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The Psychological Foundations of Management in Family Firms: Emotions, Memories, and Experiences

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Abstract

Exploring the psychological foundations of management in family firms is necessary to understand why they formulate and implement strategies differently from nonfamily firms, and why and how family firm behavior varies across different family firms. Picone et al. (2021. The psychological foundations of management in family firms: Values, biases, and heuristics. *Family Business Review*, *34*(1), 12-32) have proposed a conceptual framework for the psychological foundations of management in family business, examining how the values, biases, and heuristics of family firm members affect strategic decision-making and family firm outcomes. Drawing on this framework, we examine emotions, memories, and experiences in family firms, disentangling "what we know" from "what we should know", and offering some relevant questions to advance the field.

Keywords

family business, emotions, memories, experiences, psychological foundations, decision-making

In the last decade, growing attention has been paid to the psychological foundations in strategic management (Levinthal, 2011; Powell Lovallo, & Fox, 2011), entrepreneurship (Frese & Gielnik, 2014; Gorgievski & Stephan, 2016; Zhang & Cueto, 2017), and family business research (Gagné, Sharma, & De Massis, 2014; Jiang, Kellermanns, Munyon, & Morris, 2018; Pieper, 2010). A simple word search of "psychology" on the *Family Business Review* website returns 51 articles published from 2010 to 2014, while in the subsequent five years (2015–2019), the number rose to 64, an increase of about 25%. The interplay between family and business dynamics is probably the most critical driver of scholarly attention to psychology in family business (Chua, Chrisman, & Sharma, 1999; Litz, 2008). Given the coexistence of family and business dynamics in family-run firms, the psychological foundations of management could advance our understanding of the differences between family and nonfamily firms as well as of family firm heterogeneity (Chua, Chrisman, Steier, & Rau, 2012; Jaskiewicz & Dyer, 2017).

Heeding this call, Picone, De Massis, Tang and Piccolo (2021) built a conceptual framework linking the psychological foundations of management in family business, strategic decision-making, and firm performance. The first issue of the *Family Business Review* special issue discusses some of Picone et al.'s (2021) key constructs: decision comprehensiveness (Carr, Vardaman, Marler, McLarty, & Blettner, 2020), values (Ruf, Graffius, Wolff, Moog, & Felden, 2020), overconfidence (Dick, Wagner, & Pernsteiner, 2020), and Machiavellism (Chandler, Petrenko, Hill, & Hayes, 2020).

Drawing on Picone et al.'s (2021) conceptual framework in Figure 1 below, we examine emotions, memories, and experiences in family firms to map the articles

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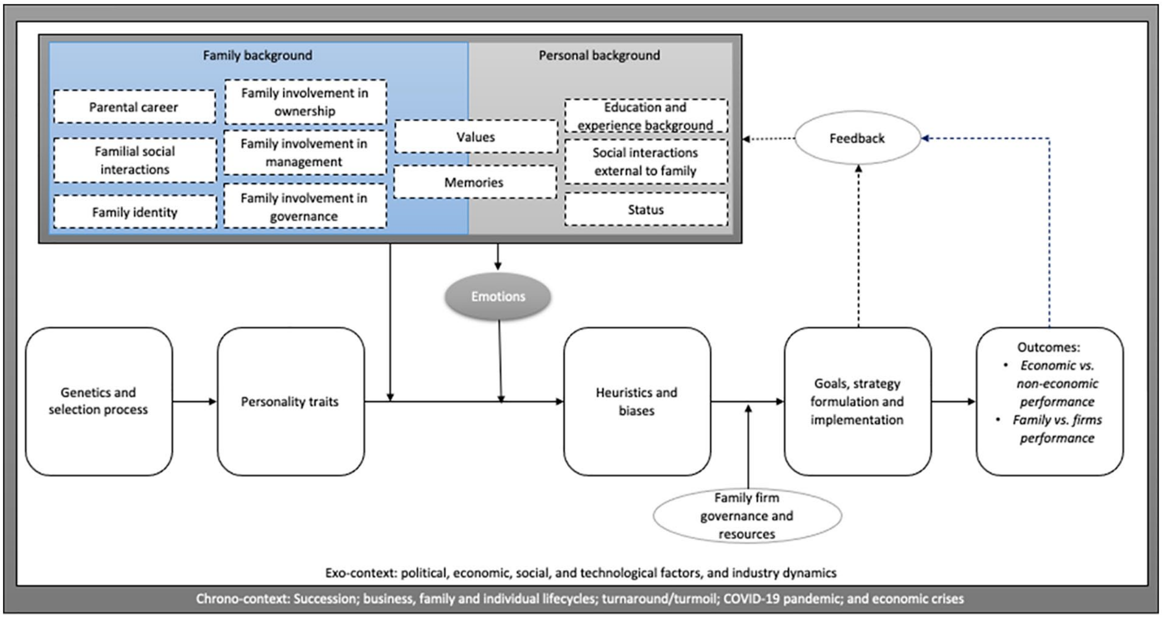

Figure 1. Picone et al.'s (2021) framework for the psychological foundations of management in family business.

published in this second special issue on the psychological foundations of management in family firms. We then disentangle "what we should know" about emotions, memories, and experiences in family firms, and offer some suggestions to advance the family business field.

Emotions in Family Firms

Contrary to the notion that emotions interfere with administrative rationality, management scholars have long recognized that emotions can play a powerful and positive role in organizational life (Ashforth & Humphrey, 1995). Emotional attachments can fuel loyalty, trust, and organizational commitment (Ashforth & Humphrey, 1995). Emotions are particularly important in family firms (De Massis & Foss, 2018). Indeed, De Massis, Chua, and Chrisman (2008, p. 192, italics added) argue, "decision making in family businesses is not always rational owing to *emotional* attachments to the business and *altruistic tendencies* toward family members".

In addition, studies on financial performance have found that family firms outperform their non-family counterparts (McConaughy, Walker, Henderson, & Mishra, 1998; Wagner Block, Miller, Schwens, & Xi, 2015). Why is this? One reason may be that family firms are better at creating affective commitment, a form of commitment largely influenced by emotional reactions at work. As Azoury, Daou, and Sleiaty (2013) argue, the greater affective commitment in family firms leads to higher levels of engagement, in turn leading to higher firm performance. However, in their recent study, Bormann, Backs, and Hoon (2020) note that affective commitment is not correlated with firm status (family vs. non-family). Bormann et al. (2020, p. 4) assert that "family firms also provide a particularly fertile ground for (differing) emotional reactions in everyday work because of stronger personal relationships, kinship ties, and less formal structures (Shepherd, 2016)". In other words, due to the more intense emotions experienced in family firms, employees in these firms may experience either strong positive or strong negative emotions. Further, Bormann et al. (2020) find that non-family employee positive affect is positively correlated with affective commitment and prosocial organizational citizenship behavior, whereas negative affect is negatively correlated with affective commitment and prosocial organizational citizenship behavior, and that this does not vary by family vs. non-family firm status.

Bormann et al.'s (2020) study is consistent with the literature on leadership and emotions. The workplace can be filled with problems and frustrating events that lead to negative emotions, and effective leaders help their followers transform these negative feelings into positive feelings of confidence and optimism (Humphrey, 2002). Indeed, research consistently finds that positive emotions lead to higher levels of performance, and according to Judge and Kammeyer-Muellar (2008, p. 144), research "nearly universally suggests that positive mood states improve performance". According to Humphrey, leaders create positive mood states through empathic and emotionally intelligent leadership (Humphrey, 2002). Adopting a compatible theoretical approach, Bormann et al. (2020) argue that effective family business leaders create positive moods by promoting a stewardship culture that enhances employee trust, commitment, and prosocial motivation. Their results indicate that a stewardship culture is positively related to employee positive affect and organizational citizenship behavior, and negatively related to negative affect. They also find an interaction between stewardship culture and firm type, leading them to conclude that a stewardship culture is even more important in family firms.

In his influential essay, Shepherd (2016) lists "emotional reactions to failure" and "emotional responses to others' suffering" among the emotions that play a key role in family businesses and entrepreneurship. While leaders may have the same emotional reactions to failure as their followers, these reactions are likely to be even stronger in family businesses due to the greater emotional and financial investments of family business leaders. Under difficult circumstances, family business leaders may have to use deep acting techniques to summon the confidence and optimism they want to portray to their followers (Humphrey, Pollack, & Hawver, 2008). In addition, they may need to use natural and genuine emotional labor techniques to express empathy and support to their workers. Through expressing empathy, family business leaders can create a two-way interactive empathic bond that they can use to guide followers toward feeling confidence, optimism, and more productive positive emotions.

Creating positive feelings among family business leaders and employees is also important given that positive emotions improve decision-making. According to the "broaden-and-build" decision-making model, "positive emotions broaden the scope of attention and thought-action repertoires" (Fredrickson & Branigan, 2005, p. 313). The greater scope of attention allows decision-makers to consider a wider range of alternatives, leading to more innovative and creative outcomes. In addition, positive emotions increase the resources available to people, including intellectual, psychological, and social resources. Fredrickson (2000, p. 131) argues that the effects of positive emotions are particularly important in organizations, "Because an individual's experiences of positive emotions can reverberate in other members of an organization and across interpersonal transactions with customers, positive emotions fuel optimal organizational functioning, helping organizations to thrive and prosper". As interpersonal relationships are often closer, stronger, and more intense in family businesses (De Massis, Eddleston & Rovelli, 2021), these emotional reverberations may be particularly important in family businesses and may have a powerful influence on decisions.

Picone et al.'s (2021) model in Figure 1 also highlights the key role that traits play in family businesses. One trait that has been shown to be important across a wide range of business outcomes is emotional intelligence. Although emotional intelligence is defined in different ways, all the definitions emphasize the ability to perceive and manage emotions and to use emotions to reason effectively. Meta-analyses confirm that the emotional intelligence of leaders is positively related to subordinates' job satisfaction, task performance, and organizational citizenship behavior (Miao, Humphrey, & Qian, 2016, 2018a). Emotionally intelligent leaders are more likely to be authentic leaders (Miao, Humphrey, & Qian, 2018b). Employee emotional intelligence is positively related to individual job performance, organizational citizenship behavior, service performance, job satisfaction, and organizational commitment, and negatively related to counterproductive work behavior and turnover intentions (Miao, Barone, Qian, & Humphrey, 2019; Miao, Humphrey, & Qian, 2017a; 2017b; O'Boyle, Humphrey, Pollack, Hawver, & Story, 2011).

Turning more specifically to entrepreneurship and family businesses, Humphrey (2013) developed nine propositions on the benefits of emotional intelligence and empathy for entrepreneurship, and these may apply equally to family businesses, or vice versa the family business context may reveal some distinctiveness. While some of these propositions have been confirmed by subsequent meta-analyses, others still need to be thoroughly tested. For example, Miao, Humphrey, Qian, and Pollack (2018c) found that emotional intelligence is positively related to entrepreneurial intentions, while Allen, Stevenson, O'Boyle, and Seibert (2020) convincingly demonstrate that emotional intelligence is the most important trait predictor of entrepreneurial success, even more so than cognitive ability or measures of the Big Five personality traits. Although no meta-analysis specifically considers emotional intelligence in family businesses, case studies on family businesses illustrate the many ways that emotional intelligence can benefit family firms (Betancourt, Botero, Ramirez, & Vergara, 2014; Boyatzis & Soler, 2012). Moreover, Shepherd (2009) has convincingly argued that emotional intelligence can help family business members cope with a variety of intense emotions, and can aid grief recovery from the loss of a family business.

Memories in Family Firms

Emotions are a key part of our memories and thought processes. As Finkelstein, Whitehead, and Campbell (2009) state, our decision-making processes are based on pattern recognition and emotional tags that are attached to our memories. We perceive the world by comparing our current experiences with past experiences using pattern recognition processes. These past experiences are tagged with emotions that reflect our feelings and judgments. Bad outcomes are tagged with negative emotions, positive events are tagged with positive emotions, whereas trivial events are given neutral emotions. These emotional tags serve as a guide to action and explain why our feelings can be an effective summary of our experiences in similar situations. When we have a bad gut feeling about a situation, it is often because our prior experiences in similar circumstances have turned out badly. Conversely, when we experience positive emotions, it is because our pattern recognition processes match the current situation to past experiences that have turned out well. Thus, listening to our emotions helps us summarize the knowledge encapsulated in our prior experiences.

Family firms may have an advantage in relying on pattern recognition and emotional tags to help them make decisions when the firm has been around for a considerable length of time. In this regard, Erdogan, Rondi, and De Massis (2020, p. 47) argue that "Family businesses can benefit from their ability to store knowledge, even if not relevant at that specific moment in time, and revive it when valuable". Multi-generational family firms can draw on their wealth of lived experiences to aid them in making decisions, handling crisis situations, and exploiting new opportunities. However, Finkelstein et al. (2009) find that pattern recognition can lead to disastrous outcomes if the present situation does not match prior patterns in significant ways. Thus, mistaken pattern recognition, coupled with strong emotional tags attached to prior experiences, can lead even experienced leaders to make serious mistakes. When important changes to the business environment render prior patterns of behavior obsolete, the next generation in the family business might be more open to new ways of doing things, and less hampered by out-of-date pattern recognition coupled with strong emotions. Nevertheless, Finkelstein et al. (2009) argue that long-time leaders can adapt to the changing world if they expose themselves to new experiences and thus form new recognition patterns.

Experiences in Family Firms

Morris, Allen, Kuratko, and Brannon (2010) and Morris, Kuratko, Schindehutte, and Spivack (2012) considerably expand the "experience" aspect of family businesses, entrepreneurship, and emotions. Morris et al. (2012, p. 12) reason that entrepreneurs experience "venture creation just as they do other dominant aspects of life, and that positive and negative affect are at the core of human experiencing". Drawing on affective events theory (Weiss & Cropanzano, 1996), they explore how events in entrepreneurs' lives (and by extension, family business leaders' lives) influence their business. In addition, Morris et al. (2012, p. 11) develop propositions "linking pre-venture experience, key events, experiential processing, learning, affective outcomes, and decision making", highlighting the important role that emotions and life events play in entrepreneurship and family businesses (Morris et al., 2010; see also Stanley, 2010).

The Articles in this Second Special Issue

The articles in this second special issue of *Family Business Review* exemplify some of the multiple advantages of investigating the psychological foundations of management in family firms, as conceptually discussed in the previous sections, and how this research contributes to understanding how family firms formulate strategies and achieve different performance outcomes compared to other firms (Powell et al., 2011). Drawing on Picone et al.'s (2021) conceptual framework, we focus on the context in which emotions appear and develop (Huy, 2012), and why and how psychological issues are crucial in molding family firms' strategic choices and governance dynamics (Bee & Neubaum, 2014; Pieper, 2010). Accordingly, we next present the five articles published in this special issue.

The first paper is by De Groote and Bertschi-Michel (2020). The starting point of this study is that the emphasis on socioemotional wealth in family businesses informs some of their idiosyncratic decisions, including the assessment of external collaborations (Berrone, Cruz, Gomez-Mejia, & Larraza-Kintana, 2010). The authors also consider the double effect of third-party advisory. First, third-party advisories make valuable managerial knowledge and administrative tools available. Second, they leverage their empathy to nourish family harmony and capture family business members' attention to distinctive circumstances and scenarios. This latter effect relates to an affective basis defined as "the internal processing of *emotions* related to subtle feelings" (De Groote and Bertschi-Michel, 2020, p. 1, italics added). They also offer empirical evidence that a trusting relationship is related to cognitive and affective appraisals that persistently interact.

The second paper is by Bernhard and Labaki (2020). This study enriches the debate on family business emotions by examining intergenerational moral emotions. Specifically, the authors focus on the experience of *guilt*, exploring how emotions impinge on family businesses' ethical intentions.

The third paper in this special issue draws attention to the family's role in shared stories (as a part of their memories), construing reality, and developing lines of reasoning. Indeed, Madison, Daspit, and Marett (2020) corroborate the notion that shared stories among family members impact the cognitive schema associated with the firm's innovation, affirming that, "shared knowledge perceptions among family and nonfamily employees positively affect the family firm's outcome of innovation" (p. 14).

The two last papers in this special issue focus on family business succession. They have the merit of showing that psychological issues are crucial in defining strategic and governance choices regarding succession in family firms. Lu, Kwan, and Zhu (2020) explore the relationship between CEO traditionality and the probability that a family member is chosen as successor. Arguably, this paper considers the moderating role of family members' identification and sense of dynasty in the aforementioned relation. They also show the role of two emotional factors in family firms' choice to hire non-family managers, remarking that this study is an effort to capture family firms' heterogeneity in *emotional capital* (Daspit, Chrisman, Sharma, Pearson, and Mahto, 2018).

Finally, Gagné, Marwick, Brun de Pontet, and Wrosch (2019, p. 10) show "how incumbent support to the successor relates to successor motivation, which likely influences the actual transfer of the business to the successor." Linking Gagné et al. (2019) to this editorial, we draw attention to the drivers of trust in a successor, such as integrity related to values, and ability related to experiences and educational background. Indeed, they find that "incumbent trust also had an indirect effect on succession outcome through successor perceptions of autonomy support and intrinsic motivation" (p. 8).

Research Agenda

Here we would like to outline an agenda to further pursue this line of research categorized into four broad family business research streams: 1) the new challenges in exploring emotions, memories, and experiences in family firms; 2) the inter-dynamics among emotions, memories, and experiences; 3) the positive vs. negative facets of emotions, memories, and experiences; and 4) the inter-generation succession of emotions, memories, and experiences. Below we elaborate on each and list some potential research questions.

New Challenges of Exploring Emotions, Memories, and Experiences in Family Firms

First, since in many industries the sustainability of competitive advantage tends to evaporate faster and faster (Dagnino, Picone, & Ferrigno, 2021), emotional intelligence is bound to play a central role in entrepreneurial success (Allen et al., 2020). Accordingly, more research on emotional intelligence in family firms is needed. For instance, we call for studies that explore whether the emotional ownership of family members downgrades or amplifies the potential effects of emotional intelligence.

Second, Burch, Batchelor, and Humphrey (2013) specifically apply the emotional labor concepts to family businesses and entrepreneurship, combining research on emotional labor with affective events theory (Weiss & Cropanzano, 1996) and the conceptual model of entrepreneurial experiencing (Morris et al., 2012). Although they develop eleven propositions based on emotional labor, affective events theory, and entrepreneurial experiencing, these still need to be thoroughly tested, especially with regard to family businesses.

Third, Capasso, Faraci, and Picone (2014) argue that family members' propensity to emphasize family features (such as memories and traditions) is interpreted by private equity as "low equity willingness". At the same time, Chrisman, Chua, De Massis, Frattini, and Wright

(2015) find that family businesses typically have a high innovation ability, which might be related to the "ability to store knowledge" over time (Erdogan et al., 2020). Accordingly, memories and traditions may be a driver of "equity worthiness". We therefore ask: What are the multiple roles of emotions, memories, and traditions in private equity deals?

Fourth, De Massis and Rondi (2020) argue that the Covid-19 pandemic has put considerable strain on the emotional wellbeing of family and non-family members, bringing tensions to the surface, engendering negative emotions (such as grief, frustration, anxiety, and fear), leading to the oscillation between positive and negative emotions, and the risk of undermining the rationality of thought of key decision-makers in the family firm. We thus see need for research that explores how processes and dynamics associated with emotions, memories and experiences are challenged by Covid-19 and its aftermath.

Inter-Dynamics among Emotions, Memories, and Experiences in Family Firms

Emotions, experiences, and memories exist among family members, and have a prominent effect on decision-making in family firms (De Massis & Foss, 2018). However, these three factors never function in isolation, as their effect on family firm decisions and outcomes might be interrelated and mutually dependent. For example, emotions may derive from certain experiences, and memories are also accompanied by emotions. Therefore, to understand the role of each of the three factors in family firm decisions and outcomes, we need to take a holistic view and consider their interactions. Below, we list some research questions that await further exploration.

- Will different types of experiences lead to a spectrum of emotions in family members? How do different types of experiences and emotions work together to influence the decision-making processes in family firms?
- Which types of experiences of family members will be encoded in the family firm's memory? How will these memories persist in affecting family members' decision-making?
- How and why do the emotions and inherited memories of family members interact to influence the family firm's decision-making process and outcomes?

Positive vs. Negative Facets of Emotions, Memories, and Experiences in Family Firms

Emotions, experiences, and memories in family firms may differ in form. The most salient aspect will be their valence, namely intrinsic attractiveness (positive valence) or averseness (negative valence). Some emotions, experiences, and memories are positive, while others are negative (Stanley, 2010). Interesting and important to examine is how emotions, experiences, and memories with different valences affect each other in the family firm context. For example, family members' positive valence emotions are evoked by their positive valence experiences, and will then be encoded in positive valence memories in family firms. Also meaningful to examine is how emotions, experiences, and memories with different valences lead to different decisions of family members, and consequently, the outcomes for family firms. We list the following research questions that await further exploration.

- What are the processes through which successful/unsuccessful experiences take place in family firms?
- What do positive or negative emotions imply for family members? How do family members respond to their own and other family members' emotions?
- Do prior successful/unsuccessful experiences generate positive/negative emotions for family members? How will these positive/negative emotions influence the decision-making processes within family firms?
- Through which processes are successful/unsuccessful experiences encoded in the memories of family firms? How do positive or negative emotions intervene in these processes?

Inter-Generation Succession of Emotions, Memories, and Experiences in Family Firms

Inter-generation succession is a major theme in family business research, with important implications for family firms (Barach & Ganitsky, 1995). Generally, family firm founders seek to maintain the socioemotional wealth of their businesses through the smooth and effective succession from older to younger generations. In this process, the emotions, memories, and experiences of family members may play a crucial role (Bertschi-Michel, Kammerlander, & Strike, 2020), since it is not only leadership and decision powers that are passed on to the next generation, but also the emotions, memories, and experiences embedded in older generations. For example, one way to transfer memories is through storytelling, an important means to establish and sustain the organizational culture. Indeed, it is the family stories narrated across generations that make keeping the family business meaningful. Similarly, emotions may also be passed across generations, for instance, positive affect from fathers will make their kids more cheerful, and conversely, gloomy fathers may suppress any excitement among their offspring. All these effects may translate into effective succession and performance. We therefore list the following research questions for further exploration.

- How does succession trigger emotional reactions from both incumbents and successors?
- During succession, how can incumbents effectively transfer their successful experiences to successors while teaching successors to circumvent their unsuccessful experiences?
- What roles do storytelling or narratives play in transferring family memories across generations in family firms?
- How do family firms leverage the family's and/or the business' tradition to transmit emotions, experiences and memories across generations?

Conclusions

We have critically illustrated why and how emotions, memories, and experiences are critical antecedents of family firms' heterogeneity. The coexistence of family and business dynamics in family firms (Chua et al., 1999; Litz, 2008) suggests the need to explore the psychological foundations to understand the key "ingredients" of the family business decision-making process (Barney & Felin, 2013; De Massis & Foss, 2018). According to this reasoning, we have identified some relevant gaps in the literature.

We hope that the two issues of the *Family Business Review* special issue dedicated to the psychological foundations of management will enhance the current academic debate in the family business literature with a particular focus on family firm values, biases, heuristics, emotions, memories, and experiences. In combining the knowledge that the nine papers advance, this special issue contributes to managerial practice by calling attention to the idiosyncrasies of the decision-making process in family firms, the opportunity for specific organizational mechanisms, and the cognitive and emotional dimensions of the advisory role.

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