Extending the Socioemotional Wealth Perspective:

A Look at the Dark Side

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Abstract

We extend the socioemotional wealth (SEW) perspective by arguing that SEW can be negatively associated with proactive stakeholder engagement (PSE). We further suggest that the SEW dimensions can be associated with positive or negative valence. Lastly, we propose that negatively valenced SEW dimensions lead to family centric behavior, which negatively affects PSE. This multifaceted conceptualization of SEW allows us to explain how family firms can partake in harmful stakeholder behaviors despite having seemingly strong SEW. Our paper suggests that SEW can be either an affective endowment or burden for family firms and their constituents.

Introduction

The paper by Berrone, Bennamo, Cruz and Gómez-Mejía (2012a) contributes to the growing literature on socioemotional wealth (SEW) considerations by developing a framework that seeks to explain under which conditions family firms are inclined to adopt proactive stakeholder engagement (PSE). Drawing from research on stakeholder management, Berrone et al. (2012a) apply the instrumental and normative perspectives to explain the motives for family firm PSE, and explore when family firms respond to stakeholder issues versus when they take a more proactive stance toward stakeholders. Furthermore, Berrone et al. (2012a) propose that the specific SEW dimension the family owners stress determines their focus on PSE. The five dimensions of SEW proposed by Berrone, Cruz and Gómez-Mejía (2012b) are: family control and influence, identification of the family with the firm, binding social ties, emotional attachment of family members, and transgenerational intentions. Berrone et al. (2012a) argue that each of these SEW dimensions induces family owners to implement PSE strategies based on either instrumental or normative motives in an effort to protect and enhance the family firm's SEW endowments. Overall, the SEW dimensions are portrayed as inspiration for family firms to demonstrate care for their stakeholders. As such, SEW is depicted as a prosocial and positive stimulus.

However, this depiction does not capture the full behavioral spectrum of family firms in reality. While there are many notable family firms who set positive standards of PSE, the popular press and the family firm literature are laden with stories of family firms that have ignored and even abused non-family stakeholders (e.g., Gordon & Nicholson, 2008; Kidwell & Kidwell, 2010; Kidwell, 2008; La Porta, Lopez-De-Silanes, Shleifer, & Vishny, 2002). For example, family firms have been known to expropriate minority shareholders, exploit employees, and ignite conflict within their local communities despite seemingly strong family bonds, family firm identity, and transgenerational intentions (e.g., Gordon & Nicholson, 2008; Kidwell, 2008; Kidwell, Kellermanns, & Eddleston, 2012; La Porta et al., 2002). Indeed, some case-based research suggests that strong family ties can create an 'us-against-them' mentality in family firms that causes the family to place their needs above those of non-family stakeholders (i.e. Gordon & Nicholson, 2008; Kidwell, 2008). Additionally, emotional attachment has been known to incite struggles for control among family branches and between potential successors (i.e. Gordon & Nicholson, 2008). Accordingly, the SEW dimensions may not always be associated with stakeholder care; they may also explain why some family firms appear to have little PSE.

In the present commentary we investigate the dark side of SEW and explore the detrimental consequences for stakeholders when a controlling family seeks to maintain or extend its SEW endowment. To this end we first discuss under which circumstances higher levels of SEW can be associated with lower levels of PSE. We then draw from affect infusion theory (Forgas, 1995; Loewenstein & Adler, 1995) to argue that the dimensions of SEW can be perceived as positively or negatively valenced. Our theoretical development concludes with a discussion of how negatively valenced SEW dimensions can serve as a disutility, or burden, for family firms which reduces PSE.

More is not always better

SEW characterizes the non-economic and emotional value associated with a family firm that serves to meet the family's affective needs like identity, influence and perpetuation of the family dynasty (Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007; Zellweger, Kellermanns, Chrisman, & Chua, in press). The underlying premise is that when equipped with high levels of SEW, family firms should behave in ways that would be universally beneficial, for example by acting in environmentally conscious ways (Berrone, Cruz, Gómez-Mejía, & Larraza Kintana, 2010).

However, if SEW is the main frame of reference for family firms, SEW could also be depicted as a driver of self-serving behavior on the part of the family and explain why some family firms place family needs above those of other stakeholders. Indeed, it has been found that because relinquishing SEW is perceived as a major loss, family firms are often willing to accept greater firm performance hazard to prevent that loss (Gómez-Mejía et al., 2007), thereby jeopardizing the very survival of the firm and its various contributions to stakeholders. Furthermore, recent research has suggested that SEW may come at a price to non-family shareholders in family firms. Specifically, the study by Zellweger et al. (in press) showed that while family owners are willing to sell their firms at a discounted price to family members, they seek a significantly higher price when considering selling their firms to non-family individuals. Zellweger et al. (in press) argued that family owners want to charge a premium price for their businesses to non-family individuals because they seek compensation for their family's loss of

SEW. As such, their paper suggests that the pursuit of SEW may have different consequences for family and non-family stakeholders and that it may even come at a cost to some stakeholders.

Moreover, research suggests that strong family bonds, family firm identity and family control can encourage family members to ignore or eliminate controls that prevent fraud and to rationalize fraud since the family and firm are seen as 'one'(Kidwell & Kidwell, 2010). Here the family is likely to perceive its self-serving interests as a gain in SEW while ignoring and eventually harming non-family stakeholders. For example, the desire to maintain family control may lead to the appointment of family members to the board; however, such appointments may violate rules of good governance and disenfranchise non-family stakeholders. Such a view contrasts with research that stresses the benefits of SEW, such as corporate responsibility (Berrone et al., 2010) and PSE (Berrone et al., 2012a).

These inconsistencies are also found in the wider management literature. Although the social bonding perspective proposes that social bonds reduce the likelihood of negative behaviors and problems with self-control (Hirschi, 1969; Longshore, Chang, Hseih, & Messina, 2004), research on deviance has acknowledged that high levels of group cohesion can actually spur deviant behavior (Warren, 2003). Specifically, strong bonds can sometimes produce organizational norms that conflict with universal (societal) standards of behavior (Warren, 2003). As a result, family members can feel pressure to follow organizational norms even though those norms violate universal standards (Eddleston & Kidwell, 2012). Norms in family firms tend to be very strong (Tagiuri & Davis, 1996), and can become the dominant reference point for family members that follow a "family first" philosophy. Indeed, such deviant norms have been argued to be a root cause of fraudulent activity and scandal by family firms (Eddleston & Kidwell, 2012; Kidwell, 2008). Thus, if the pursuit of SEW occurs in accordance with universal norms, we expect that the family firm supports PSE as described by Berrone et al. (2012a). However, if family firm norms conflict with universal standards of behavior, the pursuit of idiosyncratic family firms goals will still lead to greater SEW, but that higher level of SEW will come at the expense of non-family stakeholders. Accordingly, we propose:

Proposition 1: *When family firm norms violate universally accepted norms of behavior SEW will be negatively related to PSE.*

Considering the valence of SEW dimensions

In line with previous research on SEW, Berrone et al. (2012a) seem to assume that all dimensions of SEW are associated with positive valence. Valence is used to categorize emotions as either pleasant (positive valence) or aversive and unpleasant (negative valence) (Barrett, 1996; Frijda, 1986). Research explains that the valence of an affective state is different from its desirability (Barrett, 1996; Feldman, 1995). In other words, the presumed attractiveness of a situation does not imply that the individual actually experiences a positive affective emotion (Barrett, 1996).

Affect infusion theory, which is grounded in cognitive psychology (e.g., Forgas, 1995), describes how positive and negative valence biases cognitive processes as well as how these biases influence the framing of situations and judgments (e.g., Forgas, 2001; Mittal & Ross, 1998). For example, whether affect is associated with positive or negative valence influences situational assessments and if these situations are seen as an opportunity or a threat (Mittal & Ross, 1998). Additionally, affective feelings related to ownership play a key role in generating an endowment effect (e.g., Forgas, 2001; Lerner, Small, & Loewenstein, 2004).

Since SEW has been defined as the stock of affective endowments, affect infusion theory would suggest that this stock of endowments is the overall appraisal of the SEW dimensions. Specifically, positively valenced SEW dimensions will increase endowments, negatively valenced SEW dimensions will diminish endowments. As part of their (socio-)emotional accounting (Levav & Mcgraw, 2009), family members will consider how decisions impact the total stock of SEW endowment. Accordingly, family members will not only consider the positively valenced SEW dimensions but also take into account the negatively valenced ones.

For instance, research has suggested that family control and strong identification with the family firm can cause heirs to feel locked into and dependent upon the firm (Schulze, Lubatkin, Dino, & Buchholtz, 2001), thus demonstrating the negative valence that can be associated with the SEW dimensions. Other research has pointed out how heirs feel intense pressure to join the family business despite their reservations or personal preferences (Freudenberger, Freedheim, & Kurtz, 1989). Further, while the next generation may retain control of the family firm, that generation may come to resent their dependency upon the firm and lack of autonomy from the family (Freudenberger et al., 1989). Simply put, standing in the shadow of a prominent family may lead some family members to feel asphyxiated by their involvement in the firm. As such, this research suggests that transgenerational intentions can be associated with negative emotions. Therefore, we suggest that the dimensions of SEW should not be presumed as positively valenced; they could also be associated with negative valence. Below, we will explore the potential consequences of negative valenced SEW dimension on PSE.

When SEW reduces PSE

For family firms, negatively valenced SEW dimensions are likely associated with emotional pain and frustration among family members. Such family members perceive the dimensions of SEW, like family control and transgenerational intentions, as an emotional burden. For example, while some successors perceive their anointment as an encumbrance, other family firms must grapple with struggles for control among family branches who believe they are the rightful heirs (Gordon & Nicholson, 2008). Family members can also feel suffocated and smothered by an omnipresent family and pressures to align with family decisions (Schulze et al., 2001). In turn, family members who perceive SEW negatively may show calculative commitment out of necessity and due to high exit costs (Meyer, Allen, & Smith, 1993) making it less likely that they will nurture the family firm's stakeholders. Additionally, negatively valenced SEW may encourage family members to place greater emphasis on activities that benefit themselves or their respective branches of the family. That is, these family members may seek compensation for their emotional struggles which thereby leads them to pursue more self-serving interests rather than PSE. Therefore:

Proposition 2: *In the presence of negatively valenced SEW dimensions, family firms will be less inclined to pursue PSE.*

Discussion

We sought to expand Berrone et al.'s (2012a) paper by considering when SEW may detract from PSE activities. While Berrone et al. (2012a) drew from the SEW perspective to explain why family firms are often seen as caring for their stakeholders (i.e. Dyer & Whetten, 2006; Stavrou, Kassinis, & Filotheou, 2007), we applied the concept of SEW to explain why some family firms appear to have little regard for stakeholders, particularly non-family stakeholders. As such, both papers answer a call for research to explore why some firms care more about the needs of stakeholders than others (Cemano, Berrone, & Gómez-Mejía, 2009).

Our paper contributes to theorizing on SEW by proposing that SEW may have a dark side and detrimental effects for stakeholders of family firms. *First*, we argue that if SEW is the main frame of reference for family firms and their owners, SEW may also serve as a driver of self-serving behavior on the side of the family and explain why some family firms place family needs above those of the firm and its stakeholders. Strong family bonds, family firm identity and family control can encourage family members to ignore and even harm non-family stakeholders. *Second*, we expand on the SEW construct by arguing that the dimensions can be both positively and negatively valenced. Current SEW literature implicitly assumes that the SEW dimensions are positively valenced when assessed by family members. However, family control and strong identification with the family firm can cause heirs to feel locked into and dependent upon the family and firm (Schulze et al., 2001), suggesting negative valence for these SEW dimensions. *Third*, we argued that SEW dimensions with negative valence will reduce family members' willingness to engage in PSE. Facing negatively valenced SEW dimensions, family members will be inclined to put more emphasis on activities that benefit the individual family member or branch(es) of the family rather than PSE. Thus, unlike previous research that has portrayed SEW as an affective endowment, we suggest that SEW can also be an affective burden that can be costly to stakeholders.

Future Research

Many additional avenues for future research remain unexplored. For example, the way the different dimensions of SEW fit together to create an overall level of SEW remains under-researched. Should all dimensions be equally valued? Or could the combined effects of the dimensions be additive, conjunctive or disjunctive in forming the SEW endowment (for an example of this approach see Kemmerer, Walter, Kellermanns, & Narayanan, in press)? Further, do the dimensions equally influence the family's priorities and behavior? Or does the family pursue the most salient dimension when making decisions, for example the preservation of family control (Gómez-Mejía et al., 2007)?

In line with these questions, prospect theory shows promise in explaining how decisions are reached based on a mental appraisal process that weighs gains and losses, pleasure and pain (e.g., Forgas, 1995; Thaler, 1980). Accordingly, future research should explore how the amalgamation of SEW dimensions, based on both positive and negative valence, influence family firm decisions and behavior. Furthermore, Kahneman and Tversky (1979) suggest that gains and losses are perceived from one's current wealth level. As a consequence, family firms with a high SEW endowment may be less inclined to make investments to heighten that endowment level since the additional benefits are marginal. Additionally, threats to SEW may also instill risky behavior aimed to preserve the SEW endowment (Gómez-Mejía et al., 2007). Therefore, future research should seek to understand the behavioral consequences for family firms after a gain or loss of SEW by taking into account prospect theory.

This also suggests a need to investigate how the valence of the SEW dimensions may change over time and what the consequences of these temporal changes may be in regards to the family firm's SEW endowment and care for stakeholders. The possibility of a curvilinear relationship should be considered to determine if extremely high or low levels of SEW can be a burden for family firms. Indeed, a dynamic perspective of SEW is necessary to account for short-term and long-term tradeoffs of decisions that affect SEW (Gedajlovic, Carney, Chrisman, & Kellermanns, in press). Furthermore, while Berrone et al. (2012a) and this commentary assume that the survival of the family business is not in jeopardy, research suggests that threats to the business may strongly affect the behavior of the family firm (Gómez-Mejía et al., 2007). Accordingly, research should explore how financial considerations impact the valence of the SEW dimensions as well as the role of SEW in decision-making.

In conclusion, while SEW may increase a family firm's inclination toward PSE activities (Berrone et al., 2012a), we argue that SEW may also have a dark side. We hope that our conceptual expansion of SEW and complementary approach to that of Berrone et al. (2012a) provides a stimulus for additional research and ultimately aides the development of a theory of the family firm.

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