A Psychological Perspective Applied to Family Business: The Relationship between Emotions and Performance

Advance in Business-Related Scientific Research Conference 2013 in Venice
(ABSRC 2013 Venice)
March 28-30, 2013, Venice, Italy

A PSYCHOLOGICAL PERSPECTIVE APPLIED TO FAMILY BUSINESS: THE RELATIONSHIP BETWEEN EMOTIONS AND PERFORMANCE

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Abstract
This article examines how individual's emotions could be put in relation with the businesses' performance of a family firm, with the goal of developing future research and a better understanding of family business.
Starting from psychological literature in order to identify emotions that generally affect the behavior of people, we have linked them with the existent literature on family business. Emotion may deeply influence the individual choices into a family business. Individual could act irrationally, being subject to emotional factors and would get the best for himself and his family in place of the business.
The result of our analysis is a conceptual framework that describes how emotions are the "fil rouge" between the family and the business, provides an insight into family choices and encourage a new research opportunity.

Key Words: emotions, family management, performance.
Topic Groups: Managerial and organizational cognition and psychology; Social sciences and business.

INTRODUCTION

The article is structured as follows.
In the first part we have introduced an inside on family business and we have analyzed cognitive and physiological literature about emotions.
In the second part we have observed the main literature on family business management and its relation with performance, referring to EU-EFIGE/Bruegel-UniCredit Dataset applied to European Country and in particular France, Germany, Italy, Spain and United Kingdom.
In the third and last part, we have developed a conceptual framework describing the relationship between emotions and performance and why this relation could be considered the "fil rouge" between the family and the business.
The article concludes with limits and future recommendation for the family business research.

THEORETICAL FOUNDATIONS

A first inside on Family Business

In Europe there are 17 millions of family businesses employing about 100 million people (Instituto de la Empresa Familiar, 2009); about 80% of the family businesses are held by the first generation and one in nine of the family businesses are supposed to be transferred in the next five years (Family Business International Monitor, 2008). These are some of the key figures of the family businesses' phenomenon. But why family businesses are different from non-family businesses?
First of all, we have to define what a family business is. Authors decided to use the definition of the European Commission: "(1) The majority of decision-making rights is in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child or children's direct heirs (2) The majority of decision-making rights are indirect or direct. (3) At least one representative of the family or kin is formally involved in the governance of the firm. (4) Listed companies meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25 per cent of the decision-making rights mandated by their share capital" (European Commission Report, 2009). This definition includes family firms that have not yet gone through the first generational transfer and, it also covers sole proprietors and the self-employed (providing there is a legal entity which can be transferred).
As the above mentioned definition underlines, family businesses are different from non-family businesses because they are made up by three elements: business, ownership and family (Tagiuri & Davis, 1992). The family element plays a central role: the dynamics between family members can strongly influence the interrelation between the three elements and can create both a source for a competitive advantage and inside conflicts. On this point, researchers have different opinions.
On one hand, some researchers pointed out that the family component is the major competitive advantage that family businesses can have over competitors because it creates a unique environment into the firm that inspires loyalty and attention (Ward, 1988), a more efficient communication thanks to the "family language" (Tagiuri & Davis, 1996), a higher level of loyalty, motivation (Tagiuri & Davis, 1996), integrity and commitment of the people involved into the company's environment (Lyman, 1991) and strong relationships between the family firm and its customers (Ibrahim *et al.*, 2009). Moreover, family businesses are less sensible to

economic downturns (Donckels & Frohlich, 1991), they have patient investments (Zahra, 2005) and pay more attention to R&D activities (Pervin, 1997; Ward, 1997).

On the other hand, the family and its dynamics can quickly turn in a disadvantage for the company; in fact, some researchers underline the challenges that family businesses have to face with, such as: the power of the founder or leader that tends to have a strong control on the business till he is alive (e.g. Lansberg *et al.*, 1988; Jaffe & Lane, 2004; Ibrahim *et al*., 2009; Caspar *et al*., 2010); conflicts between family members: in general family and business goals are the same (Davis, 1983), but sometimes it becomes very hard to distinguish between the managerial and the familiar sphere (Beckhard & Dyer, 1981; Gersik *et al*., 1997). Finally, the succession process represents a natural obstacle to family businesses and in particular for the founder or the leader that have to choose the ideal successor.

For the reasons mentioned above, the role of managers (both internal and external) and owners is fundamental: if they are not able to define and respect both short and long-term needs of the business and the family, the survival of the business is undermined.

Sharma *et al.* (1997) affirm that family interests and values are included into the long term objectives of the company and this generates special dynamics, politics and alternatives that are very different from non-family businesses. This also affects the way a family business takes decisions, which is far from non-family businesses because is less affected by "internal bureaucratic controls or external accountabilities" (Chrisman *et al.*, 2010) and relied more on family's emotions and values.

Emotions in cognitive and physiological literature

Assuming that explicit behavior is the only scientifically analysis unit frequently done by psychology (Watson, 1913), that emotional factors play an important role in individual experience (Belelli & Di Schiena, 2012) and that individuals use behavioral models not completely rational, subjected to cognitive biases or emotional factors (Kahneman, Tversky, 1974, 1979; Simon, 1955, 1956), we start our analysis from considers some emotional factors in cognitive and psychological literature that represents a key trait of human action and, in particular, of the *decision-making process* (Miglietta & Battisti, 2012).

Although if a wide literature takes into consideration the effect of emotional factors on decision making process and on the economic decisions (Slovic *et al*., 2001), there is not a universally shared classification of these factors. In Darwinian terms the main function of emotions is to make more effective the individual's reaction to situations where an immediate response is necessary in order to survive without using processes (Darwin, 1872). There is also a relational function of emotion that is expressed in the communication of their physiological reactions towards others and a self-regulating which reflects the understanding of their physiological changes.

How can we define emotions?

In general, emotions can be defined as mental and physiological states (Boucher, Ekman, 1975; James, 1890; Reisenzein, 1983; Ekman, Friesen, Simons, 1985; Ekman, 1992, 1993, 1999; Plutchick, 1995). Kleinginna & Kleinginna (1981) observed more than ninety definitions of emotions but in this paper we decided to underline the ones that highlight internal physical mechanisms of emotion (physiological definitions) and appraisal and-or labelling processes (cognitive definitions).

From the *physiological point* of view Watson (1930) asserts that emotion is "a hereditary pattern-reaction involving profound changes of the bodily mechanism as a whole, but particularly of the

visceral and glandular systems"; Wenger *et al.* (1956) define emotion as "activity and reactivity of the tissues and organs innervated by the autonomic nervous system. It may involve, but does not necessarily involve, skeletal muscle response or mental activity"; in this sense emotions constitute a special nervous mechanism which ensures the adaptive behaviour of higher living beings in situations which disrupt their habit systems, that is, when there is a lack of the information required for reaching a goal and satisfying a need (Simonov, 1970); Silverman (1978) states that emotions "are behaviour that are primarily influenced by conditioned visceral responses. Our viscera are always reacting; but in emotion, their reactions affect perception, learning, thinking, and virtually everything we do".
From the *cognitive point* of view Bowlby (1969) defines emotions as "phases of an individual's intuitive appraisals either of his own organism states and urges to act or of the succession of environmental situations in which he finds himself"; Kimble *et al.* (1980) assert that "emotional experiences can be qualitatively very different. It is surprising, then, to find that the physiological conditions underlying these experiences are pretty much the same and that cognitive factors such as the label we apply to the state determine the quality of an emotion".
In conclusion, an emotion seems to be a reaction able to involve muscles, tissues and organs, something that can affect our perception and learning, a phase of an individual's appraisals.
All these individual's feelings, originated by emotions, have a relational function that is expressed through the communication of physiological reactions towards others, and a self-regulating process which reflects the understanding of their physiological changes.
More in detail, there are a lot of emotions that can have an influence on individual and collective behavior.
The most famous one are happiness, sadness, fear, surprise, anger, and disgust (Ekman *et al*., 1969; Ekman, 1992, 1999). However, Ortony & Turner (1990) and Laros & Steenkamp (2005) collated a wide ranges of researches in which were identified basic emotions. In particular, they highlited the following one (see Table 1).

Table 1: Emotions present in literature

Emotions	Authors
▪ Acceptance	▪ Plutchik (1980).
▪ Anger	▪ Arnold (1960). Ekman *et al.* (1982). Izard (1977). McDougall (1926). Oatley and Johnson-Laird (1987). Shaver *et al.* (1987). Storm and Storm (1987).
▪ Anticipation	▪ Plutchik (1980).
▪ Anxiety	▪ Storm and Storm (1987). Oatley and Johnson-Laird (1987)
▪ Aversion	▪ Arnold (1960).
▪ Contempt	▪ Izard (1977).
▪ Contentment	▪ Storm and Storm (1987).
▪ Courage	▪ Arnold (1960).
▪ Dejection	▪ Arnold (1960).
▪ Desire	▪ Arnold (1960). Frijda (1986).
▪ Despair	▪ Arnold (1960).
▪ Disgust	▪ Plutchik (1980). Ekman *et al.* (1982). Izard (1971). McDougall (1926). Oatley and Johnson-Laird (1987). Storm and Storm (1987).
▪ Distress	▪ Izard (1977).
▪ Elation	▪ McDougall (1926).
▪ Expectancy	▪ Panksepp (1982).
▪ Fear	▪ Plutchik (1980). Arnold (1960). Ekman *et al.* (1982). Izard (1977). McDougall (1926). Shaver *et al.* (1987). Panksepp (1982). Watson (1930).
▪ Grief	▪ James (1884).
▪ Guilt	▪ Izard (1977).
▪ Happiness	▪ Oatley and Johnson-Laird (1987). Storm and Storm (1987). Frijda (1986). Weiner and Graham (1984).
▪ Hate	▪ Arnold (1960).
▪ Hope	▪ Arnold (1960).
▪ Hostility	▪ Storm and Storm (1987).
▪ Interest	▪ Izard (1977). Frijda (1986).
▪ Joy	▪ Plutchik (1980). Ekman *et al.* (1982). Gray (1982). Shaver *et al.* (1987). Izard (1977).
▪ Liking	▪ Storm and Storm (1987).
▪ Love	▪ Arnold (1960). Shaver *et al.* (1987). Storm and Storm (1987). James (1884). Watson (1930).
▪ Pain	▪ Storm and Storm (1987). Mowrer (1960).
▪ Panic	▪ Panksepp (1982).
▪ Pleasure	▪ Mowrer (1960).
▪ Pride	▪ Storm and Storm (1987).
▪ Rage	▪ Gray (1982). Panksepp (1982)..James (1884). Watson (1930).
▪ Sadness	▪ Plutchik (1980). Arnold (1960). Ekman *et al.* (1982). Oatley and Johnson-Laird (1987) Shaver *et al.* (1987). Storm and Storm (1987). Weiner and Graham (1984).
▪ Shame	▪ Izard (1977). Storm and Storm (1987).
▪ Sorrow	▪ Frijda (1986).
▪ Subjection	▪ McDougal (1926).
▪ Surprise	▪ Plutchik (1980). Ekman *et al.* (1982). Izard (1977). Frijda (1986).
▪ Tender	▪ McDougal (1926).
▪ Wonder	▪ Frijda (1986). McDougall (1926).

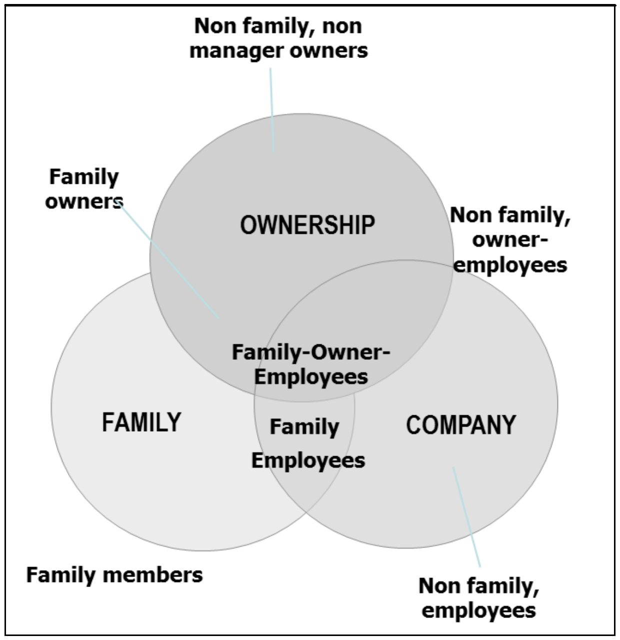
Source: adaptation of authors from Ortony & Turner, 1990 and Laros & Steenkamp, 2005

As said before, emotions are usually expressed by individuals. When individuals create a social group such as a family, a business or a family business, emotional factors become transmittable among family members.

Family business management

Family businesses are different from non-family businesses because they are made up by three elements (see Figure 1): business, ownership and family (Tagiuri & Davis, 1992)

Figure 1: The Three circles model



Source: Davis, 2007

The overlapping of the three circles create gray zone in which individuals can play different role at the same time. In fact, it is possible to identify seven profiles: non family, non-manager owners; non family, owner-employees; non-family employees; family members; family owners; family-owner-employees; and family employees. For each one of this profile there are different rules to follow and objectives to achieve. Family members involved in the management of the company have to face with both the private sphere of the family and the business sphere of the company: in this case emotions win the day and influence behavioral attitude of individuals.

Several studies have tried to compare the performance of family and non-family businesses in order to understand if and how family ownership and management affect performance.

Determining whether family management affects performance is harder than it appears at first glance (McConaugby *et al.*, 1998; Chrisman, Chua, Sharma, 2005). Excluding researches focused on listed companies, McConaugby, Matthews and Fialko (2001) argue that companies governed by the founding family are managed more efficiently and have an inferior degree of financial debt than other companies. Castillo & Wakefield (2006) have found a positive relationship between family management and return on investment. Differently, the most recent literature has identified a nonlinear relationship, quadratic and negative (Sciascia & Mazzola, 2008).

In order to verify the efficiency of family management we have reported the results of an European research from EU-EFIGE/Bruegel-UniCredit Dataset.

The firms involved in the EFIGE Project survey (2010) are 14.162, across seven countries and are divided as follow: Austria 492; France 2.973; Germany 2.202; Hungary 488; Italy 3.019; Spain 2.832 and United Kingdom 2.156[1].

[1] The data have been collected on the inside of the project EFIGE supported by the Directorate General Research of the European Commission through its 7th Framework Programme, aims at exploring in details these firm-level dynamics. GFK Eurisko dealt

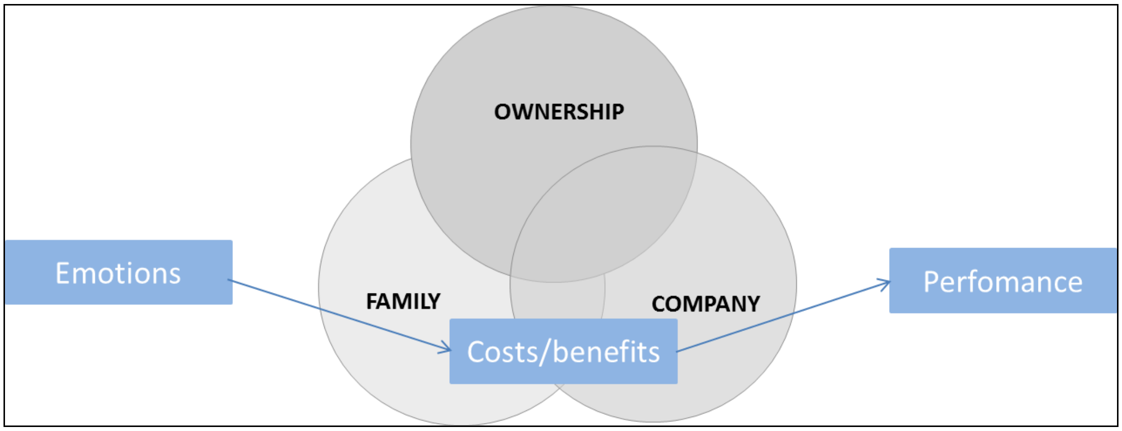
The percentage of family-owned firms is uniform in all the countries observed and represents the majority of business in each country. The majority features a family CEO managing the firm and the weight varies from 62,20% of France at about 84,50% of Germany.
Centralized management model prevails in all firms of sample and referring to all the countries analyzed. Italian firms present the highest percentage (84,90%) which is confirmed by reference to the family business (87%).
Referring to Italian family business strategic decisions are heavily centralized in the hands of the entrepreneur and we have observed a negative correlation with the business size, even though the impact on the degree of centralization is high in all content. Referring to the management-organizational model we have found that in family business the CEO is always a component of the same family. This management model, strongly centralized on the figure of the entrepreneur is widely shared in the family business in Germany and Austria, while in other European countries considered in the survey, the model is relatively more open to non-family management, especially among large companies.
By reason of the negative quadratic nonlinear relationship between family management and performance in family business (Sciascia & Mazzola, 2008) we observed that, in the period 2008-2010, the performance of Italian SMEs measured from the level of production and gross profit are negative (Brasili *et al*., 2011).

RESULTS AND DISCUSSION

From the literature identified, it seems that emotional factors can influence the behavior of individuals and, in a second moment, the one of the other members of the group involved in the same environment. In this paper, we have considered as individuals the family members and as a group, the family business.
As mentioned before, sometimes become very difficult to distinguish between the business and the family spheres (Beckhard & Dyer, 1981; Gersik *et al.*, 1997) so it happens that family members transfers their emotions in the business affecting the entire environment. According to how they manage these emotions we have two kinds of results: benefits for the company or costs for the company.
The process is confirmed by evidences of different studies on family businesses' performance (Chrisman, Chua & Litz, 2003; Habbershon, Williams & Mac Millan, 2003), in particular referring to the Italian country.
What could be the reasons for a lower performance?
A centralized decision-making model, focused on the entrepreneur or members of his family, can be strongly influenced by emotions that, usually, characterize each individual.
Starting from this assumption we have outlined a conceptual framework focusing the relationship between emotions, performance, family and business inside the famous model of three circles adapted from Tagiuri and Davis (1992) (see Figure 2).

with the collection of data via CATI (Computer Assisted Telephone Interview) and CAWI (Computer Assisted Web Interview). GFK Eurisko adopted a sampling design following stratification by sector and firm size.

Figure 2: The psychological and business's perspective in family business



Source: adaptation of authors based on the Three circles model (Tagiuri & Davis, 1992)

Studying the family business reality is essential to consider the family element as a key element able to influence both in a positive and in a negative way the business. This is possible because the family circle is animated by particular dynamics: family members can act, at the same moment, as family member, manager and owner of the business.

The typical emotions that generally belong to the private sphere of an individual, in the case of family business, are transferred inside the business life. According to how the family manages the company those emotions can be converted by family members in a benefit (competitive advantage) or a cost (disadvantage/conflict) for the company. Once that positive and negative emotions are inside the business circle we can see the final result reflected in the company's performance.

LIMITS AND FUTURE RESEARCH

We have identified the most relevant emotions that are able to influence the family businesses' performance from a theoretical point of view, matching the psychological and family business literature. The major limit of the study is represented by the lack of the measure of the impact of these emotions in economic terms and, the events that normally generate these emotions.

We believe that the interrelationship of research on family business with other disciplines (psychology and behavioral sciences in particular) will increase knowledge on the topic and locate new explanatory reasons phenomena detected by existing literature.

Applying this psychological perspective to family business we put a base for future researches aiming to investigate the causes of the relationship reported from literature.

A first empirical step could be represented by interviewing family entrepreneurs and family members in order to identify which are the most relevant emotions affecting the business.

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