Problematizing Socioemotional Wealth as Dominant Paradigm in Family Firm Research

Introduction

The socioemotional wealth (SEW) concept asserts the claim to advance an independent paradigmatic basis for family firm research. In order to answer such a claim, the concept must present coherent assumptions on various theoretical levels. Therefore, this paper examines these claims made by the advocates of the SEW concept by reference to problematization methodology. The results of the problematization clearly show that the concept is applied on a narrow and superficial theoretical level (in-house assumptions), whereas more in-depth theoretical levels (e.g. paradigmatic assumptions) are not or not sufficiently considered, consequently leading to problems of coherence. The results of the problematization provide the basis for a coherent further development of the SEW concept.

SEW Concept: A Brief Overview

Beginning with an empirical investigation of strategic choices made by Spanish olive oil mills (Gomez-Mejia et al. 2007), which showed that family-controlled mills were three times less likely to join a cooperative (a rather lucrative option) than the non-family-controlled mills, the inconsistent risk behaviour (risk-willing and risk-averse at the same time) of family firms was explained by their aim: avoiding the loss of SEW. This behaviour cannot be explained by principal-agent theory (Wiseman and Gomez-Mejia 1998) because this proceeds from the belief that agents have stable risk preferences. In order to solve this difficulty, it is necessary to have recourse to behavioural agency theory or rather the behavioural agency model (BAM; Wiseman and Gomez-Mejia 1998). A central assumption of the BAM is that "firms make choices depending on the reference point of the firm's dominant principals" (Berrone et al. 2012, p. 259). It integrates viewpoints from agency

theory, prospect theory and behavioural theory of the firm, and aims to explain managerial risk-taking that is situationally determined.

Problematization Methodology

The viability of an SEW-based explanation of family firms' choice behaviour, however, requires a comprehensive analysis and reflection of the theoretical foundations of SEW, for which the problematization methodology of Alvesson and Sandberg (2011) is particularly well suited. In fact, in line with Alvesson, Hardy, and Harley (2008), whenever a "new paradigm" enters the field, it is essential to examine fundamental assumptions associated with the development of paradigms and related levels of assumptions.

Problematization methodology is based on answering two key questions regarding assumptions of theories: (1) What types of assumption are relevant? (2) How can these assumptions be identified, articulated and challenged? With regard to question 1, five types of assumption are differentiated:

types of assumption	definition
field assumption	assumptions about a specific subject matter that are shared across different theoretical schools
ideology assumption	political-, moral-, and gender-related assumptions underlying existing literature
paradigmatic assumption	ontological, epistemological, and methodological assumptions underlying existing literature
root metaphor assumption	broader images of a particular subject matter underlying existing literature
in-house assumption	assumptions that exist within a specific school of thought

Regarding question 2, the process of problematization is conducted in six steps according to Alvesson and Sandberg (2011, p. 256): (1) identifying a domain of literature for assumption-challenging investigations, (2) identifying and articulating assumptions underlying the chosen domain of literature, (3) evaluating articulated assumptions, (4) developing an alternative assumption ground, (5) considering assumptions in relation to the audience, (6) evaluating the alternative assumption ground.

Problematization: Step 1 – Identifying a Domain of Literature

With a view to SEW, two papers in particular raise a fundamental claim: Berrone, P., Cruz, C., and Gomez-Mejia, L. R. (2012). "Socioemotional wealth in family firms: Theoretical dimensions, assessment approaches, and agenda for future research," Family Business Review 25(3), 258-279, and Gomez-Mejia, L. R., Cruz, C., Berrone, P., and De Castro, J. (2011). "The bind that ties: Socioemotional wealth preservation in family firms," Academy of Management Annals 5(1), 653-707. In the course of considering these two works for their applicability as key literature, significant differences became apparent: according to the authors, the latter article, Gomez-Mejia et al. (2011), presents a research programme for family firms from the perspective of SEW that integrates large parts of the whole of family firm research. The paper by Berrone et al. (2012, p. 258) aims to establish SEW as a "potential dominant paradigm in the family business field" and hence dispose of a concept that is "the most important differentiator of the family firm as a unique entity". This work explicitly pursues the aim of addressing various theoretical levels of SEW. Furthermore, it also strives to operationalize SEW to initiate the creation of an empirical basis for the research programme presented in the paper. As a result, this work is best suited to problematization as this methodology differentiates between different levels of assumption.

Problematization: Steps 2 & 3 – Identifying and Articulating Assumptions Underlying the Chosen Domain of Literature and Evaluating Articulated Assumptions

In-house Assumptions

The challenging of in-house assumptions implies an attempt via SEW to establish a family firm-specific form of "rationality" in which it can explain any discrepancies from purely economic rationality. This suggests that all organizations without family influence make purely economic rational decisions – otherwise SEW could not be raised as a criterion for demarcation. However, elaborated theoretical approaches to choice behaviour in organizations that address their social complexity cast considerable doubt on these assumptions. Based on the idea that these theories see economic rationality as an exception (Luhmann 2000), the applicability of SEW is severely limited and therefore cannot fulfil its claim to be a comprehensive paradigm. Moreover, it is obvious that non-family firms also create socioemotional endowment among their shareholders, which they try to maintain by influencing company decisions (e.g. O'Rourke 2003; Glac 2014).

Root Metaphor Assumptions

The evaluation yields the following critical interpretations. The theoretical foundation of SEW considerations is provided by BAM (Wiseman and Gomez-Mejia 1998) and hence prospect theory (Kahneman and Tversky 1979) and agency theory (Jensen and Meckling 1976). Whereas agency theory and prospect theory reason on the basis of methodological individualism, the behavioural theory of the firm (Cyert and March 1992) foregrounds social aspects of choice behaviour. The eclectic merging of various theories on the level of in-house assumptions (Berrone et al. 2012, p. 265) necessitates reflection on underlying theoretical levels in order to extrapolate a coherent statement structure that can be deduced from a paradigmatic standpoint.

Berrone et al. (2012) point to the fact that families make decisions that are not based on economic logic in order to safeguard SEW – even if these decisions jeopardize the economic success of the company. This begs the question on the root metaphor level of how the interplay of social units and individuals is conceptualized in the understanding of SEW. Who makes SEW-driven decisions, i.e. how do decisions arise in the interplay of family, family members and principals? Changing between family and family members or rather principals (Berrone et al. 2012) and the preferred reference to family members among the FIBER items leads to the assumption that no clearly contrived differentiation is made between the social unit of the family and the individual reference points of family members or rather principals. SEW admittedly makes reference to social entities ("collective family identity"), yet it remains unclear how these are defined.

Furthermore, the challenge on the root metaphor level suggests that an organizational understanding that is shaped by BAM is implied on the part of the company. An organizational understanding of this kind – in our view mechanistic – is also revealed in the assumption that the family obtains its stock of affect-related value from its position of power. However, this implies that the family can and wants to control the organization. If non-mechanistic organizational understandings are pursued, it becomes apparent that legitimate power does not reflect the actual choice behaviours (Luhmann 2000). In this sense, hierarchical power (e.g. CEO, TMT members) is often not sufficient to actually influence the organization. Moreover, on the part of the family the internal social fabric remains unclear, which is manifest in the fact that the interaction between the principals or rather between the family members is not conceptualized. An individualistic viewpoint of this kind, which disregards the effect of social units – particularly the emerging qualities – on choice behaviour, is very strongly criticized in sections of management theory (Hatch and Yanow 2003). Additionally, it should be noted that the influence of the company on the family in the sense of enterpriseness (Frank et al. 2010) can assume many shapes and forms and SEW

therefore only represents one scope of influence. Furthermore, the influence of the organization on the principals is ignored. Further, it is not likely that *all* family owners dispose of the intrinsic motivation to maintain SEW (Miller and Le Breton-Miller 2014). Above all, it should not be assumed that all family members identify with the family firm to the same degree when its size and differentiation increases (e.g. family branches). This results in the question as to how an understanding of SEW can emerge that is held by all and that can strongly influence decisions. The understanding of SEW held by Berrone et al. (2012) rather suggests the interpretation that personal values dominate choice behaviour. In this the logic of BAM becomes apparent: the organization as institution is constituted by formal contracts. In contrast, family is driven by emotions, so that explicit rules in the form of formal contracts do not take effect. This should be questioned insomuch as family cannot only be seen as a cluster of emotionally driven decisions since formal contracts are by all means able to influence choice behaviour in the family.

Paradigmatic Assumptions

The evaluation reveals the following critical interpretations. The text by Berrone et al. (2012) implies a quantitative-nomothetic methodology combined with a positivistic epistemological attitude (Burrell and Morgan 1979). This epistemological position is connected to an ontological position of realism. In the literature it is discussed (von Schlippe and Frank 2013; Frank et al. 2010) whether complex social realities like families and hence family businesses, in which emotions play a significant role – with Berrone et al. (2012, p. 263) stating "By their own nature, families are characterized by a wide range of emotions […]" – can be considered theoretically on the basis of such a paradigmatic position. Positivistic-mechanistic approaches are well suited to explaining scientific-physical realities – social realities, however, can only be depicted insufficiently with such approaches: "Unfortunately, as philosophy of science makes clear, it is an error to pretend that the

methods of the physical sciences can be indiscriminately applied to business studies because such a pretension ignores some fundamental differences that exist between the different academic disciplines" (Goshal 2005, p. 77; see also Hatch and Yanow 2003, p. 65).

A further point of criticism is analogous to the previously mentioned criticism in the section on in-house assumptions with reference to the FIBER dimensions: the selection and justification of the applicability of the sources used to identify SEW variables. It is surprising that a content analysis of statements made by publicly owned family firms and publicly owned non-family firms was conducted despite the category of publicly owned companies representing only a small subset of the family firm category. Due to legal regulations, publicly owned family firms act in a specific context and experience a different level of attention than privately held family businesses, meaning that reputation etc. might be of greater importance for the former than for the latter. It is therefore doubtful whether the results of the content analysis can be applied to the majority of small and medium-sized family firms that are not publicly owned.

The evaluation of the recommendations to ascertain the relationship between the SEW dimensions and how they influence decision-making processes (Berrone et al. 2012, p. 269) results in the following critical interpretations. The pattern evidenced above is repeated, by which methods are suggested without their paradigmatic assumptions being disclosed on an ontological and epistemological level. It seems to be symptomatic that in the analysis of these levels only methodological aspects can be discovered, and yet no indications of the ontological or epistemological positions can be discerned. This deserves criticism insomuch as the interpretations of the statements on the in-house level are dependent upon the selected positions on the underlying theoretical levels (root metaphor and paradigmatic assumptions). If one were to use, for example, the assumption of emergent social entities on the root metaphor level (Luhmann 2000), statements about collective phenomena of reality on the in-house level must be interpreted differently than would be the case with a simple mechanistic

understanding that is often linked to a methodological individualism. “Pure theories” explicate their paradigmatic and root metaphor assumptions.

Ideological Assumptions

Interpretations on the level of ideological assumptions show that an attempt is made with SEW to describe realities without striving to change them. However, value-loaded notions seem to underlie some statements. Hence, SEW appears to be connected to positively charged values such as strong identification of the family principals with the firm. Implicitly, that begs the question whether it is/should be the aim of family firms to maximize SEW. The only point of criticism in this context would be if the judgemental position that it is good to maximize SEW is not disclosed but instead applied without being disclosed. Generally, Berrone et al. (2012) give the not surprising impression of holding a descriptive ideological position, in which the positivistic nomothetic paradigms are inherent (Burrell and Morgan 1979).

Field Assumptions

It is assumed that an explicit difference between family firms and non-family firms is an established fact. It is assumed that this difference consists in the *ambition* of family firms, which is influenced by the *family’s time-dependent values*. This assumption may be naïve since not all families pursue the aim of enshrining their family values in their company, and on the other hand not all family firms admit the opportunity of influencing structures. This argumentation assumes a direct access possibility of the family over the top management in the organization that was already criticized in the section on root metaphor assumptions. This is associated with a mechanistic understanding of organizations. Such an understanding excludes family firms with organic, systemic, etc. organization designs.

Furthermore, it is assumed that all *family firms* can be described *comprehensively and in a differentiating way by reference to SEW*. The way SEW is conceptualized, it should be located on the level of in-house assumptions. For this reason, it should not be expected that it is a wide-ranging theory that can fulfil the self-posed paradigmatic claim in the field.

Conclusion

The results of the problematization show convincingly that the SEW concept in the version discussed (Berrone et al. 2012) cannot yet fulfil the self-posed claim to a new and home-grown paradigm of family firm research. Moreover, it is apparent that the positivistic mechanistic approach does not feature sufficient complexity to adequately describe the social relationships in families and their influence on the company. On the basis of the problematization results presented, a redevelopment is consequently recommended which is founded on the more recent system theory that is coherent on all of the various levels of analysis (Luhmann 1995, 2000).

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