THE PURSUIT OF SOCIOEMOTIONAL WEALTH IN FAMILY CONTROLLED FIRMS

PROF. LUIS R. GOMEZ-MEJIA
RAY AND MILANN SIEGFRIED
MENDOZA COLLEGE OF BUSINESS
UNIVERSITY OF NOTRE DAME
UNITED STATES
WHY SHOULD WE CARE ABOUT FAMILY FIRMS

• 95% of firms start out as family firms

• At least 70% of firms in U.S.A. are controlled by families, including one third of Fortune 500 (e.g., Cargill, Motorola, Ford, Microsoft etc.)

• At least 85% of firms in Southern European countries are controlled by families and 70% in northern countries

• Around the world there is no doubt that families represent the predominant organizational form
STREAM OF RESEARCH SHOWING THAT FAMILY CONTROLLED FIRMS ARE UNIQUE IN THEIR MANAGEMENT PRACTICES

  Population: All Spanish newspaper starting in 1948.

  Population: All Fortune 1,000 Firms

  Population: Olive Oil Mills in Jaen(Spain), during 50 year period

  Population: 122 Spanish firms
• Gomez-Mejia, L., Larraza-Kintana, M., and Makri, M.  

• Berrone, M., Cruz, C., Gomez-Mejia, L., Larraza-Kintana (Administrative Science Quarterly, 2010)  
  Population: All firms reporting pollution levels to Environmental Protection Agency

• Gomez-Mejia, Hoskisson, Makri, Sirmon & Campbell (Forthcoming). Socioemotional Wealth And Innovation In Family Controlled Firms. Strategic Management Journal  
  Population: Two Samples Of 2,000 High Technology Firms


KEY ARGUMENT

FAMILY FIRMS ARE MOTIVATED BY MORE THAN THE MONETARY OUTCOME OF ORGANIZATIONAL ACTIVITY

• The family’s desire to exercise authority

• Enjoyment of family influence

• Maintenance of clan membership within the firm

• The appointment of trusted family member to important posts

• Retention of a favorable family and firm reputation

• The continuation of family dynasty

SOCIOEMOTIONAL WEALTH is an umbrella term that accommodates all socioemotional elements of a family’s utility function that directly relate to the family’s involvement in the firm.

As such, defined as “the stock of affect-related value that the family has invested in the firm.”
Figure 1. Family Firm Research from a Socioemotional Wealth Preservation Perspective

Contingency Variables
- Family Stage
- Firm Size
- Firm Hazard
- Presence of Non Family Shareholders

Family Firm

Socioemotional Wealth Preservation

Management Processes
- Succession
- Professionalization
- Human Resource

Strategic Choices
- Risk Taking
- Corporate Diversification
- International Diversification
- Acquisition Behavior
- Debt
- Accounting Choices

Organizational Governance
- Role of the Board
- Incentive Alignment
- Agency Contract

Stakeholder Relationships
- Stakeholder Management
- Corporate Social Responsibility

Business Venturing
- Role of Families in New Ventures
- Corporate Entrepreneurship

Financial Performance
COMPONENTS OF SEW (FIBER MODEL)

• Family Control and Influence

• Family Members’ Identification With the Firm

• Binding Social Ties

• Emotional Attachment

• Renewal of Family Bonds To the Firm Through Dynastic Succession
Socioemotional Wealth and a Stakeholder View of Family Firm Productivity: the Brazilian Case
[Administrative Science Quarterly, forthcoming]

Presenter: Professor Luis R. Gomez-Mejia
Ray and Milann Siegfried Professor of Management
Mendoza College of Business
University of Notre Dame
Overall Purpose

- Drawing from recent theories on socioemotional wealth (SEW, or stock of affect related value that a family invests in a firm, we argue that firms with dominant family owners (hence, “family firms”) more often support their workforce with a *caring organizational climate* than do non-family firms as this benevolent context enhances family SEW.
We further contend that family firms implementing caring-oriented policies can realize higher productivity gains.
What is a Caring Organizational Climate?

- We define a *caring organizational climate* as employees’ perceptions of the firm’s normative concern for the welfare of all stakeholders rather than maximizing shareholders’ or owners’ financial wealth.

- *Caring organizational climates* thus stems from firm policies and practices that employees believe attends to their needs as well as those of other parties affected by the firm.
General Thesis

- We model how firms promote caring climates for workers depending on the dominant ownership form. We reason that family ownership engenders a caring organizational climate for employees to preserve and grow the family principal’s SEW and secondarily—or perhaps unintentionally—to improve firm effectiveness.

- Empirical support for our hypotheses comes from our appraisal of a multilevel model specifying both firm- and employee-level effects with 54,385 employees in 180 Brazilian firms.
Family Firm

- Family CEO
- Earnings Volatility
- Business Shocks

Caring Climate

- Leader support
- Coworker support
- Organizational pride

Productivity
Stakeholder Debate

- We know little about why some shareholders care more about the welfare of stakeholders (or some stakeholders) other than themselves because the stakeholder literature generally regards principals homogenously. Are some stockholders more concerned about internal stakeholders than others? And if so, when are they more likely to adopt caring policies toward them?

- By addressing these questions, our study deepens the understanding of how dominant owners’ preference shape options towards internal stakeholders.
Performance Paradox

- We unveil key insights into the so-called performance paradox of family firms, which often adopt policies that are not primarily designed to maximize economic efficiency but nonetheless help them succeed—if not outperform—non-family businesses.
Our theoretical model presumes that family firms more frequently implement caring stakeholder policies because socioemotional rather than purely economical concerns underlie their decisions and actions.
Socioemotional Wealth: Why Family Firms Care

- In turn, SEW losses imply lower status and failure to meet family expectations. Because family principals closely identify with the firm, their chronic desire to augment family SEW—or avert its loss—is a primary driver of firm policies and practices.

- As a result, their actions and policies can depart from economic rationality to satisfy such emotions and sentiments.
Hypotheses – General

**H1:** Family firm ownership is positively related to caring organizational climate.

**H2:** Caring organizational climate is positively related to labor productivity.

**H3:** Caring organizational climate mediates the relationship between family firm.
Hypotheses – Moderators

H4: The presence of a family CEO boosts family firms’ disposition to foster caring climates.

H5a: Earnings volatility attenuates family firms’ disposition to promote caring climates.

H5b: Shocks attenuate family firms' predisposition to promote caring climates.
METHOD

Data Collection

We obtained survey data from 54,385 workers in 180 large Brazilian firms. Workers completed “employee survey” regarding their firms’ caring climate, while a top executive from each company responded to a “firm survey” regarding formal firm policies. Survey instruments were developed and administered in 2008 by the Fundação Instituto de Administração (FIA), a nonprofit research institute in São Paulo, Brazil, to assess organizational policies and practices for the largest Brazilian firms.
Variables

1. **Family Ownership.** Only firms that were unanimously classified as unmistakably controlled by a “family” by all independent evaluators in a three step scheme were coded as such. Family firms were coded as I and non-family firms as 0 for data analysis.

2. **Caring Organizational Climate.** Both identified three caring climate factors: positive work environment, leader support, and positive organizational treatment of others (see Table 1 for these items).

   - The first factor captured the extent to which there is *horizontal* caring among peers and colleagues as reflected in such items as “In this firm we can trust our colleagues,” “When I need help from another area in the organization I am well received,” and “My colleagues are always ready to share their knowledge with me.”

   - Leader support captured the extent to which there is *vertical* caring from superior to subordinates as reflected in such items as “I am always treated well when I ask for help from my leader,” “I feel free to offer advice and criticism to my boss,” and “Whenever I need I can approach my leader/boss with professional and personal matters.”
Variables (continued)

- Positive organizational treatment of others captures employees’ perception of how much the firm cares for a broad set of stakeholders that are impacted by its actions. This factor includes such items as "I believe this business is concerned about the community and the natural environment," “I feel that this firm serves its suppliers, workers, and stockholders in a balance way,” “Working in this firm gives me and my family security and tranquility.”
Other Measures

- **Labor productivity.** We measured productivity by dividing each firm’s total revenue growth in the three consecutive years following survey administration (2009 to 2011) by its workforce size.

- **Moderators.** We coded those firms having a family CEO as 1 and those that did not as 0. In regards to earnings volatility, we captured it from the observed revenue variance in the three years before survey administrations to ensure a time lag (2005-2007). As with our data on revenue growth, we collected this information from public sources.

- Lastly, we gauged shocks to family SEW as the number of stressful situations recently experienced by the firm during the 3 years prior to the survey, including organizational spinoffs, closing of business lines, and mergers. We gathered this information from executive responses to the director survey.
Other Controls

- Firm Age
- Industry
- HRM Budget
- Educational Level
- Gender Composition
- Tenure
Results

- In line with Hypothesis 1 and as shown in Model 1, family ownership was positively related to caring climate ($b = 4.02, p < .05$).

- In turn, as predicted by Hypothesis 2, caring climate was positively associated with labor productivity ($b = 2.62, p < .05$).

- Hypothesis 3, which predicts that caring climates mediate family firm ownership effects on labor productivity were also supported.

- For Hypothesis 4, family CEO was positively related to caring climate ($b = 4.12, p < .05$, see Model 2, Table 4) in the subset of family firms and the model fit the data well: $CFI = .94$; $SRMR = .04$; and $RMSEA = .03$. 

The model testing the interaction between earnings volatility and firm ownership (Hypothesis 5a), in Model 3, also explained the data well. Earnings volatility moderated firm ownership effects on caring climate ($b = -5.82, p < .05$).

Family ownership increased caring climate when firms experienced less volatile earnings ($b = 4.034, p < .05$) but not when enduring high volatility ($b = .084, p < .05$). We found a similar pattern with simple slopes analysis (Cohen et al., 2003).

Lastly, we found a significant interaction between shocks and family ownership (Hypothesis 5b): $b = -3.41, p < .05$. 

Summary

Based on empirical evidence from a multilevel model involving 54,385 employees from 180 firms, we reveal significant implications for theory and practice.

- We argue that to preserve socio-emotional wealth, family firms often promote a caring organizational climate; and as a byproduct they garner higher labor productivity.

- The family ownership-caring climate relationship is magnified when the CEO is a family member and attenuated when the firm faces stressful conditions (high earnings volatility and major business shocks).
Summary

- Our theoretical model and empirical findings present a more positive view than those who suggest that family firms are inefficient and/or that their productivity gains arise primarily when they professionalize (i.e., formalize policies about career plans, training programs, benefit packages).

- In line with recent family SEW research (Berrone et al., 2010; Cruz et al., 2011; Gomez-Mejia et al., 2007; 2011), we argue that family firms may not be as distracted from efficiency-promoting policies as is widely believed, as much as they manage their affairs through a different logic that however preserves their competitiveness.

- Specifically, we show that by fostering caring climates horizontally, vertically, and at the firm level, family firms attain higher productivity in their labor forces. They may not install such climates for deliberate instrumental reasons (to obtain economic rents) yet unintendedly by pursuing emotional wealth they receive indirect economic benefits.