DIVERSITY MANAGEMENT: ADDING VALUE IN FAMILY BUSINESS?

Lilian SNELLMAN
Helsinki Metropolia University of Applied Sciences
1 Leiritie, 01600 Vantaa, Finland
lilian.snellman@gmail.com

Abstract. *Diversity issues are currently addressed in big organizations due to requirements of labor legislation. For this reason, there is also increasing the body of research conducted on diversity and diversity management in big companies, whereas research is lacking in small and medium sized companies owing to their exclusion from such legislation. Consequently, smaller organizations tend to downplay diversity issues although recent research findings indicate that managing diversity through integrating diversity practices in organization strategy, making diversity effective throughout the organization, and gaining support for diversity practices from top-management, organizations may improve performance and achieve sustained competitive advantage. Downplaying diversity concerns and the subsequent lack of research on the role and effects of diversity applies also family firms as most of them are small and medium-sized. Importantly, however, research on diversity may be of particular importance as family firms constitute a unique group of organizations due to the involvement of family in the business. Such uniqueness is typically created by pressures to employ family members and involve them in decision-making and management. Consequently, family firms, while ignoring plausible positive effects of a diverse workforce, may jeopardize strategic business opportunities that such workforce is noted to bring along. To gain knowledge about diversity in family firms, this study aims at shedding light on diversity in general, exploring the involvement of diversity in family firms, and finding if family firms might create value through diversity.*

Keywords: *family business; diversity; diversity management; value added; networks, socio-emotional wealth.*

Introduction

A growing number of companies have started to implement diversity practices as a response to labor legislation, but also because companies increasingly acknowledge that diversity may improve performance and add value to the company. Recent research shows that in order to gain benefits from diversity, diversity should be effectively managed by integrating diversity into the business strategy (Heres & Benschop, 2010) and by gaining top management's support for diversity issues (Armstrong et al., 2010). Owing to the increasing variety and rapid changes in the composition of the workforce, and to the positive results achieved through diversity management, it seems evident that diversity deserves increasing attention and should be addressed in all kinds of organizations. Family firms do not constitute an exception. What makes diversity issues relevant with respect to family firms is their global prevalence and that they constitute the largest type of business in each country (Nordqvist, Melin, Waldkirch & Kumeto, 2015). Importantly, family firms are also the greatest contributors to the world's jobs and economic prosperity (Sorenson &

Bierman, 2009). Based on these facts, there is no doubt that if diversity is well integrated, supported and managed by family firms, they will contribute to the creation of employment and enhance economic development. Diversity issues in family firms deserve special attention also because of the uniqueness of family firms arising essentially from the involvement of family members in the business and the subsequent overlap of family and business, which is typically seen to affect goal setting, decision-making, and in family firms (Chua, Chrisman & Steier, 2003). Owing to such overlap, diversity concerns may assume a special role in family firms compared to non-family firms. Interestingly, in line with this assumption, there are some recent indications that family firms may deal with diversity issues in a specific way due to their unique characteristics (Singal & Gerde, 2015). Unfortunately, little research has been conducted on diversity and diversity management in family firms leaving many important questions to be answered and research gaps to be filled.

To advance research and gain new knowledge in the fields of diversity management and family business in general, and to fill research gaps concerning the role of diversity in family firms in particular, this study explores unique characteristics of family firms stemming from the family involvement in business, and tries to find how such characteristics may impact on the integration of diversity into the workforce and decision-making processes and, subsequently, on the value creation and outcome in family firms. The primary assumption of this study is that diversity may play a different role in family firms compared with the non-family counterparts. In addition, it is assumed that although unique family-related characteristics are seen to affect performance in a positive way and create value for firms (Chua et al., 2003), they may also have a negative effect on business performance. Such negative effect may take place because unique family-related characteristics might work against the inclusion of external diverse workforce in the organization meaning that family firms cannot reap benefits from diversity to the same degree as non-family firms. Five characteristics based on family involvement in business are addressed because they are in this study regarded as the most representative characteristics of family firms and the most significant when exploring the diversity in family firms. The characteristics are the uniqueness of family firms, family-related resources, closed networks with strong ties between family members, socio-emotional wealth, and economic efficiency. This study tries to find if the special characteristics stemming from the family involvement in business, may affect a family firm's willingness to recruit and integrate diverse workforce to the organization. It is assumed that unlike non-family firms, family firms may be reluctant to involve external diverse workforce favoring instead family members. Similarly, it is suggested that due to the specific family-related characteristics, family firms may be less willing to include diversity in decision-making processes. In short, the central argument is that the unique family-related characteristics may challenge the inclusion of diversity in the organization that, in turn, may have a negative impact on business performance and jeopardize effective decision-making hindering the value creation in family firms.

This paper is constructed as follows: first, the concept diversity is presented. Second, diversity management is accounted for. Third, light is shed on the impacts of diversity on organizations' value creation. Fourth, family firms are examined in terms of their unique characteristics and propositions are made concerning how such characteristics may affect involvement of diversity into workforce and decision-making. Finally, concluding remarks are presented and some suggestions for further research are made.

Diversity

The definition of diversity has been evolving from an early focus on legally protected employee attributes such as race, gender, and age, to a much broader definition that comprises the whole range of human differences (Jayne & Dipboye, 2004). Accordingly, diversity refers today to differences between individuals concerning any attributes that may lead to the perception that another person is different from the self (Roberge, Lewicki, Hietapelto & Abdyldaeva, 2011). Likewise, diversity is used as a means to categorize differences in thought, actions, beliefs, value sets and needs, but can also appear in the codification of groups by skin color and educational levels (Joshi & Roh, 2006). Diversity is also be explained in terms of clearly visible differences like sex, ethnicity, age and disability, as well as invisible differences such as sexual orientation, social class, religion, skills, scholarly background, experience, and personality (Glastra, Meerman, Schedler & De Vries, 2000). Visible and invisible diversity refer to the so-called surface-level and deep-level diversity (Jayne & Dipboye 2004). Owing to the current increasing range of perceptions on diversity, it is noted that diversity lacks a rigorous definition and accepted measure at the organizational level (Jackson, Joshi & Erhardt, 2003). Nonetheless, this kind of early definitional and conceptual development state where the research on diversity finds itself in the organizational context at the moment does not restrict theorizing or hinder conceptual development in the field of diversity management. On the contrary, there seems to be great need of research on diversity because organizations are increasingly incorporating diversity management practices into the organization with the aim of reaping organizational benefits from diversity (Heres & Benschop, 2010) and promoting socially responsible actions and equitable employment outcomes for diverse minority groups (Fujimoto, Härtel & Azmat, 2013) and individuals (Cox, 1994).

Diversity management

Diversity management has its origins in the United States of America in the early 1990s, and from the USA diversity management traveled to Europe, where it has become a widely adopted organizational practice (Heres & Benschop, 2010). Diversity management refers to a combination of management practices that offer minority groups access to the job market and create career opportunities while it at the same time provides benefits for the organization because the minority individuals may bring along varied perspectives and experiences to the organization (Risberg & Søderberg, 2008). The primary objective of diversity management from the very beginning has been to foster the attainment of the social justice through advancing individual development and through including all kinds of organizational members to the organization (Cox & Blake, 1991). In consequence, diversity management helps organizations to deal with the root causes of difference, such as stereotypes, prejudice, and inequality that may hinder the development of everyone's full potential (Thomas, 2001). Importantly, however, in addition to promoting social justice, diversity management increasingly strives for taking advantage of the benefits diversity may bring to the organization (Heres & Benschop, 2010).

Diversity management sees the differences between employees as a source of creativity, complementarity and greater effectiveness (Stockdale & Crosby, 2004). For this reason, organizations actively seek to benefit from the distinctiveness between individual employees (Ivancevich & Gilbert, 2000). Consequently, diversity management departs from the idea that every organization member is a unique individual with an own specific contribution to the attainment of organizational goals (Cox, 1994) appreciating, thus, the inherent value of diversity (Gilbert, Stead & Ivancevich, 1999). Accordingly, managing diversity means understanding that there are differences among employees and that, if properly managed, the differences may constitute a valuable asset for the organization (Bartz, Hillman, Lehrer & Mayhugh, 1990). In more precise terms, diversity management is a managerial value-driven strategy aiming at maximizing the potential of all employees, regardless of their group identities such as race, gender, age, and disability (Fujimoto & Hartel, 2010). Since diversity is regarded as more and more important for organizations, it is suggested that diversity management should be part of the strategy in organizations (Konrad, Yang & Maurer, 2016). When included in the strategy, diversity management focuses on the whole organization, rather than targeted programs for under-represented groups, and aims at creating an environment where all employees can contribute to the common goal with their full potential (Wrench, 2005). The strategy inclusion is important because diversity practices, in the same vain as HRM practices, when aimed to succeed, they should fit with the overall business strategy (Chow, Huang & Liu, 2008). Drawn together, research indicates that effective diversity management may be beneficial to organizations because it not only benefits minority groups but also improves organizational performance by creating value through individual contributions stemming from a diversity of the workforce.

Value creation through diversity

Research indicates that most organization leaders value diversity and recognize its benefits (Fenwick, Costa, Sohal & D'Netto, 2011). Such benefits include improved productivity, larger market share, innovative thinking, improved employee relations and better customer satisfaction (Trenerry & Paradies, 2012). In addition, it is found that companies that effectively managed diversity by eradicating racism and sexism and by employing diverse workforce may have higher levels of innovation (Moss-Kanter, 1983). Similarly, it is claimed that multiple perspectives arising from a diverse workforce, can result in more creative problem solving and decision-making (Grubb, McMillan-Capehart & McDowell, 2009). What is more, it is acknowledged that diversity brings information richness to the decision-making leading to better decisions (Tillery & Rutledge, 2009) and creative decision making which, in turn, tends to improve organizational performance (Cox, 1994). Interestingly, it is also shown that organizational performance depends on whether the workforce is able and competent as a result of training, development practices, and non-discriminatory recruiting; and whether the workforce is motivated, as a result of doing meaningful work; and finally, organizational performance depends on whether the workforce has opportunities, as a result of employee involvement practices providing employees opportunities to contribute within the organization. In other words, workforce may contribute better to organizational performance if it is well managed in terms of diversity-related concerns (Armstrong et al., 2010). As for group level outcomes, it is known that diversity increases group creativity and innovation (Singal & Gerde, 2015). Hence, it is concluded that diverse groups are more innovative and creative owing to diverse perspectives, varied information sources, and improved decision-making (Tillery & Rutledge, 2009). Similarly, it is noted that when organizational strategy and different HRM practices support diversity initiatives, diversity is more likely to contribute to positive performance outcomes (Kochan et al., 2003). In more concrete terms, organizations that manage diversity through effective HRM and diversity initiatives may achieve advantages such as success in marketing, better problem-solving, improved organizational flexibility, lower costs associated with decreased absenteeism, higher job satisfaction and, above all, they may attract and retain the best human resources (Cox, 1994).

As a whole, current research indicates that an increasing number of organizations are adopting strategic diversity measures as they have recognized that the full potential of diversity will only be available if different strategic diversity practices are effectively managed (Roberge et al., 2011). It is accentuated that diversity management may not only contribute to employees' retention but may also significantly improve corporate image, enlarge market share, and diminish employees' turnover (Roberge et al., 2011). Additionally, it is noted that if diversity practices, in addition of being integrated into the business strategy, are also in place at operative level, organizations have better possibilities to maximize the advantages of diversity as well as minimize its disadvantages (Cox, 1994). The strategic approach to diversity requires also that organization must engage themselves in a long-term commitment concerning the implementation of diversity practices if they aim at enhancing performance in the long run (Roberge et al., 2011). Importantly, recent research in the field is founding more and more factors that may reap benefits through diversity. Such factors include effective diversity-oriented leadership (Kondrad et al., 2016) and diverse management teams (Joshi, Liao & Jackson, 2006); diversity departments, boards and officers; specific goals and targets supporting diversity; regular measurement of the effects of diversity management, and continuous reporting on diversity performance (Heres & Benschop, 2010). In addition, it is found that effective diversity management requires that training is provided across all organizational levels; that inclusive diversity supportive climate focused on diversity recruitment is promoted, and that promotion policies that include minority or other disadvantaged groups are applied (Armstrong et al., 2010). Research on diversity practices indicates that the training component is the most applied diversity practice and that it typically consists of efforts to increase awareness of discrimination and prejudice and aims at improving behavioral skills of employees when working with persons from different cultures and minority groups (Jayne & Dipboye, 2004). It is also found that the implementation of diversity training programs may provide employees opportunities to acquire the necessary awareness, knowledge, skills, and abilities to overcome diversity-related conflicts and thereby increase individual and group performance (Plummer, 1998). Significantly, recent research also indicates that the success of diversity management does not only depend on the internal implementation and fit of diversity practices, but also on how the practices fit with the environment. Consequently, it is essential that diversity practices are in line with internal organizational strategy and organizational characteristics, they fit with each other, and that their implementation takes into account the organizational environment (Martín-Alcázar, Romero-Fernández & Sánchez-Gardey, 2012). Accordingly, the context in which an organization operates seems, in addition to internal diversity practices, to be an essential determinant of the organization's diversity management (Konrad et al., 2016).

It is widely acknowledged by now that if well implemented, diversity practices may significantly enhance the performance of diverse groups that, in turn, contributes to competitive advantage. Importantly also, a recent literature review (see Armstrong et al., 2010) indicates that the main business benefits generated by diversity accrue from the possibility to recruit from a wider selection of people and retain better workers for longer (Armstrong et al., 2010), broader market intelligence, increased internationalization (Cox, 1994), wider perspectives on business issues, improved community relations, enhanced company image (Nykiel, 1997), reduced costs linked to decreased turnover and absenteeism, and increased resilience and flexibility (Gardenswartz & Rowe, 2011). What is more, recent empirical research reveals that increased use of diversity-oriented inclusive high-performance work systems leads to distinguishable benefits for both employers and employees, and measurable monetary benefits at the firm level (Armstrong et al., 2010). Additionally, empirical findings indicate that successful diversity training seems to depend on top management support and that if diversity initiatives are framed as challenges and opportunities, they will gain the support from employees increasing the relevance and value of diversity (Jayne & Dipboye, 2004). Accordingly, it is suggested that that by appreciating diversity and inclusiveness, managers may frame collective identity that welcomes and values the different identities of stakeholders including employees, customers, suppliers, investors, and people from the local or global community enhancing significantly the importance of diversity (Roberge et al., 2011).

Overall, it seems that managing diversity effectively may be a delicate and challenging process because it requires the implementations of a combination of multiple diversity practices (Roberge et al., 2011), support of top management (Jayne & Dipboye, 2004), integration of diversity practices into organizational strategy (Cox, 1994), as well as internal fit of diversity practices and fit with the organizational environment (Martín-Alcázar et al., 2012). What makes diversity management even more challenging is the notion that although there are several diversity practices that may enhance performance and add value to the organization, there is neither one best way of implementing them, nor one best practice to fit all organizations (Jayne & Dipboye, 2004).

Taken together, it can be concluded from the above revision on the advantages diversity and diversity management that there is broad theoretical as well as empirical evidence indicating that effectively managed diversity can reap significant benefits for organizations. Most importantly, diversity may improve performance and subsequently create value added for organizations. This being the case, it seems evident that the same applies for family firms making them willing to increase organizational diversity by recruiting and employing more diverse workforce. Nevertheless, as family firms constitute a specific group of organizations with unique family-centered characteristics highlighting the importance of family members in the business, it may be assumed that family firms take a different stand on diversity and diversity practices if compared with non-family firms that do not have any family concerns. Consequently, there seems to be needed to shed light on the uniqueness of family firms and, more specifically, explore the opportunities as well as challenges that diversity may generate for family firms.

Family firms

Family firms can be seen as a significant empirical phenomenon in the world economy (Fletcher, 2014). Family firms are grounded on familial capitalism with an ability to survive in the long term owing to their specific governance practices, strategies, and structures (Steier, Chrisman & Chua, 2015), and to their inherent capacity to adapt to a multitude of environments differing in terms of history, culture, and institutional development (Shukala, Carney & Gedajlovic, 2012). Accordingly, family firms have, from remote times, constituted an enduring form of organization and are now the most prevalent form of business organizations in the world (Steier et al., 2015). Notwithstanding the prevalence and the common characteristics that make family firms form a specific organizational group, it is noted that there are also significant differences among family firms reflecting the heterogeneity that arises from diverse evolutionary paths and institutional contexts (Melin & Nordqvist, 2007). Importantly, however, family firms possess several significant elements that distinguish them from non-family firms making them a unique organizational group (Berrone, Cruz & Gomez-Mejia, 2012).

Uniqueness of family firms and diversity

As noted above family firms constitute a specific organizational group that differs from non-family firms in terms of their uniqueness manifested typically by several distinctive family firm-specific characteristics including family's involvement in business, family-based resources, close internal networks with strong ties, and stewardship behavior, long-term perspective and business continuity, broad multiple goals related to socio-emotional wealth, patient capital, and economic efficiency. Such characteristics are seen to safeguard family firms' privileged position as the most prevalent, persistent and successful organizational forms. Nevertheless, it might also be assumed that the uniqueness may also have a negative impact on the outcome of family firms while challenging family firms' possibilities of gaining business opportunities, improving performance and creating value through diversity. In more concrete terms, it can be suggested that certain unique family-related characteristics may create a reluctance to recruit and integrate external diverse workforce to the organization and involve diversity in decision-making processes diminish, thus, family firms' possibilities of reaping advantages from diversity.

There has been recognition throughout the history of family business research that it is the reciprocal influence of family and business that distinguishes family business studies from other disciplines and that accentuates the uniqueness of family firms (Astrachan, 2003). Such uniqueness is manifested in the overlap between family and work systems demonstrating the influence that family members may have on the decisions of family firms, and vice versa (Schlippe & Schneewind, 2014). It has also been acknowledged that managing the overlap between family and business and the reciprocal relationships between both systems are crucial for the success or failure in family business (Schlippe & Schneewind, 2014). Research shows that family firms' uniqueness originates from the involvement of the family business owners´ family life in the business creating strong relationships between owners, business, and family (Gersick, 1997). Hence, in family business context family constitutes a central concept. It and can be understood as a group of people affiliated through strong ties or bonds of common history and a commitment to share a future together while supporting the development and well-being of individual members (Hoy & Sharma, 2010).

Proposition 1
The overlap between family and business, and the involvement family members in the workforce and decision-making stemming resulting from strong relationships between owners, business, and family, may decrease family firms' interest in recruiting an external diverse workforce that is known to improve performance and create value in organizations. The family involvement in the business may constitute a hindrance for improving performance and may, subsequently, hinder value creation in family firms.

Family resources and diversity

An emerging body of research suggests that the involvement of family members in the business enables a family firm to accumulate certain qualities that are inherent in families and can furnish the business with unique resources to be leveraged with the aim of attaining competitive advantage (Amit & Villalonga, 2014). Such resources include tacit knowledge, patient financial capital (Amit & Villalonga 2014), organizational social capital (Arregle, Hitt, Sirmon & Very, 2007), and human capital (Zahra, 2010) embedded in family firms. It is highlighted that if able to delineate and leverage the unique resources into a well-coordinated management strategy, family firms may improve their business chances (Sirmon & Hitt, 2003). Furthermore, it is found that the unique resources may bring about the lower transaction, governance, and recruitment costs (Melin, Nordqvist & Sharma, 2014) due to family members' involvement in the business. Similarly, studies find that agency problems are mitigated and agency costs reduced in family firms as the owners occupy executive positions and, consequently, manage and monitor the business (Andreson & Reeb, 2003a, 2003b). In a similar vein, research indicates, that family-specific resources tend to be based on trustful relationships between family members (Arregle et al., 2007), which likewise reduces agency and controlling costs as trust obviates control. Furthermore, it is found that in family firms, communication, and coordination costs are decreased because family members may possess similar resources making them like-minded (Steier, 2001). Importantly also, family members' involvement in business contributes with relationships that may provide family firms with a wide range of resources, such as information, knowledge, advice, money, reputation, image, technology, and talent (Lian, 2008). Family members typically also pursue long-term governance structures, family-centered values, and strong culture (Singal & Gerde, 2015), and have a strong commitment to the firm (Gersick, 1997), which tend to reduce long-term costs in family firms. As a whole, research shows that owing to family members' involvement in the business and the subsequent availability of family-related unique resources, family firms are seen to experience cost savings and perform financially better than non-family firms (Singal & Gerde, 2015).

Proposition 2
Family resources are unique and considered as valuable while contributing to competitive advantage through cost savings. Such savings accrue from reduced agency, controlling, communication and coordination costs owing to the fact that family members occupy multiple positions in the organization. Due to cost savings gained through the high representation of family members bringing unique resources to the organization may lead to reluctance to recruit an external diverse workforce that is

known to add value to organizations. Unique family-related resources may hinder value creation in family firms.

Networks of strong ties and diversity

Typically, groups formed of family members are connected by networks of strong resource ties that may bring about advantages particularly in such environments that place a premium on group solidarity and unified actions (Melin et al., 2014). Group formations based on joint emotional and cognitive elements that create a specific adhesion (Bourdieu, 1996) seem to be vital for the existence of family firms. More often than not, emotional adhesion gives rise to and reproduces rites that bind the group members together (Bourdieu, 1996). Likewise, shared goal-directed activity and expressions of positive sentiments are considered to strengthen the unity typical for family firms (Nicholson, 2014).

Internal networks characterized by enduring relationships and strong cohesive ties that create unity are regarded as important because they safeguard continuity, survival, and success of family firms. However, also less cohesive networks, formed by relatively diverse weak ties that include non-family members and other stakeholders, play an important role in family business. In consequence, success in family business does not only accrue from the combination of the family firm internal but also external relationships (Arregle et al., 2007). Importantly, it is emphasized that not only strong, cohesive, close and homogeneous ties that form networks between family members and close friends, but also less cohesive networks formed by relatively diverse weak ties connecting family and non-family members and other stakeholders, may play a crucial role in business. Such networks can facilitate access to wide-ranging sources of information and alternative viewpoints being, hence, essential for performance, value creation and success of the firm. Research indicates that networks of weak ties are essential also because they may connect people to special information sources they otherwise would miss because the firm internal ties typically tend to rely on the same information sources (Granovetter, 1974).

Unfortunately, particularly family firms that typically strive for creating and maintaining internal strong ties, may downplay the importance creating networks with members of the business elite (Sirmon & Hitt, 2003), members of other external stakeholder groups, and non-family members. For this reason, family firms tend to have restricted networks with limited network reach which is seen to constrain their capabilities do develop valuable ties with non-family representatives (Chrisman, Chua & Sharma, 2005).

Proposition 3
Networks of strong ties between family members may impede the advantages accruing from networks of weak ties that connect family members to external stakeholder groups and non-family members. Therefore, family firms may be reluctant to integrate representatives of external diverse stakeholder groups or non-family individuals to the family firm. Internal networks formed of strong ties between family members may hinder value creation accruing from networks of weak ties with external diverse stakeholders groups and non-family representatives.

Socioemotional wealth and diversity

Family firms are known to differ from non-family firms concerning several characteristics including overlap between family and business (Schlippe & Schneewind, 2014), stewardship behavior (Davis, Schoorman & Donaldson, 1997), goals and performance. Stewardship behavior is manifested by a wider set of collective interests indicating that family business leaders become stewards furnishing greater good of the common enterprise (Nicholson, 2014). As for performance, there is cumulative evidence that family firms outperform non-family-firms (Anderson & Reeb, 2003a) as a result of long-term thinking, continuity of business and sustainable relationships, all of which are seen to enhance business outcome (Carney, 2005). Importantly, recent research shows that owing to the overlap between family and business, stewardship behavior and sustainable thinking, business families often think of performance in broader terms than non-family firms. Accordingly, family firms tend not only to strive for pecuniary benefits but also aim at specific non-pecuniary goals (Amit & Villalonga, 2014) meaning that family business goals are not just limited to shareholder wealth maximization (Shukala et al., 2012), which is the objective of most non-family firms, but are rather family-centered, but are rather based on joint emotional and cognitive aspects (Bourdiey, 1996). The family firm-specific focus on non-economic objectives can be explained in terms of socio-emotional wealth (Berrone et al., 2012). Recent research indicates that non-economic objectives based on socio-emotional wealth include the protection of the family brand, its heritage, and legacy as well as its reputation and its political influence (Amit & Villalonga, 2014). It is also found that socioemotional wealth reflects family ownership of the business (Berrone et al. 2012), close family ties (Hoy & Sharma, 2010), strong commitment to the firm (Gersick, 1997), specific long-term governance structures and family-centered values (Singal & Gerde, 2015). Similarly, socio-economic wealth reflects the psychological ownership (Hall, 2005 in Signal & Gerde, 2015). Typically, then, socioemotional wealth is seen as essential for family firms affecting their decision-making process (Aldrich & Cliff, 2003) and, subsequently, their performance and goal-setting. Consequently, it is noted that in family firms major managerial choices are made with the intention of preserving and enhancing the socio-emotional wealth in family firms (Berrone et al., 2012).

Proposition 4
The socio-emotional wealth enhancing family-centered goals and values, family ownership, psychological possessiveness of the business and emotionally based decision- making may affect the recruiting process by obviating external diverse candidates that might improve performance adding value to the firm. The socio-emotional wealth may hinder value creation achieved by integrating diversity into the workforce, and impede inclusion of diverse decision-makers that may bring new perspectives in the decision-making processes in family firms.

Economic efficiency and diversity

There is increasing evidence that family business goals are multiple. At the same time as family firms are advocating non-economic socio-emotional wealth, they are known to exercise greater diligence in managing their economy than non-family firms (Brickley & Dark, 1987). Such economic efficiency is typically manifested in family firms by risk aversion, reliance on own capital, and preference for family-based workforce and management. While choosing managers among family members, they can take cost advantage in the executive search that in non-family firms is time-consuming and resource- intensive process (Shukala et al., 2012). The economic efficiency is also seen in that family firms may be less likely to take entrepreneurial risks (Naldi, Nordqvist, Sjöberg & Wiklund, 2007), and avoid allocating free cash flow to low return projects (Carney, 2005). It is also shown that family members tend to perceive themselves as stewards or caretakers for the family-owned firm (Zahra, 2003, Miller at al., 2008) while pursuing family-centered non-economic objectives showing their strive for socio-emotional wealth (Amit & Villalonga, 2014). Interestingly, there are some indications that emotional family-centered objectives coupled with the aim of being economically efficient in terms of family-based workforce and management may harm a family firm (Gomez-Mejia et al., 2007) because diverse resources and different points of view stemming from diverse external groups or individuals may easily obviate and ignored in family firms due to their family focus. Unfortunately, such family-centered objectives and economic efficiency stemming from family-based workforce may lead to a homogeneous outlook (van Geenhuizen & Soeatano, 2012). As a whole, there seems to be evidence that because of their strive for economic efficiency through family involvement in the business, family firms may avoid investing in external relationships and assets which, in turn, may limit their possibilities to attract relational and economic capital as well as external capabilities and expertise that might be crucial for bringing in new competencies to the organization.

Proposition 5
Economic efficiency resulting from family firms' reluctance to rely on external resources and their preference for family-based personnel, may restrict family firms' possibilities of gaining external knowledge while preventing them from recruiting diverse external managers, experts and employees that might provide different perspectives, multiple new ideas, and valuable knowledge adding value to the organization. Economic efficiency may hinder adding value through diverse external managers, experts, and workforce in family firms.

Concluding remarks

Although there is an increasing body of research on diversity and diversity management, more research should be conducted with the aim of gaining more knowledge about how diversity could contribute to better performing companies, and how diversity could be managed so that it would add value to different kinds of organizations. Especially, research on the role and advantages of diversity in small and medium size companies is required because such companies are excluded from the legal obligations concerning diversity and, consequently, tend to lack knowledge about diversity issues, in general, and about benefits to be gained through diversity, in particular. Among small and medium-sized companies family firms constitute a particular group differing from their non-family counterparts in terms of specific characteristics that make them unique. Such characteristics are mainly based on family involvement in a business known to affect goals, performance, and decision-making and, subsequently, value creation and the outcome of family firms. This study assumes that because of such family firm related unique characteristics, diversity plays a different role and may have different effects in family business compared with non-family firms. For this reason, there is a need to conduct research on the role and effects of diversity in family firms and, particularly, focus on the characteristics that make family firms unique. Consequently, this study aimed at exploring the unique family firm-related characteristics and the role diversity plays in family firm context. To fulfill such objective a literature review based on the literature on the fields of diversity management and the family business was conducted.

The literature review indicates that several characteristics that make family firms unique may bring about challenges when diversity is to be involved in family firms. In more detail, the review reveals that certain family firm-related characteristics such as family resources, internal closed networks with strong ties, socio-emotional wealth, and economic efficiency, may hinder the integration of diversity into the decision-making and management, and workforce in general. Furthermore, the review shows that because of the lack of diversity in the organization, the performance may not be improved which, in turn, affects the value creation and success of family firms. Similarly, the review indicates that decision-making may suffer from homogenous outlook owing to the like-mindedness of the decision makers whereas diversity would bring in new ideas and innovative perspectives to family firms. In order to verify or refute the assumptions arising from the previous research in the fields of diversity and family business, five propositions are made. The propositions will be tested on empirical data to be collected in a range of case companies by means of qualitative interviews. To gain reliable knowledge, secondary archival data will also be used. On the basis of the results, a model will be constructed. The model will help family firms to overcome challenges concerning the involvement of diversity in the organization as well as help family firms see how they may improve performance and decision-making through diversity and, subsequently, add value to the business.

Suggestions for further research

As the study indicates, there is a great need to conduct research on diversity, in general, and on the role, effects and challenges of diversity in small and medium-sized companies, in particular. Although there is at the moment growing body of research on diversity and diversity management, the field is continuously evolving and requires the generation of new knowledge to fill research gaps. The literature study reveals that much research has been conducted on the positive impacts on organizations accruing from diversity whereas less is known about disadvantages or drawbacks stemming from diversity. Similarly, there is a great body of research on good diversity management whereas less has been conducted on unsuccessful or bad diversity management. Research on such topics would advance the field as well as give practical insight on what kind of management may be detrimental to a diverse organization, or may hinder an organization to reap advantages from diversity.

References

Aldrich, H.E., & Cliff, J.E. (2003). The pervasive effects of family on entrepreneurship: Toward a family embeddedness perspective. *Journal of Business Venturing,* 18(5), 573-596.

Amit, R., & Villalonga, B. (2014). Financial performance of family firms. In L. Melin, M. Nordqvist, & P. Sharma (Eds.), *The SAGE Handbook of Family Business* (pp.157-178). London: Sage Publications Ltd.

Anderson, R.C., & Reeb, D.M. (2003). Founding-family ownership and firm performance: Evidence from the S&P 500. *Journal of Finance,* 58(3), 1301-1328.

Armstrong, C., Flood, P.C., Guthrie, J.P., Liu, W., MacCurtain, S., & Mkamwa, T. (2010). The impact of diversity and equality management on firm performance: Beyond high-performance work systems. *Human Resource Management,* 49(6), 977-998.

Arregle, J., Hitt, M.A., Sirmon, D.G., & Very, P. (2007). The development of organizational social capital: Attributes of family firms. *Journal of Management Studies,* 44(1), 73-95.

Astrachan, J.H., & Shanker, M.C. (2003). Family businesses' contribution to the US economy: A closer look. *Family Business Review,* 16(3), 211-219.

Bartz, D.E., Hillman, L.W., Lehrer, S., & Mayhugh, G.M. (1990). A model for managing workforce diversity. *Management Education & Development,* l 21(4), 321-326.

Berrone, P., Cruz, C., & Gomez-Mejia, L.R. (2012). Socioemotional wealth in family firms theoretical dimensions, assessment approaches, and agenda for future research. *Family Business Review,* 25(3), 258-279.

Bleijenbergh, I., Peters, P., Poutsma, E., Heres, L., & Benschop, Y. (2010). Taming diversity: An exploratory study on the travel of a management fashion. *Equality, Diversity and Inclusion: An International Journal,* 29(5), 436-457.

Bourdieu, P. (1996). *The rules of art: Genesis and structure of the literary field*. California: Stanford University Press.

Brickley, J.A., & Dark, F.H. (1987). The choice of organizational form the case of franchising. *Journal of Financial Economics,* 18(2), 401-420.

Capital, F.S. (2009). Family capital, family business, and free enterprise. *Family Business Review,* 22(3), 193-195.

Carney, M. (2005). Corporate governance and competitive advantage in family-controlled firms. *Entrepreneurship Theory and Practice,* 29(3), 249-265.

Chow, I.H., Huang, J., & Liu, S. (2008). Strategic HRM in china: Configurations and competitive advantage. *Human Resource Management,* 47(4), 687-706.

Chrisman, J.J., Chua, J.H., & Sharma, P. (2005). Trends and directions in the development of a strategic management theory of the family firm. *Entrepreneurship Theory and Practice,* 29(5), 555-576.

Chua, J.H., Chrisman, J.J., & Steier, L.P. (2003). Extending the theoretical horizons of family business research. *Entrepreneurship Theory and Practice,* 27(4), 331-338.

Cox, T. (1994). *Cultural diversity in organizations: Theory, research, and practice.* San Francisco: Berrett-Koehler Publishers.

Davis, J.H., Schoorman, F.D., & Donaldson, L. (1997). Toward a stewardship theory of management. *Academy of Management Review,* 22(1), 20-47.

Fenwick, M., Costa, C., Sohal, A.S., & D'Netto, B. (2011). Cultural diversity management in Australian manufacturing organisations. *Asia Pacific Journal of Human Resources,* 49(4), 494-507.

Fletcher, D. (2014). *Family business inquiry as a critical social science*. In L. Melin, M. Nordqvist & P. Sharma (Eds.), *The SAGE Handbook of Family Business* (pp.137-155). London: Sage Publications Ltd.

Fujimoto, Y., & Hartel, C.E. (2010). A new vision of management: Full potential management model. *Journal of Diversity Management,* 5(4), 19-29.

Fujimoto, Y., Härtel, C.E., & Azmat, F. (2013). Towards a diversity justice management model: Integrating organizational justice and diversity management. *Social Responsibility Journal,* 9(1), 148-166.

Gardenswartz, L., & Rowe, A. (1998). *Managing diversity in health care*. San Francisco: Jossey-Bass Publishers CA.

Gersick, K.E. (1997). *Generation to generation: Life cycles of the family business.* Boston: Harvard Business Press.

Gilbert, J.A., Stead, B.A., & Ivancevich, J.M. (1999). Diversity management: A new organizational paradigm. *Journal of Business Ethics,* 21(1), 61-76.

Glastra, F., Meerman, M., Schedler, P., & De Vries, S. (2000). Broadening the scope of diversity management: Strategic implications in the case of the Netherlands. *Relations industrielles / Industrial Relation*, 55(4), 698-724.

Gómez-Mejía, L.R., Haynes, K.T., Núñez-Nickel, M., Jacobson, K.J., & Moyano-Fuentes, J. (2007). Socioemotional wealth and business risks in family-controlled firms: Evidence from Spanish olive oil mills. *Administrative Science Quarterly,* 52(1), 106-137.

Granovetter, M.S. (1973). The strength of weak ties. *American Journal of Sociology,* 78(6), 1360-1380.

Grubb, W.L. III, McMillan-Capehart, A., & McDowell, W.C. (2011). Why didn't I get the job? white nonbeneficiaries reactions to affirmative action and diversity programs. *Journal of Diversity Management,* 4(2), 25-34.

Hall, A. (2005). Beyond the legal: Psychological ownership and responsibility in the family business. FBN 16th Annual World Conference, Brussels: Belgium.

Hoy, F., & Sharma, P. (2010). *Entrepreneurial family firms.* Upper Saddle River, NJ: Prentice Hall.

Ivancevich, J.M., & Gilbert, J.A. (2000). Diversity management time for a new approach. *Public Personnel Management,* 29(1), 75-92.

Jackson, S.E., Joshi, A., & Erhardt, N.L. (2003). Recent research on team and organizational diversity: SWOT analysis and implications. *Journal of Management,* 29(6), 801-830.

Jayne, M.E., & Dipboye, R.L. (2004). Leveraging diversity to improve business performance: Research findings and recommendations for organizations. *Human Resource Management,* 43(4), 409-424.

Joshi, A., Liao, H., & Jackson, S.E. (2006). Cross-level effects of workplace diversity on sales performance and pay. *Academy of Management Journal,* 49(3), 459-481.

Kochan, T., Bezrukova, K., Ely, R., Jackson, S., Joshi, A., Jehn, K., et al. (2003). The effects of diversity on business performance: Report of the diversity research network. *Human Resource Management,* 42(1), 3-21.

Konrad, A.M., Yang, Y., & Maurer, C.C. (2016). Antecedents and outcomes of diversity and equality management systems: An integrated institutional agency and strategic human resource management approach. *Human Resource Management,* 55(1), 83-107.

Martín-Alcázar, F., Romero-Fernández, P.M., & Sánchez-Gardey, G. (2012). Transforming human resource management systems to cope with diversity. *Journal of Business Ethics,* 107(4), 511-531.

Melin, L., & Nordqvist, M. (2007). The reflexive dynamics of institutionalization: The case of the family business. *Strategic Organization,* 5(3), 321-333.

Melin, L., Nordqvist, M., & Sharma, P. (2013). *The SAGE handbook of family business*. London: Sage Publications Ltd.

Miller, D., Breton-Miller, L., & Scholnick, B. (2008). Stewardship vs. stagnation: An empirical comparison of small family and non-family businesses. *Journal of Management Studies,* 45(1), 51-78.

Moss Kanter, R. (1983). *The change masters*. New York: Simon & Schuster.

Naldi, L., Nordqvist, M., Sjöberg, K., & Wiklund, J. (2007). Entrepreneurial orientation, risk-taking, and performance in family firms. *Family Business Review,* 20(1), 33-47.

Nicholson, N. (2013). Evolutionary theory: A new synthesis for family business thought and research. In L. Melin, M. Nordqvist, & P. Sharma (Eds.), *The SAGE Handbook of Family Business* (pp.119-137). London: Sage Publications Ltd.

Nordqvist, M., Melin, L., Waldkirch, M., & Kumeto, G. (2015). *Theoretical perspectives on family businesses* Cheltenham: Edward Elgar Publishing.

Nykiel, R.A. (1997). Enhancing quality through diversity. *Journal of Hospitality & Leisure Marketing,* 4(4), 65-70.

Plummer, D.L. (1998). Approaching diversity training in the year 2000. *Consulting Psychology Journal: Practice and Research,* 50(3), 181-189.

Roberge, M., Lewicki, R.J., Hietapelto, A., & Abdyldaeva, A. (2011). From theory to practice: Recommending supportive diversity practices. *Journal of Diversity Management,* 6(2), 1-20.

Shukala, P.P., Carney, M., & Gedajlovic, E. (2013). Economic theories of family firms. In L. Melin, M. Nordqvist, & P. Sharma (Eds.), *The SAGE Handbook of Family Business* (pp.100-119). London: Sage Publications Ltd.

Singal, M., & Gerde, V.W. (2015). Is diversity management related to financial performance in family firms? *Family Business Review,* 28(3), 243-259.

Sirmon, D.G., & Hitt, M.A. (2003). Managing resources: Linking unique resources, management, and wealth creation in family firms. *Entrepreneurship Theory and Practice,* 27(4), 339-358.

Steier, L. (2001). Family firms, plural forms of governance, and the evolving role of trust. *Family Business Review,* 14(4), 353-368.

Steier, L.P., Chrisman, J.J., & Chua, J.H. (2015). Governance challenges in family businesses and business families. *Entrepreneurship Theory and Practice,* 39(6), 1265-1280.

Stockdale, M.S., & Crosby, F.J. (2004). *The psychology and management of workplace diversity.* Malden: Blackwell Publishing.

Thomas, R.R. (1990). From affirmative action to affirming diversity. *Harvard Business Review,* 68(2), 107-117.

Tillery, K.R., & Rutledge, A.L. (2011). Diversity A strategic imperative or A basic business requirement? A proposed taxonomy. *Journal of Diversity Management,* 4(2), 35-40.

Trenerry, B., & Paradies, Y. (2012). Organizational assessment: An overlooked approach to managing diversity and addressing racism in the workplace. *Journal of Diversity Management,* 7(1), 11–26.

van Geenhuizen, M., & Soetanto, D.P. (2012). Open innovation among university spin-off firms: What is in it for them, and what can cities do? *Innovation: The European Journal of Social Science Research,* 25(2), 191-207.

von Schlippe, A., & Schneewind, K.A. (2014). Theories from family psychology and family therapy. In L. Melin, M. Nordqvist, & P. Sharma (Eds.), *The SAGE Handbook of Family Business* (pp.47-66). London: Sage Publications Ltd.

Ward, J.L. (2011). *Keeping the family business healthy: How to plan for continuing growth, profitability, and family leadership.* Chennai*:* Palgrave Macmillan.

Wrench, J. (2005). Diversity management can be bad for you. *Race & Class,* 46(3), 73-84.

Zahra, S.A. (2003). International expansion of US manufacturing family businesses: The effect of ownership and involvement. *Journal of Business Venturing,* 18(4), 495-512.

Zahra, S.A. (2010). Harvesting family firms' organizational social capital: A relational perspective. *Journal of Management Studies,* 47(2), 345-366.