STAKEHOLDER SALIENCE IN THE FAMILY FIRM

By

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Family firms are replete with problems concerning family and business issues but they remain the most dominant form of business worldwide. Decisions about strategy, structure, and goals of the firm play an integral part in the distinction of family firms from non-family firms (Chrisman, Chua & Sharma, 2005) and these decisions are further complicated in the family firm by the interaction of the family and business systems (Stafford, Duncan, Danes & Winter, 1999). Sharma (2000) and Chrisman and colleagues (2005) call for research of this interaction through the utilization of stakeholder theory because family firms involve a specific array of stakeholders with different stakes and different levels of salience. This dissertation further investigates the interaction of the family and the business in a new and interesting way. This will be the first attempt to investigate the way stakeholders and their salience affects the goals and performance of family firms.

The dissertation developed below focuses on the differences that exist among the salience of stakeholders in the family firm. I first develop theory-based hypotheses on a variety of relationships within the family and family firm that will contribute to a better
understanding of the behavior of family firms. Second, I describe the research methodology and sample design to be utilized to test the developed hypotheses. I expect my results to not only empirically validate my research questions but to also provide practical and useful information for future research in this area.

The aim of this study is to contribute to knowledge by empirically testing a framework for stakeholder salience in the family firm as well as assessing how the salience of particular groups affect the performance of family firms.

Key words: Family, Family Firm, Stakeholder Theory, Stakeholder Salience, Decision Making
DEDICATION

I would like to dedicate this dissertation to my wife, Melissa, and my parents, Charlie and Jeanette, who have been unwavering in their support over the last five years. Without your love and encouragement, none of this would have been possible. There were many days where the thought of you kept me steadfast in my efforts.

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CHAPTER I
INTRODUCTION

Organizational scholars conduct research to understand multiple issues surrounding the creation, inter-workings, environment, and eventual decline of businesses. A recent development within in the field of management attempts to identify and understand the management of stakeholders by a firm, where a stakeholder is “any group or individual who can affect or is affected by the achievement of the firm’s objectives” (Freeman, 1984, p. 25). Since the publication of Freeman’s (1984) seminal book, Strategic Management: A Stakeholder Approach, a large number of articles on this emerging theory have been published and professionals worldwide have taken notice of and implemented ideas from this concept (Donaldson & Preston, 1995). As reported by Donaldson and Preston (1995), 12 books using the stakeholder concept had been published by 1995 and by 1999 over 170 articles were published in this area (Griffin, 1999). From that time, the field continued to develop theoretically (e.g., Donaldson & Preston, 1995; Eesley & Lenox, 2006; Frooman, 1999; Galbreath, 2006; Jones, 1995; Jones & Wicks, 1999; Mitchell, Agle & Wood, 1997; Neville & Menguc, 2006; Reynolds, Schultz & Hekman, 2006; Stavrou, Kassinis & Filotheou, 2007; Vilanova, 2007) but empirical testing of key elements of the theory is limited (Freeman, 1999; Gioia, 1999) and therefore more work needs to be done.
Grouping stakeholders into functional categories to provide an understanding of their varying influences on firm activities has consumed much time and effort in the development of stakeholder theory (Rowley, 1997). Unfortunately, scholars have given little attention to a major group of individuals that make up a distinct segment of many firms, the family (Sharma, 2001). Not only does the prevalence of family firms support their inclusion in stakeholder management research (e.g., Astrachan & Shanker, 2003), but their distinctiveness from non-family firms warrants further investigation (Sharma, 2004). Family firms differ from non-family firms in numerous ways, but perhaps most importantly is the complex web of relationships derived from the interactions of the family and business systems (Olson, Zuiker, Danes, Stafford, Heck & Duncan, 2003). As described by Gersick, Davis, Hampton, and Lansberg (1997), the overlapping nature of the family with the business deserves much attention because it is this overlap that gives the family business its distinction. Decisions concerning strategy, structure, and goals are further complicated when made in the confines of a family business (Sharma, 2001) because the influential family stakeholder group often wishes to pursue non-economic goals along with typical economic business goals (Barnett, Pearson, Chrisman & Chua, 2008; Chrisman, Chua & Litz, 2003a; Stafford et al., 1999). This complication also plays an integral part in the distinction of family firms from non-family firms (Chrisman, Chua, & Sharma, 2005). Thus, the introduction of the family, along with its different goals and stakes, justifies further investigation due to the theoretical gap it creates in the development of a stakeholder theory of the firm (Chrisman et al., 2005).

Mitchell and colleagues (1997) developed a model which attempts to show how the salience of various stakeholder groups, based upon power, legitimacy, and urgency,
affects CEO decision making. Agle and colleagues (1999) furthered this model by including the values of CEOs as a moderating variable between stakeholder attributes and CEO decisions. These authors also tested and supported their new model. Moving stakeholder theory in this direction is an important development because previous work has not been able to provide a systematic way to understand the differing levels of influence that stakeholders may have on firm processes. As in prior stakeholder research, these authors do not consider the influence of the family which may be critical because family firms involve a specific array of stakeholders with different stakes and different levels of influence (Sharma, 2001). The intent of the following is to rectify this omission.

Therefore, the purpose of this dissertation is twofold. First, a conceptual model is developed to analyze how stakeholder groups differ from one another in family firms. This model differs from the one Agle et al. (1999) tested by showing that economic and non-economic stakes of the primary internal stakeholder groups play a significant role in the decision processes in family firms due to their high level of salience. Non-economic stakes are pursued in non-family businesses but stakeholder groups that push for the accomplishment of these types of goals tend to be farther removed from the firm or are lower level employees in the organization and therefore do not have as much influence on the firm. The new model will also be significantly different because it will show that stakes have a direct relationship and the stakeholder model will be specifically developed with family firms in mind. Previously, stakes were not included in the model and only the relationship between performance and salience was tested. Agle et al. (1999) were unable to show a significant relationship between stakeholder salience and performance. This dissertation argues that this is because salience will moderate the relationship
between different stakeholders’ stakes and performance. In other words, when certain stakeholders are highly salient, their claims will be met and it is the differences in these claims that will affect performance.

Second, hypotheses derived from the conceptual model will be empirically tested. To conduct this empirical analysis, the study will utilize a survey instrument developed herein. The survey instrument will be distributed to family firm CEOs in an attempt to understand more completely how these CEOs view the salience of stakeholder groups in their family firms. The following sections of this chapter will provide brief reviews of stakeholder theory and family firm research, specify and describe the major research questions to be analyzed, and conclude with a description of the steps taken to complete this dissertation.

**Stakeholder Theory**

Even though the popularity of stakeholder theory has grown in recent years, authors continue to disagree on some of the most basic elements of this descriptive assessment of organizational activities (Mitchell et al., 1997). Before moving forward it is important to begin by detailing on what scholars do agree. The first and most rudimentary assumption of stakeholder theory is that corporations have a multitude of relationships with groups of individuals who are affected by and can affect decisions made by the firm (Freeman, 1984). These individuals are called stakeholders. Second, stakeholder theory’s concern lies with the makeup of the relationships between the firm and stakeholders and how these relationships affect processes and outcomes for these parties (Jones & Wicks, 1999). Third, stakeholder theory disregards the emphasis of
adhering only to the wants and demands of shareholders (Clarkson, 1995; Donaldson & Preston, 1995) and assumes that all stakeholders have an inherent worth that should be considered during managerial decision making. Finally, as alluded to in the third assumption above, stakeholder theory contains a descriptive characteristic that concentrates on the process of managerial decision making (Donaldson & Preston, 1995; Jones & Wicks, 1999). Thus, from these assumptions, it can be said that managers in a firm must recognize that various stakeholder groups exist that can affect or are affected by the actions of the firm; these stakeholders can withhold participation with the firm which may reduce efficiency and profitability; and firms that effectively manage stakeholder interests have the potential to enjoy a competitive advantage over other firms (Hillman & Keim, 2001).

Mitchell and colleagues (1997) reviewed the literature concerning the identification of stakeholder groups and proposed a new and interesting way to understand the process managers undergo. Their stakeholder identification process suggests that managerial perceptions of three stakeholder attributes – power, legitimacy, and urgency – may affect the salience of stakeholders, where salience is “the degree to which managers give priority to competing stakeholder claims” (Agle et al., 1999, p. 507). Indeed, the combination of the stakeholder’s power to influence the firm, the legitimacy of the stakeholder’s relationship with the firm, and the urgency of the stakeholder’s claims on the firm will affect the decisions made by managers depending on how salient the managers perceive these attributes to be. This is a change in direction for stakeholder theory because it supplements efforts by others to simplify the stakeholder concept through classification schemes. By clarifying how stakeholder
groups become salient in the eyes of managers, it in turn is clearer how stakeholders can affect firm decision-making. Mitchell et al.’s (1997) argument presupposes that it is critical to stakeholder theory to understand that only when the manager perceives an identified stakeholder group to be salient will their needs be met.

Mitchell et al.’s (1997) salience theory is helpful because disagreement continues on many issues surrounding stakeholder theory, such as “who are the stakeholders of the firm?” This most basic question can be difficult to answer considering the broad nature of the definition of stakeholders first proposed by Freeman (1984). By looking at stakeholders as any person or entity who can affect or be affected by the actions of the organization, research has been limited in the ability to rule out virtually any group or individual as a stakeholder. Although Freeman’s definition continues to be utilized in the literature, many other definitions of stakeholders have been provided in an attempt to narrow the field to a manageable level (Mitchell et al., 1997). Common themes amongst the relatively narrow views of what constitutes a stakeholder include identifying stakeholders based on their significance to the firm’s core capabilities, their economic and moral interests, and survival. For example, Clarkson (1995) describes stakeholders in terms of risk, be it involuntary (the firm can affect stakeholders regardless of affiliation with the firm), or voluntary (stakeholders who purposefully put themselves in harms way through such activities as employment, investment, etc.) Describing stakeholders in this way effectively reduces those who can be stakeholders of a firm to only individuals or entities that can lose or gain something (a stake) (Mitchell et al., 1997).

Hitt, Ireland, and Hoskisson (2007) further divide stakeholder groups into three categories: capital market stakeholders, product market stakeholders, and organizational
stakeholders. Capital market stakeholders include all stakeholder groups that have a financial stake in the company, e.g., shareholders and banks. Product market stakeholders include all stakeholder groups that are not members of the organization, have not invested financially in the organization, but can still be affected by the firm. These groups include host communities, environmental groups, suppliers, customers, etc. Finally, organizational stakeholders are those individuals who actually work for the organization. Classifications of this type are helpful in understanding who makes up stakeholder groups and more importantly what types of stakes or interests they have in the firm. This is essential because the interests of the different stakeholder groups often conflict. For example, capital market stakeholders have invested financially in the firm and expect a return on their investment commensurate with the level of risk they have assumed. On the other hand, product market stakeholders, such as customers, expect to receive quality goods at a fair price. This leaves managers of firms in situations where they must weigh the interests of each group and decide what course of action to take.

**Family Firm Research**

Interest in family firm research has increased substantially over the last 3 decades (Sharma, 2004). The aim of this research has been to define family business and identify differences between family firms and non-family firms which have performance implications. Research has not been limited merely to descriptions of the characteristics of the family firm or the unique interactions of families within firms. The research in this field has moved forward with sound theory, which describes how the interactions in family firms transpire and what results these interactions have on firm performance.
A dominant issue in family firm research is adequately explaining why family firms are different from non-family firms. To move the field forward, comparisons of both family with non-family businesses and comparisons among different types of family businesses is necessary. In both cases, an attempt is made to understand how the family and the business interact with each other and how this affects the performance and sustainability of the firm. To accomplish this task, main stream management theories such as the resource based view (e.g., Habbershon & Williams, 1999), agency and stewardship theories (e.g., Gomez-Mejia, Nunez-Nickel & Gutierrez, 2001), institutional theory (Lansberg, 1983), etc. have been utilized. Underlying each of these theoretical explanations, though, is the belief that there are several systems at work that affect these firms in such a way as to make them unique.

Initially, the work of Hollander (1983) influenced authors to look at family firms as two systems, the family and the business. Although very applicable and intuitively appealing, a further refinement of this model by Taguiri and Davis (1982) and Lansberg (1988) suggested that there were actually three systems, called the three-circle model, interacting in the family firm – family, management, and ownership – and these systems are surrounded by the general environment. Each system possesses individual norms, values, goals, and structures but an individual may often play roles in the systems concurrently. Since each system has its own distinct set of attributes and characteristics, conflicts may arise during decision making processes. This model makes it easier to identify the different stakeholders in a family firm and if used effectively, the three-circle model can help scholars explain role and interpersonal conflicts, goal incongruence between systems, priority development in family firms, financial expectations, etc.
The three-circle model also helps explain behaviors in different types of family firms.

The importance of this illustration of the family firm for this dissertation derives from the overlap of interests by members of the family firm who may at anytime be a part of one or all three of the different systems. By being obligated to adhere to the interests of several competing systems, family firm CEOs and/or management have a much more complex process to undertake when making decisions. For example, family members may be inclined to offer other family members jobs in the business regardless of their capabilities (Gersick et al., 1997). On the other hand, managers in the firm may instead want to only hire individuals who possess the skills and abilities necessary to complete work effectively. Thus, describing the stakes for each of the systems in the family firm may help to demonstrate more of these conflicts along with how decisions being made affect firm performance.

As can be seen in the preceding example, the three-circle model is a helpful heuristic for scholars to utilize to understand the multiple and complex relationships found in the family firm. As noted previously, family business research has not received much attention from stakeholder theorists. However, stakeholder theory may prove beneficial to understanding several issues in the family business literature, including, but not limited to, how stakeholders in family firms view economic and non-economic goals (Sharma, 2004). It may be important to find out how family members in family firms define success, because a lack of alignment in their definitions of success may lead to conflict (Astrachan & McMillan, 2003; Sharma, 2004). Examples of these types of goals include a basic standard of living, providing jobs for future family members, etc.
Conversely, stakeholder theory could benefit from the inclusion of the family as a stakeholder group because the duality of roles played by the family firm CEO who is often entrenched within several stakeholder groups could affect decision making processes. This has yet to be systematically studied in stakeholder literature.

In summary, there is potential to bring together stakeholder management concepts and literature from family firm research to answer questions regarding both economic and non-economic performance in family firms. Also, through this analysis it is possible to further enhance our understanding of the affect of salience on decision making when the decision maker holds positions in several stakeholder groups. Thus, answering the following research questions may be a means to further both stakeholder theory and family firm research.

**Research Questions**

Based on the purpose of this dissertation, the following research questions will be investigated in family firms:

1. How do stakes of primary stakeholders in family firms influence economic performance?
2. How does the salience of stakeholders in family firms moderate the relationship between stakes and economic performance?
3. How do stakes of primary stakeholders in family firms influence non-economic performance?
4. How does the salience of stakeholders in family firms moderate the relationship between stakes and non-economic performance?
To answer these research questions, it is essential to distinguish the primary stakeholders of the family firm. By doing this, the dissertation will focus on the most influential individuals in the firm. This is important because their level of influence is expected to affect decision makers of the firm. The three-circle model will be utilized to meet this end. It is also important to describe the different stakes that are held by each of the primary stakeholder groups in the family firm. Since stakes of different groups appear in many instances to conflict with those of other groups, it is necessary to know which groups have which stakes. It is also important to know what stakes are held in high regard by each of the groups because different stakes may affect performance in different ways.

By discussing stakes at length it will be possible to create survey items to assess how different stakes directly affect both economic and non-economic performance. Thus, answering questions one and three shows that adhering to the stakes of the primary stakeholder groups in family firms affects the performance of such firm. The testing of non-economic performance is central to this dissertation because it is argued that family firms are not satisfied solely with economic performance, but instead consider the performance of the family as essential to their survival.

Finally, testing questions 2 and 4 extends the ideas set forth by Mitchell and colleagues (1997) and Agle and colleagues (1999) which first describe and later test the idea that the level of salience of a group in a firm will affect firm performance. Questions 2 and 4 alter the relationships described by these authors in that they investigate the effect of salience indirectly through the stakes possessed by each stakeholder group. Also, similar to the third research question, question 4 will indirectly
test the relationship of salience with a non-economic performance measure in the family firm. Therefore, the findings of research questions 2 and 4 will provide critical information for both stakeholder and family firm theorists.

**Contributions**

The dissertation aims to make several contributions to the literature concerning stakeholder theory and family firms.

First, the simultaneous review of stakeholder and family firm literature adds to the work in this area and intends to provide future scholars the tools necessary to develop further studies which assess stakeholder relationships in family firms. Donaldson and Preston’s (1995) call for limiting the study of stakeholders to professionalized, publicly held corporations lacks the scope necessary to build a complete stakeholder theory of the firm. Hence, the perspective of Campbell (1997) said it best that research without the family as a stakeholder group is inconsistent with the main tenets of stakeholder theory. Thus, this dissertation will answer the call to research in the area of stakeholders and family firms (Chrisman et al., 2005; Sharma, 2004).

As noted previously, family firm research has been assessed on the basis of several leading theories in the social sciences. The omission of stakeholder theory in this growing body of literature may be detrimental because insight from the study of the family as stakeholders can provide valuable information to these other theories. For example, Chrisman and colleagues (2005, p. 569) contend that by expounding upon the relationships of stakeholders in family firms scholars may be better equipped to understand the gap left by agency theory and the resource based view by explaining how
“formulating organizational goals and strategies cause resources to be acquired and agency costs to be eliminated or amplified.” The results of the dissertation proposed herein will be a step toward these types of explanations.

Second, this research will further develop the model described by Mitchell and colleagues (1995) and later tested by Agle et al. (1999) they found few significant results based on their operationalization of the constructs. Specifically, they found no significant, direct relationships between salience and performance and this was their main theoretical argument in their work. Agle et al. (1999) call for future research concerning the effects of salience on performance due to this result. By hypothesizing an indirect relationship between stakeholder salience and performance through the stakes of stakeholder groups, this dissertation may be able to better explain how the influence of stakeholder groups affects firms. Therefore this dissertation may provide missing variables and enhanced conceptualizations of stakeholder relationships to remedy the situation.

Finally, by including the family stakeholder group and non-economic performance measures, this study will not only add to the stakeholder literature but will also further develop the ideas in family firm literature. Understanding how the inclusion of the family stakeholder group can alter relationships between stakes and different types of performance may lead to better descriptions of the family firm. Also, by including different types of family firms in this research, insight may be provided as to why some family firms are able to survive and prosper and others are not.
Organization of the Study

This dissertation is organized into five chapters. Chapter I consists of an introduction to stakeholder and family firm research, including definitions of the main constructs from which to study. This is followed by the purpose of the proposed study and the research questions based on past research conducted within these literature streams. The contributions of the study to the literature will follow and the introduction will conclude with a general discussion of the organization of the study.

Chapter II comprises the literature review, model, and hypotheses. First, a literature review discusses stakeholder theory and its development over the last few decades. A full review of the seminal work by Freeman (1984) and its effect on the development of the field will be offered. Also, this review of literature places particular emphasis on the work of Mitchell et al. (1997) and Agle et al. (1999), which is due to the extensions to their model that this dissertation intends to present. Then, a discussion about family firms and their dynamic decision-making processes follows. This review of literature will place emphasis on the overlap of the family, ownership and business systems. Third, a conceptual model and a set of hypotheses are developed based on the integration of these literature streams.

Chapter III describes the methodology of the study. First, the research design, the unit of analysis and the sources of data are discussed. Second, the sampling frame and the power of the study are discussed. Third, issues of validity in using previous and creating new scales will be illustrated. Fourth, the measures used in the study are described. These are grouped into dependent, independent, moderating, and control variables. Next, the data analytic techniques used to test new scales for construct, convergent, and
discriminant validity are explained. Finally, upon creation of all scales, data analytic
techniques to test the relationships put forth in chapter two will be described in detail.

Chapter IV presents the analysis of the data collected for the study as it is
presented in Chapter III. The analysis includes the results of the hypotheses’ testing as
well as the discussion of research findings.

Chapter V summarizes the research conducted in this study. The chapter includes
the theoretical and empirical limitation of the study as well as the contributions to the
literature. Finally, the chapter concludes with implications for academic research and
practice, and recommendations to consider in future research to advance on the study of
stakeholders and family firms.
CHAPTER II

LITERATURE REVIEW, MODEL, AND HYPOTHESES

The purpose of this chapter is to present a literature review that explains the theoretical underpinnings of the conceptual model to be tested in this dissertation. The conceptual model is primarily derived from the writings of Mitchell and colleagues (1997) and from Agle et al. (1999). This chapter reviews stakeholder theory, stakeholder salience, and family firm research and shows that the conflicting needs of the family and business cause the decision making process of top management to be affected in a number of ways. A new model of stakeholder salience in the family firm is introduced and hypotheses are derived from this model. The most important conceptual contribution of this dissertation is the inclusion of stakes along with stakeholder salience in the study of family firms. The chapter is divided into several sections. First, the major underpinnings of stakeholder theory are reviewed. Most importantly, stakeholder identification and stakeholder salience are discussed in turn to fully underscore the processes by which managers make decisions when multiple stakeholders are considered.

Second, family firm research is reviewed paying close attention to the interactions of families with the firm when making firm decisions. The three circle model of the family firm (Gersick et al., 1997) is introduced and later used as a framework to
describe the different stakes possessed by each stakeholder group in the family firm. This review also includes the most common goals sought by family firms, be it economic or non-economic. One of the most prominent theories utilized in family firm research, agency theory, is introduced in the literature review in an attempt to show that gaps in this literature stream continue to exist. These gaps are outlined and discussed throughout.

Next, the proposed model is introduced in a very general sense. This entails a brief discussion of the changes in relationships made to Agle et al.’s (1999) model and why these changes are warranted. Finally, the proposed model is discussed in a more specific manner by outlining hypotheses which are to be tested in subsequent chapters.

**The Development of Stakeholder Theory**

A fundamental question in organizational research has often undertaken the task of describing why do firms exist and what are their major functions (Coase, 1937). Also important, is what determines their scale and scope? One answer to this question is that firms exist to create value in different forms – value for those who have invested in the business (Smith, 1895), value for the compensation of employees, value for customers (Slater, 1997), etc. Increasingly, the modern company must be able to adhere to the interests of and create value for an assortment of groups and individuals so as to operate effectively (Hillman & Keim, 2001). Since the interests of these groups and individuals often conflict, it may be difficult to comprehend how and why managers make the decisions that they do. In turn, the factors determining the scale and scope of these firms are misunderstood and very difficult to interpret.
Stakeholder theory offers insight on this complex and confusing set of circumstances within the firm. Although Edward Freeman (1984) is often credited with bringing stakeholder management into mainstream strategy literature, he recognizes that the concept existed prior to the publishing of his book titled *Strategic Management: A Stakeholder’s Approach.* Specifically, an international memorandum of the Stanford Research Institute in 1963 refers to stakeholders (Freeman, 1984). Stakeholders were considered as groups of individuals that were necessary for the continued functioning of the organization, and therefore understanding the needs of stakeholders would allow the organization to create better strategic plans. Though Freeman’s (1984) book was not the original champion of this idea, it extended earlier work by establishing stakeholder theory as a unique way to describe the intricacy of organizations and their environments, and it explained that a moral obligation to balance the interests of all stakeholders must be considered by managers. This framework encourages researchers to push beyond limited conceptualizations of the firm as only involving owners and customers.

Freeman’s (1984) primary line of reasoning is that the success of the firm lies with managers understanding the needs of their stakeholders. This notion was developed from several literature streams including corporate planning, systems theory, corporate social responsibility, and organization theory. He argues that as the external environment in which firms operate continues to grow in complexity, it will become increasingly difficult to adhere to all stakeholder demands. These changes in the environment, for Freeman, require a modernization in the thinking of, and the actual operation of the firm. Freeman’s broad definition, which allows for a large number of groups or individuals to
be considered as possessing the characteristics of a stakeholder, further enhances his argument that adhering to stakeholder demands will increase in difficulty.

Stakeholder management is predicated on the concept of stakeholders who have relationships with each other and the firm and who can affect the organization. Stakeholders are often defined as “any group or individual who can affect or is affected by the achievement of the organization’s objectives” (Freeman, 1984, p. 46). To gain support from its stakeholders, the organization must interact with stakeholders by identifying their interests in the firm (stakes), and then the organization must try to satisfy their needs. The needs of different stakeholder groups are often contradictory to each other. This forces managers to use a set of criteria to decide which stakeholder or group of stakeholders should have their needs met first. Competing claims on the firm do have some dependency and reciprocal benefit upon one another but it is often difficult to assess an accurate level of impact.

To effectively serve this newly explained and complex organizational purpose, Freeman (1984) proposes a stakeholder management process with the following four steps. First, stakeholders relevant to particular issues for which the firm is trying to plan should be identified. Second, management must determine the stakes for each stakeholder group and the level of importance that each possesses. Next, management assesses the current effectiveness of the company to meet the needs of the identified stakeholder groups. Finally, management changes their policies in an attempt to better meet the needs of those groups who were identified as not receiving sufficient consideration in step three. According to Mitchell et al (1997), the policies that management employs to reach particular goals can be firm-centered or system-centered.
Firm-centered goals include firm survival, flexibility to grow through new opportunities, public policy influence, etc. System-centered goals attempt to offer equity to all stakeholders in the form of leveraging stakeholder interests and claims. Freeman claims that this process will shift management’s attention away from unnecessary activities and towards stakeholders on which the organization depends for success.

Freeman’s thesis triggered an abundance of work within several literature streams but it also inspired authors to further refine stakeholder theory (Donaldson & Preston, 1995). It is this abundance of work in such a short time period that Donaldson and Preston (1995) claim causes some confusion found in stakeholder theory. They maintain that “anyone looking into this large and evolving literature with a critical eye will observe that the concepts stakeholder, stakeholder model, stakeholder management, and stakeholder theory are explained and used by various authors in very different ways and supported with diverse and often contradictory evidence and arguments” (Donaldson & Preston, 1995, p. 66). In light of these issues, the authors successfully clarified the contradictory terminology and arguments in the literature by offering their take on the common themes and problems. This framework classifies much of the efforts in the development of stakeholder theory into one of three methods: instrumental, normative, and descriptive. These three categories are considered to be nested within each other (see Figure 2.1 below).
Three Aspects of Stakeholder Theory (Donaldson & Preston, 1995)

Stakeholder theory has often been approached from a descriptive viewpoint. By being descriptive, authors provide a common language for the community of scholars to convey their understanding of the relationships between the firm and its stakeholders. While simply basing stakeholder theory in descriptive terms is inadequate (Waddok & Graves, 1997), description does offer necessary information to later be used when making instrumental predictions regarding causality and performance. Next, the instrumental view of stakeholder theory “establishes a framework for examining the connections, if any, between the practice of stakeholder management and the achievement of various corporate performance goals” (Donaldson & Preston, 1995, p. 67). This line of research is not surprising considering a central goal of all strategy research is to further understand what management practices can be related to company performance (Rumelt, Schendel & Teece, 1995). Finally, the normative view of stakeholder theory provides an underlying
basis for stakeholder theory in that its main assumption is the intrinsic value of any one 
stakeholder should not take priority over other stakeholders. All stakeholders should 
receive equitable treatment when decisions are to be made. The authors summarize how 
these three approaches are nested within each other:

“The external shell of the theory is its descriptive aspect; the theory presents and 
explains relationships that are observed in the external world. The theory’s 
descriptive accuracy is supported, at the second level, by its instrumental and 
predictive value; if certain practices are carried out, then certain results will be 
obtained. The central core of the theory is, however, normative. The descriptive 
accuracy of the theory presumes that the truth of the core normative conception, 
insofar as it presumes that managers and other agents act as if all stakeholders’ 
interests have intrinsic value. In turn, recognition of these ultimate moral values 
and obligations give stakeholder management its fundamental normative base” 
(Donaldson & Preston, 1995: p. 74).

The three approaches described by Donaldson and Preston (1995) guided 
subsequent research and also have encouraged scholars to further develop and debate the 
ideas set forth (e.g., Jones & Wicks, 1999). This dissertation takes an instrumental 
approach, which is supplemented by a descriptive discussion of the interrelationships 
found in family firms when considering stakeholder issues.

Stakeholder Theory Applications

Stakeholder theory is used to try to answer three questions: Who are the 
stakeholders of the firm? What do they want? And finally, how are they going to get 
what they want (Frooman, 1999)? Thus, management looks at what attributes or 
characteristics make up a stakeholder, what stakes or interests they have in the firm, and 
the strategies that the stakeholders intend to use to make sure they receive benefits from 
the firm.
The identification of particular stakeholders and stakeholder groups has been debated since the time of Freeman’s (1984) seminal work and it continues to be discussed today. Identification of stakeholders will be based on a number of characteristics including what stakes they have in the firm. The inclusion of stakes as a way to classify stakeholders shows some overlap between Frooman’s (1999) first and second questions. It is necessary to distinguish between stakeholders based on stakes because not all stakeholder groups will be homogenous in this area (Mitchell et al., 1997). For example, all employees of a firm may not have the same stakes in mind. Some may be more geared towards a particular work environment rather than a relatively high salary.

The second question also brings to mind the concept of stakeholder salience (Mitchell et al., 1997). Salience refers to the process of deciding which stakeholders are actually important to the firm and whether or not they are considered when decision making occurs. When discussing the topic of salience, scholars are trying to decipher who really counts to management when making decisions (Mitchell et al., 1997). If a manager is able to understand the stakes that each stakeholder group possesses, then he may be able to increase his effectiveness in dealing with these groups (Frooman, 1999).

Frooman’s (1999) final question tries to understand the strategies that stakeholders may use to ensure their stakes are adhered to. By understanding their strategies, managers can better handle strategic actions by stakeholders and can develop strategies of their own to make sure they meet as many salient stakeholder demands as possible. Clarkson (1995) describes the actions that management may take in different situations. Clarkson argues that a defensive or reactive strategy where management simply reacts to arising problems each day is less effective than having a proactive
strategy towards stakeholders where management predicts the concerns of stakeholders and tries to alleviate them prior to stakeholders enforcing their claims.

This dissertation does not focus on Frooman’s final question regarding the strategies used by stakeholders to influence the firm. Instead, the primary objective of this dissertation is to demarcate the main stakeholders of the family firm, discuss each group’s salience or ability to influence the firm, and show that this influence can affect firm performance. A lengthy discussion of the strategies used by stakeholders for influence over the firm is unnecessary at this point because it can be assumed that determining the extent to which each group gets what it wants can be found by assessing their level of salience. Put differently, if salience implies influence, then the strategies used to create that influence poses a topic for future research but not a necessary topic to determine the affect of salience on firm performance.

**Stakeholder Identification**

Answering the question of who is a stakeholder can often be difficult and in many instances, research attempting to detail who is and who is not a stakeholder becomes very controversial. Construction of a definition that is accepted by all scholars is an endeavor that has been, to date, unsuccessful. A typical debate in the literature revolves around the broadness of the definition utilized. The most commonly accepted definition is “any group or individual who can affect or is affected by the achievement of the organization’s objectives” (Freeman, 1984, p. 46). The broad nature of this definition has received much refinement, yet the original definition continues to be used often for theory development (Mitchell et al., 1997).
Another issue with the broadness of Freeman’s (1984) definition is the directionality of stakes. Freeman argues that when stakes are not met, stakeholders will withhold resources. In other words, stakeholders are affected by the firm and they can affect it too. Interestingly though, Mitchell and colleagues (1997) argue that this does not imply reciprocation, which is different from contractually based conceptualizations of firm behavior such as agency theory (i.e., Jensen & Meckling, 1976). Reciprocation implies that stakeholders would always react in accordance to the actions taken by the firm to meet their needs. Mitchell et al. (1997) instead describe the relationship as one where stakeholders ‘can’ react but do not do so in every instance. This characteristic of stakes further complicates mangers’ decision making process.

Mitchell and colleagues (1997) prescribe the following solution to the problem of meeting multiple needs of different stakeholder groups while remaining profitable: “equip managers with the ability to recognize and respond effectively to a disparate, yet systematically comprehensible, set of entities who may or may not have legitimate claims, but who may be able to affect or are affected by the firm nonetheless, and thus affect the interest of those who do have legitimate claims” (p. 857). In other words, managers must have the autonomy and flexibly to meet the needs of many groups of stakeholders whether their claims are legitimate or not.

Wheeler and Sillanpaa (1997) also develop a framework of stakeholders that takes on a very broad connotation. The four categories utilized to describe stakeholders are primary social, secondary social, primary non-social, and secondary non-social. Table 2.1 outlines these four categories (Wheeler & Sillanpaa, 1997, p. 197-198). Primary stakeholders are those stakeholders necessary for the success of the firm. They include
all internal stakeholders such as employees and shareholders, and all external stakeholders who have a direct relationship with the firm, such as business partners, the local community, and suppliers. Secondary stakeholders have much less influence over the success of the firm but in certain circumstances they can become primary stakeholders. Secondary stakeholders are always external stakeholders of the firm and as shown in Table 2.1, nearly anyone outside the direct confines of the firm can fall into the secondary stakeholder category. Social stakeholders are those stakeholders who directly interact with the firm for human needs while non-social stakeholders, such as the environment and animal species, either do not interact directly with the firm because they take on a non-human form or they do interact directly with the firm because they are represented by people.

Freeman’s (1984) definition of stakeholders has frequently been narrowed to meet the needs of various researchers. The narrow definitions of stakeholders often try to take into account real world variables that affect the ability of managers to make decisions for the longevity of the firm. These definitions typically tie the relevance of stakeholder interests to the economic impact that they will have on the firm (Mitchell et al., 1997). For example, Evan & Freeman (1993) view stakeholders as individuals or groups that contribute to the capacity of a firm to generate wealth. Freeman and Reid (1983, p. 91) gave a similar definition that claimed stakeholders are those groups “on which the organization is dependent for its continued survival.” Overall, these definitions try to reduce the number of groups who can be considered stakeholders to reduce the complexity in their discussion while also making it simpler to prescribe actions to practitioners.
Table 2.1
Stakeholder Identification

<table>
<thead>
<tr>
<th>Primary Social Stakeholders</th>
<th>Secondary Social Stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>● Shareholders and other investors</td>
<td>● Government and regulators</td>
</tr>
<tr>
<td>● Employees and managers</td>
<td>● Civic institutions</td>
</tr>
<tr>
<td>● Customers</td>
<td>● Social pressure groups</td>
</tr>
<tr>
<td>● Local Communities</td>
<td>● Media and academic commentators</td>
</tr>
<tr>
<td>● Suppliers and business partners</td>
<td>● Trade bodies</td>
</tr>
<tr>
<td></td>
<td>● Competitors</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Primary Nonsocial Stakeholders</th>
<th>Secondary Nonsocial Stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>● The natural environment</td>
<td>● Environmental interest groups</td>
</tr>
<tr>
<td>● Future generations</td>
<td>● Animal welfare organizations</td>
</tr>
<tr>
<td>● Nonhuman species</td>
<td></td>
</tr>
</tbody>
</table>

Source: (Wheeler & Sillanpaa, 1997)

In summary, stakeholders have been identified through various broad and narrow definitions or classifications schemes. Unfortunately, no one universal definition has been agreed upon at this time. Therefore, this dissertation uses Freeman’s (1984) classic definition but focuses only on the internal stakeholders found in Wheeler and Sillanpaa’s (1997) primary social stakeholder category (shareholders, employees, and managers). This definition was chosen because it is consistent with a large portion of the literature and because of its emphasis on the directionality of influence by stakeholders and the firm. To be discussed later, in many instances family firms are closely held companies, which implies that very few groups have strong influence on the firm. The family both influences and is influenced by the operation of the firm. Consequently, directionality of
influence is an important concept when talking about family firms. Reducing the discussion to only the primary stakeholders (Wheeler & Sillanpaa, 1997) also fits well with the idea that many family firms are closely held. The owners and managers are highly concentrated giving them much discretion when making business decisions. Finally, recent developments in the literature, in particular salience of stakeholder groups, have moved research beyond definitional issues and on to the task of interpreting which stakeholder groups actually influence decisions made by the firm. Thus, by focusing on the primary stakeholders who appear to have the most influence on the firm, this dissertation will further knowledge for both stakeholder theorists and family firm researchers.

**Stakeholder Salience**

Mitchell and colleagues (1997) present a table that shows the chronology of the stakeholder definitions and their stakes (See Table 2.2 below). They use this chronology to identify common themes in stakeholder theory. They also reviewed the ways that the term “stake” has been utilized in the literature and recognized core attributes for the identification of stakeholders (power and legitimacy). These attributes were then combined with an environmental factor (urgency) with the intention of assessing the salience of particular stakeholders and stakeholder groups.
Table 2.2

Who is a Stakeholder? A Chronology  (Mitchell et al., 1997: p. 858)

<table>
<thead>
<tr>
<th>Source</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stanford memo, 1963</td>
<td>“those groups without whose support the organization would cease to exist” (cited in Freeman &amp; Reed, 1983, and Freeman, 1984)</td>
</tr>
<tr>
<td>Rhenman, 1964</td>
<td>“are depending on the firm in order to achieve their personal goals and on whom the firm is depending for its existence” (cited in Nasi, 1995)</td>
</tr>
<tr>
<td>Ahlstedt &amp; Jahnukainen, 1971</td>
<td>“driven by their own interests and goals are participants in a firm, and thus depending on it and whom for its sake the firm is depending” (cited in Nasi, 1995)</td>
</tr>
<tr>
<td>Freeman &amp; Reed, 1983: 91</td>
<td>Wide: “can affect the achievement of an organization’s objectives or who is affected by the achievement of an organization’s objectives”</td>
</tr>
<tr>
<td>Freeman, 1984: 46</td>
<td>“can affect or is affected by the achievement of the organization’s objectives”</td>
</tr>
<tr>
<td>Freeman &amp; Gilbert, 1987: 397</td>
<td>“can affect or is affected by a business”</td>
</tr>
<tr>
<td>Cornell &amp; Shapiro, 1987: 5</td>
<td>“claimants” who have “contracts”</td>
</tr>
<tr>
<td>Evan &amp; Freeman, 1988: 75-76</td>
<td>“have a stake in or claim on the firm”</td>
</tr>
<tr>
<td>Evan &amp; Freeman, 1988: 79</td>
<td>“benefit from or are harmed by, and whose rights are violated or respected by, corporate actions”</td>
</tr>
<tr>
<td>Bowie, 1988, 112, n. 2</td>
<td>“without whose support the organization would cease to exist”</td>
</tr>
<tr>
<td>Alkhafaji, 1989: 36</td>
<td>“groups to whom the corporation is responsible”</td>
</tr>
<tr>
<td>Carroll, 1989: 57</td>
<td>“asserts to have on or more of these kinds of stakes” – “ranging from an interest to a right (legal or moral) to ownership or legal title to the company’s assets or property”</td>
</tr>
<tr>
<td>Freeman &amp; Evan, 1990 contract holders</td>
<td>in “relationship with an organization”</td>
</tr>
<tr>
<td>Thompson et al, 1991: 209</td>
<td>“have an interest in the actions of an organization and…the ability to influence it”</td>
</tr>
<tr>
<td>Savage et al., 1991: 61</td>
<td>“constituents who have a legitimate claim on the firm…established through the existence of an exchange relationship” who supply “the firm with critical resources (contributions) and in exchange each expects its interests to be satisfied (by inducements)”</td>
</tr>
<tr>
<td>Hill &amp; Jones, 1992: 133</td>
<td>“having some legitimate, non-trivial relationship with an organization [such as] exchange transactions, action impacts, and moral responsibilities”</td>
</tr>
<tr>
<td>Brenner, 1993: 205</td>
<td>“asserts to have one or more of the kinds of stakes in business” – may be affected or affect…</td>
</tr>
<tr>
<td>Carroll, 1993: 60</td>
<td>Participants in “the human process of joint value corporation”</td>
</tr>
<tr>
<td>Freeman, 1994: 415</td>
<td>“interact with and give meaning and definition to the corporation”</td>
</tr>
<tr>
<td>Wicks et al., 1994: 483</td>
<td>The firm is significantly responsible for their well-being, or they hold a moral or legal claim on the firm</td>
</tr>
<tr>
<td>Langtry, 1994: 443</td>
<td>“can and are making their actual stakes known” – “are or might be influenced by, or are or potentially are influencers of, some organization”</td>
</tr>
<tr>
<td>Starik, 1994: 90</td>
<td>“bear some form of risk as a result of having invested some form of capital, human or financial, something of value, in a firm” or “are placed at risk as a result of a firm’s activities”</td>
</tr>
<tr>
<td>Clarkson, 1994: 5</td>
<td>“have, or claim, ownership, rights, or interests in a corporation and its activities”</td>
</tr>
<tr>
<td>Clarkson, 1995: 106</td>
<td>“interact with the firm and thus make its operation possible”</td>
</tr>
<tr>
<td>Donaldson &amp; Preston, 1995: 85</td>
<td>“persons or groups with legitimate interests in procedural and/or substantive aspects of corporate activity”</td>
</tr>
</tbody>
</table>
Mitchell et al.’s (1997) review of stakeholder attributes and stakes found that power and legitimacy might make up the foundation for a new type of stakeholder identification typology. They suggest that this type of sorting criteria could be helpful in identifying stakeholders that are important to the firm (Agle et al., 1999) and that this was necessary because the most widely accepted definition of stakeholders (Freeman, 1984) happens to be very broad. Their conceptualization of legitimacy adequately narrows the stakeholder domain, while their conceptualization of power allows enough groups to be considered stakeholders so that it is not too narrow (Agle et al., 1999).

The authors defined legitimacy as “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” (Mitchell et al., 1997, p. 866). The authors drew upon institutional theory (Dimaggio & Powell, 1983; Meyer & Rowan, 1977) and argued that the survival of the organization and its effectiveness may hinge upon the acquisition of legitimacy by conforming to socially legitimate actions. The legitimacy of a claim on a firm can be based on a number of things. Mitchell et al. (1997) argued that it might derive from “contract, exchange, legal title, legal right, moral right, at-risk status, or moral interest in the harms and benefits generated by company actions” (Agle et al., 1999, p. 508). Legitimacy can be found at varying organizational levels (Wood, 1991). Wood states that the most common levels of legitimacy are at the individual, organizational, and societal levels. Next, they defined power as the ability of a group or individual to be able to impose its will in a relationship with management (Mitchell et al., 1997). The authors draw upon resource dependency theory (Pfeffer & Salancik, 1978) to show that the organization’s dependence upon resources critical to the
operation of the firm warrants managerial attention to the stakeholder who possesses them.

These two attributes of stakeholder salience are considered variables which can be lost or obtained (power), or absent or present (legitimacy). When these two attributes are combined they represent authority (Weber, 1947) for the stakeholders over the firm.

Complementing these two sorting criteria is the idea that claims on the firm have time constraints that can magnify their salience. The authors argued that this attribute of stakeholder salience is urgency; “the degree to which stakeholder claims call for immediate attention” (Mitchell et al., 1997, p. 864). Urgency is not explicit in any one theory concerning the power and legitimacy of stakeholder groups, but it does take on an implicit characteristic. For example, “institutional, resource dependence, and population ecology theories treat it in terms of outside pressures on the firm” (Mitchell et al., 1997, p. 864). Urgency creates perceptions of salience in the minds of managers by showing that the claims of a stakeholder are critical to survival and that waiting to adhere to these claims is unacceptable (Agle et al., 1999; Mitchell et al., 1997). Without urgency, a claim that only has either legitimacy or power may be overlooked.

From this, Mitchell and colleagues (1997) propose that the possession of these three attributes: power, legitimacy, and urgency, will lead to the identification of stakeholders. The authors then use these three attributes to explain the idea of stakeholder salience. Stakeholder salience is defined as “the degree to which managers give priority to competing stakeholder claims” (Agle et al., 1999, p. 508). Salience is argued to increase as the number of stakeholder attributes possessed increases. Thus, stakeholder salience is positively related to the cumulative number of the stakeholder
attributes present. For example, when a stakeholder possesses all three of the attributes, a manager is more likely to give high priority to meeting that stakeholder’s demands when making decisions. As the number of attributes decrease, the priority of the claims also decreases.

Agle and co-authors (1999) took the description of these relationships and developed a model to test the effects of the three stakeholder attributes on stakeholder salience. They also hypothesized that the manager’s values would moderate the relationship between stakeholder attributes and stakeholder salience. In their conceptualization, value is measured as a categorical variable based on self or other-regarding interests of the manager. The arguments used to propose this addition to Mitchell’s model are that managers attach importance to those things that match with their personal values and that managers will have values somewhere between the anchor points of profit maximization and other-regarding values. The authors hypothesized that there would be a positive relationship between other-regarding values and corporate social performance and a negative relationship with financial performance.

Agle et al. (1999) found that there was a positive relationship between the proposed stakeholder attributes with stakeholder salience. However, they did not find a moderating relationship from value upon the salience construct. Also, there were no significant relationships found between the values of the CEO and corporate performance. Finally, the authors failed to find a significant relationship between the salience of stakeholder groups and performance. Although these results seem to be present a bleak picture for this line of research, this is not the case. Indeed, the lack of
results opens the door for future research to develop finer grained measures along with a research design that will better explain how stakeholder relationships affect the firm.

Summary

Stakeholder theory has developed substantially over the last 20 to 25 years. The speed at which it grew caused some problems and raised questions about its ability to be a commonly accepted theory in the management field. Donaldson and Preston (1995) contributed substantially to the body of literature by thoroughly reviewing the literature and deciphering the common themes within it. By doing this, the authors removed some of the ambiguity and confusion concerning common terminology, theoretical underpinnings, and the purpose of varying kinds of stakeholder approaches.

Because of the importance of achieving organizational goals and the increasing complexity of intra-organizational relationships, the need for an approach to systematically identify stakeholders and determine their salience becomes evident (Page, 2002). By establishing priorities for particular stakeholders and stakeholder groups, the allocation of resources that are available to a firm may be more effective and efficient. Mitchell and colleagues narrowed the most commonly accepted definition of stakeholders (Freeman, 1984) by identifying three attributes that are necessary for an individual or group to be considered a salient stakeholder in the minds of management. The authors describe different types of stakeholders by showing that the possession of one or more of the attributes of power, legitimacy, and urgency will afford stakeholders at least a minimum level of attention from management. Possession of these attributes can change over time and therefore they have an evolutionary nature. Also, possession of more
stakeholder attributes increases the level of salience in the minds of management. Thus, stakeholder attributes are cumulative and positively related to stakeholder salience.

From this review of the literature, it is important to note that the applicability of the idea of stakeholder salience hinges upon the argument that groups with higher salience will influence decision makers to meet their demands. Thus, the actions taken by management will in turn reflect the stakes that are held in high regard by each of the stakeholder groups. It is the identification of these stakes, as well as the stakeholder groups themselves, that will contribute to the development of a new model of stakeholder salience which is then applied to family firms.

Also from this literature review, it is important to highlight the idea that conflict arises when stakeholders have competing stakes in the firm. Managers will often be forced to adhere to the claims of one to the detriment of the other. This conflict is important only insofar as it leads to conflicting stakes, necessitating choices of which stakeholders the firm will attempt to satisfy.

In the next section, family firm research is reviewed. Stakeholder groups within the family firm, along with their stakes, are identified.

The Family Firm

No one knows the exact number of family firms in the world, but there is general agreement that they are quite common (Gomez-Mejia, Larrazá-Kintana & Gutierrez, 2003), with estimates ranging from one-third, to one-half, to even greater proportions with all firms either family controlled or owned (La Porta, Lopez-de-Silanes & Shleifer, 1999; Lansberg, 1983; Shanker & Astrachan, 1996; Shleifer & Vishny, 1986).
Differences in the estimated number of family firms can be attributed to the numerous variations in its definition. It is not uncommon for social scientists to grapple with creating boundaries for their ideas through definitional distinctions (Kuhn, 1970). Many topics in more established fields than family business research continue to disagree on the exact semantics of particular phenomena (Shane & Venkataraman, 2000). But just as Weick (1976) explains, there is a tradeoff that scholars must make for the generality, accuracy, and simplicity of areas of study.

In family firm research, there is general agreement that the definition of a family firm must take into account the role that family members play in the decision making process along with the family’s ability to create capabilities and resources that are unique to the firm (Chrisman et al., 2003a; Chrisman, Chua & Steier, 2003b; Habbershon & Williams, 1999; Habbershon, Williams & MacMillan, 2003). Even so, at this time there is no consensus upon the exact definition and boundaries of a family firm, but it seems that the field is moving towards that end. This dissertation follows Chua, Chrisman, and Sharma’s (1999, p. 25) definition of the family firm as “a business governed and/or managed with the intentions to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families.” This particular definition is utilized because several components of the definition are consistent with the tenets of stakeholder theory.

First, the idea of having a dominant coalition consisting of the same or a small number of families implies that there is a family group operating the firm. As discussed previously in this chapter, stakeholder theory tries to distinguish between certain
stakeholder groups based on each groups’ characteristics and stakes. If there is no “group” of family members within the firm, then potential influence on decision makers is difficult to assess.

Second, this definition emphasizes the influence of family, ownership, and management as important in shaping and pursuing the vision of the business. The opportunity to shape and pursue the vision of the family business is consistent with the idea that family firms have non-economic stakes that can influence family managers to pursue goals which may be in conflict with typical economic business goals and financial performance benchmarks (Sharma, Chrisman & Chua, 1997). This conflict often arises when family managers use resources for non-economic family stakes rather than putting these resources back in to the business.

Finally, this dissertation focuses only on the three primary internal stakeholder groups within the family firm. Family firm research primarily studies the internal stakeholders of the firm and regards all others as part of the environment. In the family firm, the importance of the most basic groups is magnified because the groups often play multiple roles in the business and therefore have more influence over firm activities (Gersick et al., 1997). Thus, this dissertation follows the lead of other researchers and focuses on the internal stakeholders of the firm due to their importance and influence.

The following sections concerning family firms focus on answering several questions. Who are the stakeholders in a family firm? What are their stakes? How do decision makers decide which stakes to pursue? What conflicts arise due to the varying levels of salience and stakes possessed by each group of stakeholders? How does the salience of each of these groups along with the stakes they possess affect firm
performance? To answer these questions, a number of areas of the family firm literature are reviewed. Most importantly though, the three circle model of family businesses is utilized as an overarching framework (Gersick et al., 1997).

Stakeholders in the Family Firm

Systems theory suggests that a family business possesses both a family and a business system that function within a general environment (Davis & Stern, 1980; Hollander, 1983). Further refinement of this concept (Taguiri & Davis, 1982) divided the business system into management and ownership functions to account for the fact that all managers are not owners and all owners do not take part in the operation of the business (see Figure 2.2). Not only is this model a “useful tool for understanding different goals and expectations, sources of interpersonal conflicts, role dilemmas, priorities and boundaries in family firms” (Sharma, 2001, p. 5), but it also identifies the major stakeholders of family businesses: owners, managers, and family.

Individuals in the family firm can be placed within any of the areas depicted in Figure 2.2. For example, all family members can be found in the family system but not all will be owners or managers at the same time. Individuals with more than one role in the family business will be found within the overlapped circles and typically very few people will be found in the center section which is an overlap of all three systems (Gersick et al., 1997). Those individuals who find themselves a member of all three systems of the family firm are often part of upper level management.
In this dissertation, focus lies upon owners, managers, and family as the primary stakeholder groups, rather than perceiving the overlapped areas of the three groups as separate stakeholder groups in and of themselves (Sharma, 2001). This distinction is made because this dissertation will attempt to explain how the stakes and salience of these three groups affect performance. It is of no consequence in this study if, for example, an individual is a member of both family and management because that individual is expected to possess distinctive stakes for both groups and therefore when decision makers decide to adhere to these distinctive stakes they will in essence be adhering to one group at a time. Just as Schumpeter (1934) described the entrepreneur as both a capitalist and an entrepreneur with overlapping and yet distinct actions, this dissertation contends that the decision maker in the family firm has the ability to create distinction between groups even when he may be a member of multiple groups. The
decision maker is not only able to make distinctions within the groups, the groups are inherently separate. Using Schumpeter’s (1934) analogy of the entrepreneur and the capitalist may shed further light on this issue:

“The entrepreneur is never the risk bearer. In our example this is quite clear. The one who gives credit comes to grief if the undertaking fails. For although any property possessed by the entrepreneur may be liable, yet such possession of wealth is not essential, even though advantageous. But even if the entrepreneur finances himself out of former profits, or if he contributes the means of production belong to his “static” business, the risk falls on him as a capitalist or as a possessor of goods, not as entrepreneur. Risk-taking is in no case an element of entrepreneurial function. Even though he may risk his reputation, the direct economic responsibility of failure never falls on him” (Schumpeter, 1934, p. 137).

In this example, Schumpeter (1934) explains that when the entrepreneur takes action as a capitalist, he is in fact acting as a capitalist and no longer acting as an entrepreneur. If this is true, then the same individual should be able to compartmentalize decision making based on the different roles of entrepreneur and capitalist. This is not to say that there is no overlap or consideration of other roles when making decisions but it is clear that each role has its own criteria for making decisions. Thus, this dissertation argues that in the family firm the owner/manager/family member is able to think about each role separately when making decisions. Since each of the three systems within the family firm have their own set of actions, norms, goals, value structures, rules, etc. that are often incongruent there is the potential for conflict to arise.

Conflict has been an important topic within the family firm literature (Sorenson, 1999) and is regularly cited as the reason for the downfall of many family firms (e.g., Levinson, 1971). A main issue pervading family firms is that the addition of the family to the business system may influence top level management to take actions in light of family goals over business goals (e.g., Taguiri & Davis, 1982) and these actions have the
possibility of diverting funds away from the financial needs of the business. “If family businesses are to obtain desired outcomes for both the business and the family, they must learn to manage conflict in ways that will maintain family relationships…and respond to all the interests in the business and the family” (Sorenson, 1999, p. 326). Sorenson goes on to say that “this is especially true when family members are involved in some way in the business as owners, managers, employees, or even nonparticipating stockholders” (1999, p. 325). Thus, it is important to understand the stakes found in each of the family firm stakeholder groups so that areas of conflict may be addressed.

Stakes of the Ownership Group. Business owners possess a number of stakes that influence their decision making processes. The literature consistently shows that a primary stake of the ownership stakeholder group is the maximization of wealth through efficient and effective management of the business (e.g., Fiegener, 2005; Fiegener, Brown, Dreux Iv & Dennis Jr, 2000a, b; Gersick et al., 1997; Olson et al., 2003). Discussion of the maximization of shareholder or owner wealth can be found as early as the writings of Adam Smith. Also, Birch (1987) argued that founders of firms have a stronger predisposition to pursue economic rather than non-economic goals.

The ownership group tends to want long-term sustained growth of the business so that it will provide higher levels of success over the long term which in turn will afford them personal satisfaction (Daily & Dalton, 1992). The ownership group also has a great need to stay in control of the business through coordination of the business in a direct and personal manner (Gersick et al., 1997; Mintzberg, 1984). This is shown in several articles concerning the relationship between the percentage of ownership by the firm
leader (or CEO) and how many people sit on the board of directors (Fiegener, 2005; Fiegener et al., 2000a, b). Companies with CEOs who have a very large financial stake in the business are shown to have small boards of directors to maintain significant control over the business. Also, boards with high concentration of ownership by the CEO were shown to have less independent board members to increase their discretion when making decisions (Anderson & Reeb, 2004; Fiegener et al., 2000b). In other words, as the amount of ownership increases amongst fewer individuals, these individuals will increasingly attempt to control the business and will seek less advice from those independent of the firm.

Finally, ownership not only provides the opportunity to generate wealth but also imparts owners with a place of importance (i.e., Gersick et al., 1997). Owners of companies are afforded a multitude of perks amongst their communities due to their ability to employ their neighbors, support civic programs, etc. So, also at stake is the owner’s own personal self-image and community identity (Lansberg, 1983).

**Stakes of the Family Group.** The participation of the family stakeholder group in the operation of the family firm changes the scope of the economically driven stakes held by non-family firms (Sharma et al., 1997). Family firms possess non-economic stakes which may come into conflict with the business system during resource allocation. Taguiri and Davis (1982) presented one of the earliest and most comprehensive studies concerning stakes of the family business. Along with a number of business objectives, the implication of their research was that families strived to meet the following objectives: (1) provide financial benefits and security to the family members of the firm;
(2) provide opportunity for growth, social/reputation advancement, and autonomy to family members; and (3) provide job security to family members. More recently, Chrisman and colleagues (2003a) suggested that not only do family firms focus on providing employment for family members but they also want those employment opportunities to provide avenues for growth and development of family members’ knowledge and skills.

Riordan and Riordan (1993) studied small family business from a field theory perspective and found that family firms were interested in drawing upon the business to be able to employ family members, spend more time with those family members, and to develop family members through personal training processes. These findings complement both Chrisman et al.’s (2003) emphasis that family firms desire to maintain family harmony and Lansberg’s (1983) emphasis that family members perceive the firm to be an important part of their family heritage. Also, Chrisman and colleagues (2003a) explain that the provision of income to the family may not only be for short term purposes. They describe the business as a way to create transgenerational value that the family may use over a very long period of time. So, even though pursuit of financial wealth may appear entirely economically driven it can serve other functions for the family (Beckhard & Dyer, 1983a).

According to Kets de Vries (1996), family members will have a greater feeling of independence because they may enjoy being in control of their own destiny. Kets de Vries (1993) goes on to say that family members may gain narcissistic pleasure, along with status and financial benefits by being a family member in the firm. Lastly, Kets de
Vries claims family members may perceive the family business as a more peaceful working environment than if they were working elsewhere.

Beckhard and Dyer (1983b) indicate that family firms are typically more concerned with their communities than non-family firms. They suggest that family firms distinguish themselves as providing employment and growth for their communities. Similarly, family business may provide a channel for the family to build its reputation in the community (Taguiri & Davis, 1982). From a practical standpoint, family reputation may help the business build a close network of loyal customers, service providers, etc. and can lead to higher levels of profitability. This long-term outlook towards reaching financial goals (Habbershon & Williams, 1999) through community activism and reputation may help family firms to overcome such things as short-lived downturns in the economy and attacks by strong or new competitors.

**Stakes of the Management Group.** For management, the firm can be a vehicle for professional development and economic achievement (Lansberg, 1983). The management group within a firm will use the business as an opportunity to learn new skills which may be utilized elsewhere. The management system also has typical traditional business goals such as generating as much profit as possible and showing consistent growth (Gersick et al., 1997). The need for large profits and sustained growth serves more than one purpose though. The management group seeks competitive salary and benefits packages, opportunities for career advancement, and assurance that resources will be allocated to those who directly impact the financial stability of the firm.
All of these things, except for the assurance of proper compensation, can be achieved by being located in a company that performs fairly well.

The need to be adequately compensated is derived from the tenets of distributive (Leventhal, 1976) and procedural justice (Greenberg, 1987; Thibaut & Walker, 1975) where distributive justice is the fairness of decision outcomes and procedural justice is the fairness of the processes utilized to make decisions. In the family firm, unfair reward systems may arise due in part to the competing family and business systems (Van der Heyden, Blondel & Carlock, 2005). Rewards and promotions may be given to those who do not deserve them due to their status or association with the family stakeholder group, which could in turn undermine the legitimacy of top management as an objective decision maker. Manager’s work satisfaction may change due to this perceived injustice (Barnett & Kellermanns, 2006).

As shown above, each of the three main stakeholder groups in the family firm have multiple stakes in the firm. The owners are highly geared towards economic stakes which are assessed with financial measures. The managers of the firm are interested in compensation and job security, along with opportunities for advancement within the company. Lastly, the family is concerned with making sure future family members have a position with the business, keeping a strong reputation in the community, the financial stability of the family, and continued involvement of family with the business. Each of the stakes associated with the three stakeholder groups can affect economic and non-economic performance measures. With this being the case, conflict – in relation to whose stakes are met – will likely be present in family firms.


**Conflict in the Family Firm**

The potential for conflict found within family firms is of no surprise considering the relative complexity of this business form. Overlapping systems of ownership, management, and family provide numerous opportunities for the competing interests of each group to require decision makers to select one group over another. This is exacerbated by the presence of a controlling family who executes overlapping control and management activities (Daily & Dollinger, 1992b). Conflict may also arise during transition periods within the family and business life cycles (Gersick et al., 1997) and this may increase the probability of firm failure (Beckhard & Dyer, 1983b; Chrisman, Steier & Chua, 2006; Kets de Vries, 1993). Fortunately conflict does not always suggest deleterious effects on firm performance (Harvey & Evans, 1994; Sharma et al., 1997) and at times may lead to better decision making (Kellermanns & Eddleston, 2004). Indeed, conflict concerning how tasks should be accomplished along with conflict concerning who should be involved and in what capacity in the process to accomplish work can help firms to better understand their businesses (Jehn, 1995; Jehn & Mannix, 2001). For example, conflict arising over the selection of an unqualified family member to a management position may result in a change in standard operating procedures by the firm for future human resource decisions.

The most important issue concerning the level of conflict in the family firm is that conflict arising from incongruent stakes possessed by owners, managers, and family may require choices to be made that will influence the economic and non-economic performance of the family firm. The family’s perception of that conflict is also important.
because the success of the family, rather than the success of the business, may be predicated on the ability of the family to work with each other in a harmonious manner.

**Theory Addressing Conflict: Agency Theory.** Agency relationships are contracts “under which one or more persons (the principles) engage another person or persons (the agent) to perform services on their behalf that involves delegating decision making authority to the agent” (Jensen & Meckling, 1976, p. 308). Agency theory assumes that individuals will act in ways that benefit their own self-interest (Eisenhardt, 1989) and when self-interest seeking agents are given control to act on the behalf of the principles conflict may arise because principles’ expectations and agents actions may differ. The assumption was made that family firms would have no conflicts of interest because very often principles and agents are one in the same (Ang, Cole & Lin, 2000).

This account of agency relationships is inaccurate because agency costs in family firms may stem from relational contracts which are less specific with regards to how agents should act on behalf of principles (Gomez-Mejia et al., 2001). The relaxed structure of relational contracts allows room for family members to take advantage of job perks, use familial power to unnecessarily influence non-family employees, to hire less qualified and ambitious applicants from within the family, etc. (Gomez-Mejia et al., 2001; Schulze, Lubatkin, Dino & Buchholtz, 2001), all of which may redirect resources away from the economic needs of the business. These types of agency costs can also increase relationship conflict (Kellermanns & Eddleston, 2004) and effectively reduce family harmony because actions taken by agents deviating from principles’ best interest may be seen as personal in nature since family and business systems are intertwined.
Last, the presence of altruism, where altruism is a character trait where one individual’s welfare is positively linked to the welfare of others (Bergstrom, 1995; Kellermanns & Eddleston, 2004) may unnecessarily increase the level of salience of family members which may influence decision makers to adhere to their claims over the claims of the other primary stakeholder groups.

**Family Firms and Performance**

Another important issue in family firm research is the link between family involvement and company performance. Lee and Rogoff (1996) concluded that family businesses and non-family businesses differ in the goals that they set. Some of the goals set by family firms can be seen in the preceding discussion of stakes within the three-circle model. The goals may take on non-economic characteristics and it is these characteristics that have researchers and practitioners alike investigating how family firms survive when they apply resources of the firm towards non-economic ends. Even though non-economic goals are repeatedly reported as important to family firms (Chrisman, Chua & Zahra, 2003c; Lee & Rogoff, 1996; Steier, 2003) there is not much empirical research testing their effects on firm performance and that which has been done is not comparable to studies with similar aims (Hienerth & Kessler, 2006). Therefore the definition of success in the family business is often ambiguous (Hienerth & Kessler, 2006; Olson et al., 2003; Stafford et al., 1999).

A good explanation of the different goals set in family firms is demonstrated by the following:
“For a business to be sustainable as a family firm in the highly competitive global market of the twenty-first century there must be a synergistic and symbiotic relationship between the family and the business. The business must perform in a way that creates value for the family and the family must add value to the business in a manner that is impossible without family involvement. Otherwise, there would be no advantage to having family involvement. Consequently, the goals of a family firm are likely to be broader than wealth maximization because this goal only addresses the business side of the family-business dyad” (Chua, Chrisman & Steier, 2003, p. 331).

From this statement it is apparent that family business research should aim to assess both economic and non-economic measures of family firm success. From an economic standpoint, a number of research projects have shown that family firms perform quite well when compared to non-family firms (i.e., Anderson, Mansi & Reeb, 2003; Anderson & Reeb, 2003; Daily & Dalton, 1992; Lee, 2006). Most recently, Lee (2006) showed that family firms outperformed non-family firms through employment and revenue growth and that this performance was further enhanced when founding family members were involved in the management of the business. Lee attests this performance to the considerable amount of risk encountered by the family due to a heightened level of concentrated ownership. The owners more closely and actively monitor the actions of management in this situation and thus active involvement by family members increases performance (Anderson & Reeb, 2003).

The most important distinction in this dissertation concerning family firm performance is the argument that family firms perform on economic and non-economic levels and that it is imperative to assess performance on both levels. It is also argued that achieving higher levels of one type of performance may come at the expense of the other. If this is the case, then this study may be able to show how family firm decision makers
are able to balance the stakes of each primary stakeholder group and simultaneously meet multiple performance measures. Conversely, it can be argued that an increase in harmony in the family may lead to improved financial performance due to family members being happier in their jobs. The difference between this idea and the idea that family harmony and financial performance are diametrically opposed is this dissertation assumes family harmony will be based on the level of conflict found in the family, where conflict is predicated upon how often family stakes are met. Therefore, this dissertation intends to offer an alternative way to assess performance in family firms and could lead to more consistent results when comparing family firms amongst other family firms and with non-family firms.

**Different Types of Family Firms**

Thus far family firms have been described in this dissertation as a homogenous group of firms that possess similar characteristics and stakes which lead to a number of processes and actions. Similarly, in the literature family firms are often discussed dichotomously as either a family business or a non-family business. However, there are many different variations of family firms and these variations can make quite a difference when particular activities in the firm take place. Accounting and controlling for these differences is necessary when studying family firms. Therefore, it is important to discuss how family firms may differ.

Gersick et al. (1997) offered the most comprehensive examination of the different types of family firms. The primary contribution from their research resulted in a typology consisting of three ownership types that may occur over what they designate as
the life-cycle of family firms. The description of these ownership types hinge predominantly upon the number of owners involved in the family firm.

First, many firms begin as “controlling owner” firms where an entrepreneur spearheads a campaign to start a new company and then grows the business in such a way as to allow family members to begin working for the company. One advantage of this type of family business is that even though other family members have joined the business, the entrepreneur typically retains the majority of control. This may reduce potential sources of conflict concerning decision making. Unfortunately for the controlling owner, the lack of larger numbers of family members involved with the business reduces the opportunity for those family members to provide resources which may facilitate business growth and profitability (Habbershon & Williams, 1999).

Gersick et al. (1997) next describe the “sibling partnership.” A sibling partnership involves either two or more siblings being brought into the business by their father/mother to keep the business in the family name or siblings coming together to start their own a business. Power is typically divided amongst family members at this point and this division may lead to conflict amongst family members. Conflict at this time may also come as a consequence of redistribution of the firm’s financial assets from the single owner to several family members.

Finally, a family business may enter the “cousin consortium” stage of ownership. In this stage, the firm is most likely in its third generation and several families may now run the business. Not all family firms move in this direction due to a number of factors including firm failure and the fact that many family firms do not last past the second generation (Beckhard & Dyer, 1983a). Also, some family firms revert back to the
controlling owner or cousin consortium forms because some members of the family no longer want to work for the family business and hence sell their share of the business to a single or multiple family members. The cousin consortium further distributes power and financial resources amongst many family members and again may lead to changes in the scale and scope of conflict but this conflict can be thwarted by the ability of these family members to provide other resources necessary for the firm to function profitably (Habbershon & Williams, 1999).

In each of these types of ownership, there are unique challenges and advantages but, importantly, each ownership type continues to promote the inclusion of family in the operation of the business. Consequently, the family develops in conjunction with changes in ownership. Gersick et al. (1997) described four stages of change for the family within the family firm. Importantly, the stakes of the family may change substantially in each stage (Sharma et al., 1997). The change in stakes can be identified by looking at the key challenges facing families during each stage.

First, the family is said to be a “young business family.” The key challenges of the young business family include creating a workable marriage enterprise, working out relationships with extended family members, and raising children. The second stage is called the “entering the business” stage and the key challenges are managing midlife transitions, separating the younger generation, and facilitating a sound process for initial career decisions. Next, the family moves into the “working together” stage. In this stage the key challenges the family faces are: fostering cross-generational cooperation and communication, encouraging productive conflict management, and managing a company that now has multiple generations of family members to consider. Finally, the family
transitions to the “passing the baton” stage of family development. The key challenges are disengaging the senior generation from the business and transferring leadership over the generations of family members.

The key challenges will dictate what stakes are more important to the family. For instance, in the third stage of development, it will be very important for the business to provide employment to family members who have recently become adults. This may be very different to the first stage of development where providing education to family members who have yet to join the business would be very important. Thus, the multiple stages of the family should be controlled for when studying family businesses so as to parse out these types of differences.

The business also changes during the transitions of ownership and family. Gersick et al. (1997) described the changes as a business life cycle but geared their analysis more specifically to family businesses. The authors used three stages to accomplish this task: start-up, expansion/formalization, and maturity. First, businesses are in the “start-up” stage which is characterized by a very informal structure with few products and challenged by needs for survival. The second stage is the “expansion/formalization” stage where the business becomes more formalized in structure, has increased its product lines, is challenged by growing separation of ownership and control, and has problems regarding strategic planning and cash management. Finally, the business will enter what Gersick and colleagues (1997) call the “maturity” stage of business development where the business is characterized by a stable organizational structure composed of layers and divisions and a well established organizational routine, but challenged by a need for reinvestment of funds, a refocus on
the company’s strategy, and reduced commitment by owners and managers. Again, in each of these stages the stakes of the members of the business may change. For example, in the maturity stage, the business should have rules in place for fair/equitable hiring and promotion processes which reflect the needs of the business. The business needs employees who are committed to the continued success of the business and it is imperative that those who are hired are capable to meet the complexities of a larger, mature organization. Also, the business may need new product lines, through reinvestment of funds, to further increase firm profitability.

So, as the family business goes through each of these stages from an ownership, family, and business viewpoint, different kinds of conflict may arise from meeting the most pressing and changing needs of each stakeholder group.

**Summary**

Family firm research has grown substantially in quantity and quality over the last few decades. Issues regarding definitional clarity, broad or narrow focus, goal development and attainment, conflict, governance, and success have dominated the literature. Family firms often times harbor and pursue non-economic goals that could prove detrimental to the financial well being of the company but reduced agency costs in the firm may negate this reduction in profits. It is clear from the literature that all family firms do not look the same. Family firms grow and change based on each of the three systems in the three-circle model. From this it appears necessary to try to account for the differences between them with adequate research design.
In the following section, stakeholder theory and family firm research will be combined with the intent to better describe how influence on decision making from the main stakeholders in a family firm can affect firm performance from an economic and non-economic perspective.

**Stakeholder Salience in the Family Firm: Model and Hypotheses**

The literature concerning stakeholder theory and family firms have developed independently of each other for a number of years (Sharma, 2001). Both literature streams appear to be concerned with the different groups working within a firm and both have attempted to prescribe best practices to accommodate increasingly complex conceptualizations of business. Moreover, there appears to be a need to bring these literatures together and by doing so, both literatures will benefit from the combination rather than one being simply applied to the other.

The primary difference between the two literatures is the focus on the type of firm studied or discussed. Stakeholder research has been dominated by studies on large, publicly held firms which are typically operated by professional managers while family firm research targets businesses that do not have to be large and in most cases are operated by founding family members and their descendants (Sharma, 2001). Also, family firm research has been focused primarily on the internal factors that affect the firm while stakeholder theory has given much credence to external groups who affect firms.

The family business literature indicates a need for new theoretical developments that effectively explain the reciprocal nature of relationships amongst the many actors in family businesses. Thus, to meet this need the following sections will develop a model
and testable hypotheses within that model by utilizing Mitchell and colleagues’ (1997) stakeholder salience concept and the systems perspective from family business literature. This model has the potential to better “explain how different players, through their interplay of stakes…in formulating organizational goals and strategies cause resources to be acquired and agency costs to be eliminated or amplified” (Chrisman et al., 2005, p. 569).

Model Development

The prior sections of this dissertation have addressed the theoretical underpinnings of stakeholders and family firms. As stated previously, for the purpose of this research it is necessary to restrict the use of stakeholders to internal stakeholders only. Family firm research has, except in a few instances, only addressed the internal stakeholders of the firm (Sharma, 2001). Future research may be able to use the developments herein to build a model capable of incorporating external stakeholders, but it is important to first explain the relationships that are occurring within the family firm, rather than unnecessarily complicating the task at hand. To continue with this theme of simplification, the following section will first describe the original relationships set forth by Mitchell and colleagues (1997) which will then lead to increasingly more complex models until the final model of Stakeholder Salience in the Family Firm is presented. At that point, hypotheses will be developed to theoretically explain the relationships in the final model.

In the development of the concept of stakeholder salience (Agli et al., 1999; Mitchell et al., 1997), the authors described and later tested a model which showed
positive relationships between the three antecedents of legitimacy, power, and urgency with stakeholder salience. However, given that it is necessary to respond to stakeholders in such a way as to ensure that their needs are met, one must analyze both the salience of stakeholders and the stakes that they deem important in order to understand how different stakeholders influence firm performance. Put simply, it is the pursuit of stakes that influences decision makers’ behavior and firm performance.

While stakeholders’ salience is important it is only when examining stakeholders’ stakes that a true picture of their influence on firm performance can be achieved. This requires consideration for both stakeholder salience and stakes, and, most importantly, the interaction between salience and stakes. Mitchell et al.’s (1997) theory of stakeholder salience implicitly assumes that all stakeholders have a well defined set of stakes and therefore measuring salience will tease out the effects of stakes on performance. But, if you have different stakes in different firms then the variation in performance may be lost. Measuring the stakes first and then how salience influences the relationship between stakes and performance will give you a better prediction of performance.

Mitchell and colleagues (1997) described a direct relationship between salience and performance and consequently they focused on the influence of particular groups to persuade decision makers to meet their demands rather than focusing on the actions taken for those groups. However, as described above, I argue that prior to considering salience, the relationship between the stakes of the stakeholders, which dictate management actions, and the performance of the firm must be investigated. This is a necessary change because it is the stakes which managers give credence in decision making that will influence performance. Additionally, I argue that stakeholder salience will have a
positive, moderating effect on the relationship between the stakes of the stakeholder groups and performance. In other words, as the decision maker’s perception of a stakeholder group’s salience increases, the relationship between the stakeholder group’s stakes and performance will be magnified either positively or negatively depending on the nature of the group’s stakes. This is because the stakes of salient stakeholders will have the greatest influence on managerial decision making.

In Figure 2.3, Mitchell et al.’s (1999) original argument for a direct relationship between salience and performance along with a new conceptualization of that relationship developed herein is illustrated. Take note also that Agle et al. (1999) were unsuccessful in establishment of a significant relationship with the variable “CEO Values.” Although, this is not specifically included in the new model, it is somewhat similar to measuring the stakes of the decision makers.

The new model contains the construct stakes and this construct leads to additional changes which must be addressed. The three circle model of family business was previously used as the framework for identifying the main internal stakeholder groups in the family firm. It was noted that family firms are composed of an ownership group, a family group, and a management group. Consequently, each of these groups was reviewed and their stakes in the firm were discussed. The stakes of these three groups are divergent in many ways and therefore they may have nuanced relationships with performance. So, to compensate for this possibility the following model was developed (See Figure 2.4 below).
The new model contains the construct stakes and this construct leads to additional changes which must be addressed. The three circle model of family business was previously used as the framework for identifying the main internal stakeholder groups in the family firm. It was noted that family firms are composed of an ownership group, a family group, and a management group. Consequently, each of these groups was reviewed and their stakes in the firm were discussed. The stakes of these three groups are divergent in many ways and therefore they may have nuanced relationships with performance. So, to compensate for this possibility the following model was developed (See Figure 2.4 below).
Notice again that this model is simplified in that it does not present the directionality of the relationships between the stakes of the three stakeholder groups and performance. When reviewing the literature on family firms, it became apparent that family firms have a multitude of non-economic performance goals. These goals require that a new model of stakeholder salience in the family firm incorporate both economic and non-economic performance measures. Since, the different stakeholder groups in the family firm have distinct stakes based on economic and non-economic issues; one would expect that the sign of these relationships may change with each performance type. Therefore, Figure 2.5 depicts the full model of relationships, which now includes each of the three primary internal stakeholder groups in the family firm and two performance measures.
Lastly, the antecedents of stakeholder salience will not be tested in this dissertation because this relationship was already empirically established by Agle et al. (1999) and because the authors provided a scale to test salience that was highly correlated with the three antecedents of legitimacy, urgency, and power. When a respondent possessed each of these three antecedents in the previous study, the individual also scored very highly on the unidimensional construct of stakeholder salience and therefore the redundancy of having four scales versus one scale was unnecessary. Also, the primary purpose of this dissertation is not concerned with the causes of stakeholder salience, but is interested in the affects of salience upon performance indirectly through the stakes of each stakeholder group.

Table 2.2 presents the hypothesized relationships. This table is then followed by Figures 2.6 and 2.7 which separate the full model (Figure 2.5) of the Family Stakeholder
Salience Model into two models based on economic and non-economic performance to offer an easier way to discuss the relationships hypothesized.

Table 2.3

List of Hypotheses

<table>
<thead>
<tr>
<th>Hypotheses</th>
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<tbody>
<tr>
<td><strong>H1a</strong> The stakes of the ownership stakeholder group will be positively related to economic performance.</td>
</tr>
<tr>
<td><strong>H1b</strong> The stakes of the ownership stakeholder group will be negatively related to non-economic performance.</td>
</tr>
<tr>
<td><strong>H1c</strong> The salience of the ownership stakeholder group will moderate the relationship between ownership stakes and economic performance, where higher ownership salience will further increase economic performance.</td>
</tr>
<tr>
<td><strong>H1d</strong> The salience of the ownership stakeholder group will moderate the relationship between ownership stakes and non-economic performance, where higher ownership salience will further decrease non-economic performance.</td>
</tr>
<tr>
<td><strong>H2a</strong> The stakes of the family stakeholder group will be negatively related to economic performance.</td>
</tr>
<tr>
<td><strong>H2b</strong> The stakes of the family stakeholder group will be positively related to non-economic performance.</td>
</tr>
<tr>
<td><strong>H2c</strong> The salience of the family stakeholder group will moderate the relationship between family stakes and economic performance, where higher family salience will further decrease economic performance.</td>
</tr>
<tr>
<td><strong>H2d</strong> The salience of the family stakeholder group will moderate the relationship between family stakes and non-economic performance, where higher family salience will further increase non-economic performance.</td>
</tr>
<tr>
<td><strong>H3a</strong> The stakes of the management stakeholder group will be negatively related to economic performance.</td>
</tr>
<tr>
<td><strong>H3b</strong> The stakes of the management stakeholder group will be negatively related to non-economic performance.</td>
</tr>
<tr>
<td><strong>H3c</strong> The salience of the management stakeholder group will moderate the relationship between management stakes and economic performance, where higher management salience will further decrease economic performance.</td>
</tr>
</tbody>
</table>
Table 2.3 continued

List of Hypotheses

| H3d | The salience of the management stakeholder group will moderate the relationship between management stakes and non-economic performance, where higher management salience will further decrease non-economic performance. |

Figure 2.6

Hypotheses Development

The first two hypotheses (hypothesis 1a and hypothesis 1b) offer an initial indication of how the model of family firm stakeholder salience operates. These hypotheses suggest that the relationship between each stakeholder group’s stakes and performance will change depending on the type of performance measure used. In other words, if the stakes of a stakeholder group are positively related to economic performance then they will be negatively related to non-economic performance. This occurs due to the need for top management teams or decision makers to utilize resources to meet the stakes of a number of stakeholders. Freeman’s (1984) seminal work emphasizes this point by defining stakeholders as those individuals who can affect and/or
are affected by the actions of the firm. Management must walk a fine line between these competing groups so that neither economic nor non-economic performance is adversely affected excessively. Again, as shown in Figure 2.3, stakes will have a direct affect on the performance of the firm because meeting particular stakes of the stakeholders will require the use of resources by the firm.

If performance is either economic or non-economic, then it is possible for an action taken to meet a particular stake to positively influence one type of performance and negatively affect the other. For instance, an individual who is a family member may want to ensure all family members are provided company vehicles and fuel accounts as a legitimate reward of family membership. This action would likely increase family harmony because it would meet family stakes of receiving perquisites along with benefiting from an adequate standard of living; these things consequently increase family performance. On the other hand, this same action would decrease the bottom line for the business in the short term, and reduce available funds for strategic actions or reinvestment in the firm which may affect performance over the long term. Take note that this does not imply that the company is less profitable. Instead, the company may be just as profitable as non-family firms but profitability numbers would be inadvertently reduced to pay for non-economic stakes of the family in the short term and this could lead to problems for performance in the long term.

The most appropriate non-economic measure of performance available is the Family Harmony scale developed by (Beehr, Drexler & Faulkner, 1997) where family harmony is defined as the lack of conflict within the family firm. To date, alternative scales measuring the performance specifically of the family have not been developed.
Much of the literature on families and conflict have “focused on husband – wife relations rather than harmony among family members more generally” (Beehr et al., 1997: 304). The family harmony scale is appropriate because, as shown in the discussion of conflict in the family firm, these businesses are rife with conflict and it is this conflict which often times causes the decline and eventual death of the company. This dissertation argues that conflict has the potential to arise when family firms pursue non-economic stakes too often which diverts resources away from the achievement of economic stakes. Therefore, instead of family harmony leading to increased economic performance, this scale is used to show that the lack of conflict in the family system of the family firm may come at the detriment of economic performance.

As discussed previously, the ownership group in the family firm possesses multiple stakes that are primarily driven by economic factors (Gersick et al., 1997). Owners of firms typically have a large portion of their own net worth invested in the business and therefore they carry substantial amounts of risk (Fiegener et al., 2000b). Basic financial analysis describes the relationship between risk and return as one that is highly and positively correlated. Therefore, owners of firms expect financial productivity through sales, profits, return on investment, etc. to be relatively high in comparison to the risk associated with ownership.

Owners may see the long-term success of the business as an opportunity to maintain their status and control (Gersick et al., 1997; Mintzberg, 1984). Success should be directly related to the actions taken by the upper management to meet the needs of owners. So, if ownership stakes are considered economically driven and economic performance is affected by the actions of top management to meet the needs of the
owners, then one would expect a positive relationship to exist between ownership stakes and economic performance measures. From a different standpoint though, ownership stakes would be expected to have a negative relationship with non-economic performance measures. The negative relationship would arise when the stakes of owners reduce the ability of the family stakeholder group to use resources to meet their own ends. This will increase the level of perceived conflict within the family and thus will reduce the family’s success by decreasing their level of family harmony.

So, this dissertation argues that ownership stakes are geared primarily towards economic concerns and it is this focus on economic issues that would be beneficial to measures of economic performance and negative towards non-economic performance. Owners will use their influence to have their stakes satisfied and this satisfaction could have long term effects on the success of the business (Mitchell et al., 1997).

Consequently, the first two hypotheses state:

Hypothesis 1a: The stakes of the ownership stakeholder group will be positively related to economic performance.

Hypotheses 1b: The stakes of the ownership stakeholder group will be negatively related to non-economic performance.

Hypothesis 1c and hypothesis 1d represent the salience of the ownership group within the family firm. The ownership group in the family firm clearly possesses centralized power that may or may not be utilized (e.g., Mitchell et al., 1997). The owners’ monetary claims on the firm also afford them the legitimacy and power necessary to force their will upon decision makers (Agle et al., 1999). Since the family
firm often times has an overlap of owners, family, and management, the owner of the firm may also have sole authority to make decisions (Gersick et al., 1997).

This dissertation argues that the level of ownership salience will affect the amount of attention given to the stakes of owners by those making decision. If ownership stakes are positively related to economic performance and negatively related to non-economic performance, then intuitively an assumption can be made that higher ownership salience will further enhance the positive relationship between ownership stakes and economic performance. Also, it will further enhance the negative relationship between ownership stakes and non-economic performance. Again, this has been shown in Figure 2.1 as a relationship where stakes have direct affects on both types of performance measures and the salience of the stakeholder groups moderate that relationship. Consequently, the next two hypotheses state:

Hypothesis 1c: The salience of the ownership stakeholder group will moderate the relationship between ownership stakes and economic performance, where higher ownership salience will further increase economic performance.

Hypothesis 1d: The salience of the ownership stakeholder group will moderate the relationship between ownership stakes and non-economic performance, where higher ownership salience will further decrease non-economic performance.

In the proposed model, Hypothesis 2a and hypothesis 2b are the antithesis of Hypothesis 1a and hypothesis 1b. As shown in the literature, the family stakeholder group is primarily concerned with non-economic stakes (e.g., Chrisman et al., 2005; Sharma et al., 1997). The family group seeks to provide financial security to family members, to maintain the family’s reputation in the community through community
activism and civic duties, and to provide employment opportunities for family members (Chrisman et al., 2003c; Lansberg, 1983; Riordan & Riordan, 1993). Each of these stakes has the possibility of reducing funds available for reinvestment in the business in the short term and hence may reduce economic performance measures.

The stakes of the family firm are expected to have a positive relationship with the non-economic performance measure of family harmony (Beehr et al., 1997). The relationship between non-economic performance and family stakes is derived from the idea that family members receiving resources from the business to meet their stakes, due to their family status, will possess lower levels of relationship conflict (Eddleston & Kellermanns, 2007; Simons & Peterson, 2000) and this reduction in relationship conflict will lead to harmony within the family. Family members find the family business environment to be a much more peaceful place to work than elsewhere when their stakes are being met (Kets de Vries, 1993). Actions such as hiring family members as employees, spending money on family outings and other perks, providing education and a high standard of living to family members, etc. will all contribute to the harmony found within the family, but at the same time will reduce the amount of funds available for reinvestment in the business. This again creates a situation where meeting the needs of this particular stakeholder group will cause one performance measure to increase while causing the other to decrease. Consequently, the next two hypotheses state:

Hypothesis 2a: The stakes of the family stakeholder group will be negatively related to economic performance.

Hypothesis 2b: The stakes of the family stakeholder group will be positively related to non-economic performance.
Hypothesis 2c and Hypothesis 2d follow the previous illustration of the relationship between ownership salience and ownership stakes upon both economic and non-economic performance. The level of salience possessed by the family stakeholder group will enhance the positive effect of family stakes upon non-economic performance and will enhance the negative effect of family stakes upon economic performance. The family stakeholder group is expected to have a relatively high level of salience within most types of family firms because of their powerful and legitimate status within the company (Gersick et al., 1997; Mitchell et al., 1997). Also, family firms have been shown to possess high levels of altruism which may affect the perceived level of salience held by family members (Schulze, Lubatkin & Dino, 2002). It is possible that the needs of the family will not be urgent at particular times during the simultaneous development of the family and the business. This is especially true when compared to the urgency of owners’ economic stakes of profitability during the start-up phase of the business (Mitchell et al., 1997). During this time, perks for the family may not be as important. Nevertheless, when family members are considered highly salient in the minds of decision makers, their stakes will be adhered to as much as possible. Otherwise, the family may decide to withhold resources which could accordingly constrain firm operations and severely affect the firm’s ability to operate. Consequently, the next two hypotheses state:

Hypothesis 2c: The salience of the family stakeholder group will moderate the relationship between family stakes and economic performance, where higher family salience will further decrease economic performance.
Hypothesis 2d: The salience of the family stakeholder group will moderate the relationship between family stakes and non-economic performance, where higher family salience will further increase non-economic performance.

Finally, this dissertation argues that the stakes for management have a negative relationship with both performance measures. As outlined in the literature review, management stakes include a good work environment for employees, monetary issues such as competitive salary and benefits packages along with being ensured that those who contribute to firm profit are rewarded regardless of family affiliation (Gersick et al., 1997; Lansberg, 1983; Van der Heyden et al., 2005). Also important are opportunities for advancement within the firm due to work output rather than family affiliation (Barnett & Kellermanns, 2006), and finally to have a firm that has sustained long-term growth.

The stakes outlined above show that the management stakeholder group may have a hodgepodge of claims on the firm. This dissertation argues that adhering to the claims of management that are economically based will reduce economic performance because taking actions such as increasing employees’ salaries and benefits will, at least in the short run, reduce the bottom line. Also, by promoting within the firm those individuals who may not be family or owners could increase the level of relationship conflict between family members and workers along with increasing conflict of the family with the business.

Additionally, family firm research has shown that equal distribution of benefits for family members, regardless of equal input to the business, is highly valued (e.g., Van der Heyden et al., 2005). This implies that family members expect to be compensated for their status in the family even if it is at the detriment of the business and non-family
employees (Barnett & Kellermanns, 2006). Thus, adhering to the procedural and distributive justice claims of management would be in conflict with family stakes. Therefore, by meeting the stakes of managers, the firm could both decrease the bottom line and cause conflict within the family. This in turn would adversely affect the level of family harmony found in the firm and reduce profitability. Consequently, the next two hypotheses state:

Hypothesis 3a: The stakes of the management stakeholder group will be negatively related to economic performance.

Hypothesis 3b: The stakes of the management stakeholder group will be negatively related to non-economic performance.

The last two hypotheses follow the argument presented previously for the moderating effect of salience on stakes / performance relationships. If the management group of stakeholders possesses a high level of salience, then their stakes will be adhered to over those of the owners and family. As this salience increases, so to does the negative relationship between management stakes and economic and non-economic performance. Therefore, the final two hypotheses state:

Hypothesis 3c: The salience of the management stakeholder group will moderate the relationship between management stakes and economic performance, where higher management salience will further decrease economic performance.

Hypothesis 3d: The salience of the management stakeholder group will moderate the relationship between management stakes and non-economic performance, where higher management salience will further decrease non-economic performance.
Summary

The present chapter developed a conceptual model to be analyzed using a sample of family firms. The primary purpose of the model is to illustrate the effects of stakeholder relationships upon decision makers and how the influence of stakeholders and their stakes affects family firm performance. Specifically, the stakes of the three primary stakeholder groups in family firms are described as having varying effects upon two different types of firm performance. The model goes on to describe how the salience of stakeholder groups affects the relationship between stakes and performance. Little work has been done that brings together stakeholder theory and family business research in such a way that allows for testing of new models and relationships between major constructs of the two fields. The development of the Family Firm Stakeholder Salience Model in this chapter has tried to accomplish this goal.

As the literature was reviewed, it was noted that the stakeholder theory literature had recently begun to describe stakeholder salience and its effects upon the performance of the firm. Also, it was discussed that conceptualizing the relationship between salience and performance as direct in nature, and yet finding no significant results when tested empirically, provided the basis for the development of the new model. Consequently, the variable of stakes was introduced into the model and arguments ensued that contend this variable directly affects performance while salience of stakeholder groups only indirectly affects performance through the relationship of stakes and performance.

The development of this model not only presents an extension of the work by Mitchell and colleagues (1997) and Agle and colleagues (1999), but it is also provides a new way to utilize Gersick et al.’s (1997) three-circle model of the family firm to
describe family business relationships. The three-circle model is drawn upon to isolate
the primary stakeholders in the family firm. Once isolated, each group’s stakes were
described and a case was made for their influence on firm performance.

Additionally, the family firm literature suggested that performance in the family
firm should be conceptualized differently if researchers are to accurately capture it.
Family firms possess both economic and non-economic stakes, and therefore
performance should be assessed upon each of these measures. It was argued that the non-
economic performance of family firms could be measured by the level of family harmony
exhibited in the firm. This was based upon literature from both stakeholder theory and
the family firm that suggested family firms are rife with conflict derived from meeting
family members’ stakes rather than the stakes of owners or managers. So, the model
developed in this chapter also presents a different way to measure performance in family
firms and utilizes the family harmony as a means to this end.

By bringing together stakeholder salience and the three-circle model of family
business, this research may now be able to better describe the reciprocal relationships
within family firms and their affects on the success of the business and the success of the
family. Utilizing stakeholder theory in this way may provide a more appropriate lens to
describe how relationships within family firms are developed over time, through each of
the stages of development for owners, family, and the business. This research also has the
potential to fill the gaps in the literature concerning how family businesses decide to
allocate effort, attention, and funds across stakeholder groups during these developmental
stages.
A research methodology outlining the empirical examination of the model is presented in the following chapter.
CHAPTER III
RESEARCH METHODOLOGY

The purpose of this chapter is to describe the research methodology used in this dissertation. In particular, there are three sections. First, the research design section discusses the source of data, the unit of analysis, and the sample selection. Second, the measures used in the study are described. These are grouped into dependent, independent, moderating, and control variables. This is preceded by a section describing issues of validity when using previously validated scales for new studies and by a section describing the development of new scales for this study. Finally, a discussion of the data analysis procedures to be utilized will conclude this chapter.

Research Design

Research design in family firm studies increased in specificity and rigor as the field developed over the last few decades. As with most social science topics, the study of family firms has been conducted through many different quantitative and qualitative methods with a major portion of those studies acquiring data from a survey or questionnaire. The primary purpose of the analysis was to assess the relationship between the dependent variables, economic and non-economic performance, with the independent variables, ownership stakes, family stakes, and management stakes. Further, the analysis assessed the effect of the moderating variables, ownership, family
and management salience, on the relationships between the independent and dependent variables.

This dissertation used a telephone survey and a cross-sectional design to test the relationships hypothesized in Chapter 2. A cross-sectional design was considered appropriate for this study because the stakes of the stakeholder groups, and their salience, are not likely to vary much over the period analyzed. Although appropriate, the use of a cross-sectional design makes it difficult to account for common methods variance unless multiple sources are utilized to collect data on the respondents (e.g., Lindell & Whitney, 2001). To avoid this confound, performance data was also collected from an external source. Conducting analyses with this type of research design allows for conclusions about causality (Nauta & Kluwer, 2004).

Sample

Family business data collected via a telephone survey was utilized to test the hypotheses developed in this study. Data collection was sponsored by Laird Norton Tyee (LNTyee) of Seattle, WA, who outsourced the data collection to Hebert Research, Inc. The sample was obtained by purchasing a list containing family business contacts and basic information from Dun & Bradstreet for the states of Washington, Idaho, and Oregon in the United States of America. Utilization of Dun and Bradstreet as a data source was deemed appropriate for several reasons. Dun and Bradstreet is the world’s leading source of commercial business information, has been in operation for well over 100 years, and has a database containing more than 130 million business records (2008: http://www.dnb.com/us/about/index.html). These records include names of owners,
members of boards, industry designation, location, years of operation, firm size variables, and numerous performance measures, all of which could be used to select and control for different types of family firms. Also, Dun and Bradstreet databases have been used often as a source of data for mainstream management topics including venture growth’s relationship with entrepreneurial traits (Baum & Locke, 2004), work/family programs (Osterman, 1995), empirical tests of the resource based view (Ray, Barney & Muhanna, 2004), and investigating the effects of different definitions for family firms on their volume and scope in England (Westhead & Cowling, 1998), etc.

To aid in the selection of family businesses, the sample consisted only of those companies that listed at least two officers or directors with the same last name. Also, the opening narrative and initial questions made it clear that the study was for family businesses only and that subjects should be individuals that were members of the family who had management or ownership control of the firm. Decision makers were considered appropriate respondents concerning the scales utilized because the decision maker’s interpretation of stakes and stakeholder salience is assumed to influence decision making and consequently, performance.

Businesses were contacted via telephone over a three week period. Respondents were called up to three times (Dillman, 2000) to increase the sample size and simple t-tests were conducted to compare the initial respondents with later respondents to ensure there were no significant differences between them. Also, simple t-tests were conducted between those respondents and non-respondents to ensure there were no significant differences between these groups. To attain acceptable power of 0.80 (Magid, Mazen, Hemmasi & Lewis, 1987) for the multiple regression analysis with a medium effect size
(Cohen, 1988) and an alpha of 0.05, a power analysis conducted utilizing G*Power software determined that it was necessary to have at least 150 completed surveys. By having an adequate amount of power in the test, it was ensured that the probability of a Type II error was minimized.

The original sample size was 2,494 firms. Of the 2,494 firms, 298 firms (11.9%) had either non-working phone numbers (202), incorrect phone numbers (71), or were on a national do-not-call list (25). Also, 183 firms (7.3%) had only one family member working in the business, 27 firms (1.1%) did not have a decision-maker available for response to the survey, and 94 firms (3.8%) were found to be not applicable to the study upon answering the initial questions. A large percentage of the firms refused to answer the survey (673 firms; 27.0%) and 53 firms (2.1%) were out of business. Once the surveys were completed, those firms which had previous year’s sales of less than $100,000 were deleted. This action was taken to ensure that the final sample was of enough size to include firms that could be considered professionalized and who would have enough employees to be able to truly examine the relationships between each of the primary stakeholder groups.

Of the remaining firms, 210 firms completed the survey for an overall response rate of (8.4%). Due to some surveys not being fully completed, a case-wise deletion method was utilized during each regression analyses which resulted in the smallest useable sample being 152 firms (6.1%) and the largest being 168 firms (6.7%).
Measures

Issues of Validity

Both previously developed and new scales were used in this study. A full copy of the survey instrument can be found in the Appendix. The eleven point Likert-type response categories of “Strongly Agree” to “Strongly Disagree” were employed for all scales. This created continuity between the different scales and reduced the difficulty of respondents in understanding the survey’s directions (DeVellis, 2003). In this study, expert judges assessed the face and content validity (Spector, 1992) of the items. Refinements were made where necessary to ensure that the questions would be understandable to the target population. In the case of new scales being developed for this particular study, several steps described by Churchill (1979) and DeVellis (2003) concerning new scale development and issues of validity were followed including testing for face, content, and construct validity.

Dependent Variables

Economic Performance. As described previously, the performance of the family firm from an economic standpoint is often used in family firm research. In this study, economic performance was determined by asking respondents to assess their profitability as compared to their major competitors. Respondents were also asked to assess their sales growth as compared to their major competitors. Both measures were assessed with the Likert-type scale described above. The latter measure of economic performance was
used as a post hoc analysis to validate the results of the former performance measure and since the results were similar they were not presented in this dissertation.

**Non-economic Performance.** Multiple family firm studies have been predicated upon the idea that conflict often arises from the intersection of ownership, family, and management systems and that it is this conflict that may cause major rifts in the communication and effectiveness of leaders of the firm. Conflict may arise because family businesses have non-economic goals and the achievement of those goals affect decision making. Also, conflict has been a primary characteristic of all firms when described by stakeholder theorists. Therefore, an assessment of conflict in the family firm was chosen as a way to understand the performance of these firms from a non-economic standpoint. To assess the level of conflict in this sample the Family Harmony Scale, previously developed and tested by Beehr, Drexler, and Faulkner (1997), was utilized as a measure of non-economic performance. This four-item scale, shown to have reliability (α) of 0.87 (Beehr et al., 1997), was slightly altered for this study. The items for this scale were the following:

1. The family members who control the business seem to get along with each other better than most families do.
2. People in the controlling family agree with each other on most issues.
3. People in the controlling family are very compatible with each other.
4. The controlling family members almost never argue with each other.
**Independent Variables**

**Stakes.** To assess the stakes of owners, family members, and managers, three five-item scales were developed specifically for this study. Scale items were created from previous literature that focused on the goals, stakes, or interests of each of the three groups in question (e.g., Beckhard & Dyer, 1983a; Birch, 1987; Chrisman et al., 2003a; Daily & Dalton, 1992; Daily & Dollinger, 1992a; Fiegener et al., 2000b; Gersick et al., 1997; Lansberg, 1983; Mintzberg, 1984; Riordan & Riordan, 1993; Sharma et al., 1997; Taguiri & Davis, 1982; Van der Heyden et al., 2005). This literature was thoroughly reviewed in Chapter 2 and the scale development process was described above. Each of the five-item scales’ questions are listed below:

**Ownership Stakes**

1. The long term financial success of the business is very important to the owners of the company.
2. Having a highly profitable business is very important to the owners of the company.
3. Maintaining ownership control of the business is very important to the owners of the company.
4. The long-term growth of the business is very important to the owners of the company.
5. A high return on investment is very important to the owners of the company.

**Family Stakes**

1. Providing employment for family members is very important to the family.
2. Maintaining the reputation of the family members in the community is very important to the family.

3. Providing financial security to individual family members is very important to the family.

4. Continued family member involvement in the management of the business is very important to the family.

5. Having a highly profitable business is very important to the family.

**Management Stakes**

1. A good work environment is very important to the managers of the firm.

2. A competitive salary and benefits package is very important to the managers of the firm.

3. An opportunity for career advancement is very important to the individual managers of the firm.

4. Ensuring that those who contribute to firm profit are compensated accordingly is very important to the individual managers of the firm.

5. The long-term growth of the business is very important to the individual managers of the firm.

**Moderating Variables**

**Salience.** Three salience constructs were used to test for moderation of the relationships between the independent stakes variables and both economic and non-economic performance. Each of these salience constructs was derived from Agle et al.
(1999). The original scale from Agle et al. (1999) consisted of three items. The three previously developed items were altered to reflect the ownership, management, and family stakeholder groups. Also, a fourth item was developed to ensure that enough items loaded onto the construct during exploratory factor analysis. Each of the four-item scales’ questions are listed below with the newly developed item last:

Ownership Salience

1. The wishes of the owners receive high priority from our top management team.
2. The needs of the owners receive a high degree of time and attention from our top management team.
3. Satisfying the claims of the owners is very important to our top management team.
4. The goals of the owners influence the decision making processes of our top management team.

Family Salience

1. The wishes of the family members receive high priority from our top management team.
2. The needs of the family members receive a high degree of time and attention from our top management team.
3. Satisfying the claims of the family members is very important to our top management team.
4. The goals of the family members influence the decision making processes of our top management team.
Management Salience

1. The wishes of individual managers receive high priority from our top management team.

2. The needs of the managers of the firm receive a high degree of time and attention from our top management team.

3. Satisfying the claims of the individual managers is very important to our top management team.

4. The individual goals of the managers influence the decision making processes of our top management team.

Control Variables

Several basic control measures were utilized in this study. Following previous studies (i.e., Carrasco-Hernandez & Sanchez-Marín, 2007; Hienerth & Kessler, 2006), firm size, industry, and age of the firm were controlled. Firm size was controlled for with the previous year’s sales for each firm. Industry SIC codes were used to categorize each of the firms in the sample into their respective industries, which included (1) Retail, Wholesale, Restaurant, and Hotel (2) Manufacturing, and (3) Personal Services. Firm age was assessed by asking the respondent “In what year was the business established?” The year was then subtracted from the year in which the survey was administered to determine firm age. Assessing firm age is particularly important in this study because it will allow assessment of the stage of development that the family business may be in as outlined by Gersick and colleagues (1997). The respondent’s role in the business was also controlled. The respondent’s role in the business was based on whether or not the
individual was a (1) Founder/CEO or (2) not a Founder/CEO but still a decision maker in the controlling family.

The data analysis also controlled for ownership characteristics of the business because different ownership structures may have various effects on decision making processes. Following previous research, the ownership characteristics controlled included the number of owners of the business and the ownership percentage by the controlling family. To control for the different stages of family development, the number of family members involved in the business and the number of potential successors available from the controlling family were included as control variables.

Data Analysis

The most appropriate statistical technique to test the hypotheses and model developed herein is hierarchical multiple regression analysis. Multiple regression analysis assesses the amount of variability of a dependent variable by using information from one or more independent variables (Hair, Anderson, Tatham & Black, 1995). Initially, the major assumptions of regression were tested (Kutner, Neter, Nachtsheim & Li, 2004). Then, using the two dependent variables, separate multiple regression models were tested to ascertain the effects from the independent, moderator, and control variables. SPSS 16.0 was used to conduct these tests. The models proceeded in the following order: control variables were entered first, followed by the independent variables, moderator variables, and then the interaction of the independent and moderator variables. To isolate the effects of each of the stakeholder groups, the regression models were also run by only entering the independent, moderator, and interaction term for each
stakeholder group in separate analyses. This reduced the number of variables present in the models which offered more power to the tests.

**Preliminary testing procedures**

**Testing Scales.** Exploratory factor analysis through a principle components analysis procedure was utilized to reduce the number of variables which reflected the proposed constructs in this study. Principle components analysis was chosen due to its widespread use in the field of management along with its appropriateness when trying to reduces a large number of items to several common factors. Common factor analysis rather than principle components analysis was considered because common factor analysis has the potential to provide more precise evaluations when reducing variables to factors by first relaxing the assumption that the variables measured lack error and second by offering a rotation technique that allows factors to be correlated (Chadwick, Barnett & Dwyer, 2008; Gorsuch, 1990; Hair et al., 1995). Unfortunately common factor analysis was unable to adequately separate the items from each other.

Next, issues regarding items cross-loading onto more than one factor were addressed by using a varimax rotation procedure and dropping those items when the rotation did not correct cross-loadings (Hair et al., 1995). Finally, all scales were tested for reliability by computing Cronbach’s alpha. Once all factors were adequately established, all scales were summated into individual variables. Additionally, common method bias was assessed since a single respondent rated stakes, salience, and performance. Harmon’s one-factor test (Podsakoff & Organ, 1986) was utilized to make sure common methods bias was not present. A single factor did not emerge and therefore
one factor did not account for most of the variance. These results suggest that the perceptive data and performance measures were not affected by common methods bias through use of a single source.

**Moderation/Interaction Issues.** To test for the effect of stakeholder salience on the relationship between stakes and performance, interaction variables were computed by multiplying each stakeholder group’s salience variable with its corresponding stakes variable (Baron & Kenny, 1986). The original salience variables were entered into the regression equation to assess the possibility of direct effects on the dependent variables. Then, each of the interaction variables were entered into the final model.

Due to issues with multicollinearity, all variables were first centered and then z-scores were calculated. Following this procedure, the interaction terms were once again calculated. At this point, the models were rerun and multicollinearity was assessed. Due to these changes all variables in the equations were found to be at or below acceptable levels (Aiken & West, 1991).

To find the true effect of moderation on the nature of the relationships between the independent and the dependent variables, it was necessary to plot graphs depicting the slopes of the relationships between the independent and dependent variables at different levels of the moderating variables (Aiken & West, 1991; Dawson & Richter, 2006). The slopes were plotted at the mean level, once standard deviation above its mean, and one standard deviation below its mean. Once plotted, the slopes were tested for significant differences between them. A Microsoft Excel 2007 worksheet developed by Jeremy Dawson was utilized to perform these analyses (Dawson, 2006).
Conclusions

This chapter has described the source of data and its sampling frame, a detailed description of the measures along with a discussion of validity issues, and the techniques use to analyze the data. The research methodology described above will provide a roadmap to explain how the empirical test of the models will be conducted. By using a newly collected data set, this research will offer the most up to date view of the relationships found within the confines of family firms. The results of this empirical analysis will be presented in the following chapter.
CHAPTER IV
RESEARCH RESULTS

The purpose of this chapter is to present results of analyses conducted to test the hypotheses brought forth in Chapter II. First presented is a detailed description of data collected from the sample of 210 family firms in Washington, Oregon, and Idaho in the United States. This includes a review of sample characteristics with descriptive statistics and correlations. Second, results of the common factor analyses used to create summated factors for the independent and moderator variables are presented. Third, results of the multiple regression models with both economic and non-economic performance are presented. Finally, the chapter concludes with a summary of the research findings.

Sample Characteristics

Table 4.1 presents the descriptive statistics for the final sample. Summated scales, later described in the Table 4.2, are shown in this table for parsimony. The family firms in this dissertation were primarily owned by the family ($\mu = 98.54\%$). The firms were adequately diverse with the smallest industry grouping conducting personal services ($23.0\%$). More than half of the firms ($\mu = 6.46$ of 10) consider themselves highly profitable as compared to their competitors, and the average previous year’s sales was slightly more than $1$ million.
Table 4.1

Descriptive Statistics

<table>
<thead>
<tr>
<th>Variable Name</th>
<th>N</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitable Compared to</td>
<td>192</td>
<td>0</td>
<td>10</td>
<td>6.46</td>
<td>2.54</td>
</tr>
<tr>
<td>Competitors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Family Harmony</td>
<td>199</td>
<td>2.75</td>
<td>10</td>
<td>8.28</td>
<td>1.48</td>
</tr>
<tr>
<td>Sales Volume</td>
<td>210</td>
<td>100,000</td>
<td>24,543,705</td>
<td>1,033,209</td>
<td>2,615,130.90</td>
</tr>
<tr>
<td>Age of the Company</td>
<td>205</td>
<td>1</td>
<td>118</td>
<td>27.10</td>
<td>21.97</td>
</tr>
<tr>
<td>Industry:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing/Construction</td>
<td>210</td>
<td>0</td>
<td>1</td>
<td>0.27</td>
<td>0.44</td>
</tr>
<tr>
<td>Retail/Wholesale/Rest/Hotel</td>
<td>210</td>
<td>0</td>
<td>1</td>
<td>0.38</td>
<td>0.49</td>
</tr>
<tr>
<td>Industry: Personal Services</td>
<td>210</td>
<td>0</td>
<td>1</td>
<td>0.23</td>
<td>0.42</td>
</tr>
<tr>
<td># of Family FTEs</td>
<td>207</td>
<td>2</td>
<td>9</td>
<td>2.44</td>
<td>1.23</td>
</tr>
<tr>
<td># of Owners</td>
<td>209</td>
<td>1</td>
<td>9</td>
<td>2.27</td>
<td>1.19</td>
</tr>
<tr>
<td>Percent Family Owned</td>
<td>208</td>
<td>48</td>
<td>100</td>
<td>98.54</td>
<td>7.80</td>
</tr>
<tr>
<td># of Family potential</td>
<td>205</td>
<td>0</td>
<td>14</td>
<td>1.80</td>
<td>1.91</td>
</tr>
<tr>
<td>successors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dummy: Founder</td>
<td>210</td>
<td>0</td>
<td>1</td>
<td>0.70</td>
<td>0.46</td>
</tr>
<tr>
<td>Ownership Stakes</td>
<td>205</td>
<td>0</td>
<td>10</td>
<td>9.07</td>
<td>1.49</td>
</tr>
<tr>
<td>Ownership Salience</td>
<td>189</td>
<td>0</td>
<td>10</td>
<td>8.89</td>
<td>1.60</td>
</tr>
<tr>
<td>Family Stakes</td>
<td>203</td>
<td>1</td>
<td>10</td>
<td>8.38</td>
<td>1.78</td>
</tr>
<tr>
<td>Family Salience</td>
<td>188</td>
<td>0</td>
<td>10</td>
<td>8.59</td>
<td>1.91</td>
</tr>
<tr>
<td>Management Stakes</td>
<td>186</td>
<td>0</td>
<td>10</td>
<td>8.38</td>
<td>1.96</td>
</tr>
<tr>
<td>Management Salience</td>
<td>184</td>
<td>0</td>
<td>10</td>
<td>8.73</td>
<td>1.73</td>
</tr>
</tbody>
</table>

Table 4.2 presents the results of the principle components analysis of the independent variables family harmony, ownership salience, ownership stakes, family salience, family stakes, management salience, and management stakes (Note: descriptions for survey items in Table 4.2 are listed in Table 4.3). All items associated with Family Harmony, Ownership Salience, Family Salience, and Management Salience loaded onto their respective constructs. Two items each from Ownership Stakes, Family Stakes, and Management Stakes were deleted because the items either cross-loaded onto multiple constructs or did not load on any construct (Note: descriptions for the survey items that were dropped are listed in Table 4.4). After taking these steps, seven distinct scales
remained, all of which possessed items with factor loadings above 0.40 with the smallest being 0.49. This result illustrates that the individual items were adequately correlated with their corresponding factors (Hair et al., 1995). Each factor had an eigenvalue of greater than 1.0, which implies each contributed to the analysis. Common method bias was assessed since a single respondent rated stakes, salience, and performance variables. Harmon’s one-factor test (Podsakoff & Organ, 1986) was utilized to make sure common methods bias was not present. The assumption of Harmon’s one-factor test is that if common methods bias has an effect on the data, then one factor will emerge from the factor analysis or one factor will account for the majority of the covariance in the dependent and independent variables. A single factor did not emerge from the unrotated factor solutions. Also, the first factor was able to explain 13.45% of the variance in the data and the total variance explained by the seven-factor structure was 69.11%. These results suggest that the perceptive data and performance measures were not affected by common methods bias through use of a single source.

Further confirmation of the seven-factor structure was found by reviewing a scree plot. A scree plot graphically depicts the fraction of the total variance in the data as explained by each factor (Hair et al., 1995). The scree plot showed that the 7th factor was the last factor to include enough common variance to be acceptable for extraction from the data. Finally, Table 4.2 also presents the reliability, or internal consistency, of each factor. Cronbach alphas are shown in bold at the bottom of the table. Each factor exhibited an alpha above 0.70 except for Family Stakes, which had an alpha of 0.68, and therefore the factors meet Hair et al.’s (1995) minimum level of 0.60 to 0.70.
<table>
<thead>
<tr>
<th></th>
<th>FAM. HARM.</th>
<th>OWN. SAL.</th>
<th>FAM. SAL.</th>
<th>MGT. SAL.</th>
<th>OWN. STA.</th>
<th>FAM. STA.</th>
<th>MGT. STA.</th>
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<tbody>
<tr>
<td>Q23E</td>
<td>0.79</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Q23F</td>
<td>0.81</td>
<td></td>
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<tr>
<td>Q23G</td>
<td>0.84</td>
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</tr>
<tr>
<td>Q23H</td>
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<td>Q24A</td>
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<td>Q24B</td>
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<tr>
<td>Q24C</td>
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<td>0.80</td>
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<td></td>
</tr>
<tr>
<td>Q24D</td>
<td></td>
<td>0.82</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Q25A</td>
<td></td>
<td></td>
<td>0.82</td>
<td></td>
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</tr>
<tr>
<td>Q25B</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Q25C</td>
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<td></td>
<td>0.78</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Q25D</td>
<td></td>
<td></td>
<td>0.82</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Q26A</td>
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<td>0.82</td>
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<tr>
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<td>0.88</td>
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<tr>
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<td>0.84</td>
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<td></td>
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<td>Q24E</td>
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<td></td>
<td></td>
<td></td>
<td>0.59</td>
<td></td>
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</tr>
<tr>
<td>Q24F</td>
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<td>0.71</td>
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<td>Q24G</td>
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<td></td>
<td></td>
<td>0.59</td>
<td></td>
</tr>
<tr>
<td>Q24H</td>
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<td></td>
<td></td>
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<td>0.81</td>
</tr>
<tr>
<td>Q25E</td>
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<td>0.54</td>
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<td>Q26F</td>
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<td>0.68</td>
</tr>
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<td></td>
<td></td>
<td>0.70</td>
</tr>
<tr>
<td>Q26H</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td>0.58</td>
</tr>
<tr>
<td>Alpha</td>
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<td>0.93</td>
<td>0.95</td>
<td>0.70</td>
<td>0.68</td>
<td>0.80</td>
</tr>
</tbody>
</table>
**Table 4.3**

Factor Analysis Question Key – Descriptions of Questions That Were Not Dropped

<table>
<thead>
<tr>
<th>Family Harmony</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>23 E</td>
<td>The family members who control the business seem to get along with each other better than most families do.</td>
</tr>
<tr>
<td>23 F</td>
<td>People in the controlling family agree with each other on most issues.</td>
</tr>
<tr>
<td>23 G</td>
<td>People in the controlling family are VERY compatible with each other.</td>
</tr>
<tr>
<td>23 H</td>
<td>The controlling family members almost NEVER argue with each other.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ownership Salience</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>24 A</td>
<td>The wishes of the owners receive HIGH priority from our top management team.</td>
</tr>
<tr>
<td>24 B</td>
<td>The needs of the owners receive a HIGH degree of time and attention from our top management team.</td>
</tr>
<tr>
<td>24 C</td>
<td>Satisfying the claims of the owners is very important to our top management team.</td>
</tr>
<tr>
<td>24 D</td>
<td>The goals of the owners influence the decision making processes of our top management team.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Family Salience</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>25 A</td>
<td>The wishes of the family members receive HIGH priority from our top management team.</td>
</tr>
<tr>
<td>25 B</td>
<td>The needs of the family members receive a HIGH degree of time and attention from our top management team.</td>
</tr>
<tr>
<td>25 C</td>
<td>Satisfying the claims of the family members is very important to our top management team.</td>
</tr>
<tr>
<td>25 D</td>
<td>The goals of the family members influence the decision making processes of our top management team.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Management Salience</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>26 A</td>
<td>The wishes of individual managers receive HIGH priority from our top management team.</td>
</tr>
<tr>
<td>26 B</td>
<td>The needs of the managers of the firm receive a HIGH degree of time and attention from our top management team.</td>
</tr>
<tr>
<td>26 C</td>
<td>Satisfying the claims of the individual managers is very important to our top management team.</td>
</tr>
<tr>
<td>26 D</td>
<td>The individual goals of the managers influence the decision making processes of our top management team.</td>
</tr>
</tbody>
</table>
Table 4.3 continued

Factor Analysis Question Key – Descriptions of Questions That Were Not Dropped

<table>
<thead>
<tr>
<th>Ownership Stakes</th>
</tr>
</thead>
<tbody>
<tr>
<td>24 E</td>
</tr>
<tr>
<td>24 G</td>
</tr>
<tr>
<td>24 H</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Family Stakes</th>
</tr>
</thead>
<tbody>
<tr>
<td>25 E</td>
</tr>
<tr>
<td>25 F</td>
</tr>
<tr>
<td>25 G</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Management Stakes</th>
</tr>
</thead>
<tbody>
<tr>
<td>26 F</td>
</tr>
<tr>
<td>26 G</td>
</tr>
<tr>
<td>26 I</td>
</tr>
</tbody>
</table>

Table 4.4

Factor Analysis Question Key – Descriptions of Questions That Were Dropped

<table>
<thead>
<tr>
<th>Ownership Stakes</th>
</tr>
</thead>
<tbody>
<tr>
<td>24 F</td>
</tr>
<tr>
<td>24 I</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Family Stakes</th>
</tr>
</thead>
<tbody>
<tr>
<td>25 H</td>
</tr>
<tr>
<td>25 I</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Management Stakes</th>
</tr>
</thead>
<tbody>
<tr>
<td>26 E</td>
</tr>
<tr>
<td>26 H</td>
</tr>
</tbody>
</table>
Table 4.5 presents the correlations for the variables used in the study. Summated scales are again presented rather than individual items for parsimony. Also, the correlation table was created by utilizing mean replacement procedures since not all surveys were responded to in full. Mean replacement was deemed necessary so that all regression analyses would be conducted using the same sample size. Therefore, the correlation matrix is consistent for all regression equations subsequently presented and the consistency in sample size allows for more appropriate comparisons of the results. To ensure that mean replacement did not arbitrarily inflate or skew results, the correlation analysis and all regression analyses were also conducted using listwise deletion of cases. Listwise deletion excludes cases that do not have data on all variables in the variables list and effectively reduces the sample size. The results of the hypotheses presented in Chapter II were similar when utilizing both methods. Therefore, for the sake of comparison of results from the mean regression analyses, mean replacement results are described in this dissertation.

The correlation matrix provides evidence regarding the strong relationships that existed between certain variables and thus provides a preliminary assessment of how the variables interact in this data set. Economic performance (profitable compared to competitors) and non-economic performance (family harmony) were not significantly correlated. Each of the stakes constructs was significantly correlated to economic performance: Ownership Stakes at 0.20 (p<0.01), Family Stakes at 0.15 (p<0.05), and Management Stakes at 0.29 (p<0.01). These correlations imply that adhering to the stakes of all three primary stakeholder groups in family firms can positively influence economic performance. This preliminary finding is counter to arguments set forth in
Chapter II concerning the relationship between economic performance and both family and management stakeholder groups. Alternatively, significant correlations between non-economic performance and Family Stakes (0.23; p<0.01) was consistent with previous arguments.

Regression analyses were conducted first by isolating the effects of each stakeholder group and then with analyses integrating all groups. This was done because the stakes and salience variables possessed significant correlations with each other (McGrath, 2001) and the influence of not only the original variables, but also the multiple computed interaction variables could lead to spurious results. So, it was important to know how the stakes and salience variables affect both types of performance when alone and how they affect performance when all stakeholder groups were together. Consistency between results from tests of the individual stakeholder groups and tests of the combined stakeholder groups would be ideal.
### Table 4.5

Correlations

|                                | Mean | Std. Dev. | 1     | 2     | 3     | 4     | 5     | 6     | 7     | 8     | 9     | 10    | 11    | 12    | 13    | 14    | 15    | 16    | 17    | 18    |
|--------------------------------|------|-----------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 1. Profitable Compared to Competitors | 6.46 | 2.43      | 1.00  |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| 2. Family Harmony              | 8.28 | 1.44      | 0.10  | 1.00  |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| 3. Sales Volume                | 10332.06 | 103.15 | 130.87 | 0.12  | -0.13 | 1.00  |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| 4. Age of the Company          | 27.10 | 21.71     | 0.07  | -0.06 | 0.22**| 1.00  |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| 5. Industry: Manufacturing/Construction | 0.27 | 0.44      | 0.02  | 0.01  | -0.04 | 0.04  | 1.00  |       |       |       |       |       |       |       |       |       |       |       |       |       |
| 6. Industry: Retail/Wholesale/Rest/Hotel | 0.38 | 0.49      | -0.16**| -0.03 | 0.10  | 0.07  | -0.47**| 1.00  |       |       |       |       |       |       |       |       |       |       |       |       |
| 7. Industry: Personal Services | 0.23 | 0.42      | 0.12  | 0.05  | 0.01  | 0.01  | -0.33** | -0.43**| 1.00  |       |       |       |       |       |       |       |       |       |       |       |
| 8. # of Family FTEs            | 2.44 | 1.22      | 0.12  | -0.11 | 0.33**| 0.17**| 0.22** | -0.05 | -0.05 | 1.00  |       |       |       |       |       |       |       |       |       |       |
| 9. # of Owners                 | 2.77 | 1.19      | 0.06  | 0.00  | 0.12  | 0.19**| 0.05  | 0.01  | -0.03 | 0.36**| 1.00  |       |       |       |       |       |       |       |       |       |
| 10. Percent Family Owned       | 98.54 | 7.76      | 0.08  | 0.01  | -0.14*| -0.09 | 0.10  | -0.16*| 0.03  | -0.06 | -0.41**| 1.00  |       |       |       |       |       |       |       |       |
| 11. # of Family potential successors | 1.80 | 1.99      | 0.05  | -0.02 | 0.05  | 0.12  | 0.04  | -0.08 | 0.01  | 0.21**| 0.26**| -0.02 | 1.00  |       |       |       |       |       |       |       |
| 12. Dummy: Founder             | 0.70 | 0.46      | -0.09 | 0.19**| -0.13 | -0.41**| -0.01 | 0.08  | -0.12 | -0.10 | -0.11 | -0.05 | -0.10 | 1.00  |       |       |       |       |       |       |
| 13. Ownership Stakes           | 9.07 | 1.47      | 0.28**| 0.12  | 0.06  | -0.07 | 0.12  | -0.18**| 0.10  | 0.17**| 0.03  | 0.00  | 0.01  | -0.01 | 1.00  |       |       |       |       |       |
| 14. Ownership Salience         | 8.99 | 1.52      | 0.13  | 0.84**| -0.03 | -0.02 | -0.01 | -0.09 | 0.10  | -0.09 | 0.00  | 0.08  | 0.00  | 0.01  | 0.21**| 1.00  |       |       |       |       |       |
| 15. Family Stakes              | 8.36 | 1.75      | 0.15**| 0.23**| -0.11 | 0.09  | 0.07  | -0.06 | 0.07  | 0.03  | -0.05 | 0.02  | -0.13 | 0.05  | 0.27**| 0.22**| 1.00  |       |       |       |
| 16. Family Salience            | 8.59 | 1.81      | 0.14**| 0.28**| -0.06 | -0.11 | -0.03 | -0.10 | 0.12  | -0.07 | 0.05  | -0.04 | -0.15**| 0.07  | 0.38**| 0.60**| 0.38**| 1.00  |       |       |
| 17. Management Stakes          | 8.36 | 1.65      | 0.29**| 0.11  | 0.06  | 0.08  | 0.08  | -0.16*| 0.09  | 0.14* | 0.04  | -0.02 | -0.05 | -0.08 | 0.48**| 0.29**| 0.46**| 0.42**| 1.00  |       |
| 18. Management Salience        | 8.73 | 1.62      | 0.23**| 0.02  | -0.02 | -0.04 | -0.03 | 0.07  | -0.02 | -0.04 | 0.02  | 0.00  | 0.01  | 0.15* | 0.58**| 0.25**| 0.96**| 0.37**| 1.00  |

*p<0.10; **p<0.05; ***p<0.01; ****p<0.001
A second concern with including multiple interaction terms was the adverse effects of multicollinearity that may arise. As discussed in Chapter III, all variables were centered and then their Z-scores were computed to reduce the chance for multicollinearity to obfuscate the results. In all of the regression models in this chapter, the Variance Inflation Factor of any one variable never exceeded 2.65 and the Condition Index never exceeded 2.75. These results are well within commonly acceptable ranges for multicollinearity (Pedhazur, 1997).

**Hypotheses Related to Economic Performance**

Tables 4.6, 4.7, and 4.8 present the results of regression models used to test the relationships between the three stakeholder groups and Economic Performance (profitability compared to competitors). Therefore, these tables present results for tests of H1a, H1c, H2a, H2c, H3a, and H3c. Each table presents four models used for hierarchical regression analysis. In each table, Model 1, which included the control variables only, was the base model. Model 2 added the stakes construct, Model 3 added the salience construct, and finally Model 4 added the interaction term for stakes and salience. The hierarchical regression analysis was organized in this manner so that it could be ascertained if there was (1) a direct relationship between the stakes variables and the dependent variable, (2) a continued relationship after the introduction of the salience variable, and (3) a change in the relationship between stakes and the dependent variable after introducing the interaction term, along with assessing the significance of the interaction term (Aguinis, 2004; Aiken & West, 1991; Baron & Kenny, 1986).
Table 4.6 presents results of the ownership stakeholder group regressed upon economic performance. These analyses intended to test H1a and H1c. None of the control variables entered in Model 1 was a significant predictor of economic performance except for the industry dummy variable for Retail/Wholesale/Restaurant/Hotel. The model was not significant and the control variables explained 2% (Adjusted $R^2$) of the variation in economic performance.

Model 2 resulted in a significant improvement in the explanatory power of the regression model. The model was marginally significant (p<0.10) and explained 4% (Adjusted $R^2$) of the variation in economic performance. Furthermore, the change in $R^2$ (0.02) was significant (p<0.05). The coefficient of Ownership Stakes ($\beta = 0.16$) was significant (p<0.05) and in the hypothesized direction.

Model 3 introduced the Ownership Salience construct. There was no significant change in $R^2$ and the coefficient for Ownership Salience was not significant while Ownership Stakes remained significant ($\beta = 0.15$; p<0.05).

Model 4 introduced the interaction term for Ownership Stakes and Ownership Salience and this overall model was significant (p<0.01). The change in $R^2$ was significant (p<0.01) and Ownership Stakes remained positive and significant ($\beta = 0.27$; p<0.001), which lends support for H1a. The coefficient for the interaction term was also significant and positive ($\beta = 0.25$; p<0.01), lending support for H1c; ownership stakes positively affected economic performance and when the ownership group was salient, the relationship between ownership stakes and economic performance was strengthened.
Table 4.6

Results of OLS Regression Using “Relative to our major competitors, our firm is very profitable” (economic performance) as the Dependent Variable and Ownership Stakeholders

<table>
<thead>
<tr>
<th></th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Beta</td>
<td>Beta</td>
<td>Beta</td>
<td>Beta</td>
</tr>
<tr>
<td>Sales Volume</td>
<td>0.11</td>
<td>0.10</td>
<td>0.10</td>
<td>0.10</td>
</tr>
<tr>
<td>Age of the Company</td>
<td>0.04</td>
<td>0.06</td>
<td>0.06</td>
<td>0.03</td>
</tr>
<tr>
<td>Industry: Manufacturing/Construction</td>
<td>-0.09</td>
<td>-0.11</td>
<td>-0.11</td>
<td>-0.13</td>
</tr>
<tr>
<td>Industry: Retail/Wholesale/Rest/Hotel</td>
<td>-0.19*</td>
<td>-0.18</td>
<td>-0.18</td>
<td>-0.19*</td>
</tr>
<tr>
<td>Industry: Personal Services</td>
<td>0.00</td>
<td>0.05</td>
<td>-0.01</td>
<td>-0.03</td>
</tr>
<tr>
<td># of Family FTEs</td>
<td>0.07</td>
<td>0.05</td>
<td>0.05</td>
<td>0.05</td>
</tr>
<tr>
<td># of Owners</td>
<td>0.07</td>
<td>0.07</td>
<td>0.07</td>
<td>0.06</td>
</tr>
<tr>
<td>Percent Family Owned</td>
<td>0.11</td>
<td>0.11</td>
<td>0.11</td>
<td>0.10</td>
</tr>
<tr>
<td># of Family potential successors</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.01</td>
</tr>
<tr>
<td>Dummy: Founder</td>
<td>-0.02</td>
<td>-0.02</td>
<td>-0.01</td>
<td>0.00</td>
</tr>
<tr>
<td>Ownership Stakes</td>
<td>0.16*</td>
<td>0.15*</td>
<td>0.27***</td>
<td></td>
</tr>
<tr>
<td>Ownership Salience</td>
<td>0.03</td>
<td>0.05</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Own. Stakes * Own. Salience</td>
<td>0.25**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F-Value</td>
<td>1.42</td>
<td>1.76*</td>
<td>1.63*</td>
<td>2.30**</td>
</tr>
<tr>
<td>R square</td>
<td>0.07</td>
<td>0.09</td>
<td>0.09</td>
<td>0.13</td>
</tr>
<tr>
<td>Change in R Square</td>
<td>0.07</td>
<td>0.02*</td>
<td>0.01</td>
<td>0.04**</td>
</tr>
<tr>
<td>Adjusted R Square</td>
<td>0.02</td>
<td>0.04</td>
<td>0.04</td>
<td>0.08</td>
</tr>
</tbody>
</table>

N=210  ^p<0.10; *p<0.05; **p<0.01; ***p<0.001

As mentioned in Chapter III, to find the true effect of moderation on the nature of the relationships between the independent and the dependent variables, it was necessary to plot graphs depicting the slopes of the relationships between the independent and dependent variables at different levels of the moderating variables (Aiken & West, 1991; Dawson & Richter, 2006). H1c stated that the salience of the ownership stakeholder group would moderate the positive relationship between ownership stakes and economic performance, where higher ownership salience would further increase economic performance. Figure 4.1 illustrates the linear relationship between ownership stakes and economic performance. The stakes / performance relationship is shown by plotting it at
three different points: one standard deviation below the mean (Low Ownership Stakes), the mean, and one standard deviation above the mean (High Ownership Stakes). Also, the stakes / performance relationship is plotted along two different levels of Ownership Salience, low versus high (created from coefficients found in Model 4 of Table 4.6).

Based on H1c, it was expected that the linear relationship depicted in Figure 4.1 would show an increase in economic performance as ownership stakes increase from Low Ownership Stakes to High Ownership Stakes. As can be seen, the positive stakes / performance relationship holds true for both high and low levels of ownership salience, but when a firm possesses high salience for its ownership group, the linear effect of ownership stakes upon economic performance was much more pronounced. When Ownership Stakes were low, economic performance was virtually the same no matter the level of salience of the ownership group. But, when ownership salience was high, economic performance was much higher than when ownership salience was low. In other words, as salience for the ownership group increased so too did the positive effect of ownership stakes on economic performance.
Table 4.7 presents the results of the family stakeholder group’s variables regressed upon economic performance and thus tests relationships set forth by H2a and H2c. Again, the industry dummy variable for Retail/Wholesale/Restaurant/Hotel entered in Model 1 was moderately significant. The model was not significant and the control variables explained 2% (Adjusted R²) of the variation in economic performance.

Model 2 resulted in a significant improvement in the explanatory power of the regression model (Change in R² = 0.03; p<0.05). Even though the change in R² was significant, the overall model was marginally significant (p<0.10). The coefficient of Family Stakes (β = 0.16) was significant (p<0.05) but was not in the hypothesized direction.

Model 3 introduced the Family Salience construct. This did not result in an improvement to the model. Model 4 was marginally significant (p<0.10) but the change in R² was not significant. The coefficients for Family Stakes, Family Salience, and the
interaction term were not significant predictors of economic performance. Therefore, this results in a lack of support for H2a and H2c.

Table 4.7

Results of OLS Regression Using “Relative to our major competitors, our firm is very profitable” (economic performance) as the Dependent Variable and Family Stakeholders

<table>
<thead>
<tr>
<th>Variable</th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Volume</td>
<td>0.10</td>
<td>0.13</td>
<td>0.13</td>
<td>0.13</td>
</tr>
<tr>
<td>Age of the Company</td>
<td>0.04</td>
<td>0.02</td>
<td>0.03</td>
<td>0.03</td>
</tr>
<tr>
<td>Industry: Manufacturing/Construction</td>
<td>-0.09</td>
<td>-0.11</td>
<td>-0.10</td>
<td>-0.11</td>
</tr>
<tr>
<td>Industry: Retail/Wholesale/Restaurant/Hotel</td>
<td>-0.19*</td>
<td>-0.20*</td>
<td>-0.19*</td>
<td>-0.19*</td>
</tr>
<tr>
<td>Industry: Personal Services</td>
<td>0.00</td>
<td>-0.02</td>
<td>-0.02</td>
<td>-0.02</td>
</tr>
<tr>
<td># of Family FTEs</td>
<td>0.07</td>
<td>0.06</td>
<td>0.06</td>
<td>0.06</td>
</tr>
<tr>
<td># of Owners</td>
<td>0.07</td>
<td>0.07</td>
<td>0.06</td>
<td>0.05</td>
</tr>
<tr>
<td>Percent Family Owned</td>
<td>0.10</td>
<td>0.11</td>
<td>0.11</td>
<td>0.11</td>
</tr>
<tr>
<td># of Family potential successors</td>
<td>0.00</td>
<td>0.02</td>
<td>0.03</td>
<td>0.04</td>
</tr>
<tr>
<td>Dummy: Founder</td>
<td>-0.02</td>
<td>-0.04</td>
<td>-0.03</td>
<td>-0.03</td>
</tr>
<tr>
<td>Family Stakes</td>
<td>0.16*</td>
<td>0.13</td>
<td>0.11</td>
<td></td>
</tr>
<tr>
<td>Family Salience</td>
<td></td>
<td>0.10</td>
<td>0.08</td>
<td></td>
</tr>
<tr>
<td>Fam. Stakes * Fam. Salience</td>
<td></td>
<td>-0.07</td>
<td></td>
<td></td>
</tr>
<tr>
<td>F-Value</td>
<td>1.42</td>
<td>1.81*</td>
<td>1.80*</td>
<td>1.71*</td>
</tr>
<tr>
<td>R square</td>
<td>0.07</td>
<td>0.09</td>
<td>0.10</td>
<td>0.10</td>
</tr>
<tr>
<td>Change in R Square</td>
<td>0.07</td>
<td>0.03*</td>
<td>0.01</td>
<td>0.00</td>
</tr>
<tr>
<td>Adjusted R Square</td>
<td>0.02</td>
<td>0.04</td>
<td>0.04</td>
<td>0.04</td>
</tr>
</tbody>
</table>

N=210  *p<0.10; **p<0.05; ***p<0.01; ****p<0.001

Table 4.8 presents results of the management stakeholder group’s variables regressed upon economic performance and tests H3a and H3c. Of the control variables entered in Model 1, only the industry dummy variable for Retail/Wholesale/Restaurant/Hotel was a moderately significant predictor of economic performance (β = -0.19; p<0.10). The model was not significant and the control variables only explained 2% (Adjusted R²) of the variation in economic performance.
Model 2 was significant (p<0.01) and the addition of Management Stakes resulted in a significant improvement in the explanatory power of the regression model (change in $R^2 = 0.06; p<0.001$). Even so, the results of Model 2 do not provide preliminary support for H3a because the coefficient of Management Stakes ($\beta = 0.26$) was highly significant (p<0.001) but was not in the hypothesized direction.

Models 3 did not result in a significant improvement to the regression equation. Management Salience was not significant and Management Stakes remained significant and positive ($\beta = 0.25; p<0.001$). Model 4 added the Management interaction term. Again, Management Stakes remained highly significant and positive ($\beta = 0.27; p<0.001$), which did not lend support for H3a. The Management interaction was significant ($\beta = 0.21; p<0.001$), but was in the opposite direction as hypothesized. Thus, there was no support for H3c.

Although it was not hypothesized, the interaction effect of Management Stakes and Management Salience is graphically represented below in Figure 4.2. Similar to the ownership stakeholder group, economic performance increased as management stakes increased regardless of the level of salience the managers possessed. When the salience of management was high the positive relationship between management stakes and economic performance was much higher.
Table 4.8

Results of OLS Regression Using “Relative to our major competitors, our firm is very profitable” (economic performance) as the Dependent Variable and Management Stakeholders

<table>
<thead>
<tr>
<th></th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Beta</td>
<td>Beta</td>
<td>Beta</td>
<td>Beta</td>
</tr>
<tr>
<td>Sales Volume</td>
<td>0.11</td>
<td>0.10</td>
<td>0.10</td>
<td>0.11</td>
</tr>
<tr>
<td>Age of the Company</td>
<td>0.04</td>
<td>0.03</td>
<td>0.03</td>
<td>0.02</td>
</tr>
<tr>
<td>Industry: Manufacturing/Construction</td>
<td>-0.09</td>
<td>-0.08</td>
<td>-0.08</td>
<td>-0.09</td>
</tr>
<tr>
<td>Industry: Retail/Wholesale/Rest/Hotel</td>
<td>-0.19*</td>
<td>-0.14</td>
<td>-0.14</td>
<td>-0.14</td>
</tr>
<tr>
<td>Industry: Personal Services</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>-0.03</td>
</tr>
<tr>
<td># of Family FTEs</td>
<td>0.07</td>
<td>0.03</td>
<td>0.03</td>
<td>0.04</td>
</tr>
<tr>
<td># of Owners</td>
<td>0.07</td>
<td>0.07</td>
<td>0.07</td>
<td>0.07</td>
</tr>
<tr>
<td>Percent Family Owned</td>
<td>0.11</td>
<td>0.12</td>
<td>0.12</td>
<td>0.11</td>
</tr>
<tr>
<td># of Family potential successors</td>
<td>0.00</td>
<td>0.02</td>
<td>0.02</td>
<td>0.01</td>
</tr>
<tr>
<td>Dummy: Founder</td>
<td>-0.02</td>
<td>-0.01</td>
<td>-0.01</td>
<td>-0.01</td>
</tr>
<tr>
<td>Management Stakes</td>
<td>0.26***</td>
<td>0.25***</td>
<td>0.27***</td>
<td></td>
</tr>
<tr>
<td>Management Salience</td>
<td>0.03</td>
<td>0.11</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mgt. Stakes * Mgt. Salience</td>
<td></td>
<td></td>
<td></td>
<td>0.21**</td>
</tr>
<tr>
<td>F-Value</td>
<td>1.42</td>
<td>2.64**</td>
<td>2.42**</td>
<td>2.91***</td>
</tr>
<tr>
<td>R square</td>
<td>0.07</td>
<td>0.13</td>
<td>0.13</td>
<td>0.16</td>
</tr>
<tr>
<td>Change in R Square</td>
<td>0.07</td>
<td>0.06***</td>
<td>0.00</td>
<td>0.03**</td>
</tr>
<tr>
<td>Adjusted R Square</td>
<td>0.02</td>
<td>0.08</td>
<td>0.08</td>
<td>0.11</td>
</tr>
</tbody>
</table>

N=210  
^p<0.10; *p<0.05; **p<0.01; ***p<0.001
Hypotheses Related to Non-Economic Performance

Tables 4.9, 4.10, and 4.11 present results of regression models used to test proposed relationships between the three stakeholder groups and Non-Economic Performance (Family Harmony). Therefore, these tables present results for tests of H1b, H1d, H2b, H2d, H3b, and H3d. The procedures for these analyses are identical to the previous tests of economic performance. Please refer to the description of the hierarchical analyses with economic performance as the dependent variable for further detail.

Table 4.9 presents the results of the ownership stakeholder group’s variables regressed upon non-economic performance and tests H1b and H1d. Model 1 was not significant and the control variables explained 2% (Adjusted R²) of the variation in non-economic performance. Of the control variables entered in Model 1, whether or not the
respondent was a founder of the family firm ($\beta = 0.20; p<0.01$) was the only significant predictor of non-economic performance.

Model 2 resulted in a significant improvement in the explanatory value of the regression equation (change in $R^2 = 0.02; p<0.05$). The coefficient of Ownership Stakes ($\beta = 0.15$) was significant ($p<0.05$) but was not in the hypothesized direction.

Ownership Salience was added to the regression equation in Model 3 and it significantly improved the regression equation (change in $R^2 = 0.07; p<0.001$). The coefficient of Ownership Salience was highly significant ($\beta = 0.28; p<0.001$) and Ownership Stakes were not significant.

Model 4 introduced the interaction term for Ownership Stakes and Ownership Salience and this model was again significant yet no further explanatory power was provided by the addition of the interaction term shown by a non-significant change in $R^2$. Ownership Stakes remained non-significant, lending no support for H1b. Ownership Salience remained significant ($\beta = 0.29; p<0.001$). The Ownership interaction term was not significant and therefore Model 4 did not lend support for H1d.
Table 4.9

Results of OLS Regression Using “Family Harmony” (non-economic performance) as the Dependent Variable and Ownership Stakeholders

<table>
<thead>
<tr>
<th></th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Beta</td>
<td>Beta</td>
<td>Beta</td>
<td>Beta</td>
</tr>
<tr>
<td>Sales Volume</td>
<td>-0.10</td>
<td>-0.11</td>
<td>-0.11</td>
<td>-0.11</td>
</tr>
<tr>
<td>Age of the Company</td>
<td>0.04</td>
<td>0.07</td>
<td>0.08</td>
<td>0.07</td>
</tr>
<tr>
<td>Industry: Manufacturing/Construction</td>
<td>0.07</td>
<td>0.05</td>
<td>0.06</td>
<td>0.05</td>
</tr>
<tr>
<td>Industry: Retail/Wholesale/Rest/Hotel</td>
<td>0.04</td>
<td>0.04</td>
<td>0.06</td>
<td>0.05</td>
</tr>
<tr>
<td>Industry: Personal Services</td>
<td>0.11</td>
<td>0.09</td>
<td>0.08</td>
<td>0.07</td>
</tr>
<tr>
<td># of Family FTEs</td>
<td>-0.09</td>
<td>-0.11</td>
<td>-0.06</td>
<td>-0.07</td>
</tr>
<tr>
<td># of Owners</td>
<td>0.06</td>
<td>0.06</td>
<td>0.04</td>
<td>0.03</td>
</tr>
<tr>
<td>Percent Family Owned</td>
<td>0.02</td>
<td>0.03</td>
<td>-0.01</td>
<td>-0.01</td>
</tr>
<tr>
<td># of Family potential successors</td>
<td>0.00</td>
<td>0.01</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Dummy: Founder</td>
<td>0.20**</td>
<td>0.21**</td>
<td>0.20**</td>
<td>0.20**</td>
</tr>
<tr>
<td>Ownership Stakes</td>
<td>0.15*</td>
<td></td>
<td>0.06</td>
<td>0.11</td>
</tr>
<tr>
<td>Ownership Salience</td>
<td></td>
<td></td>
<td>0.28***</td>
<td>0.29***</td>
</tr>
<tr>
<td>Own. Stakes * Own. Salience</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F-Value</td>
<td>1.33</td>
<td>1.66*</td>
<td>2.99***</td>
<td>2.90***</td>
</tr>
<tr>
<td>R square</td>
<td>0.06</td>
<td>0.08</td>
<td>0.15</td>
<td>0.16</td>
</tr>
<tr>
<td>Change in R Square</td>
<td>0.06</td>
<td>0.02*</td>
<td>0.07***</td>
<td>0.01</td>
</tr>
<tr>
<td>Adjusted R Square</td>
<td>0.02</td>
<td>0.03</td>
<td>0.10</td>
<td>0.11</td>
</tr>
</tbody>
</table>

N=210 +p<0.10; *p<0.05; **p<0.01; ***p<0.001

Table 4.10 presents results of the family stakeholder group’s variables regressed upon non-economic performance and tests H2b and H2d. Of the control variables entered in Model 1, whether or not the respondent was a founder of the family firm (β = 0.20; p<0.01) was the only significant predictor of non-economic performance. The model was not significant and the control variables explained 2% (Adjusted R^2) of the variation in non-economic performance.

Model 2 resulted in a significant improvement in the explanatory power of the regression model (Change in R^2 = 0.04; p<0.01). The overall model was also significant.
(p<0.05) and the coefficient of Family Stakes was significant and in the hypothesized direction (β = 0.22; p<0.01).

Model 3 introduced the Family Salience construct. There was a significant change in R² (0.04; p<0.01) and the coefficient of Family Salience was significant (β = 0.23; p<0.001). As a result of the inclusion of Family Salience, the variable Family Stakes was only a moderately significant predictor of non-economic performance (β = 0.13; p<0.10)

Model 4 introduced the interaction term for Family Stakes and Family Salience and this model was significant (p<0.001). The change in R² was highly significant (0.06; p<0.001) and Family Stakes (0.20; p<0.01) were significant. Therefore, family stakes have a positive affect on family harmony, and thus H2b was supported. Family Salience (0.29; p<0.001) was also a significant predictor of economic performance. Lastly, the coefficient for the interaction term was significant and positive (β = 0.27; p<0.001), lending support for H2d; family stakes positively affected family harmony and when family members were salient the relationship between family stakes and family harmony was strengthened.

H2d stated that the salience of the family stakeholder group would moderate the positive relationship between family stakes and non-economic performance, where higher family salience would further increase non-economic performance. Figure 4.2 illustrates the linear relationship between family stakes and non-economic performance. Again, the stakes / performance relationship is shown by plotting it at three different points: one standard deviation below the mean (Low Family Stakes), the mean, and one standard deviation above the mean (High Family Stakes). Also, the stakes / performance
relationship is plotted along two different levels of Family Salience, low versus high
(created from coefficients found in Model 4 of Table 4.10).

Table 4.10

Results of OLS Regression Using “Family Harmony” (non-economic performance) as the Dependent Variable and Family Stakeholders

<table>
<thead>
<tr>
<th></th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Beta</td>
<td>Beta</td>
<td>Beta</td>
<td>Beta</td>
</tr>
<tr>
<td>Sales Volume</td>
<td>-0.10</td>
<td>-0.06</td>
<td>-0.07</td>
<td>-0.07</td>
</tr>
<tr>
<td>Age of the Company</td>
<td>0.04</td>
<td>0.01</td>
<td>0.04</td>
<td>0.05</td>
</tr>
<tr>
<td>Industry: Manufacturing/Construction</td>
<td>0.07</td>
<td>0.04</td>
<td>0.06</td>
<td>0.06</td>
</tr>
<tr>
<td>Industry: Retail/Wholesale/Rest/Hotel</td>
<td>0.04</td>
<td>0.03</td>
<td>0.05</td>
<td>0.09</td>
</tr>
<tr>
<td>Industry: Personal Services</td>
<td>0.11</td>
<td>0.08</td>
<td>0.08</td>
<td>0.08</td>
</tr>
<tr>
<td># of Family FTEs</td>
<td>-0.09</td>
<td>-0.11</td>
<td>-0.09</td>
<td>-0.08</td>
</tr>
<tr>
<td># of Owners</td>
<td>0.06</td>
<td>0.07</td>
<td>0.04</td>
<td>0.06</td>
</tr>
<tr>
<td>Percent Family Owned</td>
<td>0.02</td>
<td>0.02</td>
<td>0.03</td>
<td>0.03</td>
</tr>
<tr>
<td># of Family potential successors</td>
<td>0.00</td>
<td>0.04</td>
<td>0.06</td>
<td>0.00</td>
</tr>
<tr>
<td>Dummy: Founder</td>
<td>0.20**</td>
<td>0.18*</td>
<td>0.18*</td>
<td>0.18*</td>
</tr>
<tr>
<td>Family Stakes</td>
<td>0.22**</td>
<td>0.13†</td>
<td>0.20**</td>
<td></td>
</tr>
<tr>
<td>Family Salience</td>
<td></td>
<td></td>
<td>0.23**</td>
<td>0.29***</td>
</tr>
<tr>
<td>Fam. Stakes * Fam. Salience</td>
<td></td>
<td></td>
<td>0.27***</td>
<td></td>
</tr>
<tr>
<td>F-Value</td>
<td>1.33</td>
<td>2.15*</td>
<td>2.88***</td>
<td>3.92***</td>
</tr>
<tr>
<td>R square</td>
<td>0.06</td>
<td>0.11</td>
<td>0.15</td>
<td>0.21</td>
</tr>
<tr>
<td>Change in R Square</td>
<td>0.06</td>
<td>0.04**</td>
<td>0.04**</td>
<td>0.06***</td>
</tr>
<tr>
<td>Adjusted R Square</td>
<td>0.02</td>
<td>0.06</td>
<td>0.10</td>
<td>0.15</td>
</tr>
</tbody>
</table>

N=210  +p<0.10; *p<0.05; **p<0.01; ***p<0.001

Based on H2d, it was expected that the linear relationship depicted in Figure 4.2 would show an increase in non-economic performance as family stakes increase from Low Family Stakes to High Family Stakes. Interestingly, the positive stakes / performance relationship appears to only hold true when the salience of the family stakeholder group was high. This result suggests that even when the stakes of the family stakeholder group were considered very high, the effect on non-economic performance was negligible at best if the salience of the family stakeholder group was low.
Alternatively, the stakes / performance relationship was positive when there was high salience for the family stakeholder group. In other words, as salience for the family stakeholder group increased from low to high, non-economic performance increased significantly. This result suggests that the salience of the family stakeholder group played a very powerful part in the level of harmony reached by family members.

![Figure 4.3](image)

**Figure 4.3**

Family Interaction with only Family Stakes Included in the Analysis and Non-Economic Performance as the Dependent Variable

Table 4.11 presents the results of the management stakeholder group’s variables regressed upon non-economic performance and tests H3b and H3d. Model 1 added the control variables. Again, whether or not the respondent was a founder of the business was a moderately significant predictor of non-economic performance ($\beta = 0.20; p<0.01$). The model was not significant and the control variables only explained 2% (Adjusted $R^2$) of the variation in non-economic performance.

Model 2 added Management Stakes to the regression equation and this was a significant improvement (Change in $R^2 = 0.02; p<0.05$). The coefficient for Management
Stakes was significant ($\beta = 0.14; p<0.05$) but was in the opposite direction as hypothesized. Even so, the overall model was not significant.

Model 3 was significant, there was a significant change in $R^2$ (0.06; $p<0.001$), and Management Salience was highly significant ($\beta = 0.26; p<0.001$).

The Management interaction term was added in Model 4. This overall model was significant ($p<0.01$) and there was a significant change in $R^2$ (0.04; $p<0.01$). Management Stakes remained non-significant, which lends no support for H3b. Management Salience was significant ($\beta = 0.35; p<0.001$). The Management interaction term was significant ($\beta = 0.23; p<0.01$) but was in the opposite direction as hypothesized and therefore Model 4 does not lend support to H3d.

Although it was not hypothesized, the interaction effect of Management Stakes and Management Salience is graphically represented below in Figure 4.4. As shown, non-economic performance increased as management stakes increased only in the cases where the salience of management was high. When management salience was low, increasing levels of management stakes resulted in lower levels of non-economic performance. When the salience of management was high the positive relationship between management stakes and economic non-performance was much higher.
Table 4.11

Results of OLS Regression Using “Family Harmony” (non-economic performance) as the Dependent Variable and Management Stakeholders

<table>
<thead>
<tr>
<th></th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Beta</td>
<td>Beta</td>
<td>Beta</td>
<td>Beta</td>
</tr>
<tr>
<td>Sales Volume</td>
<td>-0.10</td>
<td>-0.10</td>
<td>-0.10</td>
<td>-0.08</td>
</tr>
<tr>
<td>Age of the Company</td>
<td>0.04</td>
<td>0.04</td>
<td>0.05</td>
<td>0.04</td>
</tr>
<tr>
<td>Industry: Manufacturing/Construction</td>
<td>0.07</td>
<td>0.07</td>
<td>0.08</td>
<td>0.08</td>
</tr>
<tr>
<td>Industry: Retail/Wholesale/Rest/Hotel</td>
<td>0.04</td>
<td>0.06</td>
<td>0.05</td>
<td>0.05</td>
</tr>
<tr>
<td>Industry: Personal Services</td>
<td>0.11</td>
<td>0.11</td>
<td>0.10</td>
<td>0.07</td>
</tr>
<tr>
<td># of Family FTEs</td>
<td>-0.09</td>
<td>-0.11</td>
<td>-0.10</td>
<td>-0.08</td>
</tr>
<tr>
<td># of Owners</td>
<td>0.06</td>
<td>0.06</td>
<td>0.07</td>
<td>0.07</td>
</tr>
<tr>
<td>Percent Family Owned</td>
<td>0.02</td>
<td>0.03</td>
<td>0.02</td>
<td>0.02</td>
</tr>
<tr>
<td># of Family potential successors</td>
<td>0.00</td>
<td>0.02</td>
<td>0.01</td>
<td>-0.01</td>
</tr>
<tr>
<td>Dummy: Founder</td>
<td>0.20**</td>
<td>0.21**</td>
<td>0.20**</td>
<td>0.20**</td>
</tr>
<tr>
<td>Management Stakes</td>
<td>0.14*</td>
<td>0.04</td>
<td>0.07</td>
<td></td>
</tr>
<tr>
<td>Management Salience</td>
<td></td>
<td>0.26***</td>
<td>0.35***</td>
<td></td>
</tr>
<tr>
<td>Mgt. Stakes * Mgt. Salience</td>
<td></td>
<td></td>
<td>0.23**</td>
<td></td>
</tr>
<tr>
<td>F-Value</td>
<td>1.33</td>
<td>1.58</td>
<td>2.65**</td>
<td>3.27**</td>
</tr>
<tr>
<td>R square</td>
<td>0.06</td>
<td>0.08</td>
<td>0.14</td>
<td>0.18</td>
</tr>
<tr>
<td>Change in R Square</td>
<td>0.06</td>
<td>0.02*</td>
<td>0.06***</td>
<td>0.04**</td>
</tr>
<tr>
<td>Adjusted R Square</td>
<td>0.02</td>
<td>0.03</td>
<td>0.09</td>
<td>0.12</td>
</tr>
</tbody>
</table>

N=210  p<0.10; *p<0.05; **p<0.01; ***p<0.001

Figure 4.4

Management Interaction with only Management Stakeholders Included in the Analysis and Non-Economic Performance as the Dependent Variable
Further Analyses Utilizing All Stakeholder Groups Simultaneously

After all analyses of the three main stakeholder groups in the family firm were conducted with both economic and non-economic performance as the dependent variable, it was necessary to run regression analyses with each of the stakeholder groups simultaneously. To accomplish this task, the following ten regression models were created with both economic and non-economic dependent variables and can be seen in Table 4.12 (economic dependent variable) and Table 4.13 (non-economic dependent variable). Take note that Model 2 becomes the base model or direct effects model because all stakes variables are entered here with no salience or interaction terms. The remaining models provide analysis of each stakeholder group’s salience and interaction terms entered individually and then simultaneously.

- Model 1: All control variables
- Model 2: All control variables and all stakes variables
- Model 3: All control variables, all stakes variables, and Ownership Salience
- Model 4: All control variables, all stakes variables, Ownership Salience, and Ownership Salience/Stakes Interaction variable
- Model 5: All control variables, all stakes variables, and Family Salience
- Model 6: All control variables, all stakes variables, Family Salience, and Family Salience/Stakes Interaction variable
- Model 7: All control variables, all stakes variables, and Management Salience
- Model 8: All control variables, all stakes variables, Management Salience, and Management Salience/Stakes Interaction variable
- Model 9: All control variables, all stakes variables, and all salience variables
• Model 10: All control variables, all stakes variables, all salience variables, and all interaction variables

Table 4.12 presents results of regression analyses with all variables and economic performance and may provide further support for H1a, H1c, H2a, H2c, H3a, and H3c. Model 1 added the control variables to the regression equation, none of the variables were significant predictors of economic performance, and therefore Model 1 was not significant. Model 2 added all three stakes variables to the regression equation at the same time. This addition resulted in a significant change in $R^2$ (0.07; $p<0.01$). Neither Ownership Stakes nor Family Stakes had a significant effect. This result does not provide further support for H1a and is consistent with a lack of confirmation for H2a. Management Stakes were a significant predictor of economic performance ($\beta = 0.21$; $p<0.05$), which is counter to H3a that stated the stakes of management would be negatively related to economic performance but this is consistent with previous tests.
Table 4.12

Results of OLS Regression Using Economic Performance as the Dependent Variable and Ownership, Family, and Management Stakeholders Simultaneously

<table>
<thead>
<tr>
<th></th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
<th>Model 5</th>
<th>Model 6</th>
<th>Model 7</th>
<th>Model 8</th>
<th>Model 9</th>
<th>Model 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Volume</td>
<td>0.11</td>
<td>0.11</td>
<td>0.11</td>
<td>0.11</td>
<td>0.11</td>
<td>0.11</td>
<td>0.12</td>
<td>0.11</td>
<td>0.11</td>
<td>0.12</td>
</tr>
<tr>
<td>Age of the Company</td>
<td>0.04</td>
<td>0.03</td>
<td>0.03</td>
<td>0.02</td>
<td>0.03</td>
<td>0.03</td>
<td>0.02</td>
<td>0.03</td>
<td>0.03</td>
<td>0.01</td>
</tr>
<tr>
<td>Industry: Manufact./Constr.</td>
<td>-0.09</td>
<td>-0.10</td>
<td>-0.10</td>
<td>-0.12</td>
<td>-0.10</td>
<td>-0.10</td>
<td>-0.10</td>
<td>-0.09</td>
<td>-0.09</td>
<td>-0.11</td>
</tr>
<tr>
<td>Industry: Ret./Whole./Rest./Hotel</td>
<td>-0.19*</td>
<td>-0.15</td>
<td>-0.15</td>
<td>-0.16</td>
<td>-0.15</td>
<td>-0.15</td>
<td>-0.15</td>
<td>-0.15</td>
<td>-0.15</td>
<td>-0.17</td>
</tr>
<tr>
<td>Industry: Personal Services</td>
<td>0.00</td>
<td>-0.01</td>
<td>-0.01</td>
<td>-0.02</td>
<td>-0.01</td>
<td>-0.01</td>
<td>-0.01</td>
<td>-0.01</td>
<td>-0.01</td>
<td>-0.06</td>
</tr>
<tr>
<td># of Family FTEs</td>
<td>0.07</td>
<td>0.03</td>
<td>0.03</td>
<td>-0.03</td>
<td>0.03</td>
<td>0.03</td>
<td>0.03</td>
<td>0.04</td>
<td>0.03</td>
<td>0.05</td>
</tr>
<tr>
<td># of Owners</td>
<td>0.07</td>
<td>0.07</td>
<td>0.07</td>
<td>0.07</td>
<td>0.07</td>
<td>0.06</td>
<td>0.07</td>
<td>0.07</td>
<td>0.07</td>
<td>0.06</td>
</tr>
<tr>
<td>Percent Family Owned</td>
<td>0.11</td>
<td>0.12</td>
<td>0.12</td>
<td>0.11</td>
<td>0.12</td>
<td>0.12</td>
<td>0.12</td>
<td>0.11</td>
<td>0.12</td>
<td>0.11</td>
</tr>
<tr>
<td># of Family potential successors</td>
<td>0.00</td>
<td>0.03</td>
<td>0.03</td>
<td>0.03</td>
<td>0.03</td>
<td>0.04</td>
<td>0.02</td>
<td>0.01</td>
<td>0.03</td>
<td>0.05</td>
</tr>
<tr>
<td>Dummy: Founder</td>
<td>-0.02</td>
<td>-0.02</td>
<td>-0.02</td>
<td>0.00</td>
<td>-0.02</td>
<td>-0.02</td>
<td>-0.02</td>
<td>-0.02</td>
<td>-0.02</td>
<td>-0.01</td>
</tr>
<tr>
<td>Ownership Stakes</td>
<td>0.05</td>
<td>0.05</td>
<td>0.17*</td>
<td>0.04</td>
<td>0.05</td>
<td>0.05</td>
<td>0.01</td>
<td>0.05</td>
<td>0.12</td>
<td></td>
</tr>
<tr>
<td>Family Stakes</td>
<td>0.05</td>
<td>0.05</td>
<td>0.03</td>
<td>0.05</td>
<td>0.04</td>
<td>0.05</td>
<td>0.05</td>
<td>0.05</td>
<td>0.00</td>
<td></td>
</tr>
<tr>
<td>Management Stakes</td>
<td>0.21*</td>
<td>0.21*</td>
<td>0.17*</td>
<td>0.21*</td>
<td>0.19*</td>
<td>0.20*</td>
<td>0.25**</td>
<td>0.20*</td>
<td>0.20*</td>
<td></td>
</tr>
<tr>
<td>Ownership Salience</td>
<td>-0.01</td>
<td>0.01</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Own. Stakes * Own. Salience</td>
<td>0.20*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.19*</td>
<td></td>
</tr>
<tr>
<td>Family Salience</td>
<td></td>
<td></td>
<td></td>
<td>0.02</td>
<td>0.02</td>
<td>0.04</td>
<td>0.06</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fam. Stakes * Fam. Salience</td>
<td></td>
<td></td>
<td></td>
<td>-0.04</td>
<td>-0.04</td>
<td>-0.10</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management Salience</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.03</td>
<td>0.10</td>
<td>0.04</td>
<td>0.07</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mgt. Stakes * Mgt. Salience</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.20**</td>
<td>0.23*</td>
<td></td>
</tr>
<tr>
<td>F-Value</td>
<td>1.42</td>
<td>2.29**</td>
<td>2.12*</td>
<td>2.41**</td>
<td>2.12*</td>
<td>1.99*</td>
<td>2.12*</td>
<td>2.53**</td>
<td>1.86*</td>
<td>2.42**</td>
</tr>
<tr>
<td>R square</td>
<td>0.07</td>
<td>0.13</td>
<td>0.13</td>
<td>0.16</td>
<td>0.13</td>
<td>0.13</td>
<td>0.16</td>
<td>0.13</td>
<td>0.20</td>
<td></td>
</tr>
<tr>
<td>Change in R Square</td>
<td>0.07</td>
<td>0.07**</td>
<td>0.00</td>
<td>0.03*</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.03**</td>
<td>0.00</td>
<td>0.06**</td>
</tr>
<tr>
<td>Adjusted R Square</td>
<td>0.02</td>
<td>0.07</td>
<td>0.07</td>
<td>0.09</td>
<td>0.07</td>
<td>0.07</td>
<td>0.07</td>
<td>0.10</td>
<td>0.06</td>
<td>0.12</td>
</tr>
</tbody>
</table>

N = 210  *p<0.10; **p<0.05; ***p<0.01; ****p<0.001
Models 3 and 4 introduced Ownership Salience and the Ownership interaction terms respectively. The models remained significant and in Model 4 there was a significant change in $R^2$ (0.03; p<0.05). Ownership Stakes were moderately significant ($\beta = 0.17; p<0.10$) and the Interaction term was significant ($\beta = 0.20; p<0.05$). This lends further support for H1a and H1c. A graphical representation of the interaction can be found in Figure 4.5 below. This graph differs slightly from Figure 4.1 which depicted the same interaction when no other stakes variables were included in the regression equation. The relationship between ownership stakes and economic performance had a much less pronounced positive slope both when ownership salience was low and high. In general though, this graphical representation is very similar to Figure 4.1

Figure 4.5
Ownership Interaction with All Stakeholders’ Stakes Included in the Analysis and Economic Performance as the Dependent Variable
Models 5 and 6 introduced Family Salience and the Family interaction term. Neither of these variables was significant and there was no significant change in $R^2$. This was consistent with previous tests.

Models 7 and 8 introduced Management Salience and the Management interaction terms respectively. The model remained significant ($p<0.05$), Management Stakes were significant (Model 7 $\beta = 0.20$; $p<0.05$ & Model 8 $\beta = 0.25$; $p<0.01$), and in Model 8 there was a significant change in $R^2$ (0.03; $p<0.01$). This again is consistent with previous tests and therefore, no support can be found for H3a and H3c. A graphical representation of the interaction can be found in Figure 4.6 below. Figure 4.6 is nearly identical to Figure 4.2. Therefore, this relationship holds true even when all stakeholder groups are included in the model.

![Figure 4.6](image)

Figure 4.6
Management Interaction with All Stakeholders’ Stakes Included in the Analysis and Economic Performance as the Dependent Variable
Finally, Models 9 and 10 added all salience terms and then all interaction terms. In Model 10 there was a significant change in $R^2$ (0.06; $p<0.01$) and this full model was significant ($p<0.01$). Management Stakes were significant ($\beta = 0.20; p<0.05$), the Ownership interaction term was significant ($\beta = 0.19; p<0.05$), and the Management interaction term was significant ($\beta = 0.23; p<0.05$). Therefore, the full model lends partial support to H1c. Graphical representations of the interaction terms can be found below in Figures 4.7 and 4.8. For the ownership stakeholder group, the results of Figure 4.7 show that when ownership salience was low, the relationship between ownership stakes and economic performance had a slightly negative relationship. When ownership salience was high, the positive relation was again present. This model was still very similar to Figures 4.1 and 4.5 and continues to support H1c.

![Figure 4.7](image)

**Figure 4.7**

Ownership Interaction in the Full Model and Economic Performance as the Dependent Variable
Figure 4.8 was similar to previous tests (Figure 4.2 and Figure 4.6). The main difference was that low management salience resulted in slightly higher economic performance when management stakes were also low. Otherwise, the basic relationships described previously hold true even when all stakes and all salience variables were included in the model.

Table 4.13 illustrates the relationships of all stakeholder groups with the non-economic performance of family firms. Model 1 entered the control variables and, similar to previous tests, the control variable for whether or not the respondent was the founder of the family business was positive and significant ($\beta = 0.20; p<0.01$). The Founder dummy variable remained significant and in the same direction as in Model 1 throughout all 10 models.
Table 4.13

Results of OLS Regression Using Non-Economic Performance as the Dependent Variable and Ownership, Family, and Management Stakeholders Simultaneously

<table>
<thead>
<tr>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
<th>Model 5</th>
<th>Model 6</th>
<th>Model 7</th>
<th>Model 8</th>
<th>Model 9</th>
<th>Model 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beta</td>
<td>Beta</td>
<td>Beta</td>
<td>Beta</td>
<td>Beta</td>
<td>Beta</td>
<td>Beta</td>
<td>Beta</td>
<td>Beta</td>
<td>Beta</td>
</tr>
<tr>
<td>Sales Volume</td>
<td>-0.10</td>
<td>-0.07</td>
<td>-0.08</td>
<td>-0.08</td>
<td>-0.07</td>
<td>-0.07</td>
<td>-0.07</td>
<td>-0.08</td>
<td>-0.07</td>
</tr>
<tr>
<td>Age of the Company</td>
<td>0.05</td>
<td>0.03</td>
<td>0.05</td>
<td>0.04</td>
<td>0.05</td>
<td>0.04</td>
<td>0.05</td>
<td>0.03</td>
<td>0.05</td>
</tr>
<tr>
<td>Industry: Manufacturing/Const.</td>
<td>0.07</td>
<td>0.04</td>
<td>0.04</td>
<td>0.03</td>
<td>0.05</td>
<td>0.06</td>
<td>0.05</td>
<td>0.05</td>
<td>0.05</td>
</tr>
<tr>
<td>Industry: Retail/Wholesale/Rest/Hot.</td>
<td>0.04</td>
<td>0.03</td>
<td>0.04</td>
<td>0.04</td>
<td>0.05</td>
<td>0.09</td>
<td>0.03</td>
<td>0.03</td>
<td>0.04</td>
</tr>
<tr>
<td>Industry: Personal Services</td>
<td>0.11</td>
<td>0.07</td>
<td>0.06</td>
<td>0.05</td>
<td>0.07</td>
<td>0.08</td>
<td>0.06</td>
<td>0.04</td>
<td>0.06</td>
</tr>
<tr>
<td># of Family FTEs</td>
<td>-0.09</td>
<td>-0.12</td>
<td>-0.07</td>
<td>-0.07</td>
<td>-0.09</td>
<td>-0.08</td>
<td>-0.11</td>
<td>-0.10</td>
<td>-0.08</td>
</tr>
<tr>
<td># of Owners</td>
<td>0.06</td>
<td>0.07</td>
<td>0.04</td>
<td>0.04</td>
<td>0.04</td>
<td>0.06</td>
<td>0.08</td>
<td>0.08</td>
<td>0.05</td>
</tr>
<tr>
<td>Percent Family Owned</td>
<td>0.02</td>
<td>0.02</td>
<td>-0.01</td>
<td>-0.01</td>
<td>0.03</td>
<td>0.03</td>
<td>0.02</td>
<td>0.02</td>
<td>0.00</td>
</tr>
<tr>
<td># of Family potential successors</td>
<td>0.00</td>
<td>0.03</td>
<td>0.02</td>
<td>0.03</td>
<td>0.06</td>
<td>0.00</td>
<td>0.02</td>
<td>0.01</td>
<td>0.02</td>
</tr>
<tr>
<td>Dummy: Founder</td>
<td>0.20**</td>
<td>0.19*</td>
<td>0.18*</td>
<td>0.18*</td>
<td>0.18*</td>
<td>0.18*</td>
<td>0.18*</td>
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</tr>
<tr>
<td>Ownership Stakes</td>
<td>0.10</td>
<td>0.04</td>
<td>0.09</td>
<td>0.05</td>
<td>0.01</td>
<td>0.11</td>
<td>0.08</td>
<td>0.06</td>
<td>0.05</td>
</tr>
<tr>
<td>Family Stakes</td>
<td>0.19*</td>
<td>0.17*</td>
<td>0.16*</td>
<td>0.14*</td>
<td>0.19*</td>
<td>0.16*</td>
<td>0.16*</td>
<td>0.15*</td>
<td>0.17*</td>
</tr>
<tr>
<td>Management Stakes</td>
<td>0.01</td>
<td>-0.03</td>
<td>-0.05</td>
<td>-0.04</td>
<td>0.02</td>
<td>-0.09</td>
<td>-0.04</td>
<td>-0.08</td>
<td>-0.01</td>
</tr>
<tr>
<td>Ownership Salience</td>
<td>0.27***</td>
<td>0.27***</td>
<td>0.17*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Family Salience</td>
<td>0.23**</td>
<td>0.28***</td>
<td>0.04</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fam. Stakes * Fam. Salience</td>
<td>0.27***</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management Salience</td>
<td>0.25***</td>
<td>0.33***</td>
<td>0.15*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mgt. Stakes * Mgt. Salience</td>
<td>0.21**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F-Value</td>
<td>1.33</td>
<td>1.98*</td>
<td>2.95***</td>
<td>2.82***</td>
<td>2.49**</td>
<td>3.37***</td>
<td>2.84***</td>
<td>3.27***</td>
<td>2.82***</td>
</tr>
<tr>
<td>R square</td>
<td>0.06</td>
<td>0.12</td>
<td>0.18</td>
<td>0.18</td>
<td>0.15</td>
<td>0.21</td>
<td>0.17</td>
<td>0.20</td>
<td>0.19</td>
</tr>
<tr>
<td>Change in R Square</td>
<td>0.06</td>
<td>0.05**</td>
<td>0.06***</td>
<td>0.00</td>
<td>0.04**</td>
<td>0.06***</td>
<td>0.05***</td>
<td>0.03**</td>
<td>0.07***</td>
</tr>
<tr>
<td>Adjusted R Square</td>
<td>0.02</td>
<td>0.06</td>
<td>0.12</td>
<td>0.12</td>
<td>0.09</td>
<td>0.15</td>
<td>0.11</td>
<td>0.14</td>
<td>0.12</td>
</tr>
</tbody>
</table>

N = 210  ^p<0.10; *p<0.05; **p<0.01; ***p<0.001
Model 2 entered all three stakes variables. The results showed that Family Stakes had a significant and positive relationship with Family Harmony ($\beta = 0.19; p<0.05$). Ownership Stakes and Management stakes were not significant in Model 2. This provides no support for $H1b$ or $H3b$ but gives further support for $H2b$. The significant relationship between Family Stakes and Family Harmony was at least marginally significant and positive in the remaining models (3-10).

In Model 3 and Model 4, Ownership Salience and the Ownership interaction term were added to test $H1d$. Ownership Salience had a positive and significant relationship with Family Harmony ($\beta = 0.27; p<0.001$) in both models. This relationship was not previously hypothesized. In Model 4, the Ownership interaction term was not significant. Therefore, $H1b$ and $H1d$ had no support from this model.

Model 5 and Model 6 tested $H2b$ and $H2d$ and these hypotheses were once again confirmed. In Model 6, Family Stakes were positive and significant ($\beta = 0.19; p<0.05$) and the interaction of Family Stakes and Family Salience was also positive and significant ($\beta = 0.27; p<0.001$). Thus, family stakes positively affect family harmony, and when family salience was high the positive relationship between family stakes and family harmony was magnified. A graphical representation of this relationship can be seen below in Figure 4.9. This representation is virtually identical to Figure 4.3. Therefore, the hypothesized positive relationship between family stakes and non-economic performance at different levels of family salience holds true even when all stakes variables are included in the model.
Model 7 and Model 8 add Management Salience and the Management interaction term with the intent of testing H3b and H3d. Both models show that H3d has no support from the data. It was hypothesized that Management Stakes would have a negative relationship with Family Harmony and this does not appear to be the case. Indeed, Management Stakes, Management Salience and the Management interaction term all provide positive and significant coefficients to the regression equation ($\beta = 0.16; p<0.05$ & $\beta = 0.33; p<0.001$ & $\beta = 0.21; p<0.01$ respectively) in Model 8. The management stakes and management interaction’s relationships were in the opposite direction hypothesized in H3b and H3d respectively, and hence have no support from the data again. A graphical representation of these relationships can be seen below in Figure 4.10. The graph for Figure 4.10 is very similar to the graph in Figure 4.4. Thus, this
significant, yet not hypothesized relationship, held true even when all stakes variables were included in the regression analysis.

![Figure 4.10](image)

**Figure 4.10**

Management Interaction with All Stakeholders’ Stakes Included in the Analysis and Non-Economic Performance as the Dependent Variable

Lastly, Model 9 adds all salience terms and Model 10 adds all interaction terms. The intent of the final model was to test all hypotheses concerning non-economic performance at the same time. In Model 9, the significant salience variables were Ownership Salience ($\beta = 0.17; p<0.10$) and Management Salience ($\beta = 0.15; p<0.10$). In Model 10, the Founder dummy variable was positive and significant ($\beta = 0.18; p<0.05$). Ownership Stakes was not significant, which lends no support to H1b. Family Stakes was again significant and positive ($\beta = 0.17; p<0.05$) which gave further support to H2b. Management Stakes was not significant and this result gave no support to H3b. Neither Ownership Salience nor the Ownership interaction variable was significant. This showed
again that H1d was not supported by the data. The Family interaction variable was significant and positive ($\beta = 0.18; p<0.05$) which demonstrated that the relationships outlined in H2d remained significant even when all variables were included in the regression equation. The Management interaction variable remained significant ($\beta = 0.17; p<0.05$) and in the opposite direction hypothesized in H3d. Therefore, H3d was not supported in the full model. Both significant interaction effects can be seen below in Figures 4.11 and 4.12.

Figure 4.11 was similar to Figures 4.4 and 4.9 and therefore the relationships described previously concerning the interaction effect of family salience upon the relationship between family stakes and economic performance held true even when all stakes and salience variables were included in the regression equation.

![Figure 4.11](image)

Figure 4.11

Family Interaction in the Full Model and Non-Economic Performance as the Dependent Variable
Finally, Figure 4.12 shows again that the previous relationships depicted in Figures 4.4 and 4.10 held true when all variables were included in the regression equation. Owing to this, the relationship will not be described here again.

![Figure 4.12](image)

**Management Interaction in the Full Model and Non-Economic Performance as the Dependent Variable**

In summary, when all variables were entered into the regression equation where non-economic performance was the dependent variable, only H2b and H2d were given support.

**Chapter Summary**

Table 4.14 presents a summary of the findings for all hypotheses. The results of the full model differ slightly in magnitude from the results of the regression analyses run without all stakeholder groups included but the support, or lack thereof, for the hypotheses were the same. Four of the twelve hypotheses were supported by these data.
Table 4.14
Summary of Hypotheses Testing

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Result</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1a</td>
<td>Supported</td>
<td>The stakes of the ownership stakeholder group will be positively related to economic performance.</td>
</tr>
<tr>
<td>H1b</td>
<td>Not Supported</td>
<td>The stakes of the ownership stakeholder group will be negatively related to non-economic performance.</td>
</tr>
<tr>
<td>H1c</td>
<td>Supported</td>
<td>The salience of the ownership stakeholder group will moderate the relationship between ownership stakes and economic performance, where higher ownership salience will further increase economic performance.</td>
</tr>
<tr>
<td>H1d</td>
<td>Not Supported</td>
<td>The salience of the ownership stakeholder group will moderate the relationship between ownership stakes and non-economic performance, where higher ownership salience will further decrease non-economic performance.</td>
</tr>
<tr>
<td>H2a</td>
<td>Not Supported</td>
<td>The stakes of the family stakeholder group will be negatively related to economic performance.</td>
</tr>
<tr>
<td>H2b</td>
<td>Supported</td>
<td>The stakes of the family stakeholder group will be positively related to non-economic performance.</td>
</tr>
<tr>
<td>H2c</td>
<td>Not Supported</td>
<td>The salience of the family stakeholder group will moderate the relationship between family stakes and economic performance, where higher family salience will further decrease economic performance.</td>
</tr>
<tr>
<td>H2d</td>
<td>Supported</td>
<td>The salience of the family stakeholder group will moderate the relationship between family stakes and non-economic performance, where higher family salience will further increase non-economic performance.</td>
</tr>
</tbody>
</table>
Table 4.14 continued

Summary of Hypotheses Testing

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Result</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>H3a</td>
<td>Not Supported</td>
<td>The stakes of the management stakeholder group will be negatively related to economic performance.</td>
</tr>
<tr>
<td>H3b</td>
<td>Not Supported</td>
<td>The stakes of the management stakeholder group will be negatively related to non-economic performance.</td>
</tr>
<tr>
<td>H3c</td>
<td>Not Supported</td>
<td>The salience of the management stakeholder group will moderate the relationship between management stakes and economic performance, where higher management salience will further decrease economic performance.</td>
</tr>
<tr>
<td>H3d</td>
<td>Not Supported</td>
<td>The salience of the management stakeholder group will moderate the relationship between management stakes and non-economic performance, where higher management salience will further decrease non-economic performance.</td>
</tr>
</tbody>
</table>

In conclusion, this chapter described the data collected from family businesses located in Washington, Oregon, and Idaho in the United States. The chapter provided results for factor analyses utilized to develop constructs that were later used, along with a number of control variables, in regression equations to test the relationships set forth by the conceptual model developed in Chapter II. Further analyses provided a richer description of the moderating relationships confirmed in the data. The next chapter presents a discussion of these results and provides study limitations, contributions to the literature, implications for family business research and practice, and concluding remarks.
CHAPTER V
RESEARCH CONCLUSIONS

The purpose of this chapter is to discuss and present conclusions based upon the results obtained from empirical testing of the hypotheses. The chapter begins with a discussion of the research findings. Next, the study’s limitations and contributions to the literature are presented. This is followed by concluding statements regarding the implications for research and practice, along with recommendations for future research to advance the study of family businesses.

Discussion of Results

The purpose of this dissertation was to develop and test a conceptual model where the primary stakeholder groups in the family firm were shown to have different sets of stakes that can potentially affect the firm’s economic performance and affect the family’s non-economic performance. This builds upon the model developed by Mitchell and colleagues (1997) and later tested by Agle et al. (1999). The newly developed conceptual model intended to show that the salience of stakeholder groups is not, as suggested by Mitchell et al. (1997), the primary cause for differences in performance. Instead, the stakes of the primary stakeholder groups were argued to directly affect performance while the salience of stakeholder groups serves to only enhance or detract from the relationship between stakes and performance.
The model was tested by creating a survey instrument that was subsequently
distributed to a large sample of family businesses in the Pacific Northwest of the United
States. After successfully delineating the proposed constructs through factor analytic
techniques, OLS regression procedures were employed which lead to several key results.
The remainder of this section will describe the implications of both the unsupported and
supported hypothesized relationships. This is then followed by a discussion of significant
results that were not hypothesized.

**Hypothesized Relationships: Ownership**

The findings for the first set of hypotheses confirmed that there was a positive
relationship between adhering to the stakes of the ownership stakeholder group and the
economic performance of the firm (H1a), and that this relationship was magnified when
the salience of the owner group was higher rather than lower (H1c). It was of no surprise
that the needs of the owners positively affected the economic performance of the firm.
The review of literature clearly demonstrated that the primary stake of the ownership
stakeholder group was the maximization of wealth (e.g., Fiegener, 2005; Fiegener et al.,
2000a, b; Gersick et al., 1997; Olson et al., 2003). It was also argued by Birch (1987)
that founders of firms have a stronger predisposition to pursue economic rather than non-
economic goals. Therefore, these data show that the stakes of the ownership group
tended to affect the firm’s economic performance in a positive, linear manner.

These results support literature concerning agency theory. Agency theorists
typically argue that the greater the level of ownership by those who have the authority to
make decisions, the greater the organization’s performance (e.g., Jensen & Meckling,
The significant and positive effect of the interaction of ownership stakes and ownership salience implies that as control or influence over decision making (i.e., salience) increases, then the owners will be able to implement actions that meet their needs which are primarily economic in nature. Thus, owners must not only be in the position to make decisions, they must also perceive that their claims on the firm take precedence over other stakeholder groups.

There was no support for H1b and H1d, which stated that ownership stakes are negatively related to family performance and this relationship is strengthened through the interaction of ownership stakes and ownership salience. In fact, ownership salience was a positive rather than a negative predictor of family performance when the ownership stakeholder group’s effect was tested without the other stakeholder groups in the model (Table 4.9, p. 107).

**Hypothesized Relationships: Family**

The results did not confirm that a negative relationship exists between family stakes and the economic performance of the firm (H2a) and that this relationship is magnified by higher levels of family salience (H2c). Adhering to the needs and wants of the family may not be as harmful to economic performance as previously argued. The effect of diverting funds to family needs rather than the needs of the business may be offset by the altruistic or steward-like support given to the business by family members above and beyond that of non-family employees (Miller & Le Breton-Miller, 2006). The family members’ emotional attachment to and identity with the company may increase their likelihood to work harder when necessary, without receiving immediate benefits but
all the while knowing that certain perks would be provided through their family membership (Chrisman, Chua & Litz, 2004; Schulze et al., 2001). Thus the cost of meeting non-economic claims may be negated by increased family effort without increased compensation.

This all points to the idea that the alignment of goals (Davis, Schoorman & Donaldson, 1997) in family firms are not necessary but this is not definitive proof. Rather it may show that stewardship traits in family firms merely offset the perks of family membership. Also, owing to the small size of the firms in this sample, in small family firms the relationship between family stakes and performance may not be asymmetric enough to where we attain an agency effect and not strong enough to attain a stewardship effect. Thus, no relationship would be found.

The lack of findings is also in direct contrast with recent research on entrenchment by Oswald, Muse, and Rutherford (2009) where they found that the percentage of family ownership of a firm was negatively related to sales growth and several other financial performance measures. This lack of consistency is likely due to their operationalization of family influence by using percentage of family ownership as a proxy, compared to this dissertation’s operationalization of family influence through the uses of Mitchell et al.’s (1997) salience construct. Percentage of ownership by the family does not necessarily imply that the family will use their ownership control to meet the needs of the family whereas the level of salience of the family does accomplish this goal. Therefore, the authors are possibly not capturing the diversion of funds from economic to non-economic activities. Instead, they might only be capturing the effects of entrenchment where the increase in ownership stakes causes conservative decision
making practices rather than growth-oriented risk taking practices (Wright, Ferris, Sarin & Awasthi, 1996)

Alternatively, the findings did show that there was a positive relationship between adhering to the stakes of the family stakeholder group and the non-economic performance of the firm (H2b). This relationship was magnified when the salience of the family group was higher rather than lower (H2d). In fact, when family salience was low, varying levels of stakes made no apparent impact on family harmony. This implies that only when the family group becomes highly salient will the adherence to family claims be powerful enough to impact family harmony in a positive manner.

The relationship between family stakes and family harmony makes sense when the family firm is regarded as a dominant coalition consisting of the same or a small number of families (Chua et al., 1999). By being the dominant force in the firm, the family will have operational control of the business in the majority of all situations, which in turn allows the family to pursue non-economic stakes more easily than when not in control of the business. Adhering to family member stakes should in effect reduce conflict amongst the family. Also, as the salience of the family strengthens so too does the importance of meeting the stakes of the family group. Therefore, the combination of high family stakes and high family salience implies that family harmony will also be high.

In short, adhering to family stakes showed no significant relationship with economic performance but was positively related to non-economic performance. Previous arguments essentially presented these relationships as a zero sum gain but the results do not appear to support this assertion.
Hypothesized Relationships: Management

Finally, the results showed no support for the hypotheses concerning the stakes of the management stakeholder group. It was argued that the stakes of the management stakeholder group would negatively affect both economic and non-economic performance measures in family firms (H3a and H3c) because the needs of the management stakeholder group were assumed to be counter to the needs of the business and the family at least in the short term. The basic premise was that increasing adherence to management claims on the firm would reduce the amount of resources available to meet the claims of the owners and the family. It was also argued that the salience of the management stakeholder group would moderate these relationships (H3b and H3d).

The analyses showed that management stakes were not negatively related to the performance of the business and the family. In fact, management stakes were positively related to economic performance in Tables 4.8 and 4.12, which is in the opposite direction as hypothesized in H3a. Also, management salience was positively related to non-economic performance in Tables 4.11 and 4.13.

Relationships Not Hypothesized but Significant

Several relationships were significant in the data that were not expected. These relationships were found throughout the multiple regression analyses. Those with particularly interesting implications are discussed below.

Ownership Salience was a significant predictor of Family Harmony in Table 4.9. This is an important result because Agle and colleagues (1999) were unable to find significant relationships between salience constructs and performance variables. This
relationship implies that as the salience of the ownership group increased so too did the harmony of the family.

A potential explanation for this result can be found in the sample. The sample was comprised of relatively small firms (based on sales volume) that were primarily owned by the family, causing a large overlap in ownership and family roles. This significant overlap in roles could have adversely affected the results because the salience or influence of being an owner would allow the family, who are the owners in this case, to combine ownership and family salience to achieve non-economic, family stakes, and in turn increase family harmony. In other words, the increased level of salience for owners would increase the likelihood that family needs would be met because owners and family are one in the same. This result may provide a better operationalization for arguments of ownership entrenchment in family firms (Oswald et al., 2009).

A second finding which is particularly interesting is that the hypotheses regarding management stakeholders were not supported but they were significant. This significance was in the opposite direction as hypothesized and implies a number of things.

First, the stakes of the management group, such as salaries and wages that reflect work input, opportunities for career advancement, and the long-term viability of the business, positively affect economic performance in these data. This implies that the returns received from properly incentivized management outweigh their cost in this data set. In other words, managers who perceive that harder work will result in personal gains have been incentivized effectively to the point that principle and agent interests are aligned (e.g., Jensen & Meckling, 1976).
Second, it was expected that resources utilized for managerial stakes would reduce resources necessary to meet the needs of the family and this divergence would create a source of conflict. The lack of a negative relationship between management stakes and family performance implies that meeting the needs of management does not cause conflict amongst family members. This again could be a result of well managed agency costs that have aligned principle and agent relationships. Also, it could be a product of firms in the data set having a large portion of family members who are managers. When an overlap of family and management occurs, the resources received by management are also received by some family members, which in turn reduces potential conflict over compensation for managers.

Third, in Table 4.11 and in Table 4.13 Management Salience had a significant and positive relationship with the performance of the family. This is particularly noteworthy because Agle and colleagues (1999) were unable to support hypotheses which maintained that salience variables would have positive linear relationships with performance. This means that the more importance a decision maker places on a manager when taking action, the better a family performs. This might imply that giving priority to management helps mitigate opportunism and conflicts of interest, which in turn allows the family to focus on their goals.

**Limitations**

This dissertation contains both theoretical and methodological limitations that should be addressed. A number of actions were taken to minimize these limitations, but they may provide scholars with ample opportunities for future research.

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First, the sampling design was cross-sectional in nature. To better attain cause and effect, a longitudinal research design may have been more appropriate. Providing data from several points in time would enhance the accuracy and applicability of the results. Although certain tests were conducted to ensure that the data represented a reasonable cross-section of family businesses, caution should be taken when inferring causality from the results.

Second, the use of the construct Family Harmony may not fully capture the performance of the family. This construct was chosen because the overlapping nature of the primary stakeholder groups, as described by Gersick et al. (1997), may cause a heightened level of conflict in family firms. Therefore it was argued that families lacking conflict are in essence performing well. Even though theoretical reasoning was provided for the use of the family harmony scale, it may be more appropriate to use a multidimensional construct or multiple measures that test several different components of family performance.

Third, the definition of salience implies that decision makers assess the level of importance of stakeholder groups (Mitchell et al., 1997). The priority assigned to each group affects if or when decisions are made to address each group’s stakes. Therefore, decision makers were deemed appropriate to test this dissertation’s conceptual model. However, only a single respondent was surveyed from each family business in the data and, even though this meets the criterion set forth by salience, it may have been better to solicit responses from multiple participants at each business. This would reduce the chance for single source bias in the data. Accomplishing this in the current data set
would have been difficult owing to the relatively small size of many of the businesses, which tended to be owner managed.

Fourth, although power analyses resulted in an appropriate sample size to conduct the study, the size of the final sample is in question due to the effective response rate. Low response rates can lead to spurious results, which are not reflective of the entire population (e.g., Kanuk & Berenson, 1975). Several measures were taken to ensure that non-respondents did not differ from those who completed the survey, but future studies may want to increase their efforts to obtain a better response.

Fifth, factor analytic techniques were successful in distinguishing between groups for the creation of the study’s main constructs but a lack of variability in several measures made this result particularly fortunate. This resulted in rather large correlations between a number of variables and forced actions to be taken, such as centering variables and computing z-scores, to mitigate issues with multicollinearity. As researchers increase the number of stakeholder groups being studied, reduction of multicollinearity will be more difficult owing to the repetitive nature of asking CEOs to answer questions about each of these groups. In particular, asking CEOs four items that create salience scales for each stakeholder group and numerous items concerning stakes scales for each stakeholder group will make it much more difficult to factor analyze the data as the number of groups included in an analysis increases.

Finally, the length of the survey made it impossible to include items developed to capture the three dimensions of salience: power, legitimacy, and urgency. Although it was argued that previous studies had shown the salience construct to be a fair representative of its three dimensions, it remains that including those three constructs in
the family stakeholder salience model could provide richer detail to the relationships established.

In sum, the theoretical and methodological limitations provide room for improvement in future studies.

Contributions

This study presents important contributions to the study of stakeholder theory, family business, and to current family business owners. First, the simultaneous review of stakeholder and family firm literature brings a deeper understanding of the links between them. By including family firms in a model of stakeholder salience, this dissertation has effectively met the call to broaden the scope of stakeholder theory while at the same time strengthen the understanding of family firm interactions (Laplume, Sonpar & Litz, 2008).

The concept of economic and non-economic performance in family firms has given stakeholder research new ways to test the effect of not only the salience of particular stakeholder groups, but also to test the actual stakes of which these groups deem important. The combination of these two literatures has provided valuable insight concerning the effect of agency relationships upon performance measures in family firms. By looking at family performance and firm performance simultaneously, this dissertation sheds light upon the effect of having agents who are members of multiple systems in the family firm. Thus, this dissertation has satisfied Campbell (1997), Sharma (2004), and Chrisman and colleagues’ (2005) call to integrate these theories in new ways.

Second, the new conceptual model has greatly enhanced the work of Mitchell et al. (1997). Their original conceptualization of stakeholder salience laid the groundwork
for this study but subsequent researchers (Agle et al., 1999) had difficulty empirically confirming a positive relationship between stakeholder salience and firm performance. This dissertation answers Agle et al.’s (1999) call to further study this concept. By hypothesizing an indirect relationship between stakeholder salience and performance through the stakes of stakeholder groups, this dissertation was able to better explain how the influence of stakeholder groups affects firms. Thus, by conceptualizing salience to have an indirect relationship with performance, this dissertation may have provided an important remedy for Agle et al.’s (1999) lack of significant findings.

Lastly, by including the family stakeholder group and including non-economic performance, this dissertation further developed knowledge about decision making in family firms. Not only does it speak to recent research concerning entrenchment (Oswald et al., 2009), but this dissertation also may relate to the emotional value attached to ownership of a firm (Zellweger & Astrachan, 2008) and how this emotional value affects the way family business owners make decisions.

Implications

The review of literature and subsequent development of theory, along with the empirical results and the limitations of this study, provide a number of avenues for future examination of family businesses and stakeholder theory as well as practical implications for family business owners.

Research Implications and Future Research

Future research stemming from this study should address the methodological limitations set forth previously. First, development of sound measures that assess family
performance is necessary. The lack of multiple measures or measures with multiple
dimensions in the literature points to difficulties in conceptualizing family performance.
Although it was outside the scope of this dissertation, a fully developed assessment of
what truly constitutes family performance would greatly enhance the ability of
researchers to gauge family firm success on several dimensions. Developing new
measures would also provide future researchers with the tools necessary to better test the
relationships in the family stakeholder salience model. Bheer et al.’s (1997) family
harmony construct is simply a first step in this direction. It will be important to build
upon this scale so that future research is better able to capture family performance.

Second, the relationships described in this dissertation may not accurately
describe all family businesses (Gersick et al., 1997). The number of family members and
their governance structure for their firms could drastically change the outcomes of this
study. Other factors may also affect the results. For example, a sample of companies
outside the United States may provide different results owing to a shift in cultural
standards or preferences. Also, larger firms may not possess the exact same properties as
smaller firms. Larger companies, out of necessity, tend to be more professionalized and
possess institutionalized norms or procedures (e.g., Dimaggio & Powell, 1983;
Jepperson, 1991) when making decisions. Therefore, the influence of especially salient
stakeholder groups may not be as strong because institutional norms reduce their power
in the eyes of decision makers. It would be interesting for future research to examine
how the pressures of institutionalized norms of certain industries affect the relationships
tested in this dissertation.
Third, examining successful decision processes that assist family businesses in meeting the needs of the three primary stakeholder groups is necessary. How the process takes place and what tools decision makers use to analyze their situations is particularly important for the field. Some work in this area has already been done including conflict management strategies (Sorenson, 1999), succession planning best practices (e.g., Barach & Ganitsky, 1995; Morris, Williams, Allen & Avila, 1997), general planning practices (Upton, Teal & Felan, 2002), decisions concerning growth (Ward, 1997), etc. One potential research question is: If performance is the ultimate goal of both the family and the business, what processes do successful family businesses use when deciding to meet the needs of one group over another? Answering questions of this nature will be an important next step in understanding how family businesses attain success on multiple levels.

Fourth, research should take into account the potential effect that previous economic performance has on future family performance. If a family business is not able to produce enough resources to meet the needs of the business, then it is improbable that the business will provide enough resources to meet the family’s needs. Consequently, if resources are provided to the family during times of poor economic performance by the business, then it may be possible to find a significant, negative relationship between further poor performance and the family stakeholder group’s stakes. Future research should consider this effect and may want to include safeguards, such as separating data into groups based on previous year’s performance and then running analyses to make sure the relationships between hypothesized variables are not significantly different.
Fifth, future research may consider integrating recent literature concerning the management of competing stakeholder claims. Jones, Felps, and Bigley (2007) utilized characteristics of a company’s corporate culture to categorize how these cultures managed stakeholder claims. The authors provide various corporate cultures that are conducive to different ways of managing the trade-offs among competing claims. It would be interesting if an investigation of a “family culture” were integrated within their framework.

Finally, future research should address the potential confounds that significant events in family businesses, such as trans-generational succession planning (e.g., Chrisman & Sharma, 1998; Handler, 1994), have on the salience of stakeholders. For example, during the succession planning process in family firms, does the salience of the family group play a larger role in the ultimate decision made? Are there key decisions that will consistently be regarded as those more or less influenced by one stakeholder group over another? Will institutional norms for top management experience and legitimacy affect the family’s ability to choose a family member?

In sum, this dissertation offers a host of directions for future researchers to travel. These implications may provide richer insight about stakeholder effects on various types of performance in family firms.

**Implications for Family Businesses**

The current study provides two important implications for the practice of family firms.
First, family business owners, decision makers in the firm, and family members must find effective ways to communicate the numerous goals of both the business and the family. Since family harmony and economic performance standards appear to be essential to family businesses, it is necessary to build systematic and professionalized ways of deciding when and how to meet each stakeholder group’s needs. This is important because the results of this dissertation show that adherence to stakes can affect multiple kinds of performance.

Openly discussing the goals of the business and the family could mitigate potential conflicts as family firms continue to grow. Since a primary goal of a family is the creation of transgenerational wealth, it will be especially important to strategically plan for the growth (Poza, 1989; Ward, 1997) necessary to generate enough wealth to support the family and the business along with future generations of the family.

Open discussion of goals may be especially necessary when family firms are not performing to their full potential. A lack of resources for the business would most likely lead to a reduction of resources for the family. This may be especially true when making choices concerning long-term management of the company, such as succession events. If a family firm has communicated its intention when developing successors, then not only will the potential successor be better informed of proper procedures to deal with significant events that affect both the family and the business, but also non-family employees will be more informed of the intention of their employers pertaining to opportunities for advancement and growth of the business.

Unfortunately, planning for growth often does not take place in family firms (Ward, 1997) and this may be due to a lack of knowledge concerning how to grow. So
family firm leaders should systematically educate themselves on best practices for growth and convey this knowledge to the rest of the family in an effort to develop a plan of action that matches both the economic goals of the business and the non-economic goals of the family.

Second, family business owners need to understand that economic and non-economic performance of the family appear related on some level. In particular, family harmony may not have the opportunity to develop when the economic performance of the family firm is weak. It will be very important for family business owners to know when certain capital outlays have the potential to generate significant cash flows that may then be used to meet the needs of the family. When these occasions arise, it will be necessary to not only take advantage of them, but it will also be necessary to communicate the potential sacrifices the family will need to make in order for new initiatives to work. In other words, if families adhere to the suggestion to effectively communicate the intent of all strategic moves, be it for the betterment of the business or the betterment of the family, then subsequent capital outlays which benefit one over the other may come with less conflict between the ownership and the family groups.

In sum, this research encourages family firms to be deliberate in their decision-making processes. Numerous stakeholder groups beyond the scope of this dissertation will be vying for resources. As decision makers better understand stakes and salience of the three primary stakeholder groups within the family firm, they should find ways to incorporate standardized processes to handle each group’s demands along with those arising from conducting their business.
Conclusion

This chapter provided a discussion of the research results, including relationships of variables that were not hypothesized. Limitations of the study were addressed along with contributions to both stakeholder theory and family business research. Additionally, a number of implications for future research and practical implications for family business practitioners were provided.

In conclusion, this dissertation studied two research streams under the umbrella of strategic management and built a new conceptual model to test hypotheses regarding relationship and resource management in family firms. The theoretical contributions to multiple literature streams provide not only a sound basis for future projects, but also give practical insight to those currently operating their own family businesses. The use of a multi-industry, multi-state data set, which included family businesses of many sizes, supplied a sufficient basis for studying the hypothesized relationships and the results showed that the stakes of the primary stakeholders in family firms do in fact affect both economic and non-economic performance measures.

Family firms have been effectively shown in multiple studies to be the dominant form of business worldwide. The findings of this dissertation are further indication of their resilience in the marketplace. The innate ability to manage multiple stakeholder groups, who have varying effects on dual performance criteria, shows that Gersick and colleagues (1997) correctly described the inclusion of family businesses in the economy and the social landscape as “taken for granted.” It is incumbent upon scholars to continue to nurture the growing field of family business research in order to advance understanding of such a principal force in our everyday lives.
REFERENCES


Hello, my name is _____, and I am calling from Hebert Research, an independent research firm based in Bellevue, WA. This call is for research purposes only, and will not involve sales of any kind. This call also has no connection with any political campaign or candidate.

Am I speaking with _______________? [NAME OF PERSON ON THE LIST] [IF NO, ASK FOR THE PERSON, RE-SCHEDULE OR THANK & TERMINATE]

As part of a research project sponsored by Laird Norton Tyee, a seventh generation family business located in the Pacific NW, we are calling family businesses around the United States to learn more about them. I am calling to ask you to participate in our survey. It will take no more than 20 minutes to complete.

Is this a good time for you? [IF NO, ASK FOR THE PERSON, RE-SCHEDULE OR THANK & TERMINATE]

I would be happy to answer any questions you may have about the study, either now or later. If you have any questions after completion, please feel free to contact Cynthia Hebert or Bruce Olsen at (425) 643-1337 or at (800) 869-7035. Your participation is completely voluntary and you can discontinue any time.

Q1. Are you among the family members who are in charge of the running of the business?
   1. Yes [SKIP TO Q3]
   2. No

Q2. [ASK ONLY IF Q1=2] May I speak to someone who is involved in the decision-making process of the business?
   1. Yes
   2. No [RE-SCHEDULE OR THANK & TERMINATE]
Q3. I would like to know who I am speaking to. Are you: [READ ALL; CHECK ALL THAT APPLY]
   1. The founder/owner
   2. Co-founder
   3. First generation child
   4. Second generation child
   5. Third generation children
   6. Spouse of the owner/founder
   7. Sibling of the owner/founder
   8. Spouse of the owner/founder
   9. Spouse of the owner/founder’s child
   10. Other [SPECIFY]

The next set of questions will ask about various characteristics of your company.

Q4. In what year was the business established? [RECORD YEAR]

Q5. How many individuals are owners of the business? [Note to INT: If respondent works for a Trust, skip \(\rightarrow\) not applicable; business is a trust – this is rare and all are different according to MG – don't go crazy trying to adjust for this] [Record #]
   ____ # of Owners

Q6. What percentage of the company does the family own? [Record #]
   ____% Family Owned

Q7. In what year did the family become owners of the business? [RECORD NUMBER]
   ____ Year

Q8. What is the approximate age of the majority share owner of the company?
   [RECORD NUMBER]
   ____ Age

Q9. How many total full-time equivalent employees (FTEs) does the business have? [RECORD NUMBER]

Q10. What changes do you anticipate in the number of full-time equivalent employees in the next year? Please base your answer on the following categories that I will read to you:
   1. ____ Remain the Same
   2. ____ Increase by 5% or less
   3. ____ Increase by more than 5%
   4. ____ Decrease by 5% or less
   5. ____ Decrease by more than 5%
Q11. How many family members are employed as full-time equivalent employees (FTEs) in the business? [RECORD NUMBER]

Q12. If outside work experience is required for family members to work in the business, how many YEARS are required?
   ______ # of years
   ______ Don’t Know
   ______ Not required

Q13. When does the current CEO plan to retire? [RECORD NUMBER OF YEARS]

Q14. On a scale from 0-10, where 10 is “Very likely” and 0 is “Not likely at all” how likely do you think that the next CEO/Partner or someone in a similar leadership position would be a family member? [RECORD NUMBER]

Q15. On a scale from 0-10, where 10 is “a lot of time” and 0 is “no time at all”, how much succession planning have you engaged in? [RECORD NUMBER]

Q16. How many potential successors are available from the controlling family? [RECORD NUMBER]

Q17. Have your senior generation shareholders written and signed estate plans (other than wills)?
   1. ______ Yes
   2. ______ No

Q18. What type of board does the business have? Please base your answer on the following categories that I will read to you:
   1. ______ Board of Directors
   2. ______ Advisory Board
   3. ______ Both
   4. ______ No board exists (If no board, skip to Q21)

Q19. Is the legal board made up of family members or non-family members? Please base your answer on the following categories that I will read to you:
   1. ______ Family only
   2. ______ Mix of family and non-family members
   3. ______ Non-Family only
   4. ______ Not Applicable

Q20. On a scale from 0-10, where 10 is “highly agree” and 0 is “not agree at all,” please indicate your level of agreement with the following statement: A. “The legal board of directors makes a valuable contribution to the direction of the business.” [RECORD #]

Q21. What was the average sales growth percentage of your firm over the last 3 years? [Note to INT: If respondent answers 2005 to 2007 in question 7 then use the
following question: What was the average sales growth percentage of your firm since your family began ownership?

______ Average Sales Growth Percentage

Q22. What was the approximate average after-tax profit as a percentage of sales for your firm over the last 3 years? [Note to INT: If respondent answers 2005 to 2007 in question 7 then use the following question: What was the approximate average before-tax profit as a percentage of sales for your firm since the family began ownership?] [RECORD NUMBER]

Q23. This next section of questions will focus on your perception of business and family issues. Rate the following statements on a scale from 0-10 where 0 is “Strongly disagree” and 10 is “Strongly agree.” [RECORD NUMBER AFTER EACH]

A. “Relative to our major competitors, our firm has VERY high sales growth.”

B. “Relative to our major competitors, our firm is VERY profitable.”

C. “I have a high level of confidence in the growth of the business in the next 5 years.”

D. “Our family business has DISTINCT processes for making decisions about ownership, management and family issues.”

E. “The family members who control the business seem to get along with each other better than most families do.”

F. “People in the controlling family agree with each other on most issues.”

G. “People in the controlling family are VERY compatible with each other.”

H. “The controlling family members almost NEVER argue with each other.”

Q24. In this next section, I will read a set of statements. Please base your answers ONLY on your PERCEPTION as a member of the top management team concerning the importance of the wishes of OWNERS. Rate each statement on a scale from 0-10; “0” being Strongly Disagree and “10” being Strongly Agree. [RECORD NUMBER AFTER EACH STATEMENT]

A. The wishes of the owners receive HIGH priority from our top management team.

B. “The needs of the owners receive a HIGH degree of time and attention from our top management team.”

C. “Satisfying the claims of the owners is very important to our top management team.”
D. “The goals of the owners influence the decision making processes of our top management team.”

E. “The long term financial success of the business is very important to the owners of the company.”

F. “Having a highly profitable business is very important to the owners of the company.”

G. “Maintaining ownership control of the business is very important to the owners of the company.”

H. “The long-term growth of the business is very important to the owners of the company.”

I. “A high return on investment is very important to the owners of the company.”

Q25. In this next section, I will read a set of statements. Please base your answers ONLY on your PERCEPTION as a member of the top management team concerning the importance of the wishes of FAMILY MEMBERS. Rate each statement on a scale from 0 to 10; “0” being Strongly Disagree and “10” being Strongly Agree. The first statement is:

A. “The wishes of the family members receive HIGH priority from our top management team.”

B. The needs of the family members receive a HIGH degree of time and attention from our top management team.”

C. “Satisfying the claims of the family members is very important to our top management team.”

D. “The goals of the family members influence the decision making processes of our top management team.”

E. “Providing employment for family members is very important to the family.”

F. “Maintaining the reputation of the family members in the community is very important to the family.”

G. “Providing financial security to individual family members is very important to the family.”

H. “Continued family member involvement in the management of the business is very important to the family.”

I. “Having a highly profitable business is very important to the family.”

Q26. In this next section, I will read a set of statements. Please base your answers ONLY on your PERCEPTION as a member of the top management team concerning the
importance of the wishes of MANAGEMENT. Rate each statement on a scale from 0 to 10; “0” being Strongly Disagree and “10” being Strongly Agree. The first statement is:

A. “The wishes of individual managers receive HIGH priority from our top management team.”

B. “The needs of the managers of the firm receive a HIGH degree of time and attention from our top management team.”

C. “Satisfying the claims of the individual managers is very important to our top management team.”

D. “The individual goals of the managers influence the decision making processes of our top management team.”

E. “A good work environment is very important to the managers of the firm.”

F. “A competitive salary and benefits package is very important to the managers of the firm.”

G. “An opportunity for career advancement is very important to the individual managers of the firm.”

H. “Ensuring that those who CONTRIBUTE to firm profit are compensated accordingly is very important to the individual managers of the firm.”

I. “The long-term growth of the business is very important to the individual managers of the firm.”

Q27. In this next section, I will read a set of statements. As member of Top Management Team of your firm, rate each statement on a 0-10 scale, with 0 being “Strongly Disagree” and 10 being “Strongly Agree.” RECORD NUMBER AFTER EACH]

A. “Family conflicts do not influence business operations or decisions.”

B. “I believe that the business will be controlled by the same family(ies) in five years.”

OK, to conclude we have just a couple of questions about you.

Q28. Excluding personal real estate, what percentage of your personal net worth is the family business? I will read you the following categories to base your answers on:

-------% of net worth

Q29. What is your highest educational level? Please base your answer on the following categories that I will read to you: [INT: Please check only one option]

1.____Less than high school
2.____High school graduate
3.____Some college
4. ____ College graduate [ASK THE NAME OF THE DEGREE. E.g. MBA, Accounting, Finance, etc.]
5. ____ Post-graduate degree [ASK THE NAME OF THE DEGREE. E.g. MBA, Accounting, Finance, etc.]

Q30. In what year were you born in? [RECORD YEAR]

______ Year

Thank you for your time today and we appreciate your feedback in helping improve our knowledge and understanding of family businesses.

[INT: DON’T ASK – record gender based on voice]
1. Male
2. Female

[PROGRAMMING INSTRUCTION: RECORD ZIP & INDUSTRY OF COMPANY]