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Title: Stakeholder salience for small businesses : a social proximity perspective

Year: 2019

Version: Accepted version (Final draft)

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Please cite the original version:

STAKEHOLDER SALIENCE FOR SMALL BUSINESSES:
A SOCIAL PROXIMITY PERSPECTIVE

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ABSTRACT

This paper advances stakeholder salience theory from the viewpoint of small businesses. It is argued that the stakeholder salience process for small businesses is influenced by their local embeddedness, captured by the idea of social proximity, and characterised by multiple relationships that the owner–manager and stakeholders share beyond the business context. It is further stated that the ethics of care is a valuable ethical lens through which to understand social proximity in small businesses. The contribution of the study conceptualizes how the perceived social proximity between local stakeholders and small business owner-managers influences managerial considerations of the legitimacy, power and urgency of stakeholders and their claims. Specifically, the paradoxical nature of close relationships in the salience process is acknowledged and discussed.

Keywords: ethics of care, local embeddedness, small business, social proximity, stakeholder relations, stakeholder salience

Introduction

> *In a small local business, without exception, an employee becomes a close friend of yours–you know his wife (sic), since she is a part of the same community, and your children are also friends, since they go to the same school.*

The small business owner-manager quoted here encapsulates the embedded nature of many small businesses. Whereas in large, multisite firms, ownership is usually geographically dispersed and top management is rotated through the firm's various locations, small business owners are more likely to live in the region and community where they conduct business (Besser and Jarnagin, 2010). Long-term residence in a town or city is associated with knowing a large number of other residents, interacting with them in multiple venues, and knowing more residents beyond the level of acquaintance (ibid). As a result, stakeholder relationships often develop into a mix of intrinsic and extrinsic friendships characterised by reciprocity, the sharing of information, non-substitutability, empathy, goodwill, liking and pleasure (Spence, 2004). The success of a small business is particularly related to local stakeholders, with whom small business owner-managers often have close and personal relationships (e.g., Besser and Miller, 2001, 2013; Courrent and Gundolf, 2009). Due to such embeddedness, the dynamics of small business stakeholder relationships and ethical issues related in these relationships can differ greatly from those of large firms (e.g., Lähdesmäki and Suutari, 2012; Spence, 2016). Still, the same theories are commonly used to conceptualize stakeholder relationships in small and large businesses without acknowledging their contextual features (Jenkins, 2004; Laplume et al., 2008).

A popular theory used to examine the role of relationships between a business and its stakeholders is stakeholder salience theory, which determines the existence and relative importance of stakeholders and their claims from a managerial perspective (Mitchell et al., 1997). Conceptual studies have elaborated how the salience of stakeholders varies

according to managerial characteristics and a firm's culture, tasks and processes (e.g., Neville et al., 2011; Rowley and Moldoveanu, 2003). Empirical studies have noted which stakeholders really matter in managerial decision-making (e.g., Agle et al., 1999; Magness, 2008; Mosakowski and Earley, 2000; Parent and Deephouse, 2007). However, the concept of stakeholder salience has not fully acknowledged how the embeddedness of a business influences the salience process of managers (e.g., Cennamo et al., 2012; Jenkins, 2004; Laplume et al., 2008; Mitchell et al., 2011; Tashman and Raelin, 2013). Accordingly, we argue that the stakeholder salience process in small businesses is influenced by their local embeddedness and characterised by multiple relationships that the owner–manager and stakeholders share beyond the business context. This local embeddedness is captured by the term 'social proximity', which refers to owner-managers' affective involvement with stakeholders based on familiarity, emotional closeness and sense of personal obligation (Huber, 2012). Although the role of social proximity has been recognised in the small business ethics and social responsibility literature (Courrent and Gundolf, 2009: Lähdesmäki and Suutari, 2012; Sen and Cowley, 2013; Spence, 2016), it has not previously been conceptualised as part of stakeholder salience.

This study is guided by the following question: '*How does social proximity influence the stakeholder salience in locally embedded small businesses?*' By acknowledging stakeholder management in small businesses as a relational phenomenon, we develop theoretically driven propositions that further distinguish the paradoxical nature of close relationships in the salience process. The main contribution conceptualises how the perceived social proximity between local stakeholders and small business owner-managers influences managerial considerations of the legitimacy, power and urgency of stakeholders and their claims. Accordingly, social proximity facilitates stakeholder identification and collaboration but simultaneously may complicate owner-managers' sense of moral obligation

to stakeholders. We further discuss how and why the ethics of care, which emphasises a relational approach and flexibility in dynamic stakeholder environment is a valuable ethical lens through which to advance an understanding of ethics in stakeholder salience.

2. Stakeholder salience in small businesses

2.1 Stakeholder salience theory

A cornerstone of the stakeholder salience discussion comes from Mitchell et al. (1997: 854), who defined stakeholder salience as '*the degree to which managers give priority to competing stakeholder claims*'. They sought to elaborate what managers consider when weighing stakeholder concerns. A typology developed for this purpose included three principal determinants of salience: power, legitimacy and urgency. Based on these three attributes, the main propositions that arise from the typology are as follows.

The framework suggests that the more powerful the stakeholders are, the more salient their clams are in the eyes of management. Stakeholder *power* is further defined as '*the ability of those who possess power to bring about the outcomes they desire*' (Salancik and Pfeffer, 1974: 3). The bases of power are seen to be mainly in the type of resource used to exercise power. According to Etzioni (1964), coercive power is based on the physical resources of force, violence or restraint; utilitarian power is based on material or financial resources; and normative power is based on symbolic resources. The stakeholder salience model further proposes that the more legitimate the stakeholders and their claims are, the more likely they are to receive positive responses from a business. *Legitimacy* is defined 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*' (Suchman, 1995: 574). Stakeholder legitimacy arises from a 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). Finally, *urgency* is seen as the third attribute that increases the salience of the stakeholder. Stakeholder urgency can be defined as a stakeholder's claim for immediate attention based on the ideas of time sensitivity and criticality or importance (Mitchell et al., 1997). Time sensitivity refers to the degree to which a managerial delay in attending to the claim or relationship is unacceptable to the stakeholder. Criticality then refers to the importance of the claim or importance of the stakeholder.

According to the model, one stakeholder might possess all three attributes, whereas another stakeholder might possess only one or two, which affects their importance to managers and their potential influence (whether positive or negative) on the business. Mitchell et al. (1997) suggest that the combination of the three attributes yields different stakeholder classes. The first are latent stakeholders. These are low salience classes and possess only one of the attributes of power, legitimacy, and urgency – causing managers to pay little attention to these stakeholders. The second are expectant stakeholders, who are moderate salient classes possessing two of the attributes. The third group is definitive stakeholders, who are highly salient. Mitchell et al. (1997) further anticipated that stakeholder attributes are perceived to be impermanent and may change based on the situation and time, emphasising the dynamic nature of the model. These assumptions were later empirically confirmed (e.g., Magness, 2008; Mosakowski and Earley, 2000).

However, the interpretation of legitimacy and power attributes in particular has yielded critical voices that claim that the treatment of these attributes oversimplifies the relationship between them. Phillips (2003), for example, argues that it is problematic to refer to powerful stakeholders who have no legitimate relationship with a business; he argues that stakeholder salience becomes more precise through the distinction between normative (moral) and derivative legitimacy. Normative stakeholders are those for whom a business has a sense of moral obligation, whereas derivative stakeholders are those whose actions

managers must take into consideration due to their potential effect on the business and its normative stakeholders (Phillips, 2003: 30–31). Thus, whereas a business does not have a moral obligation to derivative stakeholders, they may possess the power to influence the well-being of normative stakeholders. For this reason, the claims of such stakeholders may warrant legitimate managerial attention (ibid.). Consequently, the way stakeholders become perceived as powerful or legitimate is a complex process.

We contend that despite the achievement and widespread utilization of stakeholder salience model, we need to develop a deeper understanding of the process through which managers consider stakeholder attributes in the small business context. Although stakeholder salience theory acknowledges that each attribute is a matter of multiple perceptions and socially constructed rather than objective (Mitchell et al., 1997: 868), the attributes are often nevertheless treated as if they were rationally determined by the manager. As a result, the theory has been critiqued for reducing stakeholder management to more or less generic skills that are or can be applied similarly regardless of the type of the business or context (e.g., Banerjee, 2008; Rowley and Moldoveanu, 2003). Indeed, decontextualisation is a particularly common problem recognised by small business researchers, according to whom standard stakeholder theorisation rarely acknowledges the specific characteristics, relationships and attributes of small businesses (e.g., Spence, 2016; Lähdesmäki and Suutari, 2012; Jenkins 2004, 2006).

2.2. Stakeholder relations in small businesses

A 'small business' is defined here as a business with fewer than 50 employees and with a maximum annual turnover of 10 million euros (European Commission). In addition to quantitative measures, our definition of a small business utilises qualitative characteristics to capture the meanings, beliefs and behavioural aspects that distinguish "small" businesses from their larger counterparts. One of the most often used qualitative characteristics of small

businesses is the independence of the owner-manager, reflecting the close relationship between capital and management. The person responsible for managing the business is also the sole owner or one of the owners of the business (e.g., Baumback 1988; Filion 1990). This idea of businesses being independently owned and managed was also adopted as a starting point of the definition of a small business in this study. Furthermore, small businesses often have qualities such as having a small market share, not being dominant in their field and being largely local in their operations (e.g., Baumback 1988; Curran and Blackburn 1994; Filion 1990).

The qualitative characteristics of small businesses are reflected in their ethics and stakeholder approach. Governance and reporting in small businesses are achieved via informal structures, emphasising word-of-mouth communication rather than formalised written reports. This supports an implicit approach to ethics and social responsibility that lacks the language and codification of ethics present in larger firms (Nielsen and Thomsen, 2009). Small firms also tend to be flat, informally organised, and led by the owner–manager but with considerable opportunity for employee involvement. This leads to ample opportunities for the easy implementation of socially responsible practices and communication of ethical expectations (Baumann-Pauly et al., 2013). In addition, transactions in small firms tend not to be highly contractual and formalised through legalistic frameworks; rather, they are informal, reflecting the local and embedded nature of many small firms, with an emphasis on community, networks, social capital and relationships (Besser and Miller, 2001; 2013). For example, Jenkins (2006: 243) has stated that stakeholder relationships in small businesses are often based on a more informal, trusting basis and characterised by intuitive and personal engagement with less of a gap between the relative power and influence of the company and stakeholder, whereas large companies are far more likely to engage in carefully planned, formal strategic stakeholder management with the

power to dictate outcomes. Similarly, whereas large businesses are most often concerned with explicitly powerful stakeholders (Parent and Deephouse, 2007), small businesses tend to be highly focused on their proximate stakeholders (e.g., Jenkins 2004; Lepoutre and Heene, 2006).

The importance of proximity was highlighted in the development of stakeholder salience theory by Driscoll and Starik (2004), who attempted to integrate the idea of proximity into the stakeholder salience discussion by supplementing power, legitimacy and urgency with *geographical* proximity. They argued that proximate stakeholders are those related to the organisation spatially, such as members of the same network or value chain, local customers and communities and the nearby natural environment. They concluded that geographical proximity could therefore play a role in stakeholder salience. We agree that geographical proximity is of importance in stakeholder salience for locally embedded businesses, because it produces localities through their social relationships over space (see also Cox, 1998). However, we argue that what matters more in terms of relationships is *social proximity*[i]: a sense of kinship and friendship among community members. Because a few recent studies have suggested that in small businesses, the degree of social nearness or distance influences the salience of stakeholders and their claim (e.g., Siltaoja and Lähdesmäki, 2015; Spence, 2016), we next discuss a more nuanced idea of social proximity and explore why it matters for small locally embedded businesses.

2.3 Social proximity: a missing element in stakeholder salience

Rather than an isolated entity, businesses are "constituted by or operate under influences originating from various social spheres" (Oinas, 1998: 39). This interconnectedness is often described using the concept of embeddedness, which, according to Granovetter (1992: 33), refers to the fact that "economic action is affected by actor's dyadic relationships and by the structure of the overall network of relations". The economic sphere cannot be considered as

separate from other social spheres that provide supplementary motives and enacts alternative realities (Johannisson and Mönsted, 1997).

Proximity originates from the literature on embeddedness (Granovetter, 1985) and refers to the perception of social, cultural, psychological or physical closeness between a business and its stakeholders (see Boschma, 2005). While many treatments of embeddedness refer to the structure of relations that tie economic actors together (Johannisson et al., 2002), we adhere to the idea of embeddedness as relational, which refers to the kind of personal relationships people develop with each other over time (Granovetter, 1985) as promoting closer social proximity. Social proximity is defined in terms of socially embedded relations between agents on the micro level (Boschma, 2005), thus giving a theoretical means to operationalise the ideas of embeddedness. We further find that social proximity captures the detrimental aspects of close relationships, as strong ties are not always an advantage. Boschma and Frenken (2010) proposed the idea of a proximity paradox: bonding ties built on kinship and trust may provide protection against opportunism, but they can simultaneously facilitate unethical structures (see also Boschma, 2005). Accordingly, too much or too little social proximity may lead to an underestimation of opportunism (Uzzi, 1997) or ignorance social norms and set restrictions to individual freedom (Portes, 1998).

Literature on social proximity has been rather vague in its conceptual definitions, lacking clear explanations as to what social proximity is and how it develops. We find that a prominent conceptual connection can be developed from a social network perspective, social identity theory and group identification (see Tajfel and Turner, 1985; Rao et al., 2000). Accordingly, social proximity is defined as belonging to and similarity in a social network (e.g., Oerlemans and Meeus, 2005). We perceive a social network as a group of individuals linked to one another with different types of bonds to satisfy their goals under multiple, possibly conflicting, constraints (e.g., Kossinets and Watts, 2006). In social

networks, individuals often interact with others who are similar to themselves, sharing similar backgrounds, interests and/or affiliations, i.e., those who are proximate (Sorenson, 2003).

Previous studies have demonstrated a link between social identification and feelings of proximity through three mechanisms: by creating a basis for common ground, by reducing uncertainty, and by engendering positive attributions (e.g., Wilson et al., 2008). Social identification can be defined as a process through which we reproduce ourselves in terms and categories that we share with other people (Deaux, 1994; Tajfel and Turner, 1985). This identification may become a part of individual's self-conception, which derives from his knowledge of his membership in a social group (or groups) (Tajfel 1978) - thus creating a sense of in-group membership.

To share a social identity with others does not necessarily mean that we know or interact with every other member of the designated category. It does mean, however, that we believe that we share numerous features with other members of the category and that, to some degree, events that are relevant to the group as a whole also have significance for the individual member (Deaux, 1994: 2). As Hinds and Mortensen (2005: 293) note, a shared identity can create a tie between distant team members that helps bridge the physical and contextual distance that otherwise separates them. Accordingly, we perceive social identification in a certain group as an essential antecedent for the existence of *social proximity*, as the feeling of social closeness arises from the similarity of a group.

Our conceptualisation of social proximity elaborates on the work of Huber (2012), who measured social proximity as a sense of affective relationships that arise from group identification and entail familiarity with one another (the degree to which parties know one another in their personal lives), emotional closeness (how much the parties care about one another's well-being) and a sense of personal obligation (measured by the sense of obligation to offer help that may demand a significant amount of time). In the context of

locally embedded small businesses, identification with local actors involves the feeling, belief and expectation that the owner-manager fits in the group and has a place there, as well as a feeling of acceptance by the community (see McMillan and Chavis, 1986). To be a part of the local community implies a sense of shared experiences and mutuality with those also belonging to the same locality, increasing familiarity among members. However, mere awareness of group membership does not contribute to a sense of social proximity. For example, being an employee in a firm contributes to the acknowledgement of group membership but does not necessarily result in a sense of social proximity to peers and colleagues if it lacks an emotional attachment to the group members (see Karasawa, 1991). This affective aspect in social identification refers to the feeling of connection with others in the sense that 'I feel strong ties to other (in-group members)' (Cameron, 1999). Lastly, one of the features of embedded relations is the development of social bonds (Nahapiet and Ghoshal, 1998). These social bonds contribute to shared identification but also increase the likelihood of a sense of personal obligation. For example, despite economic disadvantages, small business owner-managers may feel obligated to continue the employment of their workforce with whom they share a social bond.

We next advance the understanding of social proximity in stakeholder salience through the idea of ethic of care.

3. Ethical implications of social proximity in stakeholder salience

As argued by researchers since the 1990s, there is a tendency in business ethics research and teaching to turn to the well-trodden ground of what might be called rational, logical, and justice oriented ethical theory (often called 'masculinist'), such as utilitarianism, Kantianism, virtue theory, and social contract theory, overlooking feminist approaches, including the ethics of care (Borgerson, 2007; DeMoss and McCann, 1997; Liedtka, 1996). We concur

with researchers (e.g., Høivik and Shanker, 2011; Høivik and Melé, 2009; Spence, 2016) that in the context of smaller businesses, the ethics of care, taking relationships and emotions as a central foci in ethics, is a more pertinent lens through which to explain and understand small firm stakeholder salience.

The ethics of care has its foundations in Carol Gilligan's book *In a Different Voice* (1982), which puts relationships at the very heart of moral development and commends non-violence towards others or the self as its highest principle. In the development of an ethics of care as a moral theory, philosopher Virginia Held's work emerged as an authoritative voice. She notes the importance of understanding individuals (such as owner-managers and their colleagues) as relational rather than autonomous. Held (2006: 10–13) outlines the features of the ethics of care as (a) focusing on the moral importance of meeting the needs of particular others for whom we take responsibility; (b) valuing emotion rather than rejecting it, in the case of moral emotions that should be cultivated to implement reasons and to ascertain what morality recommends (e.g., empathy, sensitivity, responsiveness); (c) rejecting abstracted moral reasoning in favour of respecting the moral claims of others for whom we care; (d) including the private as well as the public spheres of life; and (e) presenting the conception of persons as relational, as previously stated.

In our view, the ethics of care adds to the explanation of why social proximity is a valuable addition to stakeholder salience, not least for small locally embedded firms. Studies have found that, in contrast to the lip service given to employees in large firms of the 'people are our most important asset' kind, in small firms, workers literally and crucially *are* of primary concern to owner-managers and the health of the business (e.g., Jamali et al., 2009). In addition to the prioritisation of the self and family that Spence (2016) outlines, employees are identified as the second-most important stakeholders in small business ethics and social responsibility research. We believe that this arises from co-dependency and social

proximity. With social proximity comes the opportunity for a growing relationship, embedding day-to-day economic activity in social life such that work in a small business is both a technical and a social activity (Kitching, 1994). Furthermore, Spence et al. (2001) point counter-intuitively to competitors as moral stakeholders for small firms. They construct their arguments around empirical evidence that small business owner-managers in the same locality often work together as apprentice and employer, are peers in the same local trade association and exhibit camaraderie in competing against a common adversary (i.e., large firms). According to Spence et al. (2003), small businesses, which some might assume to be enemies competing for contracts, share tools and machinery and sub-contracts with each other as mutual support and for the survival of their trade. In this instance, the ethics of care explains how social proximity bonds those who share the same challenges and experiences.

In addition, the ethics of care is an important part of the blurred boundary between working small business relationships and friendship. Whereas role conflicts in larger firms are often controlled by more official hierarchies and rulebooks, such as codes of conduct or an ethics policy, small businesses usually lack such formal codes. This suggests that the ethics that is to be developed is founded in reciprocity, rather than the contractarian ethics that has largely dominated the stakeholder salience literature (e.g., Donaldson and Dunfee, 1994). The stakeholders who matter the most for a small business are as a result bound to have a higher moral claim. The prevailing partiality means that a compelling moral claim may be valid even when it conflicts with the requirement by moral theories that judgements are universal (Spence, 2014). For example, if stakeholders perceive that the manager is seeking to benefit from the friendship for instrumental (business) reasons, this is likely to lead to situations where the positive effects of friendships are undermined (Grayson, 2007). Thus, because social proximity enforces the possibility of role conflicts, ethics of care in relationships can help to reduce conflicts in such situations because it places an emphasis

on reciprocal well-being in the context of situational sensitivity. Accordingly, it might sometimes seem that small businesses make decisions that are against the business interests, but this could be due to the fact that the organization is run in a way that is sensitive to human needs, those of both the owner-manager and stakeholders.

Building on these observations, it is important to acknowledge the lack of distinction between the public and private spheres for small firms. In this context, we might best understand this as the inclusion of the personal in professional life. The notion of leaving family and personal life 'at the door' is not one that fits well with small businesses, where managers and employees are likely to be very familiar with each other's personal circumstances and even related to each other. Similarly, discussions about work outside of the work environment are highly likely to occur, e.g., talking about a new contract at a family birthday party or school sports day. The nature and characteristics of 'family' firms are manifold, including complex governance issues with business families, sometimes with multiple firms, as well as with single and multi-family businesses (Steier et al., 2015). We might say that all businesses contain personal relationships and aspects of personal life, but in family firms, which accounts for most small businesses, marriage, divorce, siblings, parents and children are necessarily implicated in business life and vice versa. Even investors are quite likely to be family members. Whereas there may be efforts to disassociate the personal and the professional in large firms through laws, rules of governance and the sheer size of the bureaucracy involved, in smaller organisations, there is very little opportunity to separate the private and the public spheres, leading to both the strengths of family bonds and some difficulties that are as much at the personal level as they are at that of the business.

4. A conceptual model for stakeholder salience in small businesses

In this section, we conceptualise how social proximity plays a central role in the stakeholder salience of small businesses. We first introduce the concept of multiplexity, which is argued to hold an essential role in enhancing social relationships (Boissevain, 1974), particularly in the small business context (Spence and Rutherford, 2003). We then develop theoretical propositions to address how the perceived social proximity between small businesses and stakeholders influences managerial considerations of the legitimacy, power and urgency of stakeholders and their claims. Figure 1 illustrates this.

--- Insert Figure 1 Here ---

Figure 1: Managerial perspective on stakeholder salience in locally embedded small businesses

In small businesses, individual and organisational relationships frequently merge and become mutually reinforcing (Worthington et al., 2006). Business partners are typically linked to each other by additional relationships beyond the business context (e.g., Longenecker et al., 2006; Besser and Jarnagin, 2010). This kind of overlap in relationships is captured by the concept of 'multiplexity', which refers to the degree to which two actors are linked by more than one type of relationship (e.g., Brass et al., 1998; Valcour, 2002). The previous research has demonstrated that geographical proximity encourages multiplex relationships by creating opportunities for face-to-face contact (Verbrugge, 1979). Accordingly, for small locally embedded businesses, the same individuals may be simultaneously kin, neighbours and co-workers, intensifying the capacity for mutual monitoring of their ties. Multiplexity is then present when the social and personal relationships and networks in which owner-managers are entwined cannot be separated from each other (Spence and Rutherfoord, 2003).

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Overlapping personal and business relationships and the informality characterising these relationships are often regarded as a relative advantage for small businesses. Multiplexity is considered to enable and enhance trust in business operations (e.g., Worthington et al., 2006) and can provide a business with an important means of addressing additional resources, which can be critical to the success of many small firms (e.g., Murillo and Lozano, 2006). Similarly, multiplexity is considered as having a positive effect on business operations by increasing the social costs of unethical decision-making (Longenecker et al., 2006). Nevertheless, we suggest that multiplexity also has a negative side. Mixing business and personal relationships can complicate business decision-making, because the involvement of a family member or a personal friend in the business may lead to potential conflicts of interests and ethical challenges (Cennamo et al., 2012). Because of the multiplexity of relationships, small business owner-managers may find it challenging to justify decisions for business-related reasons only, facing role conflicts (Siltaoja and Lähdesmäki, 2015). It can even be argued that multiplexity in business relations may appear as an exhibition of less rational business behaviour when compared to those businesses with clearer boundaries regarding business and social roles (Dyer and Handler, 1994).

Multiplexity in the small business context is further enforced by the fact that ownership and control are not usually separated into distinct functions but rather combined in the same person (e.g., Jenkins, 2006; Quinn, 1997). The combination of the roles of ownership and management can diminish the potential agency conflicts often inherent for large, publicly listed corporations. Due to the alignment of ownership and management, the role of non-economic issues, such as emotions and values, is likely to prevail when addressing stakeholder interaction (c.f. Cennamo et al., 2012). Indeed, multiplexity in social relationships expands both the emotional and instrumental exchange between two people (Verbrugge, 1979). Accordingly, the following proposition is formulated:

Proposition 1. *Multiplexity is positively related to social proximity between a locally embedded business and its stakeholders.*

Legitimacy

Socially proximate relationships are frequently characterized by value resemblance stemming from similar backgrounds, interests and/or affiliations (e.g. Sorenson, 2003). Because of the similarities, people expect others to be more likely to accept them, to be trustworthy and to hold beliefs that affirm their own, thereby mitigating the potential conflicts, misunderstandings, and monitoring costs that come with making connections (Rivera et al., 2010). Accordingly, social proximity is reflected in the stakeholder salience process by the basic idea of social interactions being more plausible between two actors that are similar in their values and attitudes (e.g. Kossinets and Watts, 2009). People not only prioritise values with which they feel comfortable but also people with whose values they feel comfortable (e.g., Schwartz, 1999; Sorenson, 2003).

In small businesses, owner–managers are often both the drivers and implementers of values (Jenkins, 2006). They are usually able to bring their own personal values to bear on business decisions (e.g., Lepoutre and Heene, 2006; Spence, 2016), because they are not as mediated and constrained by the same systems and established norms as managers in large businesses often are (Quinn, 1997). At the nexus of values, behaviours and social relations, where stakeholder salience is defined to be the degree to which managers prioritise competing stakeholders, it appears reasonable to suggest that small business owner-managers' own values will influence the way they view stakeholder salience (c.f. Mitchell et al., 2011).

The social bonds based on similar values create moral obligations for small business owner-managers to act for the advantage of stakeholders (e.g., Scheffler, 1997).

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Because stakeholders are people with names and faces, most people feel a stronger obligation to help those in social proximity (Frederiksen, 2010). For example, if the small business owner-manager is a member of a group where certain values play a significant role (e.g., a religious group, political party or NGO), the members of the group are likely to share a high sense of social proximity. It can be problematic to ignore the calls from such a group, even if the decision is more beneficial personally than in terms of the business. The kinship relations and perceived resemblance in values between owner-managers and stakeholders result in increased moral value of proximate relationships. Thus, social proximity may be a relative strength in decision making but can simultaneously cause complexities if social proximity is used as a determinant to evaluate who is a legitimate stakeholder and whose claim should be prioritized. More specifically, proximate stakeholders may not necessarily be legitimate in a normative sense, but socially proximate relations may dispel this. In relation to previous theorisations on stakeholder salience, the following proposition is set:

Proposition 2a: *Social proximity increases the legitimacy of those stakeholders and their claims who are perceived to hold similar values with the owner-manager*

Thus, what follows from this proposition is that if the owner-manager does not perceive closeness to the values of stakeholders who *in theory* hold a legitimate stakeholder role, their claims can be more easily ignored due to the proximity paradox. For example, Lähdesmäki and Suutari (2012) found that the social distance between a small business and stakeholders can lead to owner-managers' lack of corporate responsibility towards stakeholders with whom managers do not identify. This reflects the incorporation of partiality in the ethics-of-care perspective, where it is clear that an actor will give preference to those with whom they have a closer relationship, which might also be reflected in similar values. Accordingly, the following is proposed:

Proposition 2b: *Low social proximity decreases the legitimacy of those stakeholders and their claims who are not perceived to hold similar values with the owner-manager*

Power

Since a majority of small businesses are family owned and managed, stakeholder salience is more likely based on normative rather than utilitarian perceptions of power (Mitchell et al., 2011). Whereas utilitarian power is based on stakeholders' ability to control particularly the tangible resources on which a business depends, normative power is linked to symbolic resources. These symbolic resources usually relate to one's reputation and value as perceived by others (Fuller and Tian, 2006).

In locally embedded small businesses, reputation as an essential symbolic resource reflecting the normative power in stakeholder relations becomes particularly emphasised since businesses tend to rely heavily on few stakeholders in their local community and their activities are often under constant public scrutiny by local stakeholders (Quayle, 2002). Therefore, local embeddedness renders small businesses very susceptible to criticism from stakeholders, and such criticism can negatively affect businesses through a loss of reputation and, accordingly, a loss of social status and exclusion from social networks (see Goss, 2005). Lähdesmäki and Siltaoja (2010), for example, suggest that in the context of small business, reputation can be understood as a powerful control mechanism reflecting small businesses' compliance with local norms. Furthermore, since in small firms, the business is personal (Kitching, 1994) and linked very much to the founder in particular (Fauchart and Gruber, 2011), firm and personal reputations are often coterminous. Accordingly, the reputation of a business represents a potential risk to the owner-manager's own status among stakeholders and vice versa.

For small businesses, the local community itself operates as a dense network; both the business and stakeholders are highly susceptible to each other's actions. The motives of stakeholder groups to express their claims are additionally conditioned by the degree of overlap across stakeholder groups (Rowley and Moldoveanu, 2003). These networks generate collective knowledge sharing (Ashmore et al., 2004) and potentially strengthen local normative sanctioning mechanisms, leading to constraints on the actions of a local business (cf. Rowley, 1997). In proximate networks that consist of owner-managers' in-group members, stakeholders are better able to constrain the focal firm because the network has an effective communication structure and often shares similar behavioural expectations towards the focal firm (Rowley, 1997).

Reputation as a symbolic resource in socially proximate relations means that both parties are likely to seek to maintain and contribute to each other's favourable social evaluation. However, it simultaneously means that a good reputation increases stakeholders' expectations regarding the firm's future behaviour (Mishina et al., 2010). Thus, as we can understand from an ethics of care perspective, a violation in close relationships will be associated with a greater violation of expectations compared to an event of similar wrongdoing in a relationship that is socially more distant (cf. Zavyalova et al., 2015). Social proximity thus increases the significance of stakeholders' favourable evaluations, since in reputation construction, the opinions of the actors who are really perceived to know the object of evaluation matter the most. Accordingly, keeping close, high-identification stakeholders' content, owner-managers are likely to pay more direct attention to their claims. Therefore the following proposition is offered:

Proposition 3a*: Social proximity increases the normative power of in-group stakeholders and their claims*

Thus, what follows from this proposition is that owner-managers may not sufficiently acknowledge the power of out-group stakeholders because small business owner-managers tend to value personal relationships, and such networked relationship constitute a key business resource (Spence et al., 2003). Thus, they may, for example, find it complex understanding non-traditional networks such as social media as a source of normative power (cf. Durkin et al., 2013). Accordingly, the following is proposed:

Proposition 3b: *Low social proximity decreases the normative power of out-group stakeholders and their claims*

Urgency

Urgency is a two-element construct that includes (1) time sensitivity, meaning the degree to which management's delay in attending to the claim or relationship is unacceptable to the stakeholder, and (2) urgency, referring to the importance of the claim or the relationship to the stakeholder (Mitchell et al., 1997). These elements can result in varying interpretations in firms that operate beyond mere business logic and can be quite complex regarding the type of business (Mitchell et al., 2011). We find that socially proximate stakeholder relationships can paradoxically both increase and decrease owner-managerial interpretations of the urgency of stakeholders' claims.

First, because of multiplexity, the majority of small business owner-managers' ties are based on a long-term perspective. This leads to the consideration of the urgency of claims by acknowledging past, present and future embedded relationships. This is particularly true when business relationships mix with friendships. Friendships include the expectation for an exclusively intrinsic orientation. An intrinsic relational orientation is the desire to maintain a relationship because of inherently enjoyable aspects of the relationship and because the relationship itself generates its own rewards (Rempel et al., 1985). Friends are often more

loyal as business partners as well as more productive and committed to contribute to business goals (Grayson, 2007; Haytko, 2004). Thus, entirely in keeping with an ethics of care viewpoint, managers are likely to prioritise urgent claims of those stakeholders whose well-being matters most to them (Spence, 2016). Therefore the following proposition is offered:

Proposition 4a: *Social proximity increases the urgency (importance) of a stakeholder claim*

However, in terms of time sensitivity, social proximity may also decrease stakeholder salience. Because the friendship role may evoke a sense of stakeholder loyalty, the owner-manager can perceive this unconditional support to extend into business conflicts. For example, if the continuity of the owner-manager's business depends on the prioritisation of two competing urgent claims (e.g., taking care of loan payments versus paying a supplier), managers may seek compassion from their close stakeholders and rely on care-based stakeholders' prosociality, i.e., behaviour that benefits another person, often at the instigation of the benefactor (Simpson and Willer, 2008: 39). Whereas exchange partners in a business often gain important advantages by maintaining information asymmetries (Desiraju and Moorthy, 1997), friendship relations are associated with intimate self-disclosure (Held, 2006), and friends are expected to share personal problems with and to 'open up' their lives more fully to each other (Haytko, 2004). Accordingly, a manager may reveal the financial hardship to a friend-stakeholder with an interest (e.g., in hopes of decreasing the urgency of the claim) to maintain the business's existence and the owner's personal well-being. Because social proximity also increases both stakeholder power and legitimacy, the following proposition is offered:

Proposition 4b: *In the case of two or more competing claims from powerful stakeholders, social proximity decreases the urgency (time sensitivity) of stakeholder claims.*

5. Discussion and conclusions

Since the earliest landmark studies in stakeholder salience literature, there has been little theoretical development in terms of how stakeholder salience theory applies to various types of firms (see, however, Mitchell et al., 2011; Cennamo et al., 2012). This paper demonstrates how powerful, urgent and legitimate stakeholder claims are perceived in the context of socially embedded decision-making. Accordingly, stakeholder salience for small businesses is embedded in social situations in which *the feelings of social closeness between a business and a certain actor have a significant impact on whether the actor and their claims are prioritised as powerful, urgent and/or morally legitimate*. As a result, it is argued that social proximity influences the ways in which businesses make sense of stakeholder power, urgency and legitimacy.

The propositions further enrich the understanding of stakeholder management as a relational phenomenon. To accomplish this, we elaborated stakeholder salience from an ethic of care perspective in which the traditional idea of autonomy is replaced with relationships and connections–often multiplex connections–between people. Many theories of business ethics emphasise the importance of neutrality, rationality, impartiality and objectivity (Held, 2006) as the most important moral qualities of a manager, which are opposite to ideas associated with the ethic of care (Tronto, 1993). However, their fit to actual stakeholder situations is poor (see Rowley and Moldoveanu, 2003). This also affects the stakeholder salience process, making it not only a managerially determined event but also a social event (see Tashman and Raelin, 2013). Indeed, whereas the dominant masculine and individualistic approach poses problems for understanding both ethics and the stakeholder firm as relational accomplishments, an ethic of care unveils the sense of moral obligations related to stakeholder salience in small businesses. This helps to present small business owner-managers as moral agents embedded in important relationships with others and as

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those who acquire a sense of moral identity through interactive patterns of behaviour and interpretation (Addelson, 1991).

While operating in social networks characterised by multiplexity, small businesses may be perceived as entities that socialise care (Tronto, 1993). However, such positioning as care providers can be problematic for small businesses, as they face continuously growing societal expectations, particularly in terms of corporate social responsibility. This discussion often treats small businesses in a patriarchal sense, meaning that expectations towards the corporate social responsibility of small businesses are *limited* to care, whereas large firms handle different and more complex issues (e.g., Perrini et al., 2007). Thus, to socialise care, the premises should emphasise authenticity and empowerment in small businesses activities. Otherwise, increasingly proximate relationships may also become a burden for small businesses.

Although the role of close and emotional bonds between stakeholders and small businesses has been considered as a relative necessity for effective relationships, particularly due to their potential for generating business-stakeholder welfare (Sen and Crowley, 2013), this study elaborates the complex side of embedded relations in small businesses (Siltaoja and Lähdesmäki, 2015). First, social proximity may prompt owner-managers of locally embedded small businesses to accede to stakeholder claims that, from a stakeholder salience theory perspective, are less legitimate or could even seem illegitimate (cf. Mitchell et al., 1997). Second, social proximity also works as a 'legitimating device' for owner-managers to favour personal relationships over business ones. Indeed, although it is often suggested that businesses (especially smaller businesses) must develop close relationships with their partners, the relationships can be too close, which can result in ethical problems (see Ayios et al., 2014; Portes, 1998; Uzzi, 1997). For example, when personal relationships take precedence over the actual qualifications of a potential workforce, business partners and

societal stakeholders, the danger of nepotism prevails. It may foster feelings of inequality in the workplace and eventually result in negative consequences on firm performance and social welfare. Third, (de)prioritizing socially proximate stakeholders can make a business more vulnerable for external shocks over time. These shocks may weaken common ties or make interaction with certain stakeholders less predictable, particularly if market or environmental conditions change rapidly (see Rivera et al. 2010). This kind of temporal dynamic and its significance for stakeholder salience in embedded small businesses however needs to be further examined.

The conceptualisation of social proximity as an intrinsic element in the stakeholder salience process was done with a particular view to locally embedded small businesses. However, we consider that there are strong possibilities for the proposals to have applications beyond small firms. For example, smaller departments or subsidiaries of large firms may exhibit some of the features of small firms. Thus, this study calls for an empirical examination of various situations and contexts that either facilitate or complicate socially proximate stakeholder relations, as socially proximate relationships can result in multiple outcomes. Previous studies have focused on the positive aspects of social proximity, leading to somewhat one-sided and uncritical views that marginalise the power dynamics inherent in social proximity. Future research should therefore outline under what conditions unethical/ethical activity can happen, its driving or hindering forces and what kinds of multiple outcomes socially proximate stakeholder salience processes can generate. The prioritization of proximate stakeholders over more distant ones can have economic and social implications for a small business which research should further address. Thus, a typology of stakeholders based on social proximity, for example, could provide small business owner-managers means to better perceive the importance of developing ties both with socially

proximate and distance stakeholders. Indeed, much remains to be explored regarding how small businesses navigate stakeholder relationships.

Compliance with ethical standards

All procedures performed in studies involving human participants were in accordance with the ethical standards of the institutional and/or national research committee and with the 1964 Helsinki declaration and its later amendments or comparable ethical standards.

Informed consent was obtained from all individual participants included in the study.

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[i] In this study, the concept of locality includes the idea of local community as the embodiment of a certain geographical closeness and social proximity in terms of feelings of belonging and similarity.