# Diversity of stakeholder perception – Snapshot of family and non-family companies


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***Abstract:*** *In this paper, we report about the first findings of the most recent round of the "In Global Competition" research programme with a focus on differences and similarities of businesses with and without family ownership and management. We explore their perception of and attitude toward various stakeholder groups. Our sample is populated with more than 200 companies operating in Hungary, out of which more than 50 businesses are in family ownership and management. Small and medium-sized businesses have often been seen as firms that pursue a special responsibility towards their employees and local communities, two main directions of their local embeddedness. We are providing our current snapshot suggesting a change in this regard.*



***Keywords:*** *family business, stakeholder management, employees*


## 1 Introduction

Small and medium-sized enterprises (SMEs), including family businesses, play an important role in the economy, not only in terms of their quantity but also due to their closer links with consumers and their environment. In this paper, we examine the orientation of executives of Hungarian firms towards their stakeholders – their perceptions about the importance of various stakeholder groups, their expectations towards stakeholders, and their perceptions concerning stakeholders' expectations. We aim to explore differences and similarities in the orientation of leaders of family-owned and managed firms and non-family businesses. The empirical study was based on the relevant questions from a survey of more than 200 companies carried out in 2018 by the Competitiveness Research Centre of Corvinus University of Budapest.

# 2 Research background

The role of family businesses in the economy is significant and growing. Based on the data collected by the Family Firm Institute (2017, quoted by Kása et al., 2019), globally family businesses account for approximately two-thirds of all businesses, 70 to 90 percent of GDP, 50-80 percent of workplaces. 85 percent of startups are launched with the investment of family businesses. In Europe, they account for 70-80 percent of all companies, providing 40–50% of workplaces on average (Mandl, 2008, quoted by Reisinger, 2013). One estimation suggests that in Hungary 50-70% of firms are family-owned and managed (Reisinger, 2013), another arrives at 57-66 percent (Kása et al, 2019).

Family-owned and managed firms are important not only because of their number, but also due to their size and local embeddedness: they may be able to build more direct relationships with their environment and stakeholders as well as maybe more open to corporate social responsibility (CSR) by linking family and business values (Benedek, Takács-György, 2016).

Since our research focuses on orientation towards their stakeholders, let us start with a seminal definition of stakeholders here. Edward Freeman (1984) identified stakeholders as agents that can influence the implementation of the corporate objectives or have an interest in achieving those objectives. He stated that successful companies should take into account their stakeholders' claims and needs if they want their success to be sustainable (Freeman, 1984). A differentiation of primary and secondary stakeholders weas made by characterizing the group of primary stakeholders being composed of actors without whose participation the firm cannot survive. This group includes shareholders and investors, employees, customers, suppliers, and the public stakeholder group (such as government and communities). Contrary to this, secondary stakeholder groups are not engaged in transactions with the firm and they are not essential in its survival Clarkson (1995).

Ever since the seminal paper of Donaldson and Preston (1995) both the normative and instrumental aspects of stakeholder theory and stakeholder relations are discussed, also with the focus of family businesses (see e.g. Neubaum et al, 2012; Marques et al, 2014). One of the most recent articles, Déniz-Déniz et al (2020) not only looks at the orientation of family businesses toward certain stakeholders, but also connects this orientation with economic performance.

In this research, we built on the "performance prism" concept of Neely et al. (2002) who propose to explore the needs and expectations of stakeholders (investors, customers, employees, regulatory authorities, suppliers and strategic partners, local communities, etc.), as well as to investigate how these different actors can contribute to the success of the company. One of the novelties of their approach is the emphasis on the reciprocal nature of the relationship between the firm and its stakeholders, and also the strategic implications of these relationships.

We also build on Wimmer and Mandják (2002), who argue that stakeholder relationships could become value drivers for companies.

Small and medium-sized businesses have often been seen as companies that pursue a special responsibility towards their employees and local communities, two main directions of their local embeddedness (see e.g. Matolay et al, 2007 and Benedek, Takács-György, 2016). Based on a litterature review of 35 articles van Gils et al. (2014) stated that family businesses are more attuned and attentive to social issues and stakeholders than nonfamily business. Noneconomic motivations (e.g., reputation, socioemotional wealth, and stewardship) appear particularly salient to family enterprises. (van Gils et al. 2014) A family business must apply business and family principles at the same time, as Reisinger (2013) highlights, and may also be better suited to CSR, as personal and humane elements may be much more prominent in their operations in addition to purely for-profit principles. (Benedek et al, 2015)

Based on all this, we can assume that social issues are stronger in the case of a family owned and managed enterprises, as well as they can be more embedded, more directly related to their environment and can be more successfully built on direct relationships with their employees, customers, supplier or local communities. Our empirical research examines this orientation.

# 3 Research methodology

Our empirical research is based on a survey completed in the frame of the "In Global Competition" research programme of Competitiveness Research Centre at the Corvinus University of Budapest. The fundamental goal of the survey was to explore the competitiveness of the Hungarian microsphere. Similarly, structured surveys were conducted in 1996, 1999, 2004, 2009, 2013, and 2018, each with four questionnaires (targeted to executives; managers responsible for finance; operations and services; sales and marketing). The survey enquires executive opinion, its results do not provide an objective truth (Chikan et al., 2002, 2009), therefore it allows for insights to the views, approaches and perceptions of corporate decision-makers.

In our research, we built on the questionnaire for executives of the most recent survey. Its sample of 234 firms represents a group of companies key to the competitiveness of the domestic market. The vast majority (more than 80%) are medium-sized companies, most of them (more than 60%) based in Budapest and Central Hungary. Half of our sample operates in manufacturing, 10% in the construction industry, and 40% in the service sectors. Almost three-quarters of the respondents are dominantly Hungarian-owned, and the proportion of international ownership is slightly higher than 25 percent. (Chikán et al., 2019)

In the database, 56 companies (26%) are considered as a family business, where executives declared that (1) a family has ownership of at least 50% in the company, and (2) the owner and/or his/her family member(s) are actively involved in the management of the company. This feature of the sample is in line with the definition provided earlier as well as that of Kása et al (2019).

The number of employees is introduced in Figure 1: the entire sample, as well as the family and non-family businesses are shown here.

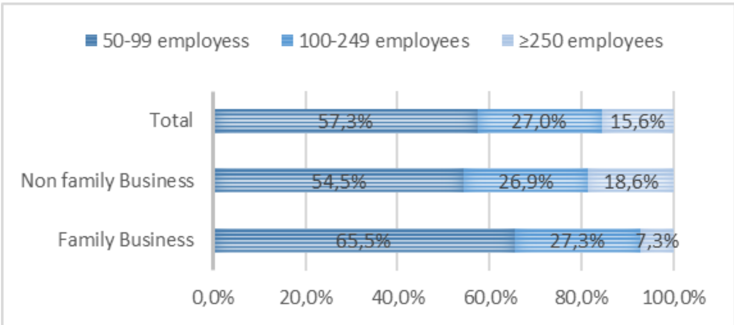


Figure 1
The sample of the research

Source: based on the database of Competitiveness Research Centre, 2018

In our analysis, we built on the questionnaires filled in by executives. They were asked to evaluate the importance of integrating the opinion and interest of various stakeholder groups, as well as different statements concerning their stakeholders' needs and wants; also the expected stakeholder contribution (firms' needs and wants toward the stakeholders). Responses were provided on a 5-point Likert-scale (5 – totally agree and 1– totally disagree).

# 4 Research findings

In this chapter, we outline the first findings of the competitiveness research concerning executives' views on various stakeholder groups. Table 1 summarizes the opinion of executives with regard to the importance of integrating the interest and opinion of stakeholders into executive decision-making. Owners are considered the number one stakeholder group in this respect in the entire sample – 4,7 on the 5-point Likert scale is the perceived importance when looking at the opinion of all respondents – followed by customers and managers. Non-managerial employees, suppliers and the natural environment are in the midfield, local communities, media, state, and trade unions are declared as relatively less important.

There is no significant difference in the perception of the importance of owners, customers, and managers across the groups of family and non-family businesses. All stakeholder groups are considered less important by family businesses, except the state. There is a significant difference between the two groups for the media and trade unions – a plausible explanation is the smaller size of family businesses. A remarkable result is the relative underestimation of the importance of non-managerial employees, suppliers, and local communities (see the perceived importance of integrated employees's opinion 4,25 vs. 3,63 in the case of non-family and family-owned and managed firms, 4,21 vs. 3, 41 towards suppliers, 3,44 vs. 2,77 towards loval communities). This contradicts the assumption that family businesses are more embedded and pay more attention to their environment and immediate stakeholders.

| | **Family business** | **Non-family business** | **Total** | ***Differencies (Family business – Non family business)*** |
|---|---|---|---|---|
| **Owners** | 4.70 | 4.75 | **4.74** | *0.05* |
| **Customers** | 4.23 | 4.40 | **4.35** | *0.17* |
| **Managers** | 4.09 | 4.29 | **4.24** | *0.20* |
| **Non-managerial employees** | 3.63 | 4.25 | **4.08** | *0.63* |
| **Suppliers** | 3.41 | 4.21 | **4.00** | *0.80* |
| **Natural environment** | 3.41 | 3.79 | **3.69** | *0.38* |
| **Local communities** | 2.77 | 3.40 | **3.23** | *0.63* |
| **Media** | 2.39 | 3.30 | **3.06** | *0.91* |
| **State** | 3.32 | 2.97 | **3.06** | *-0.35* |
| **Trade unions** | 2.23 | 3.29 | **3.00** | *1.05* |

Table 1

Integration of the stakeholder's interests and opinions – importance perceived by executives

Source: analysis based on the survey of the Competitiveness Research Centre

In the questionnaires, executives were asked to evaluate statements concerning their stakeholders' needs and wants (their perception about stakeholders' expectations) as well as concerning their needs and wants toward their stakeholders (i.e. expected stakeholder contribution). Results of earlier surveys are presented in Szántó and Wimmer, 2007; Esse et al, 2012. Figures 2-5 present the results by main stakeholder groups (shareholders, employees, customers, suppliers).

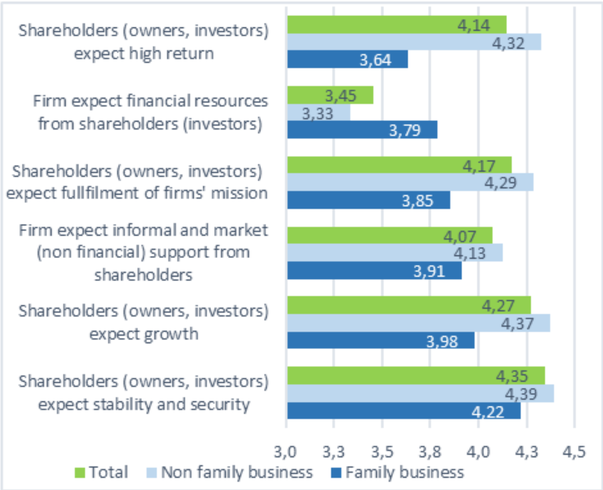


Figure 2

Orientation towards shareholders

Source: analysis based on the survey of the Competitiveness Research Centre

Executives expect reliable, high standard work, as well as loyalty from their employees (4,59, 4,43 average). Looking at their opinion about their employees' needs (see Figure 3), one finds lower numbers for employee expectation for stability (4,37), high salaries (4,32), or good workplace and development opportunities (4,25). These contradictions are much stronger among family businesses: they expect reliable work (4,47) and loyalty (4,4) similarly to other managers, but they are much less receptive to the expectations of their employees (e.g. 3,95 for expectations of a good workplace).


Figure 3
Orientation towards employees

Source: analysis based on the survey of the Competitiveness Research Centre

There is no significant difference in orientation towards customers between family and non-family businesses (see Figure 4). At the same time, family businesses reckon supplier relationships less important, and also seem to expect less from their suppliers than non-family owned and managed firms (Figure 5).

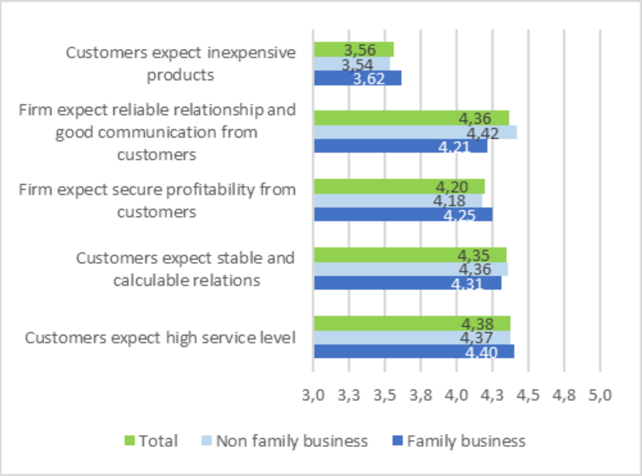


Figure 4
Orientation towards customers

Source: analysis based on the survey of the Competitiveness Research Centre

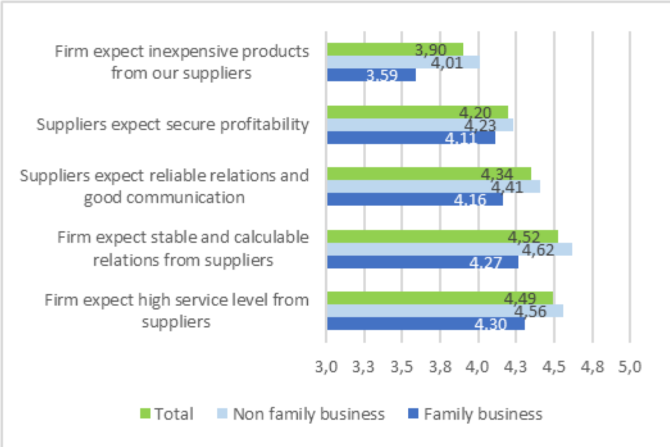


Figure 5
Attitudes towards suppliers

Source: analysis based on the survey of the Competitiveness Research Centre

Although employee and supplier relationships could become important resources for companies, family businesses seem to capitalize on those. They integrate less the opinion and interests of these stakeholder groups into their decisions, and do not consider them as value drivers.

Furthers results of the analysis reveal that the perceived performance of family businesses (based on managerial self-assessment and perception about themselves) lags more behind the industry average than that of the non-family businesses. This difference is less pronounced in terms of operational performance characteristics (quality of product and services, quality management, and technology) and more explicit in terms of market and financial performance (market share, return on sales, return on investments). The exploration of the causes is planed in the upcoming stage of the research. This includes the examination of the productivity, capabilities of the companies to see a potential reason for the harder perception and self-assessment of owner-executives.

**Conclusions**

The focus of our paper was to compare the attitudes of family and non-family businesses towards their stakeholders. Based on previous research and literature, we assumed that family businesses are more embedded in their environment and have a more direct relationship with, pay more attention to the stakeholders. Based on the analysis of the survey results of a sample of more than two hundred companies of the “In global competition” research programme, we found that family businesses (which account for over a quarter of the sample) have similar attitudes towards customers as non-family firms. There is no significant difference between family and non-family businesses neither in their approach to managers nor to owners. Not surprisingly, they perceive the media and the trade union as less important. Surprisingly though, employees, suppliers, local communities, and the natural environment are also perceived as less important. Contrary to preliminary expectations, there is no greater commitment to stakeholders among family business leaders. We consider it necessary to continue the research to explore the reasons via qualitative methods.

As the first results of the research show, companies that pay more attention to stakeholder relationships are more successful in terms of various dimensions of business performance. Consequently, a further research question on whether stakeholder relationships can be a value-creating factor for family businesses can be formulated. Value co-creation, embeddedness, information benefits, flexibility, etc. are among potential factors – the question ahead is whether the effect of these can be identified and demonstrated in better performance.

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