STAKEHOLDERS PRIORITIZATION IN FAMILY BUSINESSES: A THEORETICAL ESSAY

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Abstract

Purpose: to identify the factors that influence the stakeholders management in family firms.

Methodology: a theoretical essay was developed based on the “stakeholder salience model”, which addresses prioritization criteria, and the “three circle model”, which presents the intersections between family, business, and ownership peculiar to family firms.

Findings: the results show the salience of three internal stakeholders groups in Family firms (founders, next generation members and non-family employees) based on the attributes of power, legitimacy and urgency, and considering the simultaneity of the stakeholder roles in Family business.

Theoretical contributions: the study contributes for stakeholder management and prioritization by considering similarities and differences between family and non-family businesses and including the “role simultaneity” as an important factor in this phenomenon.

Originality/Value: the inclusion of the “role simultaneity” attribute is relevant to the advancement of the “stakeholder theory” in the context of family businesses, because it offers greater scope and precision to the Salience Model and the study fosters the discussion on how to allocate organizational resources in the face of various stakeholders demands.

Keywords: Stakeholders. Stakeholders Salience. Family Firms.

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1. Introduction

Family businesses represent an important type of organization in the world, impacting on economic, political, social and cultural aspects (Frezatti, Bido, Mucci, & Beck, 2017). In emerging markets like Brazil, they adopt an even more relevant role (Bhalla, Orglmeister, & Tong, 2016). Family businesses differ from other organizations that provide goods and services because they are composed of two distinct institutions – the business and the family. Businesses tend to focus on utilitarian concerns such as profit and productivity, while families are concerned with socio-emotional aspects, such as family welfare and affective needs. As a result of this, family businesses operate on two different logics (business and family), which means that stakeholder prioritization tend to be different and more complex than in non-family business whose functioning is based on only one logic (Mitchell, Agle, Chrisman, & Spence, 2011).

The involvement of family members on management matters and the pursuit of non-economic goals lead to a series of characteristics that are specific to this context, such as: family identification with the business, concerns about family reputation, renewal of family ties through succession and the preservation of the family’s socio-emotional investment (Berrone, Cruz, & Gomez-Mejia, 2012; Cennamo, Berrone, Cruz, & Gomez-Mejia, 2012; Chrisman, Chua, Pearson, & Barnett, 2012; Holt, Pearson, Carr, Barnett, 2017; Payne, Brigham, Broberg, Moss, & Short, 2011). These peculiar characteristics lead the business’s managers to perceive and coordinate stakeholders’ interests differently (Sharma, 2004; Gomez-Mejia, Cruz, Berrone, & Castro, 2011; Bingham, Dyer, Smith, & Adams, 2011; Mitchell et al., 2011; Cennamo et al., 2012).

Previous studies have been conducted with the purpose to analyze the specificities and dynamics of family businesses based on alternative theoretical and methodological approaches (Astrachan, 2010; Bammens, Voordeckers, , & Van Gils, 2011; Borges, Brito, Lima, & Castro., 2016; Chrisman, Steier, & Chua, 2006). However, there is a few studies using Stakeholder Theory to analyze relationships and transactions in family business. The discussion on how managers deal with stakeholder demands prioritization in family businesses is even more challenging due to an additional and powerful group of stakeholders with which non-family businesses have no contact: the family members (Sharma, 2004).
The lack of work on this topic may be associated with the fact that, when starting Stakeholder Theory, Freeman (1984) did not consider “family members” as a distinct category of individuals who can influence and be influenced by business actions (Sharma, 2004). Exceptions can be found in the studies of Sharma (2004); Zellweger and Nason (2008) and Cennamo et al. (2012); Gavana, Gottardo and Moisello (2016); Hou (2019) and Singh; and Mittal (2019), who sought to extend Stakeholder Theory to the context of family businesses. Although these studies cover issues related to Stakeholder Theory, they do not bring about any discussion on prioritization.

One of the most accepted models for stakeholder prioritization is that of Mitchell, Agle and Wood (1997), which identify salient stakeholders by three attributes: power, legitimacy and urgency. However, these attributes can adopt a different conformation in the context of family businesses due to its fraternal organization system (Bingham et al., 2011) and peculiar goals, such as meeting family members’ goals and maintaining the business ownership (Chrisman, Chua, & Sharma, 2005; Dawson & Mussolino, 2014; Zellweger & Nason, 2008).

Mitchell et al. (2011) contributed to this discussion by examining stakeholders’ salience in family businesses and by suggesting that the attributes of power, legitimacy and urgency are divergent in these enterprises. Nonetheless, the authors did not offer a specific model for analyzing stakeholder prioritization in this type of business. Thus, the present article aims to identify the factors that influence stakeholder prioritization in family businesses.

For this objective to be attained, we propose a framework linking Stakeholder Theory to the context of family businesses. The Salience Model was used to analyze the stakeholder prioritization phenomenon taking place in the specific context of family businesses. Hence, the present study brings contributions to the Stakeholder Theory by broadening the discussion over which elements are relevant to stakeholder prioritization as it raises the need to include the specific characteristics of family businesses, such as the coexistence of different goals in both family and business systems (Holt et al., 2017).

2. Literature Review

In this section, we discuss the following topics: (i) stakeholder management, (ii) family businesses and (iii) stakeholder management in family businesses.
2.1 Stakeholder Management

Stakeholders are people or a group of people who claim or have ownership, rights or interest in the business’s past, present and future activities (Freeman, 1984). The businesses that do not meet the demands of their strategically relevant stakeholders can suffer negative consequences, such as consumer or supplier boycotts, lobbying, employee strikes and shareholder activism (Freeman, 1984; Neubaum, Dibrell, & Craig, 2012).

The literature on stakeholder management have shown varying classifications for the groups they make up in a business. Clarkson (1995) proposes the existence of two main groups: primary and secondary. Primary stakeholders are key to the business’s survival and more closely linked to corporate value creation (Harrison, Bosse, & Phillips, 2010). Secondary stakeholders are not essential for the business’s survival (Clarkson, 1995). Similarly, Phillips, Freeman and Wicks (2003) also separate them into two groups: the first one is called the normative group, which corresponds to the stakeholders for which the business must be managed and, just like the primary group defined by Clarkson (1995), it includes shareholders, employees, customers, suppliers and local communities. The second group is referred to as derivative stakeholders, for which the business has no direct moral obligation and include activists and the media (Phillips, Freeman, & Wicks, 2003).

In addition to this classification, stakeholders can be further separated into external and internal groups (Harrison & John, 1996). External stakeholders consist of entities who are interested in the business’s activities or who affect its ability to attain the business goals; although, they are not within the business. Entities who can belong to this group includes customers, suppliers, local communities, unions, third parties serving the organization, media, municipal, state and federal governments, among others. On the other hand, internal stakeholders represent entities within the businesses, such as partners, shareholders, directors and employees (Harrison & John, 1996).

Stakeholder Theory proposes that a business’s managerial responsibility be extended to a broader set of related interests (Freeman, 1984). However, managers need to prioritize stakeholders’ conflicting demands - an issue yet to be solved by the literature.
(Phillips, 2003). An important contribution to overcome this limitation was the salience model put forward by Mitchell et al. (1997). According to the authors, a salience is defined as “the degree to which managers give priority to competing stakeholders’ claims” (Mitchell et al., 1997, p. 854). The authors purposed a model to identify and classify stakeholders according to three attributes: 1) its power to influence an organization; 2) the legitimacy of their relationship with the organization; and 3) the urgency their claims.

Mitchell et al. (1997) consider power as the social actor’s ability to influence the actions of another social actor into their favor. One will have power over the other through its access or its possibility to access coercive, utilitarian or normative means of imposing its will on the relationship. Coercive power is based on physical resources of force, violence and limitation, whereas utilitarian power is based on material or financial resources and normative power is based on symbolic resources (Etzioni, 1964).

With regard to legitimacy, the authors adopted the definition created by Suchman (1995), for whom it is considered to be a “generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions” (Suchman, 1995, p. 574).

In the model, urgency is defined as the degree in which stakeholders’ claims call for immediate attention and it is based on two characteristics: 1) time sensitivity – the degree to which the delay in meeting the claim is unacceptable to the stakeholder; and 2) criticality - the importance of the claim or the importance of the relationship to the stakeholder (Mitchell et al., 1997).

It is possible for a stakeholder to have one, two or three of these attributes. According to the possible combinations, three kinds of stakeholders have only one attribute; three have two attributes and one has all three attributes as shown in Figure 1. Managers will be able to detect the most salient stakeholders as they build up attributes.
The stakeholders that have only one attribute show low salience. If they only have power as an attribute (but has neither legitimacy nor urgency), then its power will not convert into use. In the case of having legitimacy only, they are entitled as ‘discretionary’. Finally, if the only relevant attribute is urgency, they are referred to as ‘demanding’. (Mitchell et al., 1997).

The stakeholders that have two attributes show moderate salience. If they have power and legitimacy, they are called ‘dominant’. If they have both power and urgency, they are denominated as ‘dangerous’. Finally, if they have both legitimacy and urgency, they are called ‘dependent’ as they rely on the power of other groups of interest in order to have their claims met (Mitchell et al., 1997).

Those who have all three attributes are the ‘definitive’ stakeholders and, thus, have high salience. The individuals or groups who possess neither of the attributes are not considered to be stakeholders nor potential stakeholders. According to the variations in the three attributes, the possession of all attributes may be temporary, that is, a stakeholder might show high salience in a given moment and lose it in another (Mitchell et al., 1997).

The salience model is one of the most used models for stakeholder prioritization in theoretical and empirical works (Agle, Mitchell, & Sonnenfeld, 1999; Eesley, Lenox, 2006; Parent, Deephouse, 2007; Magness, 2008, Boaventura, Fontes, Sarturi, & Armando,
Although, few studies seek to analyze the particularities of different types of businesses (such as family businesses) when using the model.

2.2 Family Businesses

Research regarding family businesses have been carried out under the understanding that the family members involvement have a significant impact on an organizations’ processes and policies (Chrisman et al., 2005; Chrisman et al., 2012; Chua, Chrisman, & Sharma, 1999). From this perspective, family businesses behave differently than their counterparts, since non-family businesses do have family members as stakeholders (Bingham et al., 2011; Neubaum et al., 2012).

The literature has presented various definitions to conceptualize a family business. Many empirical studies consider family businesses to be those in which two or more individuals are simultaneously members of the family and act as managers. To be more specific, this includes any business that: a) has the ownership controlled by one family; b) has at least two family members responsible for its management, c) also consists of employees who are not part of the family (Tagiuri & Davis, 1996). For small businesses, ownership control means owning at least fifty per cent of the business. Yet, for large businesses, it is possible for a family to own less than most shares, but to elect a board of directors who will support family goals (Tagiuri & Davis, 1996).

Most of the definitions used are operational in nature. Each study establishes a definition to differentiate family businesses from others, according to the limitations and needs of the research. Notwithstanding, these definitions do not have any theoretical foundation capable of explaining exactly why and how family businesses differ from their counterparts. In other words, to define a business as a family business based solely on ownership, management and governance aspects is not enough to explain why and how the involvement of families in a given business leads to behaviors and outcomes that differentiate them from non-family businesses (Chrisman et al., 2005).

In this sense, the presence of a family is a necessary condition for it to be considered a family business, but not a sufficient condition in itself to assure that the family’s vision about the business is maintained throughout generations (Chrisman et al., 2005; Dawson & Mussolino, 2014). In other words, for a business to be considered a family business, it
must have two or more members of one or more families involved with the business and exerting substantial influence on family affairs (Gómez-Mejía, Cruz, Berrone, & De Castro, 2011).

Furthermore, family businesses develop peculiar characteristics that are a reflection of the families involved, so much so that each of these characteristics represent a source of advantages and disadvantages for the business family. Figure 2 illustrates these characteristics and its respective advantages and disadvantages.

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Disadvantages</th>
<th>Advantages</th>
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<tbody>
<tr>
<td>Simultaneous roles</td>
<td>Norm confusion and anxiety. Family business and ownership issues can get mixed up. Lack of business objectivity.</td>
<td>Heightened loyalty to family and business. Fast and effective decision-making.</td>
</tr>
<tr>
<td>Shared Identity</td>
<td>A stifling sense of being overwatched. Resentment toward family and business.</td>
<td>Heightened loyalty to family and business. Strongly expressed feeling for mission; more objective business decisions.</td>
</tr>
<tr>
<td>Lifelong common history</td>
<td>Family members can point out weaknesses. Early disappointments can reduce trust in work interactions.</td>
<td>Relatives can draw out relatives’ strengths and complement their weaknesses. A strong foundation can encourage a family to weather adversity.</td>
</tr>
<tr>
<td>Emotional involvement</td>
<td>Lack of objectivity in communication. Resentment and guilt can influence work relations. Camouflaged hostility may arise.</td>
<td>Expressions of positive feelings create loyalty and promote trust.</td>
</tr>
<tr>
<td>“Private” language of family members</td>
<td>Can trigger sensitive reactions that can distort communication and encourage conditions for conflict.</td>
<td>Promotes more efficient communication and with greater privacy.</td>
</tr>
<tr>
<td>Mutual awareness and privacy</td>
<td>Can lead relatives to feel overwatched and trapped.</td>
<td>Can improve communication and decisions that support the business, owners and family.</td>
</tr>
<tr>
<td>Meaning of the family business</td>
<td>Fierce rivalry can develop between relatives.</td>
<td>The business’s symbolism can develop a strong sense of mission for employees.</td>
</tr>
</tbody>
</table>

Figure 2. Advantages and Disadvantages of Family Businesses’ Peculiar Characteristics.
Source: Adapted from Tagiuri and Davis (1996).

As shown in Figure 2, the same characteristics can represent both strengths or weaknesses. The family can recognize and manage the potential of the positive and negative consequences in such a manner as to increase the impact of the positive consequences and decrease the negative ones (Tagiuri & Davis, 1996). Moreover, the peculiar characteristics and its respective advantages and disadvantages influence the way the family business’s stakeholders are perceived and coordinated. For instance, the
importance the family gives to the business might lead to an increased preoccupation with external stakeholders since the relationship the business establishes with these stakeholders influence the family’s reputation (Cennamo et al., 2012). Another example refers to the possibility of faster and more effective decision-making as a result of existing simultaneous roles that could lead to a more proactive environmental management (Sharma & Sharma, 2011).

An overlap in existing roles in the family business results in a peculiar system, which is illustrated in Figure 3.

**Figure 3.** Three-Circle Model (Family Businesses System).  
Source: Adapted from Tagiuri e Davis (1996)

From Figure 3, it is possible to identify the overlapping roles between family members, owners and managers who are part of family businesses. Each individual can be allocated to only one of seven areas in the three-circle model. On the other hand, each of the seven areas may contain more than one individual.

Through this model, it is possible to understand the structure and processes used by the family business, as well as to map which stakeholders are linked to the business family (Sharma, 2002). The four most studied stakeholder groups in the family business literature are: a) founders; b) members of the next generation; c) family members not involved with the business; and d) non-family employees. Founders are recognized as having a significant influence on businesses’ culture, values and performance because of
their fundamental role. Much research has also focused on members of the next generation, seeking to understand attributes that are desirable to successors and the reasons that lead them to pursue a career in their family business. Another relevant audience corresponds to family members who do not participate in the business but can exert influence on family members involved with the business. Finally, research has also recognized the importance of studying the complexity of the role and perceptions of non-family employees (Sharma, 2004).

The visual representation regarding the position of the stakeholders in relation with the entrepreneurial family can, at a given moment, be done via the stakeholder’s map. The map can be designed by allocating each individual stakeholder to their respective areas of the Three-Circle Model (Figure 2), allowing them to build an understanding of their roles, needs and concerns. Besides, subtitles can be used to distinguish between different variables of interest, such as direct and indirect family members, minority and majority shareholders, and so on (Sharma, 2004). Lastly, the stakeholders’ perspectives should be observed over time as a means to facilitate the challenges which the family business faces, especially with regard to the succession process.

Stakeholders’ roles are not static. The founder usually starts at position 7, as owner, manager and family member. Subsequently, he can make the succession involving management and go to position 4 (owner and family member) or in a different manner, the succession involving ownership and can be triggered by “only” as a result of being a family member, position 1. The reverse path can also occur with the members of the next generation. As they begin to act as managers, they leave position 1 to enter position 5 and later, when they become shareholders, move to position 7. Employees who are not members of the family can in any given moment and as a result of loyalty, become minority shareholders, leaving position 2 to enter position 6. At the end of their professional careers, they may remain a shareholder, thus moving to position 3.

2.3 Stakeholder Management in Family Businesses

Family businesses are subject to a wide variety of pressures that are similar to those faced by non-family businesses. However, these businesses face additional pressures that other businesses do not. For example, shareholders may exercise greater
power due to the concentration of ownership among family members. In addition, family members who do not own any shares can be considered residual claimants and have great power to influence decisions made by managers. (Mitchell et al., 2011).

In addition to having family members as a powerful additional group of internal stakeholders, family businesses have different attitudes toward managing their stakeholders (Sharma, 2004). These differences result from the peculiar characteristics of family businesses, such as: long term orientation; identification of the family with the business; concerns with the family’s and business’s reputation (Payne et al., 2011); and the presence of multiple goals (beyond financial goals), like preservation of socioemotional investment made by the family onto the business (Cennamo et al., 2012).

Family businesses are more sensitive to threats to its socioemotional wealth, which depends on the maintenance of family control and of meeting the non-economic goals of the family (Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007; Gómez-Mejía et al., 2011). Socioemotional wealth includes aspects such as: the need to belong, affection and intimacy; continuity of family values through the business; perpetuation of family dynasty; social status; preservation of family’s share capital; discharge of family obligations based on blood ties; and the capacity to act altruistically with family members when using business resources (Gómez-Mejía et al., 2007).

Research suggests that family businesses are more focused on attaining the goals of their external stakeholders, by giving greater importance to philanthropy for example. On the other hand, some researchers argue that family business owners are more concerned in defending their own interests and are less inclined to meet the interests of external stakeholders (Bingham et al., 2011). In the context of family businesses, the internal stakeholders are employees (receive salaries); and/or owners (shareholders) and/or family members. The stakeholders who are not linked to the business via a job, ownership or family but who influence the survival and prosperity of the business in the long term are external stakeholders (Sharma, 2004).

Bingham et al. (2011) aimed to clarify these contradictory results by adopting the logic of organizational identity orientation to explain stakeholder management differences between family and non-family businesses. Organizational identity is defined as the self-conception or self-definition of the organization based on its specific attributes. It is formed
by a consensual vision of “who we are as an organization” and “what we do as a collective”. Organizational identity orientation refers to the nature of the implicit relationships between an organization and its stakeholders (Bingham et al., 2011). It considers that businesses have different motivations to engage in different demands from stakeholders (Bingham et al., 2011). According to this logic, stakeholder orientation can take up a combination of three different forms: individualistic, relational or collectivist (Brickson, 2007).

Businesses with an individualistic identity orientation are driven by self-interest and can engage in actions that benefit external stakeholders in order to distinguish themselves from other businesses and maintain their legitimacy. Businesses that adopt a relational orientation are characterized by dyadic concern and trust and aim to be “good partners” with their salient stakeholders. Finally, businesses that have a collectivist orientation have a common sense of purpose, paying attention to the promotion of collective well-being. Rather than emphasizing efficiency or building dyadic ties, collectivist businesses seek common benefits in relationships (Bingham et al., 2011). According to the study by Bingham et al. (2011), family businesses adopt a more relational orientation towards their stakeholders than non-family businesses.

Due to the strong connection between family and business as well as the desire of the family to protect both identities, family businesses have a higher tendency to set non-economic goals, which, in turn, can significantly shift behavior (Zellweger & Nason, 2008). The business’s attitude towards the needs of their stakeholders can be determined by the importance given by the business controllers to the non-economic results (Gomez-Mejia et al., 2011). In other words, as controllers assign greater importance to non-economic goals, the chances of stakeholder-related practices being implemented increase.

In empirical studies, Cennamo et al. (2012) concluded that family businesses are more likely to adopt proactive stakeholder management, that is, they try to anticipate stakeholder needs and develop targeted and specific practices. Sharma and Sharma’s (2011) findings indicate that family business’s managers are more likely to develop a proactive environmental strategy. When comparing these managers to those of non-family businesses, it is found that they are more likely to: (i) show a positive attitude towards environmental preservation; (ii) believe that positive subjective rules favor pro-
environmental activities in the business; and (iii) perceive higher levels of behavioral control to engage in these activities. The greater importance given to non-economic goals by managers in family businesses is caused by the proximity of the family identity to the business identity (Gomez-Mejia et al., 2011). In the decision-making process, managers weigh their decisions according to socioemotional wealth, which corresponds to the importance attached by family members to non-economic advantages generated to the family through the business (Debicki, Kellermanns, Chrisman, Pearson, & Spencer, 2016). Socioemotional wealth can originate from five distinct dimensions: (i) family control and influence; (ii) the identification of family members with the business; (iii) binding social ties; (iv) emotional attachment of family members; (v) renewal of family bonds to the business through dynastic succession (Berrone et al., 2012). The importance given by family members to each one of these dimensions affects the way with which managers (from the family or not) will prioritize stakeholders’ demands.

Since socioemotional wealth relates to the priorities of the family and because each family member can show different preferences, Miller & Le Breton-Miller (2014) suggest that family decisions should be analyzed by two criteria: the short- and long-term priorities.

The short-term priorities are denominated as “restricted” and refers to those which are exclusively centered on family demands and that it will mostly be contrary to non-family stakeholders’ and business’s interests. These priorities are linked to family altruism, nepotism and conflicts, as well as being based on agency theory (Lubatkin, Schulze, Ling, & Dino, 2005; Schulze et al., 2001). These priorities involve, for example, the participation of family members in management positions, regardless of their qualifications. In this context, family members can use business resources to meet family demands. These practices can lead to conservative strategies for maintaining family control, resulting in poor business decisions. Although the results of these actions are aligned with family goals, they tend to dismiss the demands of the remaining stakeholders, which can compromise the business’s performance.

On the other hand, long-term priorities are denominated “extended”. They are aligned with Stakeholders Theory and the sustainable perspectives of family businesses (Arrègle, Hitt, Sirmon, & Véry, 2007; Miller, Le Breton-Miller, & Scholnick, 2008). Although they are rooted on family preferences, these priorities incorporate advantages that go
beyond the family. From this perspective, the business is considered to use the best of the family’s reputation with their stakeholders, thus strengthening their relationship, which can, in turn, increase the chances of business survival in the long run. An example of this includes investing in a community, which ensures good image to both the business and the family (Cennamo et al., 2012). In this case, the rewards accumulate not only to the family, but also to the other stakeholders, so that the business’s outcomes can be long-term in nature, balancing economic and non-economic benefits.

Based on the idea set forth by Miller & Le Breton-Miller (2014), Holt et al. (2017) categorize family businesses according to their goals and key stakeholders, as shown in Figure 4.

<table>
<thead>
<tr>
<th>Types of Family Businesses</th>
<th>Description</th>
<th>Key Stakeholders</th>
<th>Relevant outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business first</strong></td>
<td>Firms with a clean distinction between family and business. Although the importance of the family may be recognized, the measures of the traditional results of a commercial business are better valued.</td>
<td>All business stakeholders</td>
<td>Firm outcomes: Financial: growth and profitability. Internal: process efficiency and employee well-being. External: reputation and corporate social responsibility.</td>
</tr>
<tr>
<td><strong>Family first</strong></td>
<td>Firms closely linked between family and business – so much so that the family needs to become the priority in the business’s decision making. The values of the family represent the essence of the business.</td>
<td>Family</td>
<td>Firm outcomes: Financial: profitability and shareholder return. Internal: process efficiency. Family outcomes: Financial: patrimony and family control. Internal: family well-being, family cohesion, fulfilling familial obligations, emotional meaning and decision-making autonomy. External: family image.</td>
</tr>
<tr>
<td><strong>Balance between family and business</strong></td>
<td>Firms in which family and business are prominent. The positive attributes of the family (loyalty, trust, affection) are transposed onto the relationship with customers and the community. This helps the business to refine the traditional characteristics of the firm.</td>
<td>Family and all business stakeholders</td>
<td>Firm outcomes: Financial: growth, profitability and net worth. Internal: process efficiency, employee well-being and emotional significance. External: reputation, prestige, business’s image and corporate social responsibility. Family outcome: Internal: family well-being and family happiness. External: community embeddedness and family image.</td>
</tr>
</tbody>
</table>

**Figure 4.** Examples of family businesses according to their outcomes.
Source: Adapted from Holt *et al.* (2017).
In the first example of family business, it is considered that there is a clear difference between the family and the business goals, so that family goals do not hinder the running of the business. Thus, it is imperative that all stakeholders involved with the business be considered. In the second type, the family is above the business, so the financial performance and other similar traditional performance measures are necessary conditions to meet the family goals. In other words, the managers’ priority is to have the family demands met. Finally, the last example assumes that the business and the family are interconnected, even though the company’s strength lie within the family attributes (Micelotta & Raynard, 2011). To conclude, priorities go beyond the family. Thus, investments are made to improve the business’s image to stakeholders to encourage and maintain a sustainable relationship with each every one of them, thus complying with the strategic plan set for the business.

3 Methods

This study is characterized as a theoretical essay, through which analysis and reflection on an object is made in order to understand the phenomena around it. The strength of the theoretical essay is not linked to methodological rigor, but to the reflexive capacity to understand reality (Meneghetti, 2011). The object of this study includes family businesses and the phenomenon observed refers to stakeholders’ prioritization. Family business is defined as a business with two or more members of one or more families involved in the business and who have substantial influence on the firm’s affair (Gómez-Mejía et al., 2011). Stakeholder prioritization is understood as the managers’ need to meet the demands of a stakeholder as a matter of priority.

The first step of this study included searching for published articles that focused on the previously mentioned object and phenomenon. The chosen database was ISI Web of Science because it shows journals with relevant impact factor, thus, representing one of the most important research databases (Santos & Carneiro, 2013). The search included the following keywords: “Stakeholder Theory” and “Family Business”, which resulted in eight publications. When the search included “Salience” and “Family Business” as keywords, it found nine articles. Finally, when combining “Stakeholder Salience” and “Family Business”, another nine articles were revealed. As this is not a systematic or
bibiometric literature review, this search was not expanded to other databases, and aimed to confirm the scarcity of studies on the subject, as indicated by other scholars (e.g. Sharma, 2004; Zellweger & Nason, 2008; Cennamo et al., 2012; Singh & Mittal, 2019).

In order to attain the aim of identifying factors that influence stakeholder prioritization in family businesses, another step was taken: the phenomenon was analyzed through the lens of the Salience Model, proposed by Mitchell et al. (1997) as well as through the Three- Circle Model, designed by Tagiuri and Davis (1996), both of which are described in section 2.

The analysis was composed of three groups of family business internal stakeholders: founder, members of the next generation and non-family employees. The dynamics of power, legitimacy, and urgency attributes (from the Salience Model) as well as the dynamics of the different roles simultaneously adopted by them (from the Three Circle Model), throughout the entire family business life cycle was considered.

The analysis focused on internal family business’ stakeholder management and prioritization due to the potential benefits that family businesses may gain when managing this category of stakeholders. According to Neubaum et al. (2012), the focus of this group of stakeholders can generate competitive advantages for family businesses in relation to non-family businesses for it is via these stakeholders that the demands of the remaining stakeholders are most commonly met.

4 Stakeholder Salience Proposal in Family Businesses

4.1 Salience in family businesses based on the Salience Model

Family businesses have different motivations to engage in various stakeholders’ demands (Bingham et al., 2011). The way the business shapes its identity over time, combining family and business characteristics, leads to a strategy of coordinating the interests of its stakeholders.

The attributes of power, legitimacy and urgency that compose the Stakeholder Salience Model of Mitchell et al. (1997) operate differently in family businesses. That is, the managers’ perception of the stakeholders’ salience attributes, just like the responses to their demands, are unique in this kind of business (Mitchell et al., 2011).
For the “power” attribute, utilitarian power is predominant in non-family businesses, while normative power is more common in family businesses. Normative power in family businesses can be considered “power that is based upon prestige, esteem, and social symbols such as love and acceptance” (Mitchell et al., 2011, p. 242). Examples of normative power include paternalism, marital relations, birth order, age and gender.

As for legitimacy, one can consider that, in general, it is socially constructed, but in family businesses it is inherited. Legitimacy based on inheritance is defined as such for “possessing status conferred by birth and/or relationship-based privilege” (Mitchell et al., 2011, p. 244). Legitimacy based on inheritance creates a circle of stakeholders that cannot be involved in current business, such as those who have died and those who are yet to be born.

Finally, regarding to urgency, the temporal and criticality aspects of the demands are interrelated in family businesses. This is because family ties and non-economic goals create pressure to meet the demands of past, present and future family members (Mitchell et al., 2011). It is worth highlighting that one type of power, legitimacy and urgency predominates in family businesses, which does not mean that it cannot be socially constructed, just that these types can coexist, despite inheritance being predominant.

4.2 Salience as a result of simultaneous roles in family businesses

The peculiar characteristics of family businesses highlighted the need to go beyond the model proposed by de Mitchell et al. (1997) to be able to understand stakeholder salience. For this reason, a further adaptation was made to the model, as described by Mitchell et al. (2011), which then added the context to the discussion. Family businesses’ stakeholders adopt several roles that influence one another (Piszczek, Dearmond, & Feinauer, 2018). Due to these characteristics, in addition to the attributes of power, legitimacy and urgency, it is suggested that the stakeholder salience also be affected by the number of roles that the stakeholder plays in the organization, since the same stakeholder may be a family member, manager and owner. Considering the roles illustrated in Figure 2, the stakeholder who plays three roles would have high salience; the stakeholder who plays two roles would have moderate salience; and the stakeholder who plays only one role would have a weak salience.
Specific behaviors can be predicted from each role adopted by a stakeholder (Reynolds, Owens, & Rubenstein, 2012). For instance, in family businesses, it is proposed that when a stakeholder takes on two or more simultaneous roles, he acquires more attributes. Considering a situation where a stakeholder that is next in the inheritance line possesses both legitimacy and power as attributes, he can add the urgency attribute to its original ones once he becomes a manager in the business. This attribute addition makes him more salient.

This logic argues that the higher the number of simultaneous roles a stakeholder accumulates the bigger the salience. Figure 3 shows the effect of simultaneous roles on salience.

Figure 3 shows the effect of simultaneous roles on salience. Stakeholders who play more than one role are able to increase their salience in managers’ perceptions - both family and non-family managers. As a result, these stakeholders may have their demands met as a priority over other stakeholders who play only one role.

The simultaneity of roles impacts the emotional aspects that exist in family businesses and can generate tension between individual and organizational values and interests. The family constitutes a place of symbolic manifestation, encompassing multiple feelings and affectivities. In this territory, relationships can be marked by solidarity, affection and security, as well as conflicts and competitions. This highlights the dualistic and complex character of family businesses (Lescura, Brito, Borges, & Cappelle, 2012). Thus, these aspects affect organizational identity and, consequently, the motivations that managers have to engage in different stakeholder demands (Bingham et al., 2011). Figure
6 illustrates the saliency proposed for internal family business stakeholders according the attributes of power, legitimacy and urgency.

<table>
<thead>
<tr>
<th>Stakeholders and roles</th>
<th>Power</th>
<th>Legitimacy</th>
<th>Urgency</th>
</tr>
</thead>
<tbody>
<tr>
<td>F1- Ownership, family and management</td>
<td>Utilitary Normative</td>
<td>Socially constructed</td>
<td>Criticality Sensitivity</td>
</tr>
<tr>
<td>F2- Family and ownership</td>
<td>Utilitary Normative</td>
<td>Socially constructed</td>
<td>Criticality Sensitivity</td>
</tr>
<tr>
<td>F3-Family</td>
<td>Normative</td>
<td>Socially constructed</td>
<td>Criticality</td>
</tr>
<tr>
<td>Members of next generation</td>
<td>Power</td>
<td>Legitimacy</td>
<td>Urgency</td>
</tr>
<tr>
<td>G1- Ownership, family and management</td>
<td>Utilitary Normative</td>
<td>Inherited</td>
<td>Criticality Sensitivity</td>
</tr>
<tr>
<td>G2-Familia e Gestão</td>
<td>Utilitary Normative</td>
<td>Inherited</td>
<td>Criticality Sensitivity</td>
</tr>
<tr>
<td>G3- Family and ownership</td>
<td>Utilitary Normative</td>
<td>Inherited</td>
<td>Criticality</td>
</tr>
<tr>
<td>G4-Family</td>
<td>Normative</td>
<td>Inherited</td>
<td>Criticality</td>
</tr>
<tr>
<td>Non-family employees</td>
<td>Power</td>
<td>Legitimacy</td>
<td>Urgency</td>
</tr>
<tr>
<td>E1- Management and ownership</td>
<td>Utilitary Normative</td>
<td>Socially constructed</td>
<td>Criticality Sensitivity</td>
</tr>
<tr>
<td>E2- Ownership</td>
<td>Utilitary Normative</td>
<td>Socially constructed</td>
<td>Criticality</td>
</tr>
<tr>
<td>E3- Management</td>
<td>Utilitary</td>
<td>Socially constructed</td>
<td>Criticality</td>
</tr>
</tbody>
</table>

Figure 6. Salience proposal for family business stakeholders.

**4.2.1. Founder**

The founders represent one of the most salient stakeholders in family businesses. These actors are highly persuasive on the managers´ decisions and their demands have both legitimacy and urgency. The founders are powerful stakeholders, whose opinion can affect the decision-making of managers with respect to organizational strategies (Atz & Rese, 2013, Conte, Siano, & Vollero, 2017), value distribution included. This kind of power is associated with various relational aspects linked with the founder’s figure. One source of the founder's power may arise from the substantial ownership of cash flow rights (Anderson & Reeb, 2003), as well as a high number of shares. The founders also may have access to privileged information and can monitor managers, therefore displaying higher influence (Dawson, Paeglis, & Basu, 2018).

The founders' legitimacy stems from their history and ability to influence organizational culture and identity (Aldrich & Cliff, 2003, Sharma, 2004, Conte, Siano, &
Vollero, 2017, Boers & Ljungkvist, 2019). Several surveys indicate that family businesses adopt values, practices and processes that reflect the original ideas of their founders. The founders also make urgent claims as they demand company results and return on their financial and emotional investment. In addition, their claims may reflect the needs of the heirs. From this perspective, their priorities are restricted and short-term. However, founders may also want to preserve their legacy and recognize the importance of balancing business and family demands. It is up to managers to identify the founder’s perspectives.

Considering these characteristics, as shown in Figure 6, the founder has high salience, as it accumulates the attributes of power, legitimacy and urgency. When this stakeholder has at least two simultaneous roles (F1 and F2), it will have both utilitarian and normative power, and its urgency will have criticality and sensitivity. When the founder has only one role (F3), his power is normative only; and his urgency is critical. Regarding legitimacy, the founder will always have this socially constructed attribute.

4.2.2. Next generation

Another peculiar category of family business stakeholder that shows considerable salience are the next generation members. The main attribute of next generation members is legitimacy. Such legitimacy is the result of emotional relationships between members and founders (Sharma, 2004), as well as between members and the founders’ legacy (Boers & Ljungkvist, 2019). Moreover, although next generation members have power that is linked to the ability of accessing tacit knowledge acquired by the founders (Sharma, 2004), this attribute might not yet be used by this group of stakeholders. Regarding urgency, it is expected that next generation members (when not yet involved in business dynamics) rarely make urgent demands. When they are presented, they will most probably be linked with the family goals, therefore showing little relation with the business itself. Although managers can allocate priority to the demands in the business as result of the next generation’s demands, it is important to consider that these demands tend to gain criticality and sensitivity as their involvement in the business increases. Hence, next generation members will have utilitarian and normative power as they acquire two or three roles (G1, G2 and G3); and will have normative power alone when they
acquire one role (G4). The legitimacy of family members will always be inherited. Urgency, on the other hand, will be able to adopt aspects of criticality and sensitivity (G1 and G2) or criticality alone (G3 and G4) (Figure 6).

4.2.3. Non-family employees

Non-family employees can belong to a group of stakeholders whose attributes are little perceived by the family business’s managers. These stakeholders are legitimate because their actions are important for the organizational performance and are also compatible with the family business’s values. However, even though they are legitimate, this group of stakeholders has less power than managers/family employees. This power limitation can be associated with the fact that information is centered in actors who are related to the family. Having said that, because they are directly linked to the business, managers need to consider whether the demands of non-family employees are aligned with the business’s goal and whether they are urgent. Therefore, non-family employees are stakeholders of moderate salience, and because they are legitimate, they show urgency but do actually have little power. Their legitimacy will always be socially constructed instead of inherited; and their urgency can be either critical and sensible (E1) or critical only (E3).

5. Conclusion

Given the current discussion on Stakeholder Theory regarding the difficulty to prioritize the various stakeholders’ interests as well as the peculiar characteristics of the family businesses, this study identifies the factors that influence stakeholder prioritization in this specific corporate context. As a result, a salience analysis was proposed for three internal stakeholders: founders, next generation members and non-family employees. Each of these categories of internal stakeholder show a combination of different attributes that can aid managers in prioritizing the demands of these groups.

This study contributes to the literature on stakeholders by adding one more attribute to the salience model set forth by Mitchel et al. (1997), which analyzes stakeholder salience according to attributes of power, legitimacy and urgency. The attribute we propose here refers to that of the “simultaneity of roles”. This attribute offers greater dynamism and precision to the salience model because it represents a phenomenon that
is specific to family businesses. Possible differences in the perception of stakeholder salience in family businesses occur because family businesses have a powerful additional stakeholder group, the “family members”. Moreover, these businesses need to reconcile the logic of two simultaneous institutions (family and business), thus, reflecting on values, objectives and needs such as: long term orientation; family identification with the company; concerns about family and business reputation, as well as the existence of non-financial goals, such as preserving family-based social and emotional investment in the business. Hence, the discussion raised by Stakeholder Theory on the difficulty to run stakeholders´ management and prioritization is even more complex in family businesses.

Future studies may contemplate the influence of family business culture on stakeholder salience. The family business culture is often tied to its founder. Family culture blends with company culture in sharing the same values and behaviors (Andrade, Cappelle, Campos, & Brito, 2018). As the culture of a family business is associated with corporate stability and success, it is expected to influence the way in which its managers interact with their stakeholders.

Another aspect that can be further explored by future studies include managers´ behavior towards prioritization of stakeholders´ demands in high tension situations between the family and business systems. A good research opportunity lies in the succession process since it involves: (i) multiple family members´ interests that will impact business and (ii) a change in roles, as the new generation become more salient stakeholders.

Although this study brings conceptual advances to the salience model regarding family businesses, it has some limitations. The first one refers to the groups of stakeholders considered in the analysis, as only internal stakeholders were analyzed. External family businesses´ stakeholders can offer a dynamic that differ from that proposed in this study. The second limitation arises from the fact that an empirical application for the developed proposal was not conducted. However, these limitations are an opportunity for future research. Another relevant aspect of this study is that it did not cover how a non-family manager reacts to the demands that are aligned with non-economic family goals. In other words, future studies should verify how managers prioritize and coordinate these demands in consonance with the demands of the business.
To conclude, we suggest that an empirical application of the proposed model be carried out in order to better observe the “simultaneity of roles” attribute. That is, to empirically investigate if stakeholder salience is affected by the number of roles assigned to him. In order to do that, we suggest that an instrument capable of measuring this attribute be designed, just like a scale used to measure family business specific stakeholder salience. In addition to the empirical test, we suggest that a more thorough analysis of the other main attributes that impact stakeholder salience and that were not discussed in this study be conducted.

REFERENCES


Stakeholder Prioritization in Family Businesses: A Theoretical Essay


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