *Academy of Management Review*, *26*(1), 117–127.

Phillips, R. A. (1997). Stakeholder theory and a principle of fairness. *Business Ethics Quarterly*, 7(01), 51–66.

Instrumental

Agle, B. R., Mitchell, R. K., and Sonnenfeld, J. A. (1999). Who matters to CEOs? An investigation of stakeholder attributes and salience, corporate performance, and CEO values. *Academy of Management Journal*, *42*(5), 507–525.

Berman, S. L., Wicks, A. C., Kotha, S., and Jones, T. M. (1999). Does stakeholder orientation matter? The relationship between stakeholder management models and firm financial performance. *Academy of Management Journal*, *42*(5), 488–506.

Jones, T. M. (1995). Instrumental stakeholder theory: A synthesis of ethics and economics. *Academy of Management Review*, *20*(2), 404–437.

Normative/Instrumental

Jones, T. M., and Wicks, A. C. (1999). Convergent stakeholder theory. *Academy of Management Review*, *24*(2), 206–221.

McWilliams, A., and Siegel, D. (2001). Corporate social responsibility: A theory of the firm perspective. *Academy of Management Review*, *26*(1), 117–127.

Ruf, B. M., Muralidhar, K., Brown, R. M., Janney, J. J., and Paul, K. (2001). An empirical investigation of the relationship between change in corporate social performance and financial performance: A stakeholder theory perspective. *Journal of Business Ethics*, *32*(2), 143–156.

The Family Stakeholder Group

As noted, within the tenets of stakeholder theory, the family unit wields much power and influence in the direction and operation of the family firm. If the family stakeholder group has the potential to make decisions in their own best interest and sometimes not in the

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best interest of the business, it is important to understand what goals the family may try to achieve. A focus on profit maximization by the majority of mainstream strategy literature appears to not fit with the family firm subset. Family firms do not have the sole objective of profit maximization because they display preference toward goals with noneconomic outcomes (Chrisman, Chua, and Litz 2004). Empirical differences began to emerge between family and non-family firms in areas such as executive pay (Combs et al. 2010; Gómez-Mejía, Larraza-Kintana, and Makri 2003), international diversification (Berrone, Cruz, Gómez-Mejía, and Larraza-Kintana 2010), human resource management practices (Cruz, Fiffira, and Gómez-Mejía 2011), and firm risk-taking (Gómez-Mejía et al. 2007). Each of these studies contributed to the concept of socioemotional wealth (SEW) (e.g., Gómez-Mejía et al. 2007), where SEW represents those firm characteristics that meet the controlling family's affective needs such as the ability to exercise power, identity, and family dynasty continuation. SEW is an extension of the behavioral agency model. The behavioral agency model states that choices made within a firm rest primarily with the reference point of key decision makers. These key decision makers will attempt to preserve their accumulated endowment in the firm (Wiseman and Gómez-Mejía 1998).

In family firms, it is argued that the key reference point for decision makers is from the family's point of view and their accumulated endowment is considered to be socioemotional. Preserving socioemotional wealth may be vital and therefore, it can serve as a primary focus when making decisions (Cennamo et al. 2012). Gómez-Mejía and colleagues (2007) posit that when there is an opportunity to increase the endowment of SEW or the danger of a loss in SEW, the family will potentially decide upon a course of action that is not economically driven. In other words, the family will knowingly put the business at risk in an effort so as to preserve SEW. For example, unqualified family members are often hired into family firms and are difficult to forcefully remove from the business when their performance does not meet company standards. The desire for harmony amongst the family stakeholder group is in direct conflict with the desire to have employees who increase the profitability of the firm through their actions.

The family stakeholder group may be inclined to protect specific stakes such as: providing financial benefits and security to the family members of the firm; providing the opportunity for growth; social/reputation advancement; autonomy to family members; and providing job security to family members. Chrisman and colleagues (2003) suggested that not only do family firms focus on providing employment for family members but they also want those employment opportunities to provide avenues for growth and development of family members' knowledge and skills. A prime example of assisting in the development of their family members is the use of university led executive training programs as well as university-led family business associations or forums. Currently, in the United States, there are nearly 50 family business membership programs that provide university outreach programming in areas such as leadership, succession planning, human resource management training, family estate planning, development of family meetings, etc. One such association can be found at Wichita State University where the Center for Entrepreneurship houses the Kansas Family Business Forum. This particular program has served more than 150 family owned businesses over a 20-year period. Other examples of family business forums can be found at Fresno State University, University of Arkansas, University of Massachusetts, Loyola University, Northeastern University, etc. Many family business associations are also tied to executive training programs for key managerial skills including improving supervisory skills, transformational leadership, managing non-family members, emotional intelligence, communication skills, and

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conflict resolution skills. Outside of the United States some of the well-known forums are: the Canadian Association of Family Enterprises, which is a nationwide association with chapters in various regions; the Witten Institute for Family Business in Germany; and Loedstar, which is an international forum that holds events in Europe primarily and has specific forums for London and Dubai.

Each of these programs requires a financial commitment from the business to support the growth and development of a subset of individuals within the business who receive this benefit owing to their familial status. Rather than simply putting money into the development of the most promising employees, regardless of their last name, family business leaders are in many instances protecting their SEW. Subsequently, the family's continued control of the business will be intact through the development of the next generation of family leaders in their business. Additional monetary commitment may come in the form of contracting with the growing family business consulting market. In one such instance, the Family Business Consulting Group located in Atlanta, GA in the United States boasts the assistance of over 2,300 clients in 70 countries around the world (http://www.thefbcg.com/benefits/where-we-work/). Indeed, family business leaders are willingly diverting resources away from pure, economically driven objectives and are instead placing time and money into the protection, or even enhancement, of their SEW.

Family firms may also differ in their level of stakeholder influence when looking at the life cycle of the family firm, which has been traditionally based upon the generational stages of the firm (Gersick et al. 1997). As a family firm moves from the first to subsequent generations "ownership tends to get dispersed in a somewhat episodic and 'stepwise' fashion over a relatively long period of time, with shares usually passed from parent to child around the time of the principal owner's retirement and/or death" (Schulze, Lubatkin, and Dino 2003, 182). In general, family firms are described as moving between three significantly different stages of ownership dispersion and this subsequently has the potential to affect management control as well. These stages are designated as the controlling owner, sibling partnership, and cousin consortium phases (Gersick et al. 1997).

The controlling owner phase normally occurs as the business is founded and suggests that the founding family possesses the majority of the equity in the firm as well as manages the firm with near total control. In this instance, there is significant overlap in the family, ownership, and management groups and the salience of each internal stakeholder group has the potential to create significant conflict. When the business is passed down to the next generation of the business through a succession event, multiple children may become owners/managers and in turn, the business moves into the sibling partnership phase. Sibling partnerships result in the likelihood of the family stakeholder group's claims to become increasingly salient. Additionally, the stakeholder claims of the family group will often increase in breadth at this time. There may be an increased desire to hire additional family members such as in-laws, a growing desire to consume some of the free cash flow of the business for perquisites owing to a diminishing bootstrapping mindset, etc. Lastly, when the firm encounters yet another succession event, it will move into the cousin consortium phase where ownership dispersion is again broadened to more family members (Gersick et al. 1997). The cousin consortium phase also sees continued broadening of the needs of the family. Ownership is now dispersed amongst a larger group of family members and therefore the profitability of the firm likely provides less to each individual family member than in previous governance structures. Therefore, it is necessary to grow the business or decrease costs in an effort to increase profit margins. Owing to these issues, management of the business could move to professional non-family managers with better skills in accomplishing

these business goals. The result of increased non-family management upon meeting the needs of the family stakeholder group could be quite dramatic.

Although Gersick's model is applicable in many societies across the globe, it may not be universally appropriate. Many externalities influence family business practices, including national context, ethnicity, and religion (Hoy and Pu 2012). Specifically, the Chinese community may deem Gersisk's model invalid as the one-child policy upheld in China almost diminishes the sibling partnership phase. Salience within the family stakeholder group will decrease, and the desire to hire family members also decreases. The cousin consortium phase, preceded by the sibling partnership phase, also suffers. Therefore, the Chinese community will rely heavily on other internal stakeholders, such as those discussed below, rather than family internal stakeholders.

Other Internal Stakeholders

Beyond the family unit, non-family managers and employees are likely the most studied stakeholder group in family business research. Non-family managers have been included in research topics such as justice perceptions (Barnett and Kellermanns 2006), agency cost analysis (Chrisman et al. 2007), firm growth (Ward, 1997), organizational social capital (Arregle et al. 2007), stakeholder perceptions of culture and management practices (Poza, Alfred, and Maheshwari 1997), and board composition (Anderson and Reeb 2004). Overall, the studies of non-family managers and employees has taken on the task of trying to understand how the relationship of the non-family stakeholder group with the family is developed over time, how well their needs as a group are met, what autonomy they possess to meet their own needs and the needs of the business, as well as their commitment to the goals of the business and family, be it economic or non-economic goals. For example, in Poza et al. (1997), the authors find that family CEOs perceive their actions more favorably than non-family managers in regards to decision making, culture, and succession. They suggest that increased communication with the non-family managers may alleviate the incongruence of perceptions but likely will not remove it altogether. From a stakeholder perspective, the authors argue that meeting the needs of the family for hiring, promotion, and compensation is perceived by the family CEO as equitable since the family members are part of the family stakeholder group and eventual owners of the business. This would encourage the full commitment of family members to the business. From the perspective of the non-family managers though, these actions may be taken as nepotism and favoritism, as well as unwarranted business expenses that reduces the growth potential for non-family managers in their own careers and financial rewards.

External Stakeholders

The external stakeholders of a family firm are not inherently different than non-family firms. These stakeholders include such groups as suppliers, customers, the community, charities, non-profits, competitors, and the environment. As suggested previously, the influence of the family unit on the decisions of the business, as well as the relationships between the family stakeholder group and all other stakeholders, is where research has focused.

Family business research has argued that family firms perform well from the standpoint of corporate social performance, where corporate social performance is "comprehensive assessment of the firm's voluntary actions to improve conditions with associate stakeholder groups" (Bingham et al. 2011, 566). Empirically, the results have been positive. Some research

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suggests that family firms contribute significantly to charitable organizations (Ylvisaker, 1990). Many family businesses have also begun to create their own family foundations as a way to create a legacy of their own in the world external to the business (Sharma, Chrisman, and Chua 1997). One example of a family foundation that provides benefit to the family unit but also increases the legitimacy of the family's principle business is the Cabela Family Foundation in the United States. The Cabela family founded Cabela's Outdoor World in 1961 and it has since turned into one of the largest outdoor products retailers in the world with net sales revenues in excess of $3.65B in 2014. The *company* operates the Cabela's Outdoor Fund which promotes conservation and hunting, camping, and boating, while the *family* operates the Cabela Family Foundation which provides grants to causes designated by the family, including outdoor and conservation initiatives. In each foundation, the business is being influenced by the personal actions of the family to consider the family's legacy as environmental conservationists when utilizing excess cash flow. Margolis and Walsh (2003) and Morck and Yeung (2004) would argue through agency theory that these actions are instead done only to protect the interests of the family and that they are not truly benevolent in their actions. Bingham and colleagues (2011) address these inconsistent descriptions by assessing the corporate social performance of family firms through a stakeholder identity approach. They argue that family firms typically take on a relational identity orientation toward their stakeholders whereas non-family firms take on an individualistic identity orientation. The result of these differences is that they find family firms with high levels of family involvement demonstrate greater levels of corporate social performance toward a wide range of stakeholder groups.

Family firms have been found to be more responsive to the environment as a stakeholder group. For example, Sharma and Sharma (2011) draw upon the theory of planned behavior and state that family firms develop a proactive environmental strategy. The authors argue that family businesses are shaped by the involvement of the family and because of the family's attitudes, subjective norms, and perceived behavioral control they are able to pursue strategies to meet the needs of the environment. Further, the capability to accomplish these type goals increases when the family has higher levels of involvement and when the family believes that the subjective norms of meeting environmental needs benefit their firm. Family firms are expected to want to meet the needs of the environment because the family stakeholder group typically possesses a long-term strategic focus (Gentry, Dibrell, and Kim 2014), family members maintain leadership positions for extended periods of time, the family highly identifies with the business (Matherne, Ring, and McKee 2011), and environmental success may gain SEW endowments for later generations of the family (Sharma and Sharma 2011). The authors go on to suggest that family firms that maintain relatively low levels of relationship conflict within the family stakeholder group may be more successful in meeting environmental goals by diverting resources toward strategies that help the environment.

Berrone and colleagues (2010) also studied why family firms have been able to better meet environmental needs and they were able to show empirically in a sample of US firms that they polluted less through better emissions reporting. These authors argued that firms controlled by a family stakeholder group would respond more readily to institutional pressures involving the environment. The pursuit of environmentally friendly strategies can be quite costly and the results are most likely to be ambiguous at best. Therefore, many firms have difficulty in deciding the amount of resources to dedicate toward common initiatives such as carbon credits, planting trees, recycling, green materials and packaging, etc. Berrone et al. (2010) state that the family stakeholder group may believe environmentally friendly practices provide additional social legitimacy as well as the potential for increased SEW.

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Implications for Future Research and Practice

Although much has been accomplished in the fields of stakeholder theory and family business research, additional work remains. We believe that the following suggestions for future research may offer scholars with the opportunity to successfully contribute to both fields simultaneously.

First, family business advising is a growing part of the consulting market and has received recent attention from family business research. In 2013, the Family Business Review published a special issue on family business advising (Reay, Pearson, and Dyer 2013). In this issue, Salvato and Corbetta (2013) highlight the role that advisors play as facilitators of leadership construction in family business successors. The authors investigate how the succession process may be improved by providing a significant mentoring relationship to next generation family members. In essence, they seek to understand how mentoring may turn into a form of shared leadership of the business between the advisor and the successor. Although the authors looked at this activity as one that may prove to be effective in developing leaders, from a stakeholder standpoint we ask "How might the advisor/successor relationship alter the salience of various stakeholder claims?" We expect that a significant difference may exist when choosing advisors with different areas of expertise, as well as whether or not they have extensive experience working solely with family owned companies. For example, an advisor brought in for leadership development and executive coaching that lacks understanding of the issues regarding SEW and the stakeholder claims of the family group may be less apt to understand the important issues regarding conflict resolution amongst family members within the business. Further evidence of this issue is seen in Barbara and Hasso (2013) where they found that use of an accountant as the family business advisor had a significant effect on sales growth and business survival. We believe one should also question how the use of an accountant affects the family stakeholder group's desire to increase or protect SEW. Stakeholder theorists have already begun to address the issues of executive succession processes (Friedman and Olk 1995) and leader power sharing (Heller 1997). There appears to be potential for using this work as a background for better understanding how advisors assist successors in their transition to top management, as well as how these successors can successfully manage the competing claims of stakeholders during this turbulent time of transition (Taylor 1995). Lastly, Naldi, Chirico, Kellermanns, and Campopiano (2015) explored the dynamic between family firm performance and family members serving in an advising capacity. In a study of Swedish family firms, the authors observed a direct relationship between performance and number of family advisors in the form of an inverted U-shape and a moderating effect between firm generation and performance. First generation firms had a positive relationship with performance and later generation firms had an inverted U-shape relationship.

Second, de Luque, Washburn, Waldman, and House (2008) explain how a stakeholder orientation by CEOs can result in the perception that the CEO is a visionary leader and when this perception held by stakeholders it increases their commitment. The result is better overall firm performance (Parma et al. 2010). The authors' data collection provided insight to the differences between leaders who primarily emphasize economic values, rather than stakeholder values. Those emphasizing economic values were perceived as autocratic leaders and employees were less apt to increase their efforts when this perception prevailed. We believe that these findings may address the seemingly negative connotation that family firms' focus too heavily on non-economic goals (Cennamo et al. 2012; Chua et al. 1999; Gómez-Mejía et al. 2007) and this focus could instead create a positive perception by stakeholder groups. When coupling this predominant decision-making value with the long-term orientation of family firms (Chrisman et al. 2003b), it is conceivable to argue that the stakeholders associated with a family firm will

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see the leader of the business as a visionary leader and in turn increase their efforts. This may be yet another way to explain why family firms are believed to outperform non-family firms (Miller et al. 2007).

Next, it would be interesting to investigate how stakeholder relationships in family firms change over time. How might stakeholder engagement strategies change when a family firm moves from a sibling partnership to a cousin consortium governance structure (Gersick et al. 1997)? Will family managers become increasingly influenced by the stakes of the family stakeholder group as this group grows and its needs escalate? Are some stakeholder relationships in the family firm disrupted more or less than others during a time of succession? And, is it possible for actions to be taken leading up to the succession process to enshrine the legacy of certain stakeholder relationships?

Lastly, Tantalo and Priem (2015) addressed directly *how* firms may be able to create value for multiple stakeholder groups simultaneously by discussing a new concept they call "stakeholder synergy." Stakeholder synergy is the ability of the top management team to "identify novel combinations of different utilities, each valued by different stakeholder groups" (Tantalo and Priem 2015), and then to deploy strategies to meet the needs of each group at the same time. Mechanisms to achieve the deployment of these strategies include:

1. increasing the utility of a single stakeholder group without decreasing the utility of another group;
2. finding complementary needs across multiple stakeholder groups and meeting them simultaneously;
3. "follow-on" results of a singular action or a complementary action, such as increased stakeholder commitment and trust, will lead to additional synergies between and amongst various stakeholder groups.

Following Tantalo and Priem (2015), we believe it would be interesting for family firm research to investigate whether or not there are consistent types of stakeholder needs that could be complementary and, hence, provide opportunities for complementary actions. For example, the need to develop leaders of the next generation of family members may encourage the family stakeholder group to place resources into leadership training programs for family members. As policies for this type program are created, it would behoove the top management team to consider equitable ways to also include non-family members in leadership training. The results may be a protection of the family's socioemotional endowment and an overall increase in leadership abilities throughout the company. What other human resource areas could address complementary needs of different internal stakeholder groups in the family firm? What needs of external stakeholders may consistently be complementary with the needs of the family stakeholder group? The stakeholder synergy concept may also help identify strategies to deal with the significant salience of the family stakeholder group (Mitchell et al. 2011). Stakeholder synergy could offer new options for dealing with nonessential stakeholder groups, as well as essential stakeholders (Tantalo and Priem 2015) such as the family stakeholder group.

From a practical standpoint, consistency in organizational practices may be especially important in family businesses. Similar to the example provided previously for the development of a leadership training program in a family firm, the equitable treatment of family and non-family members may result in increased effort by the entirety of the employee complement. Barnett and Kellermanns (2006) argue that low levels of family influence had little impact on justice perceptions of human resource practices by non-family members in family firms. They also theorize that

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moderate levels of family influence in the firm will result in positive perceptions of human resource practices, but high levels of family influence will have negative effects on perceptions of justice in human resource practices. Practitioners in family firms should be actively seeking opportunities to find stakeholder synergy and to then create policies that reflect equity through distributive and procedural justice. By listening closely to stakeholders when interacting with them, finding synergistic ways to meet the needs of multiple groups simultaneously, and then providing explanations to each stakeholder group about the subsequent decisions made (Harrison et al. 2010), it is possible to manage stakeholders' perceptions of the family who is in charge of the business.

Additionally, current family firm leaders should consider how the relationships of certain primary stakeholder groups could be damaged during the transition to the next generation of family members into leadership roles in the business. For example, understanding the needs of stakeholders requires intimate interaction with these groups. In the case of suppliers or key customers to the firm, the stakeholder relationship could become strained if a family successor is not properly provided with the opportunity to build a relationship with these firms or customers. Family firm consultants and family business researchers have both expanded significantly upon the idea that one major succession problem is the management of key relationships in the firm. We reiterate their suggestion here and encourage family firm leaders to help their successors focus very specifically on the needs of key stakeholder groups. This will require intimate interaction with each group and may lead to the continued perception of the family being visionary leaders of the firm.

Conclusion

Stakeholder theory began (Freeman 1984) as a way to explain how companies can increase the breadth of information utilized when making decisions for their firms. Stakeholders may be affected or can affect the firm in a myriad of ways and this should be recognized as important, rather than only focusing on the effect of shareholder needs upon decision-making processes. Although much work remains to be accomplished, the combination of stakeholder theory and family firm research offers unique contributions to our understanding of these literature streams. The family stakeholder group desires to meet its own socioemotional wealth goals (Gómez-Mejía et al. 2007) and meeting these needs may not be 100 percent contradictory to the economic goals of the business. Opportunities are abundant to specify how stakeholders of the family firm affect profitability, justice perceptions, leadership, and organizational culture. The opportunities for practitioners to learn how to increase their effectiveness and competitive advantage in the marketplace appear to be significant as well.

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