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How vulnerability enriches family firm relationships: A social exchange perspective

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ABSTRACT

Vulnerability is a defining and fundamental but under-researched, quality of many family firms. We define family vulnerability (FV) as the degree to which family owners and executives realistically perceive that they and their firms are susceptible to material and socioemotional losses from their ventures. Building on social exchange theory, we offer a model that specifies conditions by which FV allows family firm owner-managers to establish mutually beneficial and enduring relationships with prospective resource providers. These relationships improve strategic options for such parties who gain support when they most need it and are more committed and loyal to those who provide it, thereby engendering goodwill and social capital.

1. Vulnerability and social exchange gains for family firms

Given their often profound financial and socioemotional investments, family owners and executives may be especially vulnerable to the fate of their businesses (Gómez-Mejía, Cruz, Berrone, & De Castro, 2011). Such vulnerability can lead them to seek support and gain from rewarding social exchange and relationships to reduce their vulnerability by seeking outside alliances that can provide resources or other sources of protection (Daepp, Hamilton, West, & Bettencourt, 2015). Although there has been some discussion of the intimate nature of social exchange among family members within family firms (Barnett & Long, 2014; Daspit, Holt, Chrisman, & Long, 2016; Gezelius, 2017; Herrero & Hughes, 2019; Long, 2011), and of family with employees (Löhde, Campopiano, & Calabrò, 2020; Neckebrouck, Pittino, & Chirico, 2019), the relationship of the families with external resource providers such as suppliers, clients, and other organizations remains relatively unexplored. We posit that compared to their non-family peers, the likely elevated levels of vulnerability felt by many family firm owners and managers will engender richer and more rewarding social exchanges with those stakeholders to protect against loss. This is the thesis we explore in this paper.

Families often fail to diversify their wealth and efforts beyond their focal ventures, rendering them financially and socioemotionally vulnerable to venture failure or the 'burden of non-diversifiable risk' (Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007, 2011; Hall & Woodward, 2010; Madden, Madden, Strickling, & Eddleston, 2017). Frequently, they identify with and are passionate about their ventures, which are linked to family wealth, jobs for offspring and relatives, and reputation in the community, such that venture losses and failure can induce significant financial and socioemotional grief (Gómez-Mejía et al., 2007, 2011; Murnieks, Mosakowski, & Cardon, 2014). Thus, family owners and managers have strong socio-emotional ties to family members and other stakeholders imperiled by failure. Because vulnerability characterizes the potentially consequential predicament of these parties, we seek to explore its sources and outcomes. We define family vulnerability (FV) *as the extent to which family owners and owner-managers realistically perceive themselves to be susceptible to material and socioemotional losses and harm from their ventures.*

On the one hand, vulnerability has been considered an aversive quality of individuals and firms. Psychologists note that individual pathologies render us vulnerable by jeopardizing our ability to complete work and sustain relationships (Sheehan et al., 1998). In business, economists assume that more vulnerable firms and their leaders are more susceptible to opportunism and predation (Porter, 1979; Williamson, 1979). Porter (1979), for instance, showed that firms' vulnerability to suppliers, customers, new entrants, and competitors is a competitive disadvantage. The family firm literature views vulnerability

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to socioemotional loss as limiting the entrepreneurial capacities of these firms (Gómez-Mejía et al., 2007, 2011). On the other hand, vulnerability has been hailed as a bedrock of authenticity and connection, such that entrepreneurs can leverage their vulnerability for social exchange with prospective resource providers (Brown, 2012; Miller & Le Breton-Miller, 2017). In fact, under some conditions, prospective exchange partners view vulnerable others as being more receptive to support and more capable of engaging in supportive relationships (Blau, 1964; Cook & Emerson, 1978; Homans, 1958). Ben-Porath (1980), Miller and Le Breton-Miller (2005), and Simon (2009) have shown how family firms have reaped benefits from such intimate relationships of mutual reliance with external stakeholders.

This divergence, together with a paucity of related research, surfaces several questions: What is the role of FV in family firms? And how does it influence social exchange with resource partners? In tackling these questions, we build on the social exchange literature by examining how the vulnerability of a party can engender and stimulate social exchange (Cropanzano & Mitchell, 2005; Larson, 1992; Neckebrouck et al., 2019). To that end, we first elaborate upon the meaning of FV. Second, we outline conditions under which family firms can benefit from FV by engaging in social exchange with prospective resource providers (Löhde et al., 2020; Madden et al., 2017; Starr & MacMillan, 1990). Third, we examine how, perhaps paradoxically, purposefully escalating rather than mitigating FV can strengthen relational ties between families and resource providers, thereby enhancing mutually beneficial outcomes. In short, we seek to position FV as a key construct for scholars of family business.

Our analysis focuses on the family firm owner-managers who have most of their financial assets in the business and a significant socioemotional stake in their ventures due to family identification and primacy in running the business. These conditions likely enhance actual and experienced financial and socioemotional vulnerability, both intrinsic aspects of FV. Building on social exchange theory, we focus on one core implication of FV, namely family firm owner-managers' propensity and ability to establish win-win social exchange relationships with prospective resource providers beyond the family and family firm. Whereas the nature of social exchange among family members and employees *within* the family firm has been discussed elsewhere (e.g., Barnett & Long, 2014; Daspit et al., 2016; Gezelius, 2017; Madden et al., 2017), the equally critical social connections with resource providers beyond the firm have often been neglected (but see Herrero and Hughes (2019) for an exception).

2. What is FV?

Earlier, we defined FV as the *extent* to which family firm owner-managers realistically perceive that they are susceptible to material and socioemotional losses and harm from their ventures. That is, *FV is a perception held by family business owners and owner-managers about what they cherish and value in their ventures.* We focus on family members having their wealth tied up in the business and who occupy central administrative roles as founders, leaders, principal decision-makers, and primary representatives. These parties vary in how much they realistically perceive that they are financially and emotionally dependent upon their ventures. At one extreme, some invest all their wealth and energies into their businesses. They identify their own and their family reputations with those ventures as vehicles to realize family aspirations, fulfillment, and even self-actualization (Miller & Le Breton-Miller, 2021; Murnieks et al., 2014). Because they stake their personal, family, and professional identity on their businesses, they may anticipate and experience fear and grief from prospective and actual business losses, particularly in more vulnerable enterprises (Gómez-Mejía et al., 2011). At the other extreme, some families and family members do not invest a significant proportion of their time or wealth in a business. They see these ventures more instrumentally, as simply a means to wealth accumulation (Le Breton-Miller & Miller, 2021).

Although vulnerability is yet to be systematically studied by social exchange and organizational scholars (Weick's (1979) work is an exception), it serves as a cornerstone of other disciplines because it has the potential to elicit collective action.[1] In sociology and anthropology, organizations and communities are existentially vulnerable to ecological challenges and actions of other communities (Diamond, 2005; Freeman, Carroll, & Hannan, 1983). In health and medical sciences, vulnerability comes in the form of susceptibility to disease and death. What distinguishes FV from notions of vulnerability in other disciplines is the nexus between the family owner-manager and the venture. Often, the business cannot exist and operate effectively without that person (or multiple family members) who experiences financial and emotional dependence upon the company, especially, in newer, smaller, or more vulnerable businesses. Whereas threats come and go, vulnerability is ever-present. Fear of failure is perhaps the closest construct to vulnerability in that, as vulnerability escalates, family firm owner-managers are likely to experience greater fear of financial and socioemotional failure (Gómez-Mejía et al., 2007, 2011).

3. FV and willingness and ability to engage in social exchange

We shall argue that FV has an essential impact on social exchange between family business owners and managers and other resource providers. Like everyone, these parties vary in their willingness to engage in social exchange to obtain resources (Cook & Emerson, 1984). Whereas market exchange refers to atomistic exchange of goods and services for money, social exchange refers to actual and prospective exchange between individuals in relationships (Barnett & Long, 2014; Löhde et al., 2020). Individuals enter into social exchange with a general expectation of some future return, but the exact nature of such return is "not stipulated in advance" (Blau, 1964: 93). Social exchange has been positioned as a core aspect of business functioning and performance because ventures rarely possess the resources to succeed without significant external support, goodwill, and legitimacy (Jarilo, 1989; Lounsbury & Glynn, 2001).

3.1. FV and the impetus to seek support

We contend that their profound sense of vulnerability will induce many family firms to be more likely to reach out to others for support (Madden et al., 2017). With higher FV, they are more likely to perceive that their resources are deficient or insufficient to safeguard their family and its future, increasing the likelihood that they will engage in efforts to elicit different types of resources from others (Cook & Emerson, 1984; Dyer & Singh, 1998). For example, they may perceive that they lack the capital to ensure venture survival; or the social and network resources to respond to the prospect of business failure (c.f. Miller & Le Breton's (2005) discussion of family firm "connection" in their "4C" model).

Second, with higher levels of vulnerability, family owners and managers may feel more psychological and socioemotional discomfort and distress, heightened when they perceive their actions may contribute to material venture losses or are insufficient to prevent it (Gezelius, 2017; Neckebrouck et al., 2019).

Third, family firm owners and managers are especially motivated to

[1] In Weick's (1990, 1993) analyses, vulnerability refers to an endemic, system-wide issue, whereas threat refers to an event or crisis that brings the vulnerability to life or, more particularly, death. In health science, vulnerability may refer to an endemic and potentially fatal condition (e.g., a compromised immune system), and threats are external events that realize the vulnerability. Natural disasters arise when natural systems and communities are vulnerable, and threats are external events that crystallize catastrophic damage (Diamond, 2005; Tainter, 1995; Toynbee, 1961). Moreover, historians show that the more intractable the vulnerability, the more communities tend to seek resources from one another (Toynbee, 1961).

avoid losses if these are perceived as catastrophic (Gómez-Mejía et al., 2011). That is, when they anticipate material and socioemotional losses arising from perceived vulnerability, they will act to mitigate or avoid that. For these reasons, we propose that FV will create unease that motivates family firm owners and managers to reach out for support from prospective resource providers (Cook, Cheshire, Rice, & Nakagawa, 2013):

Proposition 1. *As FV increases, family firm owners and managers will be more motivated to seek support from prospective resource providers.*

Having argued that FV leads family owners and managers to seek support, we address whether and why they can gain from such relationships. Enhanced FV, we suggest, will render parties more *willing and more able* to enter into cooperative strategies.

3.2. FV and family worthiness as prospective social exchange partners

We suggested above that FV provides impetus for family owners and managers to seek support to overcome resource deficiencies. Now, we shall argue that it enables them to develop social capital or reciprocal goodwill that facilitates social exchange, beginning with trust (Adler & Kwon, 2002). By trust, we mean the "psychological state comprising the intention to accept vulnerability based upon the positive expectations of the intentions or behaviour of another" (Rousseau, Sitkin, Burt, & Camerer, 1998: 395). We situate vulnerability as a property of both the trustee (the vulnerable family actor) and the trustor, departing from the usual treatment of trust as a property of the trustor. Specifically, we outline conditions under which FV enhances trustworthiness from and towards prospective partners in collaborative strategy, assuming the family actor has something valuable to bring to the relationship.

Again, our arguments deviate from a more widely held perspective that actual and evident vulnerability leads to exploitation (Porter, 1979). Strategy scholars suggest that vulnerability invites competitors to engage in predatory practices (Porter, 1979), or heightens the tendency of stakeholders to exploit adverse selection (Klein, Crawford, & Alchian, 1978; Williamson, 1979). Indeed, economists maintain that vulnerability is inherent to all transactions due to the incompleteness of contracts, monitoring costs, unpredictability, and the hazards of asymmetric information (e.g., Ben-Porath, 1980; Hart & Holmström, 1987; Klein et al., 1978; Williamson, 1979).

In contrast, we envision conditions in which gains may also emanate from vulnerability and suggest that it can yield opportunities for parties to establish goodwill and social capital with family actors and firms to benefit both. Support alleviates the cognitive and emotional turmoil of vulnerability and therefore constitutes a means of engendering goodwill that nurtures preferential relationships with would-be collaborators (Adler & Kwon, 2002; Larson, 1992). FV, especially that which is addressed by a party that provides aid without the inducement of guarantees or immediate rewards, may strengthen gains from trustworthiness (Barney & Hansen, 1994). Trust scholars maintain that actors must demonstrate ability, benevolence, and integrity as necessary conditions for the proffering of trust (Mayer & Gavin, 2005). FV cannot replace these characteristics but *can magnify the benefits of proffering support and trust* in three main ways that others can advantageously sense and act upon.

First, FV *can lead family actors to become more grateful, loyal, and committed to those who provide resources when they are most needed*, in keeping with the adage 'friend in need is a friend indeed.' Some managers can sense and capitalize on this potential to create goodwill, leveraging social capital to engage in exchange (Adler & Kwon, 2002). Human resource management studies show that those supporting more vulnerable workers gain much in the form of reciprocal loyalty and commitment (Nienaber, Hofeditz, & Romeike, 2015; Scandura & Pellegrini, 2008). For instance, entrepreneurs operating labor-intensive ventures were found to be more willing to make riskier off-book loans to their more vulnerable workers, who in turn became more productive and less likely to leave the venture (Hunt & Hayward, 2018). Likewise, bank lenders were found to establish especially enduring and valuable relationships with firms vulnerable to default and bankruptcy (Khanna & Poulsen, 1995; Uzzi & Gillespie, 2002). Conversely, social network scholars have found that goodwill granted when entities least need support may be seen as self-serving actions by instrumental parties who might not extend goodwill when it is most needed (Cook & Emerson, 1978; Fehr & Fischbacher, 2003, 2004).

The notion that actors become more loyal, committed, and obligated to those who help them when they are more vulnerable, gains credence from social exchange findings that people discount the present value of future helping behavior when that help is perceived as opportunistic or instrumental (Fehr, Fischbacher, & Gächter, 2002; Gintis, Bowles, Boyd, & Fehr, 2003). In addition, research shows that norms of reciprocity become more salient for individuals receiving help with significant personal or professional problems because those vulnerable individuals are less sceptical about the motives of those providing support (Fehr & Fischbacher, 2003, 2004). Other studies report that individuals reciprocate such helping behavior indirectly as well as directly, sometimes at great cost to themselves. For family firm owners and managers, this can involve providing access to superior business opportunities and networks of knowledge and fund providers (Le Breton-Miller & Miller, 2020, 2021; Miller & Le Breton-Miller, 2005). Efforts to service this obligation also can generalize beyond dyadic arrangement through acts such as 'paying forward' to third parties (Fehr et al., 2002; Hoffman, McCabe, & Smith, 1998).

Overall, this reasoning and evidence would indicate that, as they become more vulnerable, family firm owners and managers will experience both a greater need to collaborate and a greater sense of indebtedness to would-be collaborators, increasing their willingness to engage cooperative strategic behavior[2] .

Proposition 2a. *Greater FV leads family owners and managers to be more grateful, committed, and loyal to prospective resource providers and thus more rewarding as prospective exchange partners.*

A second way in which FV can magnify the benefits of proffering support and trust is that it leads family owners and managers to *become more constrained and influenced by the interests of supportive ventures, enabling the prospective trustor to augment trustworthiness*. We suggested why more vulnerable recipients of support would be especially receptive to the interests of those providing support, such that FV strengthens trustworthiness and a sense that a family is benevolent and honest (Daspit et al., 2016; Long & Mathews, 2011; Long, 2011; Mayer, Davis, & Schoorman, 1995). Also, would-be trustors are in a stronger position to request a wider range of behavior during negotiations as a condition of providing support, reinforcing the sense that the would-be recipient will be more trustworthy in the relationship. For example, some vulnerable enterprises receive credit, capital, and technology from more established ventures considering that providers of those resources will influence how they are used (Dushnitsky & Lenox, 2005).

Moreover, the greater FV, the stronger the potential influence of the resource provider. Thus, family firms may engage in stronger relationships with those who offer support when they are most vulnerable, leading to enduring relationships between such businesses and resource providers (Le Breton-Miller & Miller, 2015; Sahlman, 1990). Family biotechnology ventures such as BioN Tech, for example, could be vulnerable to capital shortages, drug test failures, appropriation of intellectual property, and aggressive rivalry from larger pharmaceutical companies. Family actors at such ventures may enter into sustainable alliances with bigger drug companies, Pfizer in this case, to achieve protection, share complementary capabilities, and ultimately build trust

[2] As FBs tend to make long-term relationships, when asking for help they may enjoy a significant history of social exchange with partners, thereby reducing the perceived risks of deepening changing relationships.

(e.g., Baum, Calabrese, & Silverman, 2000; Deeds & Hill, 1996; Rothaermel & Deeds, 2004). Hence, FV and its associated dependency may cause prospective partners to be perceived as more trustworthy.

Proposition 2b. *The higher their FV, the more trustworthy family firms will seem, and thus the more rewarding as prospective exchange partners.*

A third and final way FV can magnify the benefits of proffering support and trust is that *vulnerability offers scope for resource dependencies*. The bargaining position of the would-be trustor becomes stronger in negotiations with family owners and managers with higher FV. Negotiators can often sense the vulnerability of other parties through verbal and non-verbal means (Thompson, 2008). Here there is potential to foster a relationship based on goodwill and social capital, absent the intention of the trustor to be exploitative. Moreover, a would-be trustor may enter into a relationship with vulnerable family firms on more advantageous terms (Jeffries & Reed, 2000; Lyons, 1994). The Asian Financial Crisis, for example, was an opportunity for more solvent capital providers to develop relationships with more vulnerable businesses and on better terms than before the Crisis, associations that tended to strengthen after the Crisis (Dieleman, 2010; Marquis & Raynard, 2015; Radelet & Sachs, 1998). Hence, we propose that FV creates favorable resource dependencies for cooperative parties to support families where support is most instrumental:

Proposition 2c. *The higher the FV, the greater the ability of prospective resource providers to establish beneficial resource dependencies with family actors and their firm*

Taken together, the three arguments above suggest that prospective resource providers are in a stronger position to elicit gratitude, loyalty, and commitment from the more vulnerable family owners and executives whom they help. They are better situated to influence the behavior of the focal party following their support (Cook & Emerson, 1984). Also, they can potentially elicit more significant gains from exchange with more vulnerable actors (Gächter & Fehr, 1999). Each of these conditions increases the likelihood that they will extend trust and support to more vulnerable family firm owners and managers who are otherwise trustworthy. In these ways, FV can magnify family trustworthiness, thereby reinforcing trust.

These factors also render more vulnerable actors more receptive to trust, paving the way for trust to arise, assuming that the business has something valuable to offer. Trust requires confidence in another party and a willingness to accept vulnerability in a relationship (Jeffries & Reed, 2000; Mayer et al., 1995). However, this can only arise in the presence of another party's willingness to receive support or acts of trust. Thus, vulnerability not only enables prospective trustors to elicit gains from vulnerable others it also prompts those others to reach out to those with whom they have had no prior relationship. Thus, in the presence of joint vulnerability, family firms that were otherwise competitors may begin to seek new alliances, searching for cooperative arrangements to strengthen their bargaining position. When faced with challenges to firm survival, they may be motivated to find support from parties with whom they would otherwise not interact

4. Escalation of uncertainty and the propensity for social exchange

A central tenet of social exchange theory is that better relationships enable goodwill and trust to substitute for formal contracts (Macaulay, 1963). Informal understandings underpinned by the value of future relationships pervade exchange between firms. We build on this notion by highlighting the potential for FV to strengthen trusting relationships via exchanges that escalate the uncertainty experienced by prospective resource providers. Specifically, we propose that the willingness to ignore contractual arrangements and engage in open-ended exchange increases the potential for higher FV to lead to value-creating exchange.

4.1. Willingness of prospective resource providers to extend informal support

Social exchange is predicated on the generation of goodwill as a means of granting unspecified favors (Blau, 1964). Under FV, prospective resource providers confront choices about the detail and specificity of the terms of a relationship, including terms intended to obviate opportunism and lock in gains (Macaulay, 1963; Williamson, 1979). Sometimes, parties implement greater contractual specificity to minimize uncertainty (Raub, 2004; Williamson, 1983). Parties to more detailed and specified contracts tend to follow "the letter of the law" rather than its spirit – satisfying contractual conditions, but missing opportunities for more open-ended and idiosyncratic exchange and extra-role contributions (Bernheim & Whinston, 1998; Le Breton-Miller & Miller, 2020; Mislin, Campagna, & Bottom, 2011).

However, because contract specificity is undertaken to minimize parties' vulnerability and to mitigate potential losses, it may impede resourceful solutions emerging from informal and open-ended negotiations (Tenbrunsel & Messick, 1999). Indeed, more formal agreements seem to increase psychological reactance (McGregor, 1960), an aversive state that reduces motivation due to perceived threats to individual freedom, thereby inhibiting creative solutions (Hennessey & Amabile, 2010). By contrast, higher FV facilitates the adoption of trust versus contracts because it motivates one or both parties to choose a relational state characterized by assistance and exchange as a matter of unsecured goodwill (Daspit et al., 2016; Dyer & Singh, 1998; Le Breton-Miller & Miller, 2020; Poppo & Zenger, 2002; Schepker, Oh, Martynov, & Poppo, 2014). Family owners and managers may lack the willingness and resources — knowledge, time, money — to engage in concerted legal action and so forego formal contracting in favor of informal relational conduct. Goodwill established via cash-based transactions in emerging economies, for instance, leads parties to use entreaties, ingratiation, and networks to create and enforce obligations (Gaughan & Ferman, 1987).

Contracts can facilitate commitments when undertaken in conjunction with more open-ended cooperation that creates scope for more cooperative and expansive solutions and arrangements, as seen in relationships between family firms and their suppliers during the Covid-19 crisis (Le Breton-Miller & Miller, 2016; 2021). Malhotra (2004) found that binding contracts used to promote cooperation induce dysfunctional attributions: Whereas non-contractual cooperation induces attribution to the actions and intentions of exchange parties, contractual cooperation tends to be attributed to the contract, thereby inhibiting lasting cooperation. Here, non-binding contracts (e.g., Memorandums of Understanding) generate personal rather than situational attributions for cooperation and are less likely to hinder trust (Schepker et al., 2014; Simon, 2009).

Also, as contracts become more codified and detailed, they can promote pre-ordained sequencing of exchange that thwarts spontaneous displays of goodwill and good faith that could have emerged unexpectedly over time as ventures evolve. Tacit interactions elicit knowledge that becomes a property of the dyad, and thus, inaccessible through market mechanisms, thereby conferring a relatively inimitable and non-substitutable source of inter-firm advantage (Polanyi, 2009; Spender, 1996).

Thus, whereas theory and evidence show how meticulous, formal contracting defines the vulnerability of parties in exchange relationships, these frameworks ignore the scope for vulnerability to elicit more significant gains with enterprises deploying informal mechanisms to screen partners and establish relationships with them. Whereas contracts create "feelings of entitlement," informal understandings are conducive to relational psychological contracts and social capital (Le Breton-Miller & Miller, 2016; Le Breton-Miller & Miller, 2020; 2021). Whereas contracts create expectations regarding *ex-post* performance relative to the specific obligations outlined in a formal, legally binding agreement, informal understandings common to many family firms enable open-ended, ongoing relationships between parties that reduce the likelihood that they will suffer from social exchange.

Proposition 3a. *Formal contracting aimed at minimizing vulnerability inhibits the generation of goodwill between family firms and resource providers in social exchange***.**

Forsaking contracts and contractual terms fosters goodwill by allowing the exchange to be founded upon strong inter-personal communication and complementary decisions. More open communication facilitates a fuller exchange of information regarding interests, which promotes the identification of value-creating opportunities, whereas more detailed contracts disable vulnerability thereby preventing chances for parties to evaluate one another's intentions and probity, and allow trust to emerge (Dyer & Singh, 1998; Uzzi & Gillespie, 2002).[3] Moreover, one learns the most about one's partners when legal strictures do not overly constrain them, as is often the case when family firms are under duress. If they behave responsibly under these circumstances, that behavior sends stronger signals about their soundness as partners.

4.2. *Willingness to provide open-ended support*

Open-ended support involves representations that unspecified support will be provided within an unknown time frame (Flynn, 2005; Yamagishi & Cook, 1993). Starr and MacMillan (1990) document mechanisms by which prospective resource providers can provide open-ended support in social exchange, including by sharing information, solving and receiving help with problems, giving and receiving favors, providing referrals and other access to social networks, creating opportunities to demonstrate products and skills, and building and leveraging networks. In particular, individuals who received prior favors and cooperation tend to help another who is not necessarily the benefactor. In the latter case, actors who receive a favor from another are more likely to perform a favor for a third actor when given the opportunity, even if this requires a sacrifice of material or other resources (e.g., time), and exposes the helper to the prospect of no further benefits (Gintis et al., 2003; Stanca, 2009).

Also, more open-ended support mitigates problems arising from firms relying on specific relationships and a failure to access resources outside those relationships. On the surface, more specific arrangements reduce the scope for uncertainty in mutual expectations, but they also lead to increased scrutiny over performance, monitoring burdens, and scope for distrust. More open-ended arrangements promote looser coupling between family firms and resource providers because it broadens options for actions to be reciprocated (Löhde et al., 2020; 2021 Miller & Le Breton-Miller, 2005). Open-ended arrangements convey trust and create vulnerability for the resource supplier, and they clear the way for open-ended discussion about what an obligation entails and how it shall be met. These circumstances can transform aversive ambiguity into an asset.

Overall, more open-ended responses to FV can increase commitment between family firms and their partners, freeing social capital to facilitate referrals and other network access mechanisms (Long, 2011; Löhde et al., 2020). The willingness to assist more vulnerable stakeholders depends on the expectation of eliciting better, more durable relationships with more valued stakeholders. By strengthening the identification of stakeholders with the family firm, requests for more continuing support and in-kind response increase commitments between the parties.

Proposition 3b. *Open-ended, informal exchange leverages the value-creating potential of FV in social exchange.*

4.3. *Willingness to bypass third parties*

Sometimes family firms choose to resolve FV by enlisting third parties such as professional investors and consultants who offer institutional support, protection, and legitimacy (Ward, 1997). Unfortunately, these parties may substitute for the uneasy but potentially more rewarding outcomes of negotiating mutual vulnerability (Lee & Thompson, 2011; Valley, White, & Iacobucci, 1992). Bypassing such third parties in establishing exchange relationships may signal that trust is a preferred means to safeguard relationships. This is consistent with evidence that agents in negotiations prevent parties from striking deals by a) shrinking prospects for possible agreement, b) creating conflicts of interest between brokers and principals and c) suppressing interests and scope for parties to explore longer-term interests (Lee & Thompson, 2011; Valley et al., 1992). Hence, we propose that third party involvement in exchange can sometimes diminish the value-creating scope of FV:

Proposition 3c. *Attempts to minimize FV through third-party assurances and legitimacy diminishes the scope to leverage its value-creating potential in social exchange.*

We proposed that a broader and more nuanced conceptualization of vulnerability can underscore the potential for value creation in social exchange. In particular, vulnerability disclosures by family firm owners and managers could be met in kind by prospective resource providers, thus strengthening goodwill between the parties.

4.4. *Characteristics of resource providers and potential gains from FV*

The trust literature recognizes that gains are more available to trustors who view more vulnerable parties as valuable long-term partners (Das & Teng, 1998; Mayer et al., 1995). We build upon that research by underscoring that those conditions and characteristics operate at the community, venture, and individual levels (Huff & Kelley, 2003).

In smaller, close-knit communities, trustors may be more willing to extend help to more vulnerable family firms as that commitment supports vital community interests and is more likely to elicit reciprocal commitments from multiple stakeholders, including firm employees and families (Le Breton-Miller & Miller, 2021; Neckebrouck et al., 2019; Simon, 2009). In such communities, there is greater transparency among actors and more informal penalties for breaches of trust. There may also be resource restrictions due to smallness or remoteness that induce vulnerability-based collaboration. Similar conditions may obtain in industry niches involving groups of smaller and weaker companies that have to bond together to confront resource shortages or competitive threats. The same may be true for ventures operated by minority ethnic communities where mutual support is essential for survival (Nordstrom & Jennings, 2018; Pratt, Lepisto, & Dane, 2019).

Some enterprises depend on mutual vulnerability. For instance, some family businesses prioritize community support and caring for vulnerable others (Hertel, Bacq, & Belz, 2019; James, 1999). They trade short term profits for enduring reputational advantages that enhance community and stakeholder support (Le Breton-Miller & Miller, 2020; 2021). Overall, trustors who perceive the escalation of their vulnerability as part of a longer-term commitment will be more likely to withstand near-term losses because they retain support from vulnerable stakeholders they previously helped. By contrast, firms under pressure from impatient financial owners will be less willing to serve as trustors towards the vulnerable or benefit from trust-based relationships. Put differently,

Proposition 4. *Parties who are more embedded in communities, family firms, and those with longer-term and social priorities will be more willing to*

[3] Related to the *formality of exchange* is the extent to which it is *open-ended* –what Adler and Kwon (2002) call 'diffuse' exchange. Whereas contracts impose the form and formality of agreements, open-ended understandings permit ambiguity about how, when, and by whom an agreement will be honored (Uzzi & Gillespie, 2002).

serve as resource providers to those with higher FV.

5. Conclusions

Family firm owners and managers are often vulnerable entities. Many family ventures are subject to significant financial and socio-emotional loss (Gómez-Mejía et al., 2007, 2011). This article sought to show how such FV can be leveraged to produce win-win relationships, arguing how it can expand strategic options, especially when firms lack resources.

FV helps family firms to develop supportive connections. It can trigger dissonance and unease among family owners and managers subject to loss, motivating action to identify and nurture supportive relationships. We have proposed several reasons why vulnerability can increase perceived trustworthiness and better position family firms to engage in fruitful exchange with prospective resource providers. Indeed, selected efforts to escalate vulnerability can strengthen trust and its outcomes. The stronger a provider's intentions to engage in a more embedded relationship, the firmer the trust that will ensue from social exchange. Through such dynamics, family firms can capitalize on their vulnerability by forging fruitful bonds and dependable partnerships.

Contribution to the Literature on Social Exchange in Family Firms. Social exchange theorists tend to be more concerned with the nature of social exchange than its origins and how such origins can sustain it (Cropanzano & Mitchell, 2005). We have proposed vulnerability among key family actors in family firms as a means to explain why they might reach out for support from resource providers, and how that, in turn, can help sustain ensuing relationships. Such exchange may prove invaluable to the survival and growth of many family firms.

Contribution to the Literature on Trust. We also contribute to the literature on trust by elaborating on its ties to vulnerability. First, FV is an antecedent to trusting relationships, increasing the likelihood that family firm owners and managers and their ventures will enter into collaborative relationships. Second, FV may foster the sense that family firms are more trustworthy or more motivated to support collaborative relationships. Third, we highlighted when and which trustors have an opportunity to escalate their vulnerability. Finally, we positioned mutually enacted vulnerability as a core means of establishing trust. Each of these dynamics affords scope for family firms to build trusting relationships.

Further Research. The current study only scratches the surface of a potentially critical aspect of family firms. Further work might examine the differential relational consequences of perceived versus actual vulnerability and the manner in which parties to a relationship react to differences between the two. Authors might also begin to speculate upon which aspects of the family, the firm, the trustor, and the environment are most consequential to vulnerability and the responses to it. For example, under what conditions might vulnerability invite exploitation versus collaboration and trust? What are the roles of organizational similarity between firm and trustor, their community proximity, or their shared histories? How can vulnerable parties enhance their trustworthiness? What kinds of partners may be most helpful to vulnerable firms – are they much richer or more powerful or only modestly but sufficiently so; are they also family firms? Does the prospect of further exchange encourage trust? Do resource complementarities come into play? Is there an optimal level of vulnerability, such that too much would be viewed by prospective trustors as hopeless, while too little may reduce possibilities for trust-based relationships. Additional work is also required in how to measure perceived and actual vulnerability, their social contexts, and their outcomes. In short, we urge further study into the exchange relationships conditioned by vulnerability in the hope that family firm owners and managers will be able to enrich relationships with partner organizations to mutual benefit.

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