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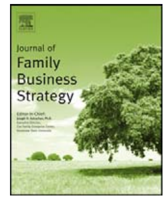

Non solus: Toward a psychology of family business

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ABSTRACT

This article presents a psychological theory of family business, its conceptual base and its implications. First, it argues that family business research requires a broader theoretical base than is currently used. Second, it argues that a psychological approach is beneficial to understanding family business. Third, it argues that insights gained from family business might inform and advance psychology and mainstream management literatures. Fourth, it uses a selected variety of concepts from individual and social psychology and explains how these concepts can be applied in family business research. Finally, it provides examples for research opportunities and research questions based on these observations.

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1. Introduction

Family business research has come a long way since its inception in the early 1980s. However, I argue that the progress family business research has made is built on a relatively narrow theoretical base consisting mostly of agency and stewardship theory. To make further advancements, I propose that family business should integrate theories from other disciplines. ‘‘Non solus,’’ not alone – the slogan in the logo of Elsevier, the esteemed publisher of the *Journal of Family Business Strategy* – reflects this call for more interdisciplinary research. In particular, I argue that the field of psychology can contribute greatly to a better understanding of family business.

The purpose of this article is to stimulate ideas for future research, not to test theoretical predictions. Toward this aim, I survey several research topics from individual and social psychology, highlight their main concepts and contributions, and discuss how these topics could be applied in family business. Each of the topics presented here provides potential material for multiple papers and hopefully will stimulate more psychologically grounded research into family business.

Family businesses are typically characterized by the overlap (Tagiuri & Davis, 1996) or even the fusion (Litz, 2008; Pieper & Klein, 2007) of family and business systems. There is a broad spectrum of definitions for family business (Astrachan, Klein, & Smyrnios, 2002). A key characteristic all approaches have in common is that virtually all aspects of individual, group, and organizational behavior in family business are affected by familial relationships (Dyer, 2003). Families consist of individuals interested in one another due to dependence, obligation or duty, love, caring or cooperation (Rothausen, 1999). Families are frequently considered systems representing a ‘‘complex, integrated whole’’ (Minuchin, 1988, p. 8), where individual family members are interdependent, exercising a continuous and reciprocal influence on one another (Cox & Paley, 1997). Accordingly, any individual family member is inseparably embedded in the larger family system and can never be fully understood in the absence of the context of the whole system (Kreppner & Lerner, 1989; Minuchin, 1985; Sameroff, 1994). Given their primary status for the development of individuals, families are also the primary means for transferring beliefs, attitudes and values in a population from one generation to another (Euler, Hoier, & Rohde, 2001).

In business families, the business represents a significant part of the family's context (Lansberg, 1992) and, in turn, the family represents a significant part of the business's context (Klein, Astrachan, & Smyrnios, 2005; Pieper & Klein, 2007). Family and business can be seen as having permeable boundaries where the business affects the family and the family affects the business. Family and business can also be seen as interpenetrating systems, which can overlap to the point of being considered a single system (Basco & Pérez Rodríguez, 2009). The strong interactions among family and business are innate to family businesses and are the source of the distinctive nature of this type of organization.

For the purpose of this research, a family business is defined as an organization where a family (or several families) has effective control over the strategic direction of the business, and where the business, in turn, makes important contributions to that family's wealth and identity (Astrachan et al., 2002).

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2. Agency theory dominates family business research

Early research on family business started when psychologists such as Richard Beckhard, Elaine Kepner, E. J. Miller and A. K. Rice, Ivan Lansberg, and Manfred Kets de Vries consistently noticed important changes in families who worked together in business. Hence, early research on family business stressed psychological aspects, familial relationships, and their implications for family and business. Over the course of time, however, it appears that interest in the psychology of family business has decreased and topics related to macro-issues located at the firm level became more prevalent. Organizational characteristics have become more important in explaining family business performance and behavior and have marginalized the psychological dimension and mechanisms of psychology relevant to the family business context (Bjornberg & Nicholson, 2007).

To illustrate this point, a recent review of the 25 most influential articles in family business research (Chrisman, Kellermanns, Chan, & Liano, in press) shows that agency theory is the prevailing theoretical foundation for family business research. Agency theory, an outgrowth of rational choice theory, assumes that people only pursue their own self-interest (i.e., maximize the expected utility of an outcome) and expect others to behave in the same way (Eisenhardt, 1989; Jensen & Meckling, 1976). Agency theory has been criticized for its narrow focus on outcomes as the only value of transactions and interactions and its ignorance of the many and important social aspects of relationships (see Cropanzano & Mitchell, 2005; Lubatkin, 2005; Nilakant & Rao, 1994; Shapiro, 2005; Wright, Mukherji, & Kroll, 2001). Despite the criticism, agency theory continues to be a driving theoretical concept in business and management research (Hillman & Dalziel, 2003; Huse, 2000; Lee & O'Neill, 2003; Lubatkin, 2005; Sundaramurthy & Lewis, 2003), and family business studies alike (Schulze, Lubatkin, & Dino, 2003a; Schulze, Lubatkin, Dino, & Buchholtz, 2001; Tsai, Hung, Kuo, & Kuo, 2006).

It is astonishing that a concept that is based explicitly on self-interest, ignores altruistic motivations for interaction, and is inherently "de-socialized," serves as the main foundation for research on a type of organization that is known to operate on a highly relational base, be highly emotionally loaded, driven by both economic and noneconomic goals (Chrisman, Chua, & Sharma, 2005; Chua, Chrisman, & Steier, 2003; Schulze, Lubatkin, & Dino, 2002), and known to pursue strategies that do not conform with traditional (i.e., rational) economic assumptions (Astrachan & Jaskiewicz, 2008; Gomez-Mejia, Haynes, Nunez-Nickel, Jacobson, & Moyano-Fuentes, 2007; Zellweger & Astrachan, 2008). Hence, I question whether economic theories such as agency theory can fully explain how individuals actually behave and interact in family business.

Stewardship theory (Davis, Schoorman, & Donaldson, 1997) has been proposed as an alternative to agency theory by using more realistic psychological and sociological forms of human behavior and depicting individuals as inherently collectivistic, pro-organizational, and trustworthy, and pursuing intrinsic motivations (Donaldson, 1990). Hence, stewardship theory provides a viable alternative to agency theory and has gained in popularity in mainstream management (Lee & O'Neill, 2003; Sundaramurthy & Lewis, 2003; Tosi, Brownlee, Silva, & Katz, 2003) and family business research alike (Chrisman, Chua, Kellermanns, & Chang, 2007; Miller & Le Breton-Miller, 2006; Miller, Le Breton-Miller, & Scholnick, 2008; Pieper, Klein, & Jaskiewicz, 2008; Sciascia, Mazzola, Astrachan, & Pieper, in press). However, its application remains narrowly focused on issues situated at the intersection of family and business systems, such as management and control issues (typically summarized as governance relationships). Only recently has the theory been applied to dynamics within the ownership and family realms (Le Breton-Miller & Miller, 2009; Zahra, Hayton, Neubaum, Dibrell & Craig, 2008).

To be clear, I am not downplaying the importance of agency theory in family business research nor I am saying that family business should abandon agency theory and rational economic models of human behavior in general. On the contrary, I applaud the significant progress that has been made in this area by integrating altruism into the traditional agency theory equation (see, e.g., Karra, Tracey, & Phillips, 2006; Lubatkin, Durand, & Ling, 2007; Lubatkin, Schulze, Ling, & Dino, 2005; Schulze, Lubatkin, & Dino, 2003b) and contrasting it with stewardship theory, which has considerably improved the explanatory power of our research models. However, even when altruism and elements of stewardship theory are included, the theoretical base in family business research still remains relatively narrow. More theories are needed that provide insights into the emotions, motives (other than self-interest), and cognitions that underlie most social interactions (Camerer, Loewenstein, & Rabin, 2004; Elster, 1999; Frank, 1988), and familial relationships in particular (Cox & Paley, 1997).

3. Psychology is useful to understand family business, and vice versa

I believe we have reached a ceiling in family business research that requires a greater inclusion of psychological theories if we are to understand fully the particular nature and behavior of family businesses. Some important progress has recently been made in this direction (e.g., Milton, 2008; Shepherd & Haynie, 2009), but a conceptual re-think that would entail the consistent application of psychological concepts in theorizing on family business or the development of a research stream involving psychological insights has yet to come. Interestingly, the fields of economics and finance – home to agency theory and other strictly rational models of human behavior and decision-making – have successfully made this transition.

Since the 1980s, economists have been paying greater attention to the fields of individual and social psychology and included emotions, motivations and cognitions in their theorizing and model building (Camerer et al., 2004; De Cremer, Zeelenberg, & Murnighan, 2006; Elster, 1999; Frank, 1988). This greater emphasis on the psychological and social nature of interactions is undoubtedly evidenced by the Nobel Prize in economics awarded to Daniel Kahneman in 2002 for his groundbreaking work in the area of behavioral economics.

The field of finance has followed a very similar path. The failure of neoclassical finance theory – and in particular the efficient markets hypothesis – to explain actual financial market valuation (see, e.g., Grossman & Stiglitz, 1980; LeRoy, 1989) has led researchers to pay greater attention to psychology in explaining relevant aspects of human behavior under situations of risk and uncertainty, such as overconfidence (Barber & Odean, 2001; Gervais & Odean, 2001), overreaction (DeBondt & Thaler, 1985), herding (Huberman & Regev, 2001), and loss aversion (Kahneman & Tversky, 1979; Shefrin & Statman, 1985; Odean, 1998), among other psychological and sociological concepts such as emotions and affect (see Lo, 2007; Lo & Repin, 2002; Loewenstein, 2000; Prechter & Parker, 2007). Behavioral finance, a burgeoning area of research in finance, represents the integration of psychology, sociology, and other disciplines, to explain economic and financial phenomena (see Ackert & Deaves, 2010; Akerlof & Shiller, 2009). These interdisciplinary collaborations and integrations have fundamentally reshaped the fields of economics and finance (Camerer et al., 2004) and improved their explanatory power by grounding them in more realistic psychological foundations (Steel & Koenig, 2006). Family business and entrepreneurship research alike (Frese, 2009) seem to lag behind this trend.

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