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5. Behavioural Agency Theory and the Family Business

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1. Introduction

For a long time, scholars have been interested in understanding the factors that determine organisational goals and aspirations and how they evolve over time. As an old adage goes, ‘wherever there is opportunity, there lurks danger’ (Nightingale, 1956), so it is interesting to understand not only how organisations successfully pursue opportunities but also how they manage their risk exposure. A number of theoretical perspectives have been adopted by scholars to understand and predict organisational goals and risk behaviour, some of which are discussed in the chapters by Mazzelli and Kallmuenzer in this book. In this chapter, I present Behavioural Agency Theory, which complements these two chapters but narrows further down to how the risk preferences of decision makers (managers/agents) may affect the direction of strategic goals and the risk behaviour of an organisation. The theory is interesting because it combines concepts from agency theory, prospect theory and behavioural theory to explain organisational risk behaviour from the perspective of the goals and risk preferences of those who directly make decisions on behalf of the organisation (i.e., it excludes both the interests of shareholders, which are considered under agency theory, and the impact of environmental factors, which is considered under behavioural theory).

Proponents of behavioural agency theory (Martin, Gomez-Mejia, & Wiseman, 2013; Pepper & Gore, 2012; Wiseman & Gómez-Mejía, 1998) argue that the agency explanation for managerial risk taking is limited for the following reasons. First, agency theory limits the definition of risk to risk neutrality (of principals/shareholders) and risk aversion (of agents/managers), thereby ignoring the possibilities of risk-seeking or risk-loving behaviour (i.e., accepting options in which risk is not fully compensated for) in other literature (Asch &

Quandt, 1990; Bulmash & Mehrez, 1985; Piron & Smith, 1995). Second, agency theory assumes that principals' and agents' risk orientations are stable over time (i.e., principals are always risk neutral and agents are always risk averse), but the behavioural research literature shows evidence of a contingency based view of risk that allows for varied risk preferences by agents in different corporate governance contexts (Wiseman & Gómez-Mejía, 1998). Third, the precise relationship between governance structure and managerial risk behaviour based on agency models remains unknown despite numerous studies, which implies that governance structure alone may not fully explain managerial risk taking. Fourth, explanatory models based on agency theory portray agents' risk and performance in a linear and recursive fashion despite evidence of a non-linear relationship (Wiseman & Gómez-Mejía, 1998).

The aim of this chapter is to provide an overview of the basic tenets of behavioural agency theory and its family business variant – the socioemotional wealth construct (SEW) – and how they have been used in family business research. The chapter will also propose suggestions for how these theoretical perspectives can be used in further research to contribute to both the family business literature and the general management literature. The chapter proceeds as follows: it introduces an overview of the basic concepts of behavioural agency theory and offers a discussion of how this theory has been adapted for family business research. This introduction is followed by an overview of the application of the family business variant of the theory. The chapter then concludes with some suggestions for future research using these theoretical perspectives.

2. The basic tenets of behavioural agency theory

To overcome the shortcomings of agency theory, Wiseman & Gómez-Mejía (1998) proposed the behavioural agency model of managerial risk taking, which is the foundation of behavioural agency theory. Behavioural agency theory states that strategic decisions are

‘reference dependent’ and decision makers are primarily ‘loss averse’ (Pepper & Gore, 2012; Wiseman & Gómez-Mejía, 1998). Reference dependence means that decision makers take decisions by comparing the expected consequences of their possible choices on their current wealth, and the options that have the most favourable consequences for the current wealth of the decision makers are preferred. Loss aversion implies that decision makers will prefer decision options that avoid the loss of their current wealth to options that maximise future wealth (Wiseman & Gómez-Mejía, 1998). Put together, behavioural agency theory states that the risk taking behaviour of managers, and thus the strategic choices of a firm, are represented in strategic choices that avoid loss to managers’ personal wealth because managers use their personal wealth as the point of reference in decision making. Another important aspect of behavioural agency theory is that it allows for the varied risk preferences of agents under different conditions, which implies that agents may be risk averse, risk neutral or even risk seeking under different decision conditions.

Behavioural agency theory is based on the assumption that agents are self-interested individuals whose risk preferences change relative to how they frame their decision problems. Agents may frame decision problems as either a choice among potential gains to their personal wealth (i.e., a gain context) or a choice among potential losses to their personal wealth (i.e., a loss context) (Kahneman & Tversky, 1979). The behavioural agency theory predicts that the agents who frame a decision problem as a choice among potential losses to their personal wealth (which includes their future pay from continued employment in the firm) are more likely to prefer riskier investments than those who perceive no threat to their personal wealth; conversely, agents who anticipate gains to their personal wealth are more likely to prefer less risky investments to protect those gains (Martin et al., 2013; Wiseman & Gómez-Mejía, 1998).

Wiseman and Gómez-Mejía (1998) based their argument on the principle of *instant endowment*, which suggests that agents consider their future compensation from continued employment as part of their current wealth. As a result, they generally prefer decision alternatives that help them to avoid loss to their current wealth over options that promise to maximise their future (prospective) wealth. This inclination of agents towards loss aversion in relation to current wealth means that agents primarily choose to avoid loss of this decision reference point (current wealth) ‘even if this means accepting higher risk’ to their prospective wealth (Wiseman & Gómez-Mejía, 1998). Conversely, prospective wealth accentuates agents’ willingness to take risk because, given that prospective compensation is uncertain, agents (based on the principle of instant endowment) consider future compensation already as a loss and are therefore willing to take higher risks in a bid to reverse this loss (Wiseman & Gómez-Mejía, 1998). Put differently, incentive packages and supervisory arrangements that bring uncertainty to agents’ future compensation increases the agent’s proportion of wealth at risk of loss (risk bearing), and this triggers a switch from risk-aversion to risk seeking behaviour (Please see Table 5.1 for a definition of key terms).

Strategic decision situations can hold the potential for both gains and losses for the agents or managers. For instance, where stock options are a part of managerial compensation, managers’ decisions have implications for both (1) the stock option reward (i.e., a potential loss of current wealth) and (2) future increases in the value of these options (i.e., a potential gain in future wealth) (Martin et al., 2013). These implications mean that stock options simultaneously present a loss situation and a gain situation to decision makers. Martin et al. (2013) referred to the simultaneous presence of gain and loss situations as ‘mixed gambles’ and suggest that greater risk will be taken if the agents’ assessment of potential gains outweighs potential losses and vice versa. I now extend the discussion to how behavioural agency theory has been applied in the family business research field.

3. Application of the behavioural agency theory in family business research

The application of the behavioural agency theory in family business research is new but growing quickly. However, some basic assumptions with which behavioural agency theory was developed are less valid in the family business context. Lim, Lubatkin, and Wiseman (2010) discuss four implicit assumptions of behavioural agency theory that are not always applicable in the family business context. First, behavioural agency theory presumes a separation of ownership from management such that shareholders and managers only have a principal-agent contractual relationship. Second, it assumes a dispersed ownership structure that creates conditions that enable agency problems to occur. Third, agents are viewed as self-interested individuals who prefer to maximise their personal wealth in the firm at the expense of their principals. Fourth, the behavioural agency theory associates the self-interest of agents with maximising personal wealth and thus frames the risk choices of the agent in economic/financial terms.

These assumptions, collectively, are not always valid in the family business context where there is sometimes no separation between ownership and control of the firm. It is generally agreed among scholars that the primary factor distinguishing family businesses from non-family businesses is the continuous interaction of the family in the ownership regimes and management of the family business (Davis, Hampton, & Lansberg, 2013; Gersick, 1997; Swinth & Vinton, 1993; Tagiuri & Davis, 1992). Therefore, family principals also oftentimes assume the role of agent or manager in the family firm. The family connection to the business also implies that shareholders or principals in family firms often have familial relations to one another, and the self-interest of agents may go beyond personal economic wealth, contrary to the assumption of behavioural agency theory. For instance, research has shown that, aside

from financial goals, family principals also pursue non-financial goals, such as a desire for independence, family control over the business, the intergenerational transfer of ownership, etc., through the family business (Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007; Kotlar & De Massis, 2013; Zellweger, Nason, Nordqvist, & Brush, 2013).

Even though the above characteristics of family firms make some of the basic assumptions of behavioural agency theory less valid, the four primary concepts of this theory have been validated by research in family firms. These include the concepts of the varied risk preferences of agents, reference dependent decision-making, loss aversion and mixed gambles. Gómez-Mejía et al. (2007) were the first to apply these three concepts in the family business context to study the risk behaviour of Spanish family firms that were faced with a voluntary choice to either join a cooperative or stay independent. The cooperative in question provided substantial financial benefits and secured earnings to its members but requires members to relinquish control of their firms to the cooperative to ensure a non-compete agreement between cooperative members. Gómez-Mejía et al. (2007) found that families preferred to retain control of their firms (with exposure to performance risk) over joining the cooperatives for economic security (but with a loss of control over the firm). They proposed that families were unwilling to relinquish control in the family firm because family control enabled the families to protect their ‘socioemotional wealth’ in the business (Gómez-Mejía et al., 2007). Socioemotional wealth was defined as the “non-financial aspects of the firm that meet the family’s affective needs, such as identity, the ability to exercise family influence, and the perpetuation of the family dynasty” (Gómez-Mejía et al., 2007, p.106). According to these authors, ‘family firms frame the relinquishing of socioemotional endowment as a major loss and, consistent with a behavioural perspective, are willing to accept a greater performance hazard to mitigate that loss’ (Gómez-Mejía et al., 2007, p.106). They also

suggest that the prime point of reference for decision-making in family firms is the socioemotional wealth of the family principals (Gómez-Mejía et al., 2007).

Gómez-Mejía et al. (2007) also argue that the aversion to socioemotional loss is stronger when the role of the family in the business is strong, 'such that willingness to give up family control is lowest at the founding-family-controlled and managed stage, moderate at the non-founding extended-family-owned and managed stage, and highest at the extended-family-owned and professionally managed stage' (p.109). In a recent article, Lim et al. (2010) developed similar propositions that suggest that the more dispersed ownership is from the founding members of the family, the less concern there is for socioemotional wealth preservation in the family firm and the more financial risk owners are willing to accept.

The concept of mixed gambles – the possibility that a decision situation may lead to gain or loss outcomes – has also been applied to explain risk taking in family firms. Gómez-Mejía et al. (2013) posit that a family's socioemotional wealth in their firm is a mixed gamble – a socioemotional mixed gamble – and as such, the family will consider potential socioemotional wealth gains vs. losses when selecting among risk options, and options that increase the family's socioemotional wealth gain or minimise the socioemotional wealth losses will be preferred in family firms. Applying this concept to the R&D investment of family firms, these authors explain that the uncertainty of R&D investment is a mixed gamble that possesses a range of potential positive and negative outcomes for both family firms and non-family firms. However, family firms face a unique socioemotional mixed gamble because R&D investment often causes a definite decrease in SEW through the use of external expertise and capital, which dilutes family influence, while any potential benefits from R&D on SEW (such as the long-term survival of the firm and reputation) remain uncertain. With this paradox, family firms – though more long-term oriented – are less likely to invest in R&D relative to non-family firms.

The direct application of the behavioural agency theory in the family business research field is the socioemotional wealth construct, which, arguably, is the family business variant of behavioural agency theory. The common concepts of these two perspectives – behavioural agency theory and the socioemotional wealth construct – are highlighted in Table 5.2. Though these concepts – the varied risk preferences of agents, reference dependent decision-making, loss aversion and mixed gambles – are the same for these two perspectives, the *objects* to which these concepts apply are different in the family business context. For instance, while the reference point for decision making according to the behavioural agency theory is the preservation of the personal wealth of the agent, the socioemotional wealth construct argues that family agents use the socioemotional endowment of the family in the family business as the prime point of reference. Similarly, loss aversion, risk preferences and mixed gambles in the family business context relate to socioemotional wealth preservation.

-----Table 5.2 About Here-----

4. Socioemotional wealth in family firms

Because the family business variant of the behavioural agency theory is entirely based on the socioemotional wealth of the family, it is important that we know more about its nature and impact in family firms, and some scholars have provided research in this regard.

In one such study, Berrone, Cruz, and Gómez-Mejía (2012) propose some constitutive elements of socioemotional wealth. They propose five elements of socioemotional wealth that business-owning families seek through the firm. These includes **F**amily control and influence, the **I**dentification of family members with the firm, **B**inding social ties, the **E**mootional attachment of family members and the **R**enewal of family bonds to the firm through dynastic succession (collectively referred to as the FIBER model). They also operationalise the FIBER model by proposing a set of items that can be used to measure each element in this model and

suggest a list of questions that can be investigated to extend our understanding of socioemotional wealth in family firms.

In a further development, Naldi, Cennamo, Corbetta, and Gómez-Mejía (2013) conducted an empirical study to examine whether strategies taken by family firm managers to preserve socioemotional wealth represent an asset or a liability to the family firm. Their study fills an important gap in the literature because even though the proponents of the socioemotional wealth construct argue that socioemotional wealth serves as a higher order reference point in decision making, the literature does not say when the decisions taken to preserve it are financially beneficial and when they harm financial performance. Naldi et al. (2013) focused on one of the dimensions in the FIBER model, ‘family control and influence’, which requires that a member of the controlling family is the chief executive officer (CEO) of the family firm. The authors presume that having a family CEO helps in ‘(1) keeping control and influence over the firm’s operations and ownership; (2) perpetuating the family dynasty, ensuring that the business is handed down to future generations; and (3) sustaining family image and reputation’, which are the primary elements in the FIBER model. Their empirical study concludes that SEW may be an asset for family CEOs in business environments where tacit knowledge and rules and social norms are important, such as industrial districts, but it can be a liability for the family CEO in environments where formal rules apply, such as in stock exchange operations. One contribution of this study is that it shows that SEW preservation can be good and/or bad for the financial performance of the family firm, much in the same way that agents’ preservation of personal wealth may work for or against shareholder wealth maximisation in the non-family setting, depending on principal-agent risk alignment (Wiseman & Gomez-Mejia, 1998). In the following section, I discuss how the SEW construct has been used in previous family business research.

5. Use of the socioemotional wealth construct in family business research

Although behavioural agency theory has not seen much direct application in family business research, its variant, the socioemotional wealth construct, has been well received by the family business research community. As of September 2014, the seminal article by Gómez-Mejía et al. (2007) that proposed the socioemotional wealth perspective has been cited over 600 times (as shown by Google Scholar). Most studies relied on socioemotional wealth as a construct to explain different aspects of family firms' behaviour, such as financial performance (Stockmans, Lybaert, & Voordeckers, 2010), environmental and social performance (Cennamo, Berrone, Cruz, & Gomez-Mejia, 2012), inter-firm cooperation (Kumeto, Brundin, & Nordqvist, 2014) (Deephouse & Jaskiewicz, 2013), entrepreneurial orientation (Schepers, Voordeckers, Steijvers, & Laveren, 2014), stakeholder engagement (Kellermanns, Eddleston, & Zellweger, 2012), and firm exit (DeTienne & Chirico, 2013), among many others. Gómez-Mejía, Cruz, Berrone, and De Castro (2011) offer a comprehensive review of studies that adopt the SEW perspective. In almost all of these studies, the SEW construct is used as a dormant (unmeasured) explanatory concept for management processes, strategic choices, organisational governance, stakeholder relationships and business venturing (See also Chrisman, Sharma, Steier, & Chua, 2013).

In this section, I review the 10 most cited articles using the socioemotional wealth perspective in family business research. These articles are selected from the Scopus scientific database using the key words 'socioemotional wealth' in the titles, keywords and abstracts of peer-reviewed articles. The selected articles are summarised in Table 5.33 and discussed under two broad areas of family firm research where the SEW is applied, namely non-financial issues and financial performance.

-----Table 5.3 About Here-----

The first broad area of research where socioemotional wealth has been most cited relates to non-financial issues, such as environmental protection (Berrone, Cruz, Gómez-Mejía, & Larraza-Kintana, 2010), institutional conformity (Miller, Breton-Miller, & Lester, 2013), human resource practices (Cruz, Firfiray, & Gómez-Mejía, 2011; Cruz, Justo, & De Castro, 2012), and stakeholder engagement (Cennamo et al., 2012; Kellermanns et al., 2012).

One of the most cited studies using the socioemotional wealth perspective was conducted to explain why firms invest in environmental protection beyond regulatory requirements even if this investment does not yield financial returns (Berrone et al., 2010). Another concern in this study was to determine whether some organisational actors see environmental investment as a way to achieve institutional legitimacy more than others do. After comparing the environmental performances of 194 family and non-family firms in the U.S., Berrone et al. (2010) concluded that family-controlled public firms had higher environmental protection performance than their non-family counterparts, particularly in their local areas. They argue that family owners pursue environmental strategies to avoid being stigmatised as irresponsible because such a stigma would negatively impact their socioemotional wealth (Berrone et al., 2010, p. 87). The chapter by Waldkirch in this book discusses similar findings from other researchers who adopt a social identity perspective to explain why the identity of the family as the owner of the firm motivates greater environmental performance from family firms. A related study was conducted by Miller et al. (2013), in which it was found that family involvement in a firm was related to greater conformity of many aspects of the firm's strategy to institutional demands. From an analysis of Fortune 1000 firms, they concluded that "family firms will be subject to unusually powerful motivations to conform, in part because of their pursuit of socioemotional wealth objectives", such as "an ability to provide careers and security for current and later generations, community visibility and status, and even harmony

within the family” (Miller et al., 2013, p. 189). These authors argue that because of their pursuit of socioemotional wealth, family firms will be more visible and perceived as unorthodox, or unusual and risky, hence the need to compensate for this unorthodoxy with more exacting conformity to institutional requirements.

To work toward preserving socioemotional wealth in the way described in the studies mentioned in the preceding paragraph, family businesses often adopt different human resource (HR) practices to select and motivate their employees in these directions. Cruz et al. (2011), for instance, propose that because family firms use SEW as their prime frame of reference, they prefer employees who are related to the family by either blood or close social ties and those who share the firm’s ideology. Family firms are also thought to be more likely to invest in long-term training and mentoring for their staff and to favour compensation schemes that focus on long-term performance rather than on short-term variable pay schemes. These HR practices among others are meant to ensure that the family business has a team of workers who are motivated to work towards the preservation of the SEW of the family in addition to financial performance (Cruz et al., 2011). Cruz et al. (2012) show in their study that ‘employing family members increases sales but decreases profitability as measured by ROA’ to emphasise the point that family firms indeed adopt HR practices that specifically preserve socioemotional wealth.

In the area of stakeholder engagement, studies address the question of whether family firms view stakeholder management from an instrumental perspective (taking action to address stakeholders’ needs as a means to maximise shareholders’ wealth) or adopt a normative approach (proactively attending to all stakeholders needs because ‘it is the right thing to do’) (Donaldson & Preston, 1995). Cennamo et al. (2012) draw on the socioemotional wealth logic in this debate and argue that family principals are more likely to favour normative (and proactive) stakeholder engagement strategies because that will generate socioemotional

wealth even if proactive stakeholder engagement offers no obvious financial benefits. Their argument is built on the reasoning that pursuing proactive stakeholder strategies in nonfamily firms with no justifying financial outcome may create agency problems between management and shareholders; however, the family business context avoids this problem because ownership and management are vested in the family principals and normative stakeholder engagement enhances the socioemotional wealth of the family. Kellermanns et al. (2012), however, think that this view of socioemotional wealth as a “prosocial and positive stimulus” towards stakeholder engagement ‘does not capture the full behavioural spectrum of family firms’ reality” (p. 1176). They argue that socioemotional wealth can also drive family principals into self-serving behaviours at the expense of the business and other stakeholders. In addition, strong bonds, family identity and family control can lead family members to adopt an ‘us-against-them’ mentality that does not favour proactive stakeholder engagement. They also argue that socioemotional wealth preservation can have both positive and negative valence, and negatively valenced socioemotional wealth will reduce the family firm’s willingness to pursue proactive stakeholder activities.

The second broad area of research where the SEW construct has primarily been cited includes performance issues, such as how socioemotional wealth affects financial reporting (Stockmans et al., 2010), firm valuation (Zellweger, Kellermanns, Chrisman, & Chua, 2012; Zellweger & Dehlen, 2012) and innovation (Block, Miller, Jaskiewicz, & Spiegel, 2013) in family firms. Different aspects of the performance of family firms have been widely discussed in the literature from different theoretical perspectives (Astrachan & Zellweger, 2008). However, one aspect that frequently cites the SEW construct is family firms’ performance reporting (Stockmans et al., 2010). In a survey on the financial reporting practices of 132 private family firms, Stockmans et al. (2010) conclude that family firms with a greater concern for preserving SEW (such as family firms led by the founder or the first-generation)

‘seem to have greater incentive to engage in upward earnings management because of the preservation of their socioemotional wealth’. The authors suggest that family firms engage in upwards earning management when financial performance is poor to avoid potential protective measures taken by non-family stakeholders that may limit family control over the firm and thus affect their socioemotional wealth.

With regards to firm valuation, scholars have argued that because family firms invest in preserving their SEW in the business, socioemotional wealth must have a value that is independent of the financial value of the firm. Zellweger and Dehlen (2012), for instance, drew on cognitive psychology (Forgas, 1995) to argue that family firm owners would only be willing to part with their ownership stakes in the business if they received compensation commensurate with their perceived loss of socioemotional wealth. In a follow up empirical study, Zellweger et al. (2012) showed that socioemotional wealth was higher in family firms if trans-generational transfer of the firm was intended, thus adding to the valuation of family firms and the price family owners would be willing accept for their firms from nonfamily buyers.

The final paper by Block et al. (2013) looked at the implications of SEW on innovation in family firms. They conclude that family firms owned and managed by the founding entrepreneur have a higher entrepreneurial orientation and thus focus more on innovation, while family owners are more oriented towards nurturing the family and protecting socioemotional wealth and thus perform less innovation. Their study suggests that socioemotional wealth may not only be a trade-off of current profitability but may also slow the pace of growth of the family firm.

Overall, these studies show the relevance and acceptability of the socioemotional wealth perspective in the family business research field. They also show that it is important to adapt

the behavioural agency theory in this way to fit the family business context. One limitation of the literature, however, is that current studies only passively use the SEW construct as a loose reference to explain family firms' proclivity for non-financial goals. Additionally, the studies only vaguely refer to the behavioural agency theory and current discussions appear to centre around only selected concepts of behavioural agency theory, such as dependent decision-making, loss aversion and varied risk preference, while few or no references are made to other concepts, such as problem framing, risk bearing and mixed gambles. There is therefore the opportunity to contribute to the literature from these theoretical perspectives. In the next section, I propose some ideas for future research on how behavioural agency theory and the socioemotional wealth perspective can be used to contribute to the family business research as well as the general management literature.

6. Future research using behavioural agency theory and the socioemotional wealth perspective

Although the behavioural agency theory is fairly represented by the socioemotional wealth constructs in the family business context, there are still discrepancies in the way that family business scholars adopt and use these perspectives. As stated earlier, a number of important concepts of the behavioural agency model are not even considered by family business users. Because the SEW construct is not yet fully developed, it thus has limitations on the extent to which it can explain all of the phenomena conceptualised by behavioural agency theory. One approach that can contribute to both behavioural agency theory and the SEW construct is to continue the example of Gómez-Mejía et al. (2013, 2007), who juxtaposed different aspects of behavioural agency theory and SEW. An essential gap in this regards that is yet to be filled is the 'quantification' of the SEW construct to strengthen the connection between behavioural assumptions and socioemotional wealth. For instance, the concepts of risk bearing and the mixed gambles of behavioural agency theory express decision thresholds that trigger a switch

in the risk behaviour of decision makers; however, these concepts cannot be fully understood in the family business context because of the lack of measures of SEW. Even though scholars agree that a certain level of risk bearing may cause family firms to switch their primary reference point from SEW to focus more on financial performance, it is difficult to estimate the level of risk bearing that switches the decision preference without measuring SEW.

Research can try to fill this gap by conducting a quantitative evaluation of SEW using the FIBER model (Berrone et al., 2012). Using FIBER will extend the use of the SEW construct from being a dormant explanatory variable to being a more specific measure that can also be used to predict managerial behaviour.

Another viable direction for future research that extends the application of both behavioural agency theory and the SEW construct is to juxtapose and integrate these perspectives with other concepts, models and theories in the family business field as well as in the general management field. This approach will help researchers within the family business field to perform a rigorous assessment of the socioemotional wealth construct and to avoid blind generalisation of this construct across all phenomena in the family business context.

Additionally, the cross fertilisation of theoretical perspectives is an opportunity to contribute to the general management literature using the socioemotional wealth construct. In this section, I discuss some topics and theories as examples of the above suggestion.

Within family business, one interesting area to study that is appropriate for the socioemotional wealth construct is inter-firm cooperation. As shown in the seminal study of Gómez-Mejía et al. (2007), family firms are less willing to engage in cooperation with other firms because it poses a threat to their socioemotional wealth. This observation, however, leads to more curiosity about the motivation and strategies of those family firms that do engage in inter-firm cooperation. A recent literature review by Kumeto et al. (2014) suggests that family firms prefer some types of cooperation to others depending on the level of risk that a particular

cooperation type poses to their socioemotional wealth. According to this study, mergers and acquisition (M&A) may represent one of the types of cooperation that family firms will be the least interested in because M&A often involves the sharing of ownership and control. This observation should lead to some curiosity about M&A in family firms because this is a very rarely studied phenomenon in family firms. This phenomenon will present an opportunity to view the claims of the socioemotional wealth construct from another perspective where the elements of the FIBER model can be studied empirically. For instance, the family firm literature on cooperation shows that family firms are more likely to cooperate with other family firms because of the similarity of goals and governance logic, but the literature on M&A suggests that acquisitions often take place on the basis of ‘complementarity’ (which is different from similarity). Therefore, it will be interesting to take an in-depth look at the why and how of family firms that engage in M&A. A related question to explore from the socioemotional wealth perspective is how family firm owners come to the decision to sell their firm, how a potential buyer is identified, and whether a family’s socioemotional wealth in the firm ends, like their financial wealth, when a business is dissolved or sold in M&A, or if the socioemotional wealth of the family persists even after the sale of their family business. These issues can be more effectively studied using in-depth qualitative methods that will enable the researcher to understand this complex phenomenon from the perspective of family firm principals.

It will also be interesting to look at how external networks (personal and organisational social capital) are transferred from an acquired family firm to the acquiring firm in M&A operations. There are a few studies on acquisitive growth in which ‘outside resources’ and ‘connections to outsider competencies’ are mentioned (Gilbert, McDougall, & Audretsch, 2006; Lockett, Wiklund, Davidsson, & Girma, 2011), but the particular nature of these external connections and whether they are transferred or not as a result of M&A have not been studied. This

question of transfer is very interesting in the family business context because the family principal's social capital often overlaps with the organisational capital of the firm (Anderson, Jack, & Dodd, 2005; Pérez, 2007), which means that the removal of a family principal may affect his/her personal networks in the business, which may then relate to their socioemotional wealth.

The above examples show how the socioemotional wealth construct can be used to expand family business research but also how the family business context can be used to further develop this construct. However, researchers should also aim to contribute to the general management literature through the use of the socioemotional wealth construct to explore phenomena unique to the family business context. To make contributions to the general management literature, it is important to juxtapose and integrate the socioemotional wealth construct with the existing concepts, models and theories. To give a specific example, one theoretical perspective that researchers may integrate with the socioemotional wealth perspective is the paradox and duality theories (Lewis, 2000; Smith & Lewis, 2011; Sundaramurthy & Lewis, 2003). It is clear from the socioemotional wealth construct that the non-financial goals of the family business are considered only as a higher order reference point, which means that the family principal's reference point (and thus the priority of the family business) may shift between socioemotional wealth preservation and achieving better financial results (Berrone et al., 2012). There is therefore an apparent paradoxical tension between the financial goals and non-financial goals of the family firm. Family business scholars have already indicated that some family businesses are more oriented towards financial goals, while others lean more towards non-financial goals, and some pursue both financial and non-financial goals ambidextrously and yet others appear to have no clear strategy for managing this paradoxical tension (Sharma, 2004; Sharma, Blunden, Labaki, Michael-Tsabari, & Algarin, 2013; Ward, 1987).

The process of managing this financial-non-financial goal paradox, however, remains a black box in the current literature. Adopting a paradox or duality theory perspective on the management of this tension will therefore make a very important contribution to the family business literature. A number of scholars who share this view have made recent calls for scholars to adopt a paradox perspective for the study of family business phenomena (Schuman, Stutz, & Ward, 2010; Zellweger, 2014). Zellweger (2014), for instance, proposes a set of measures for assessing the relative importance of financial goals and non-financial goals in family firms, which can help to explore heterogeneity in family businesses' goal orientation. However, more qualitative studies are needed to reveal the dynamism involved in managing these dual goals by exploring questions, such as what factors trigger shifts between the financial and non-financial goals of family firms? What are the consequences of stressing one goal over the other? Is there an optimum threshold at which family firms can balance both goals or do these firms need to shift their goal orientations under different circumstances?

There are other paradoxical tensions in family businesses that may be related to the financial-non-financial tension in family firms. For instance, the opposing elements of financial vs. non-financial goals may be intertwined with the collaboration-control tensions in family firms. Collaboration-control tension is the conflict between the desire to maintain control over the business, on the one hand, and the need to collaborate with other firms for synergistic benefits on the other. Because the family needs to maintain control over the firm to pursue its non-financial interests, family firms that are more oriented towards non-financial goals are more likely to have higher collaboration-control tension than family firms for which non-financial interest is less important. Although the paradox/duality theory has some propositions for the management of paradoxical tensions in organisations, they have not been tested on the type of paradoxes present in the family business context. The application of this theoretical

perspective will therefore provide a valuable contribution not only to the family business field but also to the general management field.

7. Conclusion

The pursuit of non-financial goals (aside from financial goals) by family firms is one of the dominant factors that distinguishes family firms from non-family firms. The implication of this pursuit is that the risk behaviour of family firms may vary from that of non-family firms. This chapter contributes to the literature on managerial/organisational risk taking by providing an extensive discussion of behavioural agency theory, which explains and predicts managerial risk taking using assumptions mostly founded in a non-family business setting. Further, this chapter explains how this theory has been adapted to develop the socioemotional wealth construct, which is more applicable to the understanding of the risk behaviour of family firms. This chapter then gives an overview of how these two theoretical perspectives have been used in prior research and identifies some limitations in previous studies, which create opportunities for further studies. Finally, the chapter proposes a number of directions for future research on how both the behavioural agency theory and the socioemotional wealth construct can be used in further studies to contribute to the family business literature as well as the general management literature.

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Table 5.1: Definition of key terms of the Behavioral Agency Model

Term	Definition
Risk taking	Making resource commitments before the relationship between these commitments and their potential performance outcomes are fully understood
Problem framing	Framing a choice situation as a potential loss or a potential gain relative to some reference point, such as current wealth or aspirations for wealth
Gain context	Anticipating a return in excess of one's reference for gauging acceptability
Loss context	Anticipating a return below one's reference for gauging acceptability
Reference point (or aspiration)	Performance or wealth goals used in judging the acceptability of alternatives
Risk aversion	Preference for lower-risk options at the expense of returns
Risk bearing	Perceived risk to agent wealth that can result from employment risks or other threats to agent wealth
Loss aversion	Preferring options that avoid losses altogether over options that limit the size of the loss
Mixed gambles	A decision situation that has the potential to produce both gain and loss outcomes

Source: Based on Lim, Lubatkin and Wiseman (2010)

Table 5:2: Overview of behavioral agency theory vs. socioemotional wealth construct

Concept	Behavioral agency theory	Socioemotional wealth construct
Reference point	Decision reference point is current personal wealth of the agent	Decision reference point is the socioemotional wealth of the family
Loss aversion	Defined as the avoidance of loss of current economic wealth of the agent	Defined as the avoidance of loss of socioemotional wealth of the family
Varied risk preference	Agents may be risk averse or risk seeking in order to protect their personal wealth business	Family principals may be risk averse or risk seeking in order to protect their socioemotional wealth in the family business
Mixed gamble	A decision situation that has the potential to generate both gain and loss outcomes to the agent's wealth	Socioemotional mixed gamble occurs when a particular decision can both potentially enhance and diminish SEW

Table 5.3: Review the SEW construct in Family Business Research

Author(s)	Purpose	Methodology	Main findings/conclusions
Berrone et al., (2010)	To compares the environmental performance of family and nonfamily public corporations between 1998 and 2002	Regression analysis. Sample: 194 U.S. firms	Family-controlled public firms protect their socioemotional wealth by having a better environmental performance than their nonfamily counterparts, particularly at the local level.
Miller, et al., (2013),	To explain how the pursuit of SEW in family firms motivates institutional conformity	Regression analysis. Sample: Fortune 1000 firms	Family firm have greater motivation to conform many aspects of their strategy to institutional demands than non-family firms
Cruz, et al. (2011)	To explain family firms' adoption HR practices from a SEW perspective	Conceptual paper	Family firms tailor their HR practices to attract a team of workers who are motivated to work towards the preservation of the SEW in addition to financial performance
Cruz, et al., (2012),	To explore whether family employment enhance MSEs performance from a SEW and family embeddedness perspectives	Regression analysis. Sample: 392 small and micro firms from the Dominican Republic	Employing family members increases sales but decreases profitability as measured by ROA in family owned medium and small enterprises
Cennamo, et al., (2012).	To explain why family firms are more likely to engage actively with their stakeholders than non-family firms	Conceptual paper	Family principals are more likely to favor normative (and proactive) stakeholder engagement strategies because this will generate SEW for the family.
Kellermanns, et al., (2012)	To discuss the negative effect of SEW on stakeholder engagement	Conceptual paper	SEW may drive family principals into self-serving behaviors at the expense of the business and other stakeholders
Stockmans et al., (2010)	To find out how SEW affects earnings management in Private Family Firms	Regression analysis. Sample: 132 family firms in different industries	First-generation and founder-led private family firms have higher incentive to engage in upward earnings management because their high SEW.
Zellweger, & Dehlen, (2012)	To explains the formation of socioemotional wealth perceptions among family firm owners	Conceptual paper	Family firm owners would only be willing to part with their ownership stakes in the business if they receive compensation that commensurate with their perceived loss of SEW
Zellweger, et al., (2012)	To study how family control influences the valuation of family firm	Regression analysis. Sample: Family firms from Switzerland, 40 and Germany, 23	The valuation of family firm increases with the intention transgenerational transfer of the firm because of socioemotional wealth.

Block, et al., (2013)	To find out the economic and technological importance of innovations in large family and founder firms	Regression analysis. Sample: Patent data on 248 firms from different countries	Family-managed firms receive fewer patent citations compared with other firms, because they focus more on the pursuit of socioemotional wealth for the family
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