SOCIOEMOTIONAL WEALTH AND PROACTIVE STAKEHOLDER ENGAGEMENT: WHY FAMILY-CONTROLLED FIRMS CARE MORE ABOUT THEIR STAKEHOLDERS

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ABSTRACT

While family business research has prominently recognized that family firms are motivated by non-financial factors, the literature has remained relatively silent about whether or not these firms are more likely than others to engage actively with their stakeholders, who often have non-pecuniary demands. This paper argues that family firms are more prone to adopt proactive stakeholder engagement (PSE) activities because by doing so they preserve and enhance their socioemotional wealth (SEW). We explore the impact of the different dimensions of SEW on PSE and identify distinctive logics that explain the adoption of such practices. Finally, we offer a set of topics for future studies.

INTRODUCTION

Stakeholder Management (SM) is increasingly at the forefront of the corporate agenda (Laplume, Sonpar, & Litz, 2008; Westley & Vredenburg, 1997). At its core is the notion that the firm has multiple goals in addition to maximizing shareholders' economic value, and should accordingly aim at meeting and satisfying the needs of multiple constituents (Donaldson & Preston, 1995; Freeman, 1984). This requires that the firm see beyond its own financial goals to identify and meet the desires of diverse parties with often conflicting interests, such as employees, suppliers, environmentalists, and the community at large.

An ongoing debate in this SM literature revolves around the controversial question of whether firms simply respond to stakeholders' issues when they arise by adopting standardized and symbolic practices, or take a more active stance toward stakeholders by trying to anticipate their needs and develop substantive firm-specific, stakeholder-oriented practices (e.g., Hillman & Keim, 2001; Sharma, 2000): what we call proactive stakeholder engagement (PSE). Rather than distinct sets, reactive and proactive stakeholder engagement actions should be assessed along a continuum (e.g., Sharma & Sharma, 2011), and the question becomes what factors push firms to invest in more proactive activities.

Underlying this discussion are two competing views: the instrumental perspective (Berman, Wicks, Kotha, & Jones, 1999; Donaldson & Preston, 1995; Jones, 1995; Jones & Wicks, 1999), according to which greater care for other stakeholders is a means to maximize shareholder welfare; and the normative approach (Donaldson & Dunfee, 1994; Evan & Freeman, 1983; Philips, 1997; Wicks, Gilbert, & Freeman, 1994), according to which giving a high priority to the satisfaction of stakeholders' demands "is the right thing to do" (Harrison, Bosse, & Phillips, 2010). Surprisingly, neither approach has received strong empirical support (Berman et al., 1999; Margolis & Walsh, 2003; Orlitzky, Schmidt, & Rynes, 2003). This suggests that some firms care more about the needs of stakeholders than others for reasons that are poorly understood (Cennamo, Berrone, & Gomez-Mejia, 2009).

While it seems logical that top executives relate to stakeholders in the light of what they think influential owners value, the role of these principals in shaping firm responses to stakeholder pressure is notably unaddressed in the literature. In this paper, we focus on the unique utilities of one type of principal, namely the family owner, as the main driver for PSE. Existing literature indicates that owners of family-held firms in particular often have non-financial objectives in addition to financial goals (Chrisman, Chua, Pearson, & Barnett, forthcoming). Understanding whether family owners are more responsive to social claims has wide social implications given that family-controlled firms are the predominant organizational form around the world (La Porta, Lopez-de-Silanes, & Shleifer, 1999), have a substantial influence on the global economy (Astrachan & Shanker, 2003; Morck & Yeung, 2004) and may be found in all industrial sectors (Anderson & Reeb, 2003).

Our paper aims to shed some light on the reactive-proactive and normative-instrumental debates by building on recent research that adopts a "socioemotional wealth preservation perspective" (Berrone, Cruz, & Gomez-Mejia, in press; Berrone, Cruz, Gomez-Mejia, & Larraza-Kintana, 2010; Zellweger, Kellermanns, Chrisman, & Chua, in press; Gomez-Mejia, Cruz, Berrone, & DeCastro, 2011; Gomez-Mejia, Makri & Larraza-Kintana, 2010; Gomez-Mejia, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007; Miller, Le Breton–Miller, & Lester, in press) to explain firms' heterogeneous responses to internal and external pressures from stakeholders. According to this view, variation in firm responses to stakeholders' needs is likely to be a function of who controls the organization and how much the controlling party values achieving social worthiness apart from any economic gains (Berrone et al., 2010). The starting premise is that family principals may, and usually do have multiple objectives beyond financial ones, including the preservation of the stock of their socioemotional investment in the firm, which in the context of family firms may be the most critical point of reference that guides decision-making (Gomez-Mejia et al., 2007; Gomez-Mejia et al., 2011). Expanding on this logic, we argue that family principals are more likely to endorse and invest in PSE activities because there is a socioemotional reward for the family, even when no clear evidence exists that this engagement serves its economic interests (Cennamo et al., 2009). In short, PSE could provide benefits that are non-economic, and yet critical for family principals' welfare (i.e., building and preserving socioemotional wealth [SEW]).

Going one step further, we propose that differences in the logic behind the adoption of PSE activities within family firms can be attributed to the existence of different reference points among family principals. In particular, we use the five dimensions of SEW recently proposed by Berrone et al. (in press)—what they call the FIBER Model—to argue that under some conditions, the implementation of PSE strategies will be driven by instrumental motives: the family firm will proactively engage more primary, internal stakeholders (those whose welfare is most directly affected by the firm's actions such as employees, suppliers and shareholders) as a way to strengthen relational trust, and gain endorsement over the firm's direction and management. This is most likely to occur when the primary reference point is driven by (a) a desire to maintain control and influence over the firm, (b) a sense of dynasty that implies a long-term orientation, and/or (c) a concern for firm reputation. However, when the central SEW reference point is either based on (d) the family's core values, (e) strong social ties within the family group and/or (f) the owner's emotional attachment to the firm, normative drivers on top of instrumental motives would take ground, such that family principals are more likely to attend to an enlarged set of (internal and external) stakeholders, including those with a tenuous, ambiguous or more distant link to the firm (for a discussion of this type of stakeholders, see, for instance, Hall & Vredenburg, 2005). In these cases, since what is at stake is a "sense of belonging" rather than control, as well as a strong idea of what the firm should be and how it should act, actions toward stakeholders are more altruistic and less calculative or "tit-for-tat."

This paper makes several important contributions to the management literature in general and the family business field in particular. First, by addressing the link between stakeholder management and the dominant principal's goals and reference frame, we add to the research stream that examines the ability and the motives of specific types of equity holders to use their ownership position to pursue their particularistic agendas (Ryan & Schneider, 2002; Thomsen & Pedersen, 2000). While the family firm literature clearly acknowledges the importance of non-financial objectives, it has been relatively silent about how these firms manage their stakeholder network—even though family firms' objectives often encompass reputation and firm identity, legitimacy, embeddedness in the local community, and the like.

Second, we contribute to the family business literature by providing more nuanced explanations about the process of adopting PSE practices. While recent evidence suggests that family firms are particularly sensitive to societal demands, as in the case of environmental responsibility (Berrone et al., 2010), and some initial theorizing has been uttered (Zellweger & Nason, 2008), whether or not these firms are more likely than others to engage actively with their stakeholders and why they would do so has received relatively little attention. Moreover, we also respond to the numerous calls on the need to account for the heterogeneity among family principals (e.g. Chrisman, Steier, & Chua, 2006; Nordqvist, 2005). While ample research emphasizes existing differences within family firms (e.g., Zahra, Hayton & Salvato, 2004; Molly, Laveren, & Jorissen, 2011; Gedajlovic, Carney, Chrisman & Kellermanns, in press), these differences have never been linked to SEW issues. By building on the individual dimensions of SEW, we propose that the various weights that families put on these dimensions may account for the heterogeneous way in which family firms identify, prioritize and respond to different stakeholder groups.

Third, by combining stakeholder theory and family business literature, we respond to the unceasing calls for theory-based studies in this field (Chrisman, Chua, & Sharma, 2005). While some may assume that family firms are relatively insulated from the pressures that external and internal stakeholders might exert because of the family principal's strong ownership position, we propose that, driven by their need to protect and reinforce the family's socioemotional endowment, these organizations actively seek endorsements from stakeholders. Moreover, although we develop the proposed framework in the context of stakeholder management, we believe it could be extended (with appropriate adaptation) to encompass more general cases where one or another component of SEW is the leading reference point used by family principals in firm decision-making.

Finally, we contribute to the stakeholder management literature by first of all reconciling the instrumental and normative approaches. While some scholars have expressed skepticism over the possibility of integrating the two perspectives (Donaldson, 1999; Freeman, 1999; Treviño & Weaver, 1999), others have argued that reconciliation is not only feasible but also probable (Gibson, 2000; Jones, 1995; Jones & Wicks, 1999). Here, we submit that; a) PSE activities can be instrumental, not just for the firm's economic performance but also for family principals' non-economic objectives, such as enhancement and preservation of SEW; b) whether an instrumental or a more normative rationale drives the adoption of PSE activities will depend on which reference frame dimensions of SEW are adopted by family principals in their decision-making. Moreover, by distinguishing between the demands of internal and external stakeholders, we contribute to the understanding of how family firms prioritize the demands placed on them by various stakeholder groups, or "who really counts" for family principals (Mitchell, Agle, Chrisman, & Spence, 2011).

THEORETICAL BACKGROUND

Stakeholder theory centers on the idea that the firm represents a multilateral set of relationships among stakeholders (Aguilera & Jackson, 2003), who in turn can influence organizational objectives or be affected by its achievement (Freeman, 1984). According to this view, the firm should integrate relevant stakeholders into their strategic plans and decision-making processes (e.g., Donaldson & Preston, 1995; Jones, 1995). Yet, the firm's efforts aimed at improving firm-stakeholder relations, integrating stakeholders into the firm's activities and accommodating their claims, vary in their emphasis, orientation and scope. One research stream emphasizes that corporate behavior must be ethical, no matter what may be the repercussions on the firm's performance. This normative stakeholder approach (Donaldson & Preston, 1995) has tended to be internally focused, looking at people as either moral, amoral, or immoral agents and treating sensitivity to stakeholders as an indirect or intrinsic benefit for the players involved (Cameron, Dutton, & Quinn, 2003). Other studies emphasize that stakeholder engagement can be instrumental to obtaining economic benefits (Hillman & Keim, 2001; Surroca, Tribó, & Waddock, 2010), reputation gains and other critical intangible assets (Aragón-Correa & Sharma, 2003; Sharma & Vredenburg, 1998), or gaining legitimacy to operate in a given context by building trustworthy relationships with stakeholders (Cennamo et al., 2009; Jones, 1995; Laplume et al., 2008). This instrumental stakeholder approach does, however, recognize that the benefits of stakeholder management are often intangible, long-term, uncertain, and difficult to obtain (e.g., Harrison et al., 2010).

However, there is general agreement among scholars, in spite of differences in nomenclature, that corporate social strategies can be placed broadly along a continuum that ranges from reactive to proactive (Sharma & Sharma, 2011). Reactive stakeholder engagement focuses on meeting social and legal minimum requirements, and often is cosmetic rather than substantive (Berrone, Gelabert, & Fosfuri, 2009). These activities are used to manage impressions and "provide cover" by appearing to take steps in the right direction to fulfill the firm's obligations to internal and external stakeholders. Under a reactive approach, firms take such actions to avoid and/or limit imminent legal sanctions or penalties, be these economic or reputational (Russo & Fouts, 1997; Sharma, 2000). Examples of this strategy may include pollution control actions (Russo & Fouts, 1997; Sharma, 2000) or charitable contributions to non-governmental organizations and other civil entities, without any further involvement (Saiia, Carroll, & Buchholtz, 2003).

Conversely, PSE is more inclusive and focuses on substantive actions intended to anticipate and accommodate stakeholder demands (e.g., Aragon-Correa et al., 2003; Laplume et al., 2008; Mitchell et al., 1997). It refers to all stakeholder-oriented practices implemented by the firm to uncover issues of importance to key stakeholders, and enhance their welfare through the consolidation of practices and/or firm operations that would improve firm-stakeholder relationships. Although some studies (e.g., Prahalad & Bettis, 2002; Roome & Wijen, 2006; Rondinelli & London, 2003) suggest that PSE brings the organization certain benefits that presumably could be instrumental to the firm's economic objectives—for instance, improved reputation, increased trust in the communities in which it operates, better access to knowledge about social issues, help in building an innovative culture, and other intangible elements that help stabilize the sociopolitical environment—a voluminous body of research casts doubts on the link between stakeholder engagement and financial results (see reviews by Margolis & Walsh, 2003; Orlitzky et al., 2003). PSE's financial benefits to shareholders may in fact be indirect, hard to quantify, or perhaps non-existent.

Therefore, engaging in PSE activities represents a risky strategy in the sense that it may entail investments in new organizational resources and capabilities with no obvious financial return—a strategy difficult for managers to justify (Harrison et al., 2010). Lower returns as a result of diverting resources and attention to social causes could mean less pay, termination, and a negative reputation in the managerial labor market. Thus, managers are unlikely to adopt a strong social and stakeholder orientation posture unless they perceive that the dominant principals actively support such an orientation. Because of the difficulty in proving a direct link between PSE activities and the firm's financial performance, the instrumental motivation for such activities can be questioned in the boardroom by shareholders or their representatives. These endeavors might be undertaken, and be better defended, on a normative basis, and reflect in fact a normative stance of influential shareholders.

Surprisingly, neither the normative nor the instrumental approach discussed above has systematically considered the role of owners. Central to our model is the notion that PSE is ultimately a function of who controls the organization and the extent to which this controlling party values the (non-monetary) benefits derived from PSE. This link becomes evident when a SEW preservation perspective is taken: PSE becomes more valuable when it helps the controlling owners achieve an idiosyncratic set of "socially worthy" non-economic preferences. As we argue below, this will be the case in family-controlled firms, when desires of family principals to build and preserve SEW take precedence over or complement economic considerations (Berrone et al., 2010; Gomez-Mejia et al., 2007; Gomez-Mejia et al., 2010; Gomez-Mejia et al., 2011; Janjuha-Jivraj & Spence, 2009).

Socioemotional Wealth (SEW) and Family Firms' Proactive Stakeholder Engagement (PSE)

The umbrella construct of SEW was first introduced formally by Gomez-Mejia and colleagues (2007) to explain observed empirical differences between family- and non-family-controlled firms in a variety of seemingly disconnected phenomena such as executive tenure (Gomez-Mejia, Núñez-Nickel, & Gutierrez, 2001), executive pay (Gomez-Mejia, Makri, & Larraza-Kintana, 2003), firm risk-taking (Gomez-Mejia et al., 2007), governance arrangements

(Jones et al., 2008), product and international diversification (Gomez-Mejia et al., 2010), environmental performance (Berrone et al., 2010), innovation (Gomez-Mejia, Hoskisson, Makri, & Campbell, 2011), agency contracts (Cruz, Gomez-Mejia, & Becerra, 2010), and human resources management practices (Cruz, Firfiray, & Gomez-Mejia, in press).

SEW is an extension to the Behavioral Agency Model or BAM (Wiseman & Gomez-Mejia, 1998; Gomez-Mejia, Welbourne, & Wiseman, 2000). A central tenet of the BAM is the notion that firm choices depend on the reference point of key decision-makers, who aim to preserve their accumulated endowment in the firm. Applied to the special case of family principals, Gomez-Mejia et al. (2007) argued that preserving socioemotional endowment is critical for the family and shapes the framing of problems, becoming the primary reference point for guiding managerial choices. When there is a threat to that endowment (a potential SEW loss), or the opportunity to enhance it (a potential SEW gain), the family is willing to make decisions that are not driven by an economic logic, and in fact the family would be willing to put the firm at risk if this is what it would take to preserve that endowment (Gomez-Mejia et al., 2007). This reasoning has been used by Berrone and colleagues (2010) to support their empirical finding that family-controlled firms are more responsive to institutional pressures regarding the environment: such firms are more likely to bear the cost and uncertainty involved in pursuing environment-friendly policies because managers believe that the risk is counterbalanced by the gains in social legitimacy derived from conforming to environmental demands more than competitors do. When family owners tend to place a high value on social legitimacy for its own sake, independently of financial considerations, environmental performance should be better when the family controls the firm (Sharma & Sharma, 2011).

Ample empirical evidence supports this argument. Concerning positive endeavors, family-controlled firms have been shown to have a strong commitment to philanthropic activities (Deniz & Suarez, 2005) and to the quality of life and welfare of their employees (Stavrou &

Swiercz, 1998), including a more stable employment (Block, 2010; Stavrou, Kassinis, & Filotheou, 2007) or implementation of more "care-oriented" contracts for external recruits (hired, non-family employees) even if these protective contract features do not have a calculated, direct relationship to the firm's economic performance (Cruz et al., 2010). Concerning the avoidance of harm, Dyer and Wheten (2006), using data from the S&P 500, provided preliminary evidence that family firms pursue significantly fewer socially or environmentally harmful activities than non-family firms. Uhlaner, Goorbalk, and Masurel (2004) presented analogous findings in their study of 42 small and medium-sized Dutch family businesses. These findings suggest that the drive to preserve and augment the family's SEW is not restricted to internal organizational processes but transcends the firm's boundaries and affects relations with external stakeholders.

Consequently, we argue that when SEW becomes the family principals' frame of reference for taking strategic decisions, they will consider the welfare of their stakeholders to a greater extent and, therefore, are more inclined to favor proactive, stakeholder-oriented activities. This decision responds to a combination of both instrumental and normative motives that are intrinsically tied to the building and preservation of SEW, which might be decoupled from pure economic calculus.

On the one hand, family principals may favor and engage in stakeholder-oriented practices for instrumental motives, albeit indirect and less tightly coupled to specific economic outcomes, by expecting that gains in social legitimacy and enhanced reputation help secure the organization's continued existence (Choi & Wang, 2009; Roberts & Dowling, 2002; Singh, Tucker, & House, 1984). As the stakeholder literature recognizes, firms invest in positive reputational capital (Fombrun, 1996) and these investments allow them to build up stores of goodwill with their key stakeholders. Reserves of "goodwill" act as an insurance, protecting a firm's underlying relational trust and image in the marketplace, which might help sustain a more stable earnings stream (Fombrun, 1996). This protection is particularly appealing for family firms since family members tend to concentrate all their capital in one organization (Casson, 1999; Galve-Górriz & Salas-Fumas, 1996). On the other hand, from a normative point of view, implementation of PSE may be driven by the family's desire to be seen as a responsible citizen (Dyer & Whetten, 2006). The firm is seen as an extension and mirror image of the family, and should accordingly reflect the leading family principals' core values (Chrisman, Sharma, & Toggar, 2007). This characteristic could entail other-benefiting activities such as consideration of others' interests when important decisions are made, benevolence, non-reciprocal good deeds, and philanthropic giving in the community at large.

Regardless of the primary logic behind the adoption of PSE, organizational actions that diminish the welfare of stakeholders also reduce the family principal's socioemotional endowment, and the opposite would be true for actions that enhance the welfare of stakeholders. Hence, the drive to build and preserve SEW would tend to induce family owners (who use SEW as a reference frame) to consider the needs of stakeholders and favor care-oriented activities.

These arguments lead to our overarching proposition:

Proposition 1: When family principals use gains or losses in socioemotional wealth (SEW) as a frame of reference, they are more likely to favor the implementation of proactive stakeholder engagement activities (PSE).

Socioemotional Wealth (SEW) Dimensions and Proactive Stakeholder Engagement (PSE)

The family principal may see PSE not just as a purely altruistic endeavor or as appropriate corporate behavior (normative motive), but also as a viable approach to garner social legitimacy and enhance the firm's reputation, which in turn might help secure the organization's continued existence (instrumental motive). Both types of motives may underlie concurrently the SEW enhancement and preservation logic and, therefore, both could contribute to explaining the uniqueness of family firms' behavior regarding the adoption of PSE activities. However, we also expect to find differences within family firms in the underlying reasons that explain such adoption, given the potential heterogeneity in family principals' objectives and reference frames. Some family principals would be guided primarily in their actions by normative concerns while others would be more calculative, mainly driven by the instrumental value of this engagement.

Following a recent study by Berrone et al. (in press), we expect these differences to be explained by the various weights that family principals place on each of the proposed dimensions that compose the construct of SEW. The authors dismantled the abstract construct of SEW into a set of dimensions and developed the "big five" FIBER model, which stands for **F**amily control and influence, **I**dentification of family members with the firm, **B**inding social ties, **E**motional attachment of family members, and **R**enewal of family bonds to firm through dynastic succession. These dimensions of SEW can have different weights depending on the preferences of the owning family. For instance, while some family principals might place a greater value on the sense of dynasty and transgenerational vision, others might emphasize the protection of the family identification with the firm as their main priority. While both cases can explain the adoption of a PSE strategy, the activities to implement it and the group of stakeholders they target will differ because the logic used to validate such adoption can differ depending on the value placed by family owners on each of the proposed dimensions. Figure 1 provides an overview of the theorized relationships between the individual dimensions of SEW and PSE, which we now focus on.

Insert Figure 1 Here

Family Control and Proactive Stakeholder Engagement

Family members, as a group, even those without an ownership stake, exert great influence over the firm's management, so their views are likely to demand a great deal of attention within the firm. Nonetheless, the family still needs sufficient unconstrained discretion to impose its will on other influential stakeholders with a direct financial interest in the firm such as, for instance, institutional investors and pension fund owners in publicly traded firms, or banking institutions (La Porta et al., 1999; Schulze, Lubatkin, & Dino, 2003). PSE activities oriented towards these stakeholders might enable the (controlling) family principals to enforce practices and strategies that are in line with their objectives with fewer constraints (e.g., Cennamo, Berrone, & Gomez-Mejia, 2009).

Yet, some family principals are more likely to place great emphasis on perpetuating family owners' direct or indirect control and influence over the firm's affairs as a way to build and preserve their socioemotional endowment. When this is the case, we expect PSE to be mainly driven by instrumental motives. Family owners would engage in PSE to garner unconditional support from those stakeholders who would empower the family firm to retain and/or enlarge its discretion over the firm's operations (Cennamo, Berrone, & Gomez-Mejia, 2009). As a consequence, stakeholder management efforts are likely to be oriented to the stakeholder groups that are vital for the continuance and survival of the firm, that is, the focus would be on primary, internal stakeholders such as shareholders, employees, and suppliers (Clarkson, 1995). This is not meant to imply that family firms will ignore external stakeholders such as the local community, media or the environment but will respond to their demands in a more passive manner since time, energy, and money will be devoted to satisfying primary groups that would enhance family control. Formally stated:

Proposition 2. Firms where family principals adopt the "family control and influence" dimension of SEW as the main frame of reference are more likely to proactively engage internal stakeholders based on instrumental motives.

Family Dynasty and Proactive Stakeholder Engagement

When firms invest in actions that may be questionable from an economic perspective, such as addressing the conflicting needs of stakeholders, top managers may require the assurance of continuity in order to commit the firm's resources to practices that are uncertain and whose value can be appraised only in the long term. And for PSE to be fully accepted, internal stakeholders might also need some sort of pledge that the firm is truly committed to a stakeholder approach. The long-term horizon that characterizes the family dynasty dimension of SEW may well signal such a commitment to both managers and stakeholders. The sense of dynasty dimension reflects the family principals' intention to hand the business down to future generations (Berrone et al., in press). From the perspective of a family shareholder, the firm is not just an asset which can be sold easily; it symbolizes the family's heritage and tradition (Casson, 1999; Tagiuri & Davis, 1992). Consequently, preserving the family SEW implies adopting a long-term family investment to perpetuate this tradition to descendants (Berrone et al., 2010; Zellweger et al., in press).

When assuring that the company legacy is bequeathed to descendants becomes an important, if not central, objective for family members, they are likely to be interested in building a network of long-term relationships with the firm's stakeholders that can provide the sort of high longevity ties that these family owners value (Sharma & Sharma, 2011). Long-term relationships with internal stakeholders such as employees, managers, or key partners will lead to the accumulation of social capital and reserves of goodwill (Carney, 2005). These relationships may also serve as a form of social insurance, protecting the firm's assets in times of crisis (Godfrey, 2005), so that when damage occurs, stakeholders are more likely to give the firm the benefit of the doubt.

Consequently, the logic behind the implementation of PSE will be primarily instrumental, based on ensuring the continuity of the family legacy as a way to build and protect this family SEW dimension. Moreover, stakeholder care-oriented activities will be mainly directed toward internal stakeholders, as they are of greater value for ensuring this "generational investment strategy". For instance, family principals (with a SEW family dynasty reference frame) may favor employee relations in order to avoid social backlash from non-family workers when family members are appointed. Similarly, they may develop trust-based relationships with partners and suppliers in order to obtain insights for developing better products and to gain product acceptance, or with the firm's top management team and other key employees to better align the firm's long-term strategy and trajectory with the family principals' vision and generational investment strategy.

Proposition 3: Firms where family principals adopt the "renewal of family bonds to firm through dynastic succession" dimension of SEW as the main frame of reference are more likely to proactively engage internal stakeholders based on instrumental motives.

Identification of Family Members with the Firm and Proactive Stakeholder Engagement (PSE)

Scholars agree that organizational identity affects how the firm interacts with and responds to stakeholders, since identity helps define its perception of reality, what it pays attention to, and the social values that guide its behavior (Albert, Ashforth, & Dutton, 2000; Ashforth & Mael, 1996; Brickson, 2005, 2007). Extant research suggests that family member social status becomes strongly tied to organizational identity, with the firm often carrying the family's name (Taguiri & Davis, 1996). As the family members' identity links the family's reputation with business survival (Anderson & Reeb, 2003), any threat to the business's reputation will appear as a hazard to individual identity and to the existence of the family itself (Adams, Taschian, & Shore, 1996; Dyer & Whetten, 2006; Kets de Vries, 1993). Thus, in cases where the firm's image and the family's image are largely symmetrical, (i.e. when the family identity dimension of SEW becomes salient), PSE actions will be driven by the fear that the firm, and the family, may be stigmatized as irresponsible corporate citizens.

Rather than guided by a genuine concern for social aspects, family principals may take PSE actions in order to avoid such a possibility and "save face" before relevant stakeholders. In short, PSE activities become an instrument to gain and keep the firm's reputational capital. Family principals may, for instance, engage in different social initiatives for the local community as a way to gain endorsement by the press and media, or by the local government. In general, these efforts will be oriented towards external, influential stakeholders that have most immediate relevance to the firm's core identity and are most likely to generate reputational benefits (Choi & Wang, 2007; Deephouse, 1996).

Proposition 4a. Firms where family principals adopt the "identification of family members with the firm" dimension of SEW as the main frame of reference are more likely to proactively engage external stakeholders based on instrumental motives.

Nonetheless, family firms may also implement a PSE approach on more normative ground. When the SEW's family identification is perceived as highly salient by all family principals, they do not simply consider the firm as a vehicle for economic wealth, for which firm reputation is instrumental. The firm not only provides family members with employment and/or financial security, but also serves as a mirror that reflects their self-esteem and self-concept (Kepner, 1983; Westhead, Cowling, & Howarth, 2001). It is itself a projection of the core internally-held values of the family; what the family believes in and stands for, which in turn translates into concepts about how the corporation should be and how it should act towards its stakeholders, and society at large.

When this concern is paramount and acts as the main reference point for making decisions, family principals have a special interest in having an impact on society and being perceived as good corporate citizens, and they are rather cautious about the image they project to stakeholders (Donnelley, 1964; Lyman, 1991). Indeed, both internal and external stakeholders will generally see the firm as an extension of the family itself. Moreover, unlike other shareholders, family owners are not likely to be faceless or anonymous nor can they switch their loyalty to other firms. As Berrone and colleagues argued (2010, p. 87), "public condemnation could be emotionally devastating for family members because it tarnishes the family's name." PSE activities are then a natural choice and consequence of the normative stance of family principals; they are the "right thing to do", and should be directed to both internal and external stakeholders as a way to portray the family's values, and build and reinforce the family's image and reputation. As Cennamo and colleagues (2009, p. 499) maintained, "*the desire to preserve this socioemotional capital can induce firms with family ownership concentration to adopt a broad stakeholder orientation as a way to build strong relationships with stakeholders to support the firm's reputation.*"

Proposition 4b. Firms where family principals adopt the "identification of family members with the firm" dimension of SEW as the main frame of reference are more likely to proactively engage internal and external stakeholders based on normative motives.

Emotional Attachment and Proactive Stakeholder Engagement

Many scholars see the intermingling of unique emotional factors originating from family involvement with traditional business factors, as a distinctive attribute of family firms (Tagiuri & Davis, 1992, 1996). As Berrone and colleagues argued (in press), the emotional attachment dimension of SEW explains why, under certain circumstances, family members act unselfishly towards each other. The key issue here is whether altruism is restricted to the family circle for self-serving purposes, as economists have long argued (e.g., Becker, 1964), or transcends the family's boundaries to include an enlarged set of stakeholders. Brickson (2005, 2007) argued that firms whose identities are characterized by emotional ties, interconnected reciprocal bonds, and meaningful personal relations are oriented towards the enhancement of well-being and maximization of welfare for a larger group than the organization itself. When these altruistic sentiments are dominant and generalized in a family firm, they are likely to permeate the organization, affecting the decision-making process (Baron, 2008), and the boundaries between family and corporation become rather blurred. Thus, this trait is likely not only to affect relations between members within the firm (Cruz et al., 2010), but also to seep outside the firm and have an influence on relations with its external stakeholders (Berrone et al., 2010). Consequently, the emotional attachment dimension of SEW would also contribute to explain the greater inclination of family firms to engage in PSE not only towards internal, but also external stakeholders.

When emotional attachment becomes the dominant reference point for family principals, we also expect the logic behind the adoption of PSE to be driven mainly by normative motives, rather than instrumental ones. This is so because taking organizational actions that have an adverse impact on firm's stakeholders might feel like harming "one of ourselves", going against the core values of the family, hence firm. Therefore, engaging proactively with stakeholders is the "right thing to do" regardless of financial or individual consequences. If unselfish emotions are at play, issues like well-being of the local community in which the firm operates, environmental management, human rights and poverty among many other social ills, are likely to become more salient to family principals, even if these issues have no direct link with the firm's activities. When the emotional attachment dominates as a reference point, PSE implies a genuine concern for the well-being of stakeholders at large.

Proposition 5. Firms where family principals adopt the "emotional attachment of family members" dimension of SEW as the main frame of reference are more likely to proactively engage internal and external stakeholders based on normative motives.

Binding Social Ties and Proactive Stakeholder Engagement

The last FIBER dimension of SEW is related to the establishment of strong social ties in family firms that develop social capital. Visibly, the concept of social capital is closely related to stakeholder management (e.g., Rowley, 1997). Meyer and Rowan (1977) argued that dense ties among a group of social actors facilitate the diffusion of norms and expectations. Also, the formation of reciprocal bonds leads firms to pursue the welfare of those who surround them, even if there are no obvious transactional economic gains from doing so (Brickson, 2005, 2007). Empirical evidence shows that community engagement – a form of social ties – has little or even a negative effect on preserving high financial performance or improving poor performance (Choi & Wang, 2009; Mattingly, 2004).

In family firms, kin networks based on strong social ties influence individual behavior (Ouchi, 1980). These strong social ties become an integral part of the SEW that families strive to preserve over time (Berrone et al., in press). Arguably, social capital embedded in these bonds allows the family firm to enhance its ties with external stakeholders by emphasizing the value of social networks (Sirmon & Hitt, 2003). Family members are more likely to work collaboratively with and through groups of people to address issues affecting the well-being of those individuals. That is, they engage with both internal and external stakeholders. Internally, the development of strong social ties based on kin networks also endows these ties with features such as relational trust and feelings of closeness and interpersonal solidarity (Cruz et al., 2010). These feelings are likely to be extended to other non-family employees (key internal stakeholders), fostering the development of "collective social capital" (Coleman, 1990). Empirical evidence demonstrates that family firms are unlikely to uproot family members from their positions (Denis & Suarez, 2005; Gomez-Mejia et al., 2001), more likely to implement "caring contracts" among employees (Cruz et al., 2010), and less likely to resort to downsizing than non-family firms, regardless of performance considerations (Stavrou et al., 2007). Externally, family members become deeply embedded in their communities and tend to be active societal actors (Graafland, 2002; Lansberg, 1999). Unlike other firms that may engage with the community at a basic level (for instance, by providing information or philanthropic donations), family firms dominated by social ties deepen their engagement in the community to include richer cross-sector social partnerships and the participation of the community in various firm decision-making processes (Boehm, 2005). Moreover, as they become more acutely rooted in their communities, they are likely to address social problems, such as those related to poverty, environmental degradation, and social injustice, which often exceed the scope of their organizations (Westley & Vredenburg, 1991). As Lyman (1991, p. 309) noted, *"feelings of responsibility [toward the community] may be strengthened as participation in community-based groups increases"*.

Proposition 6. Firms where family principals give a higher priority to the "binding social ties" dimension of SEW as the main frame of reference are more likely to proactively engage internal and external stakeholders based on normative motives.

DISCUSSION AND CONCLUSIONS

Implications for Research

In this paper, we argue that who controls the firm and the extent to which the controlling party values achieving social goals explains why some firms are more sensitive than others to stakeholder issues and the ensuing pressure. Our study contributes to the traditional stakeholder literature by accounting for the role of ownership and the underlying non-economic motives for addressing stakeholder issues; an analytical angle largely overlooked so far in the literature.

By applying this reasoning to the context of family firms, our study suggests that this particular type of businesses engages proactively in stakeholder management activities because by doing so, they enhance and protect their socioemotional endowments. Recent family studies underscore our view (Berrone et al., 2010; Dyer & Whetten, 2006; Sharma & Sharma, 2011; Zellweger & Nason, 2008), suggesting that family firms are significantly different from other types of organizations when it comes to social issues. In this regard, our paper contributes to the growing body of literature on the predilection of family-controlled firms for certain strategic options (Anderson, Mansi, & Reeb, 2003; Galve-Górriz & Salas-Fumas, 1996; Thomsen & Pedersen, 2000), in our case for PSE, by meeting the need to develop causal models (Sharma, 2004). At the same time, we go beyond the “family vs. non-family” categorization to consider the different reference frames of family principals, which helps us formulate predictions on the reasons why, and the type of stakeholders who receive attention. We submit that the logic behind the adoption of PSE activities may vary with the dimension of SEW that is prioritized by the family in the decision-making process, and its underlying instrumental or normative motivation. This distinction adds to the family business literature by indicating that neither SEW is a monolithic concept, nor family principals are a homogenous group.

Our propositions also suggest that the debate in the stakeholder management literature about whether firms and managers base decisions on instrumental or normative arguments is more complex than an “either/or” question. There are situations in which the fundamental motives explaining the adoption of a stakeholder management approach are normative, while in others, instrumental motivations are more likely. And even instrumental reasons might not be necessarily considered in straightforward economic terms. In the particular context of family firms, family principals can obtain other instrumental benefits such as control over the firm’s operations, legitimacy, image enhancement, or secure jobs. When PSE decisions are taken with these elements in mind, family will tend to favor those groups of stakeholders who are likely to directly affect control of the firm and its survival. However, when normative arguments are at play, that is, when sentiments of altruism and core internally-held values about what the family firm should be and do vis-à-vis its constituencies and within society, it is simply because it is the right thing to do.

Implications for Family Owners and Practice

First, it is important for family principals to identify the dominant SEW dimension(s) when they make decisions, and account for the potential contrasting reference points of SEW among family members. This should give insights about why certain options regarding stakeholders are preferred. As we see it, there is nothing wrong *per se* with favoring a specific group or a broader set of stakeholders as long as it is clear what the intended goal is. While the key goal of the instrumental perspective is obtaining some benefit for the company and/or the family (e.g., legitimacy, reputation, credibility, enhanced employer attractiveness), the main benefit of the normative perspective is substantive social improvement, in line with and as a reflection of the family principals' core values (e.g., provision of housing, improved public health, ecosystem management, or emergency relief). In any case, family owners should realize that the payoffs from PSE actions are largely long-term, rather than immediate cost-benefit improvements. In addition, they can be the result of a non-linear relationship as the impact of PSE actions on firm activities is often time causally ambiguous (Cennamo et al., 2009). This is the case particularly when considering the intertwined effect of PSE and SEW on firm performance. In fact, resource allocation and activity decisions towards PSE dictated by different reference points of SEW may have positive but also negative impacts on the firm's financial performance and long-term value creation. For instance, PSE activities motivated by the will to enhance and protect the family image and/or social ties with (internal and external) stakeholders may reinforce the firm's reputation and social capital over time, helping the firm sustain its competitiveness in contexts where these two resources are critical for success. Yet, some of these PSE actions (for instance, those to retain control and influence over the firm, or to guarantee the family dynasty) could also mask pure rent-seeking activities. While these activities may have immediate benefits in terms of the stock of SEW they serve, they could undermine the firm's capacity to innovate and generate value in the long term, and might then negatively impact firm performance (Acquaah, 2011; Anderson & Reeb, 2003; Cennamo et al., 2009). This poses complex and critical tradeoffs for family principals about a) how to balance financial and non-financial objectives, particularly when they are interrelated, and b) how to prioritize among short- vs. long-term benefits.

Second, family owners should acknowledge that, increasingly, firms are being expected to broaden their concept of stakeholders. An initial focus on a firm's financial community, employees, and regulators has expanded to include a wide range of stakeholders who affect or are affected by the firm (Freeman, 1984). Moreover, managers have been encouraged to "fan out" to include a larger set of stakeholders in their processes (Hart & Sharma, 2004) and to move beyond managing dyadic relationships to understanding the structure of stakeholder networks (Rowley, 1997). These trends increase strategic complexity as managers decide with whom to engage, how, and with what possible result. This escalation in complexity should be acknowledged and embraced to manage it properly. These trends also have direct implications for the level of involvement of firms, which are evolving from managing stakeholder responses to particular issues, to co-creating solutions to social challenges.

Interacting proactively with stakeholders enables an organization to identify and address their concerns, lowering the deadlocks that can result from misunderstandings. Yet a multiple stakeholder management approach is not without risks. In situations with different conflicting interests, complex and tense processes are likely to occur, leading to disproportionate, biased, or unfair decisions which may result in social backlash. Ideally, managers should foster mutually beneficial relationships in which stakeholders' interests are fully aligned with those of the firm.

Directions for Future Research and Limitations

This line of research offers several opportunities for researchers. One straightforward path that could be followed in the future is the empirical validation of our theoretical contentions. This represents an opportunity and a challenge for scholars, as measuring underlying motives for PSE adoption may be daunting. Moreover, the empirical validation of the SEW construct represents a tremendous challenge in itself, since it has never been tested directly (Berrone et al., in press; Gomez-Mejia et al., 2011). While there are ample reasons for assuming that the family SEW is enhanced as family ownership increases (Berrone et al., 2010; Gomez-Mejia et al., 2007, 2010, 2011; Zellweger et al., in press; Miller et al., in press), it is considered a "reductionist approach, unable to capture the entire spectrum of the SEW" (Berrone et al., in press, p. 26). Moreover, family firms represent a highly heterogeneous group so future research should address how the different SEW dimensions account for this heterogeneity, how these differences are reconciled, and how they affect decision-making in the adoption of PSE.

By building on the individual dimensions of SEW to explicitly consider the different frames of reference of family principals, our study represents a first step in this direction but much remains to be done. For instance, we have discussed the effect of each SEW dimension on the logic behind the adoption of PSE activities individually, but future research should address whether they have an additive, conjunctive or disjunctive effect. Some of the individual reference points may overlap and lead to a mix of instrumental versus normative family motives for pursuing PSE, which in turn may imply the existence of important tradeoffs when making decisions. Moreover, the salience of the different reference points may change with time, so there is a need to include the time horizon in the decision framing. The stock of SEW at a specific point in time is not a given but the result of (PSE) activities to build and preserve it. Future research should incorporate this dynamic process.

Lastly, another interesting area for future research is to analyze the extent to which the links between SEW and PSE are moderated by individual, organizational, and environmental conditions. For instance, it may be interesting to see how family firms prioritize stakeholders when resources are tight. We presume that in such a case, any PSE activities will primarily be undertaken on an instrumental basis, and be restricted to internal stakeholders. Nonetheless, even among internal stakeholders, there may be some heterogeneity in the firm's PSE activities, so the stakeholders who are more instrumental for preserving or enhancing SEW at any given time will be those receiving priority. Also, the extent to which normative motives dominates will be contingent on the degree to which they are; a) seen as a legitimate response to industry or institutional norms; b) a differentiating strategy used by the firm to gain customers or increase its reputational capital; or c) a core internally-held value of the family firm's principals.

To sum up, our study moves a step further towards more realistic and less "stereotyped" interpretations of stakeholder management and family firms, but we could capture only part of the complexity of the relationship between SEW and PSE. For instance, we did not theorize about the individual types of responses that family firms provide to stakeholders, or the specific groups of stakeholders (beyond the broad internal vs. external categorization) that are more likely to be engaged according to the different, individual dimensions of SEW at stake in a given context. Relatedly, stakeholder engagement behaviors can be ordered along a continuum ranging from least to most involved (e.g., Alberic & van Lierop, 2006; Austin, 2000; Hardy & Philips, 1998; Morsing & Schultz, 2006), but we have not considered such variance. These issues are left for future research.

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Figure 1. The SEW-PSE Model