Socioemotional Wealth Across the Family Firm Life Cycle: A Commentary on “Family Business Survival and the Role of Boards”

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The differences among family firms can be as telling as their overall distinctiveness from other forms of enterprise. In order to advance and condition the arguments of Wilson, Wright, and Scholes, we employ a typology of family firm evolutionary development to illustrate how changes in patterns of family involvement in the business can influence several socioemotional wealth priorities and how these in turn can shape the board composition required to enhance firm survival. We conclude by arguing how public listing and environmental competitive circumstances can condition these relationships.

Introduction

Family firms are as varied a species of organization as their nonfamily counterparts, and so the differences among them are often as instructive as the general tendencies. This essay draws attention to some of those differences as they bear on the family firm characteristics studied by Wilson, Wright, and Scholes (2013), specifically board composition and firm survival. Our thesis is that differences in the stages of evolution of family firms and the nature of family involvement can influence the socioemotional wealth (SEW) priorities of owners and managers—those intended to address the socioemotional needs of the family via the business (Gómez-Mejía, Haynes, Nuñez-Nickel, Jacobson, & Moyano-Fuentes, 2007). These in turn can determine the board compositions that are most likely to enhance firm survival.

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Wilson et al. (2013) have excelled in describing some critical board characteristics and survival drivers of family firms, and their extensive sample does much to inform us of important differences between these firms and their nonfamily counterparts. This is all to the good as such differences reveal central tendencies in the nature of the family firm breed, its shortcomings, and its strengths. However, as we shall argue, differences in family involvement at different stages of the life cycle of a family firm may shape SEW priorities, which in turn can determine the types of boards that will facilitate survival.

**Stages of Evolution and Family Firm Characteristics**

As noted by Wilson et al. (2013), firm demographics—size, age, and industry—as well as board characteristics can influence firm survival. We shall propose that there is another major distinguishing characteristic of family firms—namely the nature of family participation in the business at the different stages of its evolutionary life cycle. Specifically, is the firm a founder owned and run business, is it owned and managed by multiple family members after the founder has left, or does it incorporate cousins and multiple generations from different branches of the family (Gersick, Davis, McCollum, & Lansberg, 1997)? We shall argue that each of these evolutionary stages has typical firm and family characteristics that influence the SEW priorities of family members owning and running a business.

According to Berrone, Cruz, and Gomez-Mejia (2012), SEW priorities include desire for family control and influence, identification of family members with the firm, preserving binding social ties among family members, emotional attachment of family members, and dynastic succession. We shall argue that these priorities can shape the opportunities and challenges facing a board, and thus the board composition needed to manage socioemotional and economic requirements, contribute to the business, and thereby enhance firm survival. In a final qualifying section of the paper, we also illustrate how public ownership and competitive conditions may condition SEW pursuits and board composition. As with all typologies, ours is hardly exhaustive, and there are apt to be important variations within each evolutionary stage and research sample. In fact, given their maturity, most of the firms of Wilson et al. (2013) will only be found in our two postfounder stages. Our expectations are summarized in Table 1.

**Family Founder Firms**

Family founder firms are usually dominated by an entrepreneur who has the ultimate success of the business as the primary objective and is preoccupied with procuring vital resources to ensure viability and growth (Gersick et al., 1997). Typically, founder firms are young and at least during the early years are subject to the liabilities of newness that beset new ventures—specifically, a lack of resources in the form of business contacts, reputation, established clientele, and ample financial reserves (Miller & Friesen, 1984; Scott, 1971).

One SEW priority of many founders is ensuring that the business survives to be passed on to later generations. That priority favors pursuing sound business practices over indulging short-term, family-centric whims. A founder typically holds the lion’s share of ownership and runs a firm for many years. S/he is thus is able to resolve family disputes and resist family pressures that could hurt the business. That ability is enhanced when founders embrace entrepreneurial identities, seeing themselves as business builders more than family patriarchs, fathers, or husbands (Miller, Le Breton-Miller, & Lester, 2013).
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<td>• Board members that may enhance firm survival</td>
<td>Suppliers of vital resources such as experts, suppliers, and other small entrepreneurs. Family members who bring their efforts at low costs.</td>
<td>Equitable family and gender representation to ensure fairness. Seniors may be useful as “chief emotional officers.” Directors from local community to help build the business.</td>
<td>Family representation balanced by high-status, “objective,” experienced members who are respected by different branches of the family, expert in the business, and useful sources of conflict resolution</td>
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Entrepreneurs typically have a strong emotional attachment to the firms they have built and to the parties, family and nonfamily alike, who have helped it survive and grow through the perilous years. What is more, the fact that founder-run businesses are generally first generation suggests that those family members who are involved will be members of a nuclear family—and those for whom affective kinship bonds are strongest. This augurs well for firm survival as motivated family members are willing to pitch in to help the business and serve as potentially useful board members. Conflict will be rare.

But there are negatives as well during this typically vulnerable stage—deficits that can be addressed by a suitable board. As many founder firms lack resources, survival can be enhanced by board members who, at low cost, supply assets that are critical to the company, such as legal, financial, and technical support. Some such resources may be provided by family members who bring forth their talents economically. Other potentially useful board members may come from the local community, where they can help a younger firm improve contacts with potential suppliers, new customers, and even local agencies. Still other useful board members may have experience in running successful local firms because they best understand the challenges facing the young firm (Wilson et al., 2013).

**Postfounder Family Firms**

By the time a founder has left, there are typically multiple family members, often siblings, involved in the business. Several of them may now own the firm, and usually one or more of them are involved as key administrators (Gersick et al., 1997). Moreover, the business generally has grown in size and advanced in years. Therefore, liabilities of newness have diminished and resources such as reputation, expertise, and capital have increased over the founding phase (Scott, 1971).

SEW considerations too may have evolved. Emotional attachment of a family to the firm and its desire to preserve ownership will likely remain high in the postfounder generation. After all, the founder has not sold the business to outsiders, and family members remain as owners and, given a dynastic succession, also managers. Where a nuclear family remains the dominant party, social bonds, too, may continue to be strong. However, any negative affect that emerges among family members may be more damaging than when a respected powerful founder remains in charge, as now it is possible for influential, battling siblings to impede the smooth functioning of the business (and even to threaten its survival). Moreover, some family members may identify and be involved with the firm more than others, and that can create conflicts between those wishing to grow the firm and others desiring handsome dividends. Indeed, debates about fairness and financial equity may arise as family managers and owners decide how to allocate revenues from the business based on relative contributions. Although having multiple family members in a firm may serve as an economical source of expertise, labor, and social and financial capital, their copresence and conflicting priorities may compromise the viable conduct of the business or at least erode its monetary returns (Gómez-Mejía et al., 2007; Le Breton-Miller, Miller, & Lester, 2011).1

In short, some SEW considerations may create dissension and have implications for the board structure needed to enhance survival. For example, to avoid conflict, it may be useful to have a significant fraction of family members on the board to satisfy

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1. One that is sometimes addressed by using business resources in the form of dividends, perquisites, and salaries to satisfy disgruntled family members (Schulze, Lubatkin, & Dino, 2003).
considerations of family equity and permit transparent monitoring. Also, more females may be invited onto the board as family membership becomes a critical criterion for preserving fair family representation. Moreover, in the absence of the founder, family matriarchs or patriarchs with deep insight into family actors and relationships may be appointed for their ability to reduce family tensions, preserve the vision of the founder, and resolve conflicts (Ward, 2004). The board also may benefit from local members who can connect the younger family managers and owners to important resources in the community. In fact, the presence of family members, females, and local members on the board have been shown by Wilson et al. (2013) to enhance firm survival—and that may be especially the case in these postfounder firms.

Cousin Consortia

As multiple generations and different branches of cousins enter the business, the governance of the firm becomes more complicated, and the possibility of conflicting agendas among family members increases still further. Moreover, most businesses that are cousin consortia are older, larger, and more complex than those we have discussed so far. Indeed, a business that can accommodate multiple generations and branches of a family tends to be of significant size and complexity (Miller & Friesen, 1984). The positives here are that a firm has achieved a certain scale and established a niche in the market; the negatives have to do with the complexity of governing the business and the wish of some family members to treat the firm as a personal resource (Gersick et al., 1997; Schulze et al., 2003).

Family social bonds, attachments to the business, and identification with the business all may begin to wane in the transition to cousin consortia. First, there are now members from different branches of the family who are not usually as socially integrated as those from a single nuclear family. That can open the door to conflict (Schulze et al., 2003). Moreover, as more parties become involved as mere owners but not managers of a business, the probabilities increase that at least some of them will not feel much attachment to the company or identify with it. They may see the business mainly as a means of financial support (Miller et al., 2013).

Thus, priorities may come to vary among family members, and that can be a source of friction. Schisms may arise as family owners with the business at heart must vie against those with parochial intentions for personal or family branch wealth, status, jobs, or financial security for the children. Involvement of too many family members with disparate agendas can derail a business from its commercial purpose, thwart consensus around strategic decisions, and jeopardize survival (Gómez-Mejía et al., 2007; Le Breton-Miller et al., 2011).

Clearly, this potential for family conflict and the added business complexity place important demands on a board. First, there is a need to have fair family branch representation on the board to enhance harmony and interest in the business. Excluding key owners may create dissension particularly given the diversity of these boards (Wilson et al., 2013). Moreover, given the potential for conflict, some board members will have to be especially qualified as mediators. Respected, “objective,” senior people with a strong record of business success and experience in serving other boards might be recruited, perhaps from outside the local community. Such “neutral,” high status members may be

2. Sometimes family harmony and business health are aided by hiring a nonfamily top executive, particularly where talent is lacking or there is friction between a competent family executive candidate and other family owners or board members.
most acceptable to family owners who have the well-being of the business at heart (Ward, 2004). These experienced experts may also be able to help the firm address the steeper administrative challenges of an increasingly complex business. Wilson et al. confirm that such senior and experienced board members with no past business failures can indeed enhance firm survival. Perhaps that is especially true in cousin consortia where the potential for conflict may be highest.

As firms grow larger and older, the family that owns them often becomes more visible in the community, and that puts some onus on them to comply with institutional pressures toward charitable giving and socially responsible behavior (Miller et al., 2013). Where such institutional responsiveness enhances survival, it may be useful to add prestigious members from the community to the board.

Qualifying Dimensions: Public Listing and Competitiveness

Needless to say, any typology based on ideal types or stages can only hope to give a flavor of common tendencies. There are important intervening factors that condition the characteristics and conduct of the stages we have described. Two such factors are public listing and the competitive environment. Publicly listed companies are subject to scrutiny that limits how much family owners can pursue SEW objectives at the expense of public shareholders. Listing also exerts pressure to include nonfamily members on the board, and those members that are more apt be chosen for expertise and to enhance firm legitimacy. Effective board structure also may be influenced by the competitive environment: industry rivalry, uncertainty in technology and demand, and resource shortages. Such challenges make it more harmful for parochial SEW concerns to dominate the board or the business.

Subsequent researchers might treat the typology of Table 1 as a source of hypotheses to guide their analysis of the evolution of SEW and its consequences for board composition and survival at different stages of the life cycles of family firms. This search for life cycle-related “configurations” might examine stage-related family involvement, conflict and dynamics, and family business priorities as these influence board composition, firm capabilities, and survival.

Conclusion

Certainly, our focus on ideal types entails an oversimplification and a juxtaposition of elements that is by no means inevitable. However, our life cycle characterization of family firms does make clear the variety of family involvements that, in part by shaping SEW priorities, can influence the board composition drivers of firm survival. Overlaying the dimensions of public listing and industry-competitive conditions helps to illustrate how the outcomes of our evolutionary stages may be conditioned by additional variables. Let the research begin.

REFERENCES


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