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Generational diversity, overconfidence and decision-making in family business: A knowledge heterogeneity perspective

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A B S T R A C T

Is generational diversity really “bad” for collective decision-making effectiveness in the family business? We argue that generational diversity reflects collective knowledge heterogeneity, and that through overconfidence as an important collective psychological mechanism, generational diversity may counter-intuitively benefit organizational consequences. Data from sixty decision-making teams in Indonesian family businesses with Chinese kinship relations suggested: first, generational diversity has positive effect on decision-making; second, generational diversity influences on group overconfidence negatively; third, overconfidence influences decision-making negatively; and fourth, overconfidence mediates in the relationship between diversity and decision effectiveness. All theoretical argument and empirical discussions grounded on knowledge heterogeneity perspective generated implications for theory and practices of decision-making in family businesses context.

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1. Introduction

Family business are created with entrepreneurial efforts, resource collection, and decision making done by family members with kinship relations, especially family members of the top management teams (Kellermanns & Eddleston, 2004; Ling & Kellermanns, 2010). A major activity these members conduct is the collective decision-making for critical issues of company survival or future directions (Chrisman, Chua, & Sharma, 2005).

Decision making in family business is more complicated than that in other forms of organization (Mustakallio, Auitio, & Zahra, 2002). Decision making does not only mean to solve the constantly emergent problems, but also trying to reduce uncertainties during problem-solving procedures. Unlike other business, decision makers in family business encounter uncertainties from both business and non-business (i.e., family) relations and dynamics, which can lead to tension or dilemmatic situations (Arregle, Hitt, Sirmon, & Very, 2007; Sirmon, Arregle, Hitt, & Webb, 2008; Sirmon & Hitt, 2003). In such situations, decision team members need to rely on professional knowledge to prevent biases toward others and the collectives.

Furthermore, decision making situations would become even more unpredictable if there is intra-group diversity in generations for decision makers. On the one hand, diversity may cause difficulty in collective works, especially the generational diversity here in family business contexts. As abovementioned, professional knowledge plays an important role in balancing potential biases when decision making. However, difficulties happen when members of different generations, who often represent persons trained with a variety of knowledge disciplines and with different cognition toward external environments, try to transfer information, knowledge, or experiences to one another. Put shortly, the heterogeneous possessed by members of different generations may impede collective decision making as a collective knowledge processing activity (Bantel & Jackson, 1989; Carpenter, 2002). On the other hand, however, diversity may also generate positive impacts. For example, diversity of a group may indicate a wide array of

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sources of information, which helps a lot in collecting potential thoughts and ideas for decision making. The merits of diversity have also been observed in family business contexts (Kellermanns & Eddleston, 2004).

Research in decision-making of general businesses has shown that there is generational gap between decision makers in terms of knowledge and expertise (e.g., Dror, Katona, & Mungur, 1998). As knowledge is a cornerstone for decision-making, heterogeneity in knowledge among decision makers can cause potential challenges. Knowledge and biases generated from it can affect decision making. Specifically, knowledge heterogeneity in the context of family business decision making teams refers to the deviation or differences between the knowledge, professions, or expertise among members of the team, majorly due to the different education and training, and life/work experiences brought naturally by the generational gap. Research has revealed that higher performance of family business often come from the strengths in commitment, knowledge continuity, reliability and pride. However, knowledge continuity is difficult to be realized in practices of family business governance. For example, while elder generation trained with traditional business administration models often make decisions on an emphasis on efficiency and profit pursuing, the younger generation lived in a freer and dynamically changing business world might often like creative solutions just to show their personal styles in general decisions. Ironically, the education and training the younger generation received may often be the arrangement from their elder generation. Such situation is often the case characterizing family business decision making teams. Therefore, the contingent effects of generational diversity as representing knowledge heterogeneity needs to be discussed under some specific situations or by identifying important intervening mechanisms (Tsai, Baugh, Fang, & Lin, 2014).

Hence, it is critical to link diversity in knowledge to decision making. Note, however, we did not mean to measure knowledge heterogeneity with age diversity. In the contrary, we wish to offer explanation for the relationships of age diversity, overconfidence, and decision effectiveness in the lens of Knowledge Heterogeneity theory. In short, the Knowledge Heterogeneity is a theoretical perspective in this paper but not a specific variable. Hence, what is more important is not only whether, but also why diversity influences positively or negatively on collective decision making.

Based on the above-discussed, the present paper tends to examine on two critical issues. First, we propose and test for the benefits (positive influences) of generational diversity on collective decision making in family businesses, as a counter-intuitive phenomenon. Second, we explored a mediating mechanism that explains "why" generational diversity has such benefits. We proposed and explored the mediating role of overconfidence as an important cognitive and psychological mechanism. Assessing the psychological state of entrepreneurs facilitates our understanding of the micro-dynamics of entrepreneurial development (Baron, 2008; Baron & Tang, 2011; Cardon, 2008; Cardon, Foo, Shepherd, & Wiklund, 2012; Cardon, Wincent, Singh, & Drnovsek, 2009; Cardon, Zietsma, Saporito, Matherne, & Davis, 2005). Essentially, family business can be treated as entrepreneurial firms whether the founder or the successors would dominant or share the rights of governance. Thus, we investigate on overconfidence as one important mechanism, because it is inherently among the most important concerns impacting collective decision making across a wide array of business situations (e.g., Fast, Sivanathan, Mayer, & Galinsky, 2012), especially in entrepreneurial types of businesses (Baron, 2000; Busenitz & Barney, 1997; Zacharakis & Shepherd, 2001). Therefore, when considering the link among diversity, collective state of overconfidence, and decision making, researchers can further clarify the complex interrelationships among team composition, collective minds, and decision-making dynamics in entrepreneurial settings.

2. Literature review and hypotheses development

2.1. Decision making in family business

The family businesses definition is unclear due to a lack of consensus among researchers. Based on the Sharma (2004), the definition of family business is still new and un-researched and diverse (see also Shanker & Astrachan, 1996). Totally, Chua, Chrisman, and Sharma (1999) found many different definitions of family business in their review of hundreds of articles. The need for a commonly recognized definition of family business was obvious (Astrachan & Shanker, 2003). Generally, family business is one that family members have significant ownership, interests and significant commitments toward the overall operation, the basic characteristic that distinguishes family from other businesses is the influence of family relationships on the business (Hoffman, Hoelscher, & Sorenson, 2006).

Under such circumstances, a trend in family business management is the multi-generational, team-based decision making, especially in emerging countries. Rae (2006) argues that collective units-of-analysis become important in explaining decision-making practices within family businesses. Aronoff and Astrachan (1996) found many firms searching for consensus and some firms using a democratic voting process. Collective decision making involves complex mechanism of human thinking is becoming more central and indispensable in business life. Organizational performance and survival depend on the effectiveness of strategic collective decisions and how well these decisions are implemented. An effective decision making refers to the condition that decisions were derived with serious processes and work in solving practical problems.

Decision making in family business has similar components with non-family business, but it is more complex and unique because a family business connects two worlds of business and both require good governance. Collective decision making in family business is a double-edged sword. The advantages of such decision-making mode include long-term planning, common language, strong support among trustable family members, and shared values (Dyer & Sánchez, 1998; Hoffman et al., 2006). Nonetheless, such decision-making mode may also suffer from risks and disadvantages such as work-life conflicts, potential nepotism that makes most of the "seats" in the firm filled by the family members, next generations may commit less than their elder counterparts, and difficulties in separating family and business financial concerns (see review in Chrisman, Kellermanns, Chan, & Liano, 2010).

2.1.1. Generational diversity

Diversity can generate contingent effects on family business decision making. From social identity theory, sub-groups may lead to potential discrimination and conflicts that prevent harmony and coherence (Van Knippenberg, De Dreu, & Homan, 2004), in turn causing difficulties in collective problem-solving (Joshi & Jackson, 2003, pp. 277–296). However, the true effects of team diversity are highly dependent on what kind of diversity is affecting on what kind of results through contingent processes (Williams & O'Reilly, 1998). For example, several reviews of basic research that relates team diversity to creative decision making support that team heterogeneity improves decision quality (e.g., McGrath, 1984).

Among different kinds of team diversity, generational diversity is of the most relevant in family business context, because it represents the degree of knowledge heterogeneity and can also generate contingent effects on decision making. Knowledge heterogeneity implies different degree of uncertainty acceptance,

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