Double jeopardy: striving for dual legitimacy in Russian family firms

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Abstract: Family firms' long-term capacity to survive and grow is premised on their legitimacy in the eyes of principal stakeholder groups. Drawing on the findings from the interviews with owners/managers of Russian family ventures, we suggest a multilevel concept of the family firm legitimation activities in adverse institutional settings. Due to a constellation of structural and cultural factors, family firms in Russia are simultaneously induced to achieve professional legitimacy in their relationships with immediate stakeholders and institutional legitimacy in their interactions with broader societal norms and beliefs. We extend the institutional theory of organisations by exploring a problem of dual legitimacy faced by family firms in a transition environment. We investigate the cross-level legitimation effects arising at the intersection of the professional and institutional dimensions of legitimacy-seeking activities. We isolate a number of generic strategies employed by Russian family firms to earn professional and institutional legitimacy.

Keywords: family firms; legitimacy; legitimation; Russia; transition economy; institutional theory.

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1 Introduction

Family firms, which we define here as ventures that are predominantly owned, controlled and managed by their founding families, pride themselves on their endurance and longevity (Camfield and Franco, 2019; Sharma et al., 2020). To differentiate their practices from non-family firms and achieve their long-term goals (Basco et al., 2019; Chrisman, 2019; Erdogan et al., 2020; Heino et al., 2019; Kotlar et al., 2020; Schüler et al., 2019), family ventures need to earn legitimacy, in a sense that their business practices are deemed legal, sound and acceptable by key stakeholders (Suchman, 1995). This is particularly important in the context of emerging and transition economies, which combine the effects of fast growth and institutional transformation (Tridico, 2010), since new institutional realities may be rather hostile to family entrepreneurial projects (Dana and Ramadani, 2015).

Recent studies have strongly emphasised the importance of image and reputation for the success of family enterprises (e.g., Beck and Prügl, 2018; Sageder et al., 2018), but have not devoted much attention to the issues of legitimacy in family firms. In case of family ventures, legitimacy can derive from a variety of sources, such as clear and robust business model, decisions imbued with values, passionate commitment to sustaining a business development culture and, crucially, an ability to succeed across generations of family entrepreneurs (Berrone et al., 2012; Brundin et al., 2014; Kachaner et al., 2012). Many countries consider family businesses a backbone of national economies. According to the estimates of the Boston Consulting Group, family companies represent 33% of US enterprises and 40% of German and French businesses with an annual turnover exceeding $1 billion (Economist, 2015). Families wield even bigger economic influence in South-East Asia: in Hong Kong the top 15 families control assets worth 84% of GDP, in Malaysia 76%, in Singapore 48% (Economist, 2015). Therefore, family firms might normally expect to encounter few problems with attaining legitimacy within a broader structure of societal norms and beliefs.

This, however, appears not to be the case in Russia's transitioning economy. In Russia, contrary to the experience of a vast number of developed and emerging economies, an idiosyncratic combination of socioeconomic, cultural and structural factors results in diminished legitimacy of family firms. These factors include the preponderance of large state-controlled firms in many industries (Abramov et al., 2017), the authorities' indifference and hostility to small and family businesses (Reddaway and Ortung, 2005), institutionalised corruption in some administrative offices (Barkhatova et al., 2001) and the absence of succession tradition in the country's modern history (Korchagina and Shilo, 2017).

This predicament poses an interesting research question: how do Russian family firms overcome the barriers to achieving legitimacy related to one of the most widespread and common forms of entrepreneurial activity? In response to this question, the current study explores the principal ways in which Russian family ventures stand up to the challenge of denied legitimacy. It also evaluates the main strategies employed by family firms in order to legitimate their business practices despite institutionalised hostility toward family entrepreneurship.

Drawing on the results of a qualitative study of 12 Russian family businesses, we put forward two interrelated arguments concerning the legitimacy challenges faced by Russian family ventures. First, family firms in Russia confront a complex problem of gaining legitimacy at two distinct levels: micro level, which corresponds to protecting integrity and stability in everyday business operations of a specific family firm, and macro level, which ensures conformity to institutionalised norms and beliefs related to family business organisation in general. Second, Russian family businesses may resort to vastly different strategies to legitimate their activities, depending on whether they aim to earn legitimacy in line with professional expectations or institutional demands. In this way, the present paper complements the findings from the recent studies on the professionalisation and institutionalisation of family firms (e.g., Chua et al., 2009; Stewart and Hitt, 2012).

In this study, we seek to make several contributions to the academic literature. First, we contribute to the development of the institutional theory of organisations by introducing the problem of dual legitimacy faced by family firms in challenging institutional environments. The concept of dual legitimacy represents the first systematic attempt to bring together insights from the literature on organisational legitimacy and family business (see also Mitchell et al., 2011; Panwar et al., 2014). Second, we extend the previous findings on family firm behaviour in a transition environment (Barkhatova et al., 2001; Volkov, 2014) by explicating the principal strategies used by family ventures to gain legitimacy in adverse institutional settings. Third, we expand the dynamic institutional view of family firms (Amit et al., 2015; Banalieva et al., 2015) by exploring the specific interactions between Russian family companies and their institutional environment, which contribute to family firms' market success despite institutional obstacles to their survival and growth.

The remainder of this paper is organised as follows: Section 2 elucidates various aspects of legitimacy specifically relevant to family firms. Section 3 describes the methodology of the study. Section 4.1 reveals the main problems with attaining legitimacy in Russian family ventures. Section 4.2 suggests a typology of legitimation outcomes based on a two-dimensional classification that combines professional and institutional elements of legitimacy judgements. Section 4.3 identifies a number of strategies that are used by Russian family enterprises to achieve legitimacy on both professional and institutional dimensions. Section 5 concludes by addressing the broader implications of the dual legitimacy challenge and offers directions for future research in the area of family firm legitimation in emerging and transitioning economies.

2 The professional and institutional dimensions of legitimacy in family firms

According to the influential typology offered by Suchman (1995), firms can attain legitimacy on pragmatic, moral and cognitive grounds. In addition, Aldrich and Fiol (1994) point out that new entrepreneurial ventures attempt to achieve legitimacy along two different dimensions, cognitive (related to the acceptability of novel products) and sociopolitical (associated with firms' adherence to extant institutional norms). Inspired by these views, we complement the above classifications by introducing two new categories specifically linked to family ventures' legitimation efforts. The first dimension of family firm legitimacy can be termed 'professional'. It relates to professional adroitness of family business owners and managers in responding to market challenges, overcoming the lack of resources or grappling with insufficient involvement of some family members in ongoing business operations (Chua et al., 2009; Stewart and Hitt, 2012; Zhang and Ma, 2009).

Professional legitimacy of family firms should be distinguished from their 'institutional' legitimacy. The latter arises from the public perception of family entrepreneurial activities as benefitting society and contributing to positive outcomes in the broader economic environment. As an economic institution, family firms are widely praised for strong moral principles governing their behaviour, such as long-term orientation, sense of responsibility, resilience, integrity, modesty, thrift, patience and persistence (Chrisman et al., 2011; Fernández-Aráoz et al., 2015; Koiranen, 2002; Lumpkin and Brigham, 2011). Family businesses also tend to display attentiveness to social issues and local communities (Van Gils et al., 2014), act in a socially responsible manner (Dyer and Whetten, 2006) and contribute to environmental protection (Berrone et al., 2010). Moral values and social virtues exhibited by family firms help to reinforce their institutional legitimacy, particularly when they are contrasted with faceless, anonymous business entities controlled by institutional investors.

The two types of legitimacy, professional and institutional, operate at completely different levels. Professional legitimacy derives from the micro-level managerial actions initiated within family businesses to effectively handle relationships with suppliers, distributors, customers and employees. In contrast, institutional legitimacy is achieved through macro-level interactions between the family enterprise and the dominant social norms and legal principles regulating family firms' activities in the public realm. Put differently, professional legitimacy concerns a particular family firm maintaining efficient relationships with its immediate stakeholders. Contrariwise, institutional legitimacy refers to a family firm in general, taken as an ideal type of business organisation, and its acceptability or desirability in the current configuration of social, economic and political institutions.

Family firms are supposed to go to great lengths to gain professional legitimacy, which offers them enhanced opportunities for learning and capability development, stronger market performance, higher employee commitment and a closer alignment of family values, expectations and goals (Gedajlovic et al., 2004; Hall and Nordqvist, 2008; Stewart and Hitt, 2012; Tsui-Auch, 2004). At the same time, they seem to devote considerably less effort and resources to the attainment of institutional legitimacy. This is so because in most societies and economic systems, the institutional legitimacy of family firms appears to be a rather uncontroversial issue. The contribution of family ventures to the well-being of modern communities is praised and recognised by a wide range of influential societal stakeholders.

We believe, however, that this situation stands in stark contrast with the reality of Russia's transitioning economy. As will be amply demonstrated in the subsequent sections, Russian family ventures encounter serious problems primarily with an institutional dimension of their legitimacy. Powerful actors in their external environment express distrust of, or even outright hostility toward, what they perceive as perfectly legal yet unwanted and inappropriate form of business organisation.

To a large extent, this lack of institutional endorsement of Russian family businesses can be attributed to significant structural imbalances in the distribution of ownership rights in Russia's economy. As witnessed by a joint study by Ernst & Young and the European Investment Bank, the current share of small and medium enterprises (including private and family firms) in Russia's GDP is estimated at only 20–25%, with more than half (57%) of SME turnover falling within the trade sector (European Investment Bank, 2013). Family ventures are confined to relatively small-scale industries, because family control over larger firms is judged inappropriate by the Russian authorities. Such an attitude is particularly evident in the areas which are regarded as critically important to national economic security. The overwhelming majority of assets in the oil and gas, infrastructure, banking and military equipment sectors are owned by the state (Alexeev and Weber, 2013). As a result, Russian family businesses are denied equal status with their larger state-controlled counterparts that exercise greater political power and enjoy protectionist support. Family firms' inferior institutional legitimacy is also reflected in their vulnerability to the state's regulatory activities. In the recent survey of Russian private and family business (PricewaterhouseCoopers, 2015), the respondents named government policy and regulation as their predominant external concern and the main impediment to growth.

This deficit of legitimacy allows us to make a key assumption underlying the current research: as the institutional legitimacy of family businesses is brought into question, Russian family firms are faced with the challenge of *dual legitimation*. This means that they should exert remarkable effort to achieve *both* professional *and* institutional legitimacy. In other words, we suppose that Russian family ventures strive to be simultaneously recognised as reliable business partners and good members of society in a situation when no automatic correlation exists between the professional and institutional dimensions of family firms' legitimacy.

The dual legitimation strategies in family firms represent an uncharted territory in the management and organisation literature. This knowledge gap provides the rationale for conducting the current study that examines the family companies' moves to regain their challenged legitimacy.

3 Methodology

Our research strategy consists in exploring the pathways of legitimation in Russian family firms and the strategies they employ to compensate for insufficient levels of professional or institutional legitimacy. With this aim, we have contacted all MBA students who graduated from a large Russian business school in 2015 and 2016, while simultaneously owning and managing a family firm. We have identified 13 such graduates, and six of them (46.15%) have agreed to be interviewed for the current study.

We also contacted all 2015 and 2016 BA graduates from the same school, whose parents owned and ran family companies. Out of 16 students from this cohort, the parents of six graduates (37.5%) agreed to respond to our questions.

Overall, we have conducted 12 in-depth interviews with owners/managers of Russian family ventures from a variety of industries. The semi-structured interviews usually lasted between 60 and 90 minutes (the longest interview was 210 minutes). All interviews were audio-recorded and then transcribed verbatim. The interviews were conducted in Russian and translated into English soon afterwards, to preserve the richness of the information conveyed by the participants. Topics covered in the interviews concerned the family business history, specific relationships maintained with partners in the value chain (suppliers, distributors, customers) and the family firm interactions with powerful stakeholder groups (banks, regulators, local authorities). Typical questions asked in the interviews included the following: "In what ways is your family involved in managing the firm's operations?", "What are the primary sources of financing in your family venture?", "Do you think your business partners trust the family company?" and "What is the role of your personal contacts in family business development?"

Our study relies upon the grounded theory method that "contains tools to study how processes become institutionalised practices" (Charmaz, 2005, p.529). In line with the basic precepts of this approach, all theoretical arguments about the patterns of legitimacy-seeking activities in family ventures have been made inductively, based on the data collected in the interviews. Interview transcripts were coded independently by each of the three researchers, who then discussed coding results to reconcile differences and ensure accuracy of the findings (Miles and Huberman, 1994; Saldaña, 2015). In this study, we used manual coding.

To identify and examine the key patterns within qualitative data, we used thematic analysis based on inductive generalisation of the experiences reported by the participants (Brown and Clarke, 2006). Among other findings, this approach allowed us to spot the dual legitimacy challenge faced by Russian family firms. Such a research design built on a small-scale qualitative assessment raises immediate concerns about potential validity and generalisability of the obtained results. Yet, while admitting the obvious limitations of the chosen approach, we also have to take into account the socioeconomic context in which we conducted our study. In a similar research setting, Korchagina and Shilo (2017, p.321) attributed the use of qualitative methods and a relatively small sample of respondents to the general "lack of developed family business in Russia, lack of lists of family businesses, and the unwillingness of the majority of Russian companies to participate in the economic and management research and to provide the necessary data". The reluctance of Russian family firms to share sensitive information can be also explained by their unwillingness to attract undesirable attention from the regulatory bodies, given the high level of corruption in Russia (Simonova and Rudenko, 2017). Such disinclination seems to be understandable in a country which ranks 137th out of 180 countries in Transparency International's 2019 Corruption Perceptions Index.

Due to a sensitive nature of topics under discussion, all participants strongly insisted that their individual identities should not be revealed. Family companies demonstrated a considerable variation in their principal characteristics, with firm age ranging from 3 to 25 years, a number of employees from 7 to 400 and annual revenue from under 80 thousand to over 20 million US dollars. We intentionally sought to maximise the diversity in the industry background, age, size and sales revenues among the firms in our sample in order to focus on the most general problems of Russian family firm legitimation and exclude potential effects specific to certain industries or scale of firm operations. Appendix A describes the key parameters (industry type, year of inception, number of employees and annual turnover) of the studied family firms.

4 Results

4.1 The many faces of illegitimacy in Russian family firms

Most significantly, our interviews show that in everyday practice Russian family firms confront an outright, widespread and humiliating rejection of their legitimacy. A vast number of crucial stakeholders express suspicion and open distrust of this form of business organisation. The following quotes vividly convey these negative attitudes toward Russian family enterprises (the line numbers correspond to the original transcripts):

> "The tax inspectorate is constantly driving us up the wall." (Firm 12, cargo transportation, line 1142)

> "The most typical problems are an absence of loyalty to startups, inability to conduct business legally, endless inspections. Once the company reaches a certain income level, it is immediately visited by the OBEP [Department for Combating Economic Crime]." (Firm 5, cosmetics distribution, lines 445-447)

Sometimes, the authorities abuse their superior position by exerting undue economic pressure on family ventures and even openly extorting money from them:

> "The scariest thing is that officials exercise not only controlling but also permitting function. This brings with it high-handedness and bribery. We carried a lot of money to get the necessary permits! An official gets a lucrative job for six months and [therefore] has little time to gain his money. We only want them to stop interfering with us." (Firm 4, private school, lines 390-392)

> "Then came the RUBOP officers [from the Regional Department for Combating Organized Crime]. What's up? Nothing in particular, we just happened upon you. We've got a mandate, and you are a nobody. So you have to pay. They are nice guys [ironically], haggle over payments." (Firm 3, wholesale trade, apparel, lines 289-290)[1]

It is noteworthy that even if Russia's law enforcement and judiciary officials inspect family firms no more frequently than they do with respect to other private small and medium enterprises, they seem to suspect fraud, embezzlement and money laundering once they start examining the operations of family companies:

> "The downside of family business is that when you reach a certain stage, for example, file for bankruptcy, a whole business chain is in jeopardy. If problems come up, like criminal proceedings or court hearings, the whole family chain is pulled out. Because anyway, the chain is interlinked. If one guy is a deputy to another, or he is a director in a subsidiary firm, then investigators say: 'It was an affiliated firm, so you took instructions from a parent company. And who is the parent company? It is this guy, a managing director. And who is the managing director?' And so they start unwinding the whole chain. And this is the way to put pressure on the family, among other things." (Firm 7, real estate development, lines 735-741)

This jaundiced view of family entrepreneurship creates an effect which may be called an amplification of delegitimising attitudes toward family firms. As the preceding excerpt illustrates, family companies can be accused of intentional mismanagement and corrupt business practices only because they are run by close relatives.

4.2 The family firms' responses to their contested legitimacy

Confronted with the attitudes of hostility toward family business adopted by influential social groups, Russian family firms may react to the problem of their contested legitimacy in a number of ways. For example, they can try to reconcile conflicting demands and expectations of various stakeholder categories. We assume that Russian family companies can separately pursue professional or institutional legitimacy through their micro- or macro-level interactions with the external environment (We discuss the cross-level effects arising at the intersection of professional and institutional legitimacy-seeking activities in Section 4.3).

An illustration of our framework (see Figure 1) uses two orthogonal axes corresponding to the professional and institutional aspects of organisational legitimacy. The level of family firm legitimacy along each dimension can be either low or high. Family ventures, therefore, can be clustered into four quadrants, reflecting the different combinations of low/high professional/institutional legitimacy. It is important to emphasise that we concur with Deephouse and Suchman (2008) that legitimacy is a dichotomous construct (it either exists or not) and therefore organisations cannot become 'more' or 'less' legitimate. In this study, we use the terms 'low' and 'high' legitimacy as conditional parameters indicating that an organisation has a lower (or higher) chance to be perceived as legitimate by its key stakeholders.

Quadrant 1 (bottom-left) corresponds to a combination of low professional and low institutional legitimacy. Family firms in this quadrant must simultaneously grapple with disbelief in their reliability, product quality, solvency or employment security expressed by immediate stakeholders and a general lack of institutional recognition of family entrepreneurship demonstrated by the dominant socioeconomic factors. We believe that the combined impact of these two factors makes it impossible for a family firm to survive, since it has nothing to compensate for the shortcomings in either aspect of organisational legitimacy. Neither of the firms in our sample seems to belong to this group.

Quadrant 2 (top-left) contains instances of high professional but low institutional legitimacy conferred on family firms. Companies that face this predicament fall in a situation where an acceptance of family ventures as solid and reliable partners by their immediate stakeholders is not mirrored in the institutional endorsement of family firms as an appropriate or desirable form of business organisation. This can be evidenced by the inability of family firms to receive contracts from large state- or publicly-owned companies, the absence of state guarantees or other forms of financial support for family business, frequent and unexpected changes in the regulatory environment and inadequate levels of administrative and local political support. This appears to be a familiar situation for a large number of respondents:

> "We see a constant accumulation of accounts receivable. Drugstores delay payments, and the government issues no guarantees, that is, does not support [family] business. Legal regulation of accounting, taxation, customs, certification of goods is in a constant flux." (Firm 5, cosmetics distribution, lines 448-451)

> "The biggest threat comes from local authorities, the mayor's office… When we had a sewer break, we managed to repair it ourselves. Then came the police officers. They demanded that we file a report and obtain approval for repair work, but didn't help in any way… Once there was a fire on the third floor, at 10 in the evening. The firefighters arrived without water. We put out the fire along with other people, complete strangers. The local authorities just stood and gazed at the scene." (Firm 1, country hotel, lines 41-47)

Insufficient institutional backing of family firms seriously undermines their growth potential, even if their professional competencies are not brought into question:

> "Government support [for small and medium family businesses] exists but it's not so easy [to get it]. Everything is grossly exaggerated by the media. The government promises to co-finance these projects. But when you start suggesting interesting projects, which rely on co-financing, not only on 100 percent state subsidies, or involve the investment of fixed assets, they don't really get official support. You can make your way and try to do all those things if you believe… that you will fight for the project to the end, go to court. Because this sounds like a government offer. Any willing party may participate, and you go strictly by the book, go to court and force the government to sign some contracts with you and make certain commitments. But this is devastating, you lose energy to such an extent that it will be impossible to fulfil your obligations in the future. Our government does not actually support such projects." (Firm 7, real estate development, lines 779-790)

A typical illustration of low institutional legitimacy of Russian family firms can be found in their relationships with banks. The constraints experienced by family firms in attracting financing from banks, such as higher collateral requirements or lower loan availability, are well documented in the extant literature (Lappalainen and Niskanen, 2013; Niskanen et al., 2011). Yet these problems are relatively mild compared to outright rejection of loan applications from family companies, drastic cuts in the amount of loans available to borrowers or exorbitant interest rates charged by lenders, which can be observed in Russian banking practice, as evinced in the following quotations:

> "We've got a credit line from the bank. But this is troublesome. It has to be confirmed annually and requests a lot of documents. We often need credit, but, with an interest rate of 19 percent, it is a heavy burden. Banks do not want to open a line of credit to [family] ventures. We've got it owing to acquaintances." (Firm 2, auto repair services, lines 151-153)

> "Regarding distrust, the most problematic relationships are with banks, not customers. They reduce their loan offer by half only because we are a family firm." (Firm 10, commodity trading, fruit and nuts, lines 1088-1089)

> "Once we tried to get a loan from Sberbank [the country's largest state-owned bank] and got refused because we didn't have any collateral. Since that we have never called for a loan." (Firm 4, private school, lines 352-354)

Apparently, Russian banks do not regard family firms as worthy borrowers and do not believe in their ability to honour financial commitments. In other words, they deny institutional legitimacy to a large group of their potential clients.

Quadrant 3 (bottom-right) includes those family firms which, somewhat paradoxically, are judged to be institutionally legitimate but are not perceived as reputable and reliable market players by their customers, suppliers or other business partners. Obstacles to professional legitimation of Russian family firms may stem from two major sources. First, institutional support offered to family ventures by the dominant economic and political actors can be more rhetorical than substantive, not implying any tangible contributions to business skills development, technological advancement or resource acquisition. Second, family firms' connections with influential members of the social and political elite may be in themselves not powerful enough to create stable business models or good working relationships with clients, distributors and other immediate stakeholders. In both instances, institutional legitimacy of family firms does not automatically translate into their professional acceptance, as witnessed by the following quotations:

> "When we completed our first housing development, it comprised about 85 homes, while all other projects were much bigger, 200 to 270 houses. The majority of customers who purchased homes in this residential area were somehow acquainted with us… Then we earned a name for ourselves and got access to certain offices, government agencies and things like that. So we marketed our first several projects through personal connections. We got access to senior officials who helped us sell these housing developments." (Firm 7, real estate development, lines 557-567)

> "Corruption is a big problem. We've got fewer corporate clients now. All corporate customers work only through kickbacks, usually 10 percent of the contract price. New corporate clients are not my personal acquaintances, but anyway they come through network referrals, recommended by veteran customers. Their companies hold tenders, and to win a tender you should have a relationship with the company, otherwise it makes no sense to get involved in this… A tender is interesting only insofar as we have relationships with suppliers, that is, history, reputation and hence discounts." (Firm 2, auto repair services, lines 128-132)

Quadrant 4 (top-right) depicts a situation where family firms enjoy both high professional and high institutional recognition. This is a much coveted state for Russian family businesses, which is, however, extremely difficult to achieve. Paradoxically, Russian family ventures have better chances to attain dual legitimacy when they downplay and even conceal their family affiliation:

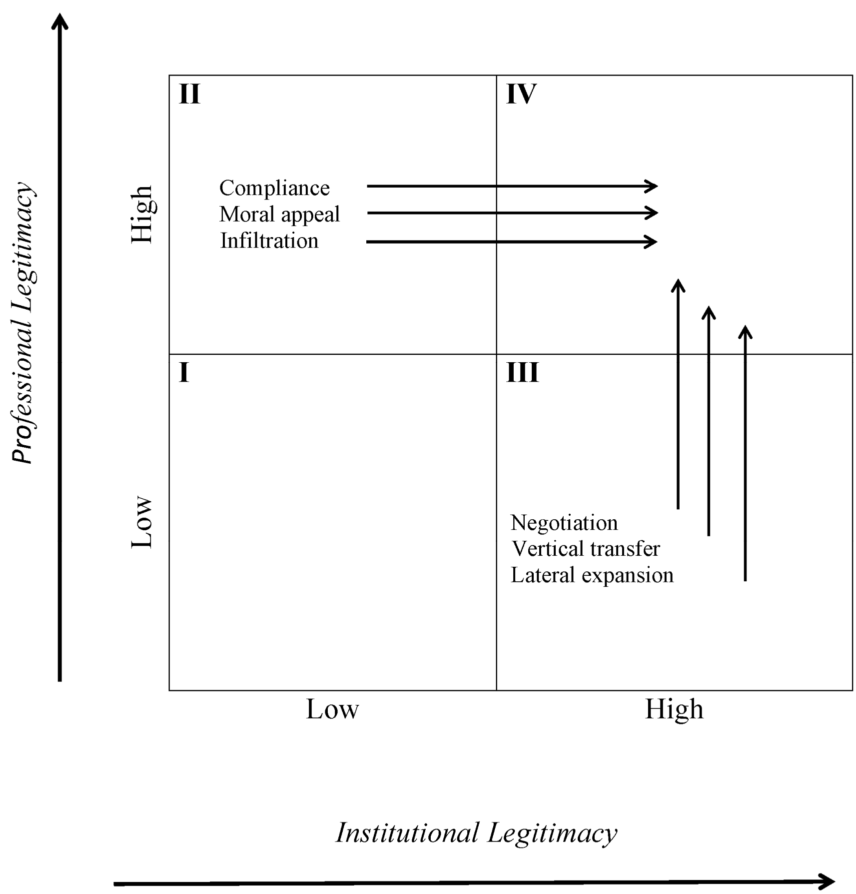
> "In our business, we have not faced distrust from customers. If a client discovers our family ties, she will do that only upon completion of the business process. To avoid the hassle, my mother deliberately changed her last name back to a maiden one. In the office, we do not behave as relatives and communicate to each other very formally. Because we understand what the consequences are. Certainly, we have got all kinds of tensions inside the family circle, but we try to avoid spilling them over family lines." (Firm 6, commercial lending, lines 481-487)

> "Our business started with an idea to launch a private ambulance company, the only one in our city, and provide high quality emergency medical services in the region. We have not had to dispel customers' misgivings because we have not highlighted our family ties. And even if this information crops up in the future, we believe it will not affect firm operations or the demand for our services in any way." (Firm 11, private ambulance, lines 1107-1114)

> "Different last names are a stabilizing factor [in a family firm]. On one occasion, I blasted the Department of Education over licensing issues. After that, my family name evoked only negative reactions. Then my wife started working with the Department discreetly under her maiden name." (Firm 4, private school, lines 387-389)

Figure 1 summarises the four types of legitimacy outcomes available to Russian family ventures. We expect that firms which experience the lack of legitimacy along the professional or institutional dimension will strive to compensate for this deficiency. Therefore, they will exhibit a tendency to migrate from quadrants 2 (where the level of institutional legitimacy is low) and 3 (where there is a dearth of professional legitimacy) to quadrant 4 (in which both types of legitimacy are sustained at the high level). To this end, firms can implement a number of legitimation strategies varying in accordance with whether they are used to attain professional (top-down) or institutional (bottom-up) legitimacy. It is to the analytical description of these strategies that we now turn.

Figure 1 Strategies of legitimation in Russian family firms



4.3 Legitimation strategies in Russian family businesses

An inductive generalisation from the interviews with family entrepreneurs allows us to conclude that legitimation strategies used by Russian family ventures fall into two broad categories, depending on whether they aim to achieve the professional or institutional legitimacy. In the domain of institutional legitimation, we have isolated three main types of legitimacy-seeking strategies employed by Russian family firms:

a compliance

b moral appeal

c infiltration.

Compliance. This strategy of institutional legitimation assumes that family firms explicitly adhere to the dominant institutional norms and demands of authoritative social groups. In doing so they demonstrate their compliance with regulatory requirements and show deference to the authorities vested with controlling powers. Occasionally, they bribe officials if this signals their conformity to prevailing norms and rules adopted in the organisational field. The following quotations illustrate the use of this legitimation strategy:

> "Constant inspections are very disruptive. They are based on complaints from neighbouring houses… They complain to multiple bodies, to the Agency for Health and Consumer Rights, to the prosecutor's office… How do I solve the issue? I'm paying fines. Due to the [special] relationships, they are minimal yet mandatory, to avoid allegations of corruption. Plus, the annual mandatory inspections from the Agency for Health, the ecological police, the tax inspectorate, the Ministry of Emergencies, the land committee. Everyone gets their minimum mandatory fines. The fight against corruption is brought to absurdity – fines should be mandatory! Yet they are paid in a friendly manner." (Firm 2, auto repair services, lines 139-144)

> "The OBEP officers came and sealed the warehouse. Then they dumped accounting documents, started sealing the office and talking to me. They showed me the penal code, several times, threatened me. Then they invited me to the restaurant for a conversation. They showed me an amount to be paid. Then one officer called his boss naming the same amount to avoid suspicion of double-crossing. They asked me how much money I would lose in a two-week downtime. It's cheaper for me to pay off." (Firm 3, wholesale trade / apparel, lines 284-288)

Moral appeal. Family companies adopting this strategy of institutional legitimation stress the praiseworthy aspects of their business models, products or services to wider society. They also highlight elevated ethical norms governing their business activities and refer to their value-driven management principles that transcend purely economic considerations:

> "Employees share our corporate values, such as being professional, adhering to ethical standards and requiring others to conform to them. When an employee is fired for a small lie, fellow employees realize that we are not just saying that. Norms become routine. Our firm is 25 years old; some people have been working here for 20 years." (Firm 8, accounting, lines 830-835)

> "[Our distributors] go into the business after they start using our products, start enjoying them and benefiting from them. They realize that their own and their family members' health has improved thanks to these products, which make up the shortfall in vitamins and minerals. And this is the main direction we take

> with our products – the elimination of [vitamin] deficiencies. We often confront the situation where people who achieved results start thinking [about supplements] as a business, as a source of income… One woman started a distribution business after our products had enabled her son, a diabetic, to get off insulin. She became so inspired that she said she would like to do that to benefit other people, although she is an affluent person and doesn't need additional income. A motive or mission to help other people to improve their health arises very frequently. It is an incentive to go into our business." (Firm 9, dietary supplements, lines 877-883, 928-933)

Infiltration. Through this legitimation strategy, family firms aim to establish close relationships with influential socioeconomic groups, befriend people from upper echelons and maintain personal connections with decision-making authorities. Infiltration is to be distinguished from a similar but distinct legitimacy-building strategy called *guanxi.* The latter is also based on sustaining connections with important individuals and is widely used in the Chinese business practice. The difference consists in that the infiltration strategy assumes sporadic and relatively isolated contacts with influential actors, while *guanxi* relies on establishing and maintaining relationships with the officials and respected intermediaries, which are systematically arranged to "protect the firm against excessive interference by the government or other influential individuals and secure the firm's position in the local market" (Ahlstrom et al., 2008, p.397). Resources gained through the infiltration strategy can be mobilised to withstand increased institutional pressure or protect a family venture from occasional institutional attacks on its legitimacy, as indicated by our respondents:

> "Two years ago a new headache occurred: the Agency for Health and Consumer Rights started giving fines for unauthorized public performance of music. Fines for copyright infringement are around 300-500 thousand roubles [5 to 8 thousand US dollars]… And we are not kept informed in advance of new legislation or regulatory changes… If you feed people but don't call yourself a restaurant, you can cook semi-processed products. But if you're a restaurant, then it's a nightmare, because you should have permissions for all products. Alcohol can be sold only by licensed premises… [You should have] refrigerated counters, vent hoods, a dishwasher, separate fridges for meat, fish and vegetables. We've overcome these obstacles because we have acquaintances in the Agency for Health and Consumer Rights; they oversee tourist services… If you don't know the regulations, you could be facing tough times." (Firm 1, country hotel, lines 18-35)

> "Officials want to impose fines. They need something to report, because there exists a plan for collecting fines. [Some inspectors] say: 'Let's agree on what violation to commit.' We negotiated with the fire department that they would impose only those requirements which our school has already fulfilled. Since that we have had neither complaints nor fines." (Firm 4, private school, lines 359-363)

In contrast with the above strategies of institutional legitimation, family firms' attempts to gain professional legitimacy aim at generating acceptance and support in their micro-level interactions with customers, suppliers, regulatory bodies and other immediate stakeholders. These attempts rest on the already attained institutional legitimacy, which facilitates family firms' legitimacy-seeking activities along the professional dimension. The corresponding group of legitimation strategies comprises:

d negotiation

e vertical transfer

f lateral expansion.

Negotiation. This strategy is used by Russian family firms to convert their institutional backing into getting more professional freedom and recognition. It is akin to the bargaining tactics (Oliver, 1991, p.154), which "involve the effort of the organisation to exact some concessions from an external constituent in its demands or expectations" in order "to achieve an acceptable compromise on appropriate organisational processes or outputs." Support drawn from the dominant institutional structures helps family ventures to push the boundaries of what is allowed, obtain greater leeway in pursuing their business objectives and eventually solidify their positions in the market:

> "One day the operation department officers from the tax inspectorate found that we had erroneously recorded the cash balance at the beginning of the next day, not at the end of the previous day as required by law. They suggested we get fined 44 thousand roubles [about 750 US dollars] for that mistake, even though we had been good friends with their boss before that. I reached him at the office; he was going on holiday to the Maldives. We negotiated a fine reduction down to 25 thousand roubles. It turned out that all the necessary documents had been already prepared." (Firm 2, auto repair services, lines 194-197)

> "Last year we went to court. The prosecutor's office investigated whether we matched our star rating. If you're rated 4 stars or higher, you should have a lift, additional lighting, towels being changed every day, more than 8 coat hangers in the room… Finally, we defended the right to be named a mini hotel, which has to meet less strict requirements. Yet we are not allowed to have a laundry room and have to register it as dry cleaning facilities." (Firm 1, country hotel, lines 22-27)

Vertical transfer. This strategy of professional legitimation assumes that vertical connections with influential social groups, which are maintained by family entrepreneurs, are transformed into direct benefits for their companies, such as receiving customer recognition, garnering high-profile clients or obtaining resources for business development. Essentially, family firms cash out their vertical social capital to enhance the viability of their business projects and earn professional reputation and customer satisfaction. The following quotes demonstrate how this strategy works out:

> "Most parents were pleased [with the school], those who could help, from small and medium businesses, [really] helped us. They wanted their kids to be looked after, plus a good education which can be continued later. Their assistance involved, for example, annual tuition fees paid in advance, to renovate a [school] building, plus connections, for instance, to renew the lease, [plus] sponsoring the [school] bus, computers, furniture. We have never played up that point; all contributions were purely voluntary. [Instead, we accentuated] teachers' professionalism, high quality and honest work. Our main principle is that children can spend a whole day [at school] only if their environment is psychologically comfortable. Therefore, all [parents] want [our] school to stay open." (Firm 4, private school, lines 340-348)

> "Our connections help [us enormously]. Connections are everywhere, they are gained through many years [of cooperation], with retail chains, with the authorities. We developed mutual trust because we have a common goal, to survive in this society. We are all united in that." (Firm 5, cosmetics distribution, lines 457-460)

> "When we initially hired people, most employees, perhaps 70 percent, were our friends. Moreover, they were old friends from the military. There were a lot of retired army officers involved... They may have lacked experience in our business, but they were our friends… ready to carry out [their responsibilities], and they were hired because they knew the right people." (Firm 7, real estate development, lines 685-691)

Lateral expansion. Family firms exploiting this legitimation strategy typically associate their activities with grand moral values, such as honesty, trustworthiness or providing help to other people. They seek to translate a broad institutional support for these values into the advancement of their specific business interests. In other words, they attempt to convert their moral legitimacy into pragmatic one:

> "[When you build up a customer base,] all options are acceptable. We started with our relatives, acquaintances and neighbours. Our business is based on stories. You have used our products and achieved results. Now tell as many people as possible about these results… We opened our first office in 2002… as my mother and I walked to the office, around three kilometres, we had a little chat with our friends we met along the way. Just a small talk: 'How are you?', and if a person started complaining, we replied: 'Our company [name] has a product that will definitely help you!'… We used this method to the full, in a three kilometre radius from our house and our office. We went directly to organizations and found a convenient time to present our products, along with tasting them. Usually, we arranged that during a lunch break. Our products are edible: gruels, soups, mousses. We set up tastings… where we talked about our products." (Firm 9, dietary supplements, lines 943-961)

Horizontal social ties sustained by family ventures are instrumental in spreading word of mouth, which helps to turn moral appropriateness into a particular firm's reputation and customer recommendations:

> "[In our previous firm, which had been bought from the former owner,] we started with already existing orders. And then new orders came through word of mouth. I reckon reputation is more important than marketing… People recommended us." (Firm 8, accounting, lines 819-821)

> "Trust and authority increased over time. Word of mouth helped [as well]." (Firm 12, cargo transportation, lines 1137-1138)

Figure 1 summarises the main directions of legitimation activities in Russian family ventures. It depicts both groups of legitimacy-seeking strategies along the two dimensions of the legitimacy grid, micro-level professional and macro-level institutional (straight arrows). Compliance, moral appeal and infiltration strategies help firms to move from quadrant 2 to quadrant 4 by increasing their institutional legitimacy. Negotiation, vertical transfer and lateral expansion strategies assist family firms to move from quadrant 3 to quadrant 4 through raising their professional legitimacy.

5 Discussion

Suchman (1995, p.574) defines legitimacy as "a generalised 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". Such an interpretation assumes a high degree of uniformity among the characteristics of legitimacy: proper actions, for example, are simultaneously considered desirable and appropriate, and so on.

Under certain circumstances, however, this assumption of uniformity loses its validity. It is easy to imagine a properly organised and legally permitted business venture, which is nevertheless deemed inappropriate on cultural or religious grounds or considered undesirable from a social or ethical standpoint. Possible illustrations range from casinos and pawnshops to genetically modified crops and mobile taxi apps. As a result, legitimacy judgements exhibit contrasting and even contradictory patterns depending on an entity that confers legitimacy, yardsticks applied to assess the firm's actions and aspects of business practices to be legitimised.

Organisational scholars have long recognised the fragmentary and inconclusive nature of legitimacy judgements (Ashforth and Gibbs, 1990; Dowling and Pfeffer, 1975). They acknowledge that different constituents conferring legitimacy on an organisation may compete over their legitimating authority, express conflicting values, make contradictory demands and have fluid and constantly evolving expectations. Moreover, these expectations are not consistent across various stakeholder groups and can diverge with respect to multiple activities in which organisations engage (Ashforth and Gibbs, 1990; Scott, 1995; Scherer et al., 2013; Sonpar et al., 2010). But it is one thing to contest organisational legitimacy on account of conflicting stakeholder demands and another to deny it altogether because influential institutional actors are reluctant to accept the organisation as a respectable partner in economic exchange. In addition, Deephouse and Suchman (2008) make an important remark about legitimacy varying in its certainty and security. Then again, there is a considerable difference between insecurity and uncertainty of the judgements about organisational legitimacy and overt and pervasive distrust, haughtiness and rejection displayed toward a certain form of business organisation. In the last instance, an organisation is deemed inferior because of its relative economic disadvantage and a vulnerable position in the current resource allocation system.

As our study clearly demonstrates, Russian family businesses are forced to confront the harsh institutional reality, in which the problems of contested legitimacy come to a head. This leads to the systematic denigration and delegitimation of family firms' efforts to unleash their entrepreneurial potential and accelerate Russia's socioeconomic development. Due to a constellation of cultural/cognitive and structural factors referred to in Sections 1 and 2, Russian family ventures suffer from incongruity in the assessments of their legitimacy. The fact that they are properly organised and incorporated does not yet translate into the desirability or appropriateness of their participation in certain types of economic activities. As a result, they have to affirm their legitimacy at two distinct levels – professional, which relates to their operations in the proximate business environment, and institutional, which is linked to their compliance with institutional norms and beliefs prevailing in a wider society.

In itself, there is nothing extraordinary in requiring the firms to achieve dual legitimacy through the different types of social interactions. For example, Aldrich and Fiol (1994) posit that innovating entrepreneurs simultaneously strive to attain cognitive legitimacy, which corresponds to the taken-for-grantedness of their products and business models, and sociopolitical legitimacy, which reflects their conformity to existing norms and laws. Aldrich and Fiol's framework, however, applies to legitimation efforts taken by novel ventures belonging to emerging industries and engaging in completely new activities. It does not assume that the discrepancies between the cognitive and sociopolitical aspects of legitimacy will be observed in the industries as conventional as private schooling or real estate development and be related to the businesses as mundane as country hotels or auto repair shops.

This is, however, precisely the predicament faced by ordinary Russian family firms involved in commonplace business activities. Even when their business models or products are not challenged by powerful stakeholder groups, Russian family companies wrestle with the lack of institutional legitimacy affecting a particular type of economic organisation. Although completely legal, family firms tend to be perceived as an inferior business form, thereby echoing Dowling and Pfeffer's (1975) arguments on the imperfect correlation between legality and legitimacy.

The dual legitimation argument put forward in this paper presumes that Russian family firms make attempts to legitimise their activities along the professional or institutional lines, depending on the legitimacy aspect they are short of. Such an assumption provides an integrative perspective on legitimation processes. It combines insights from the strategic approach to legitimacy-seeking activities, which emphasises how organisations can manage and manipulate legitimacy perceptions to achieve their objectives and generate societal support, and the institutional view of legitimation, which highlights sectoral and cultural pressures imposed on organisations by prevailing social institutions (Brown and Toyoki, 2013; Deephouse and Suchman, 2008; Suchman, 1995). Russian family firms, therefore, are supposed to vigorously pursue their legitimacy agenda while finding themselves confronted with the pressing demands of the prevalent institutional norms to which they energetically try to adjust.[2]

Paradoxically, Russian family ventures have to exert strenuous efforts just to achieve a passive state of legitimacy (Suchman, 1995), that is, to be left alone and allowed to run and develop their business without undue interference from the dominant institutional forces. Faced with the societal norms and practices, which often construct family entrepreneurship in negative terms, family firms implement flexible, multidirectional actions and employ various legitimacy-building strategies. The choice of the strategy depends upon which aspects of firms' activities stand in need of legitimation and which type of stakeholders is to be targeted by these strategies (Ashforth and Gibbs, 1990; Oliver, 1990; Reay et al., 2015; Suchman, 1995). Family businesses negotiate their legitimacy with a number of influential social groups through choosing the ways to respond to institutional pressures (Berrone et al., 2010), navigating across multiple requirements of different legitimacy-conferring stakeholders (Rueede and Kreutzer, 2015) and conforming to the cognitive models and social orientations of various actors assessing their legitimacy (Bitektine, 2011; O'Neil and Ucbasaran, 2016; Panwar et al., 2014).

At the same time, it should be noted that not all legitimation strategies described in the organisational literature can be used in the practice of Russian family firms. For example, Russian family ventures cannot resort to the strategies of avoidance or defiance (Oliver, 1991), because the country's family businesses do not have enough clout to circumvent, ignore or attack the dominant institutional rules or influential stakeholder groups imposing them. In a similar vein, institutional distrust of family firms, their relatively disadvantaged economic position and the scarcity of resources available to family entrepreneurs restrict the opportunities to implement the legitimacy-building strategies of selecting among multiple environments and manipulating environmental structure (Suchman, 1995).Transforming existing institutions (Garud et al., 2007) or creating new rules, norms, beliefs and other elements of the family ventures' social context (Ahlstrom et al., 2008; Zimmerman and Zeitz, 2002) remains entirely impossible for Russia's family businesses. By the same token, the more specialised legitimacy-seeking strategies geared to the needs of private firms in controversial industries (Reast et al., 2013) or emerging economies (Ahlstrom et al., 2008) remain largely unattainable to family firms in Russia. These companies cannot afford to start partnering activities which involve considerable resource commitment, formal cooperation agreements and major contributions to local economic development. The cooptation of influential decision-makers to the family firms' boards of directors (Ahlstrom et al., 2008; Oliver, 1991; Suchman, 1995) represents an equally improbable legitimation approach, since the dominant institutional actors would be reluctant to directly engage in the activities of organisations with inferior status.

As can be seen from the preceding discussion, this study seeks to contribute to several strands of organisational literature. First, we make a contribution to the institutional theory of organisations through introducing a concept of dual legitimacy, which should be earned by family firms in a transitioning environment. By emphasising the heterogeneous and potentially conflictual nature of legitimacy attributes, we show that a firm can be properly organised and incorporated but not accepted or desired as an economic partner by influential institutional actors. This is particularly so when it comes to legitimacy judgements made by the dominant social groups with respect to less privileged economic agents. Second, our paper advances and refines a multilevel conceptualisation of family firm legitimacy. We argue that legitimation processes taking place in Russian family companies are neither straightforward nor unidimensional. Our study incorporates a number of cross-level effects generated by the micro-level actions of companies trying to adequately respond to the macro-level institutional pressures. Third, we add to the rather sparse empirical literature addressing family firm behaviour in the Russian economy (Barkhatova et al., 2001; Volkov, 2014). Through highlighting significant obstacles to acquiring legitimacy in Russian family ventures, we endorse the dynamic institution-based view of the firm (Amit et al., 2015; Banalieva et al., 2015), which posits that not all institutional conditions are equally conducive to family firms' market success in transition economies (see also Gedajlovic et al., 2012).

Obviously, this study has important limitations. First, our analysis is based on the small sample of firms. This precludes generalisation and application of statistical techniques to examine the professional and institutional paths of legitimation in Russian family ventures. However, given the structural impediments and mental models prevailing in the Russian socioeconomic environment, we do not expect that the outcomes of the study will show considerable variation depending on the number of surveyed firms. Further research on legitimation practices in family business may use an extended sample of firms belonging to a wider range of industry sectors and also involve larger, openly traded family companies. Second, and perhaps more significantly, the specific conditions characterising the Russian economic system, such as preferences given to big state-owned enterprises and inimical attitudes to family entrepreneurs, raise questions about the applicability of results obtained in this study to other transition contexts. We believe, though, that the political and economic predicaments confronted by Russian family firms are far from being unique. Other emerging economies may also exhibit similar structural and sociocognitive features. For example, they can reveal the prevalence of large state-controlled companies and a dismissive stance towards family business, which impair family firm development and urge family ventures to pursue dual legitimation strategies. It would be interesting to contrast legitimation processes and outcomes achieved by family firms in different geographic settings varying on the degree of political and economic support received by family companies. Studies of family businesses in transition economies (Dana and Ramadani, 2015) indicate that family ventures may indeed confront difficulties in accessing various types of resources. At the same time, family firms can experience shortcomings in the activities of business support institutions, which prompts family entrepreneurs to strive for dual legitimacy in their external environment.

Future studies may also wish to focus on the role of organisational social capital in attaining family firm legitimacy. Scholars of family business have long emphasised the importance of family firm's social capital for increasing the viability of family companies, enhancing their performance and improving their adaptive fit (Arregle et al., 2007; Pearson et al., 2008; Sirmon and Hitt, 2003; Zahra, 2010). Although we have already demonstrated how Russian family ventures mobilise their network connections and hierarchical support to gain professional and institutional recognition, more research is needed to shed light on the impact of horizontal and vertical social ties in family firms on their legitimation outcomes. Possible questions include: "Do horizontal or vertical social connections matter most in achieving legitimacy in family firms?", "How does the strength of social ties affect family firm legitimation?" and "What are the implications of a potential conflict among various sources of social capital for family firm legitimacy?"

We believe that the concept of dual legitimacy presented in this paper will be fruitful for future work on family firm legitimation. We also hope that other scholars will share our interest in determining the origins and implications of legitimacy-seeking activities in family ventures and contribute to better understanding of complex interlinkages between family firm legitimacy and other organisational and institutional factors shaping family businesses.

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Notes

[1]Evidence from Russian family businesses located in the Siberian region (Barkhatova et al., 2001) reveals striking similarities in the officials' attitudes toward family firms, which are marked by hostility, deep suspicion and distrust. In the interviews, family entrepreneurs express bitterness and resentment over pervasive regulation of their activities, arbitrariness, abuse of power and haughtiness of the tax inspectors, illicit claims on their firms' earnings and widespread bribery. Tellingly, one sub-heading in this paper reads "Economic terror on the part of the state".

[2]Reast *et al*. (2013, p.141) take a similar position with regard to legitimation of the organizations belonging to controversial industries, which "are neither shaped by nor fully conform to the institutional environment, as suggested by the institutional approach, nor can they effectively improve their legitimacy status" through strategic actions or public impression management, as supposed by the strategic view of legitimation.

Appendix A: The descriptive characteristics of the studied sample of Russian family firms

Firm	*Industry*	*Year of inception*	*Number of employees*	*Annual turnover, million USD*
1	Country hotel	2002	7	0.08
2	Auto repair services	1994	30	1.67
3	Wholesale trade/apparel	1992	50	4.0
4	Private school	1991	70	1.0
5	Cosmetics distribution	2002	120	12.5
6	Commercial lending	2013	8	2.5.
7	Construction	1997	400	20.0
8	Accounting	1991	270	4.0
9	Dietary supplements	1997	20	0.3
10	Commodity trading/fruit and nuts	2006	12	22.5
11	Private ambulance	2013	50	0.5
12	Cargo transportation	2000	12	Not disclosed