



*Research Article*

# The Power of Psychological Ownership in the Longevity of Family Businesses

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## **Abstract**

Family members' ownership stances in family businesses are critical in case of business longevity. Family members' business involvement in legal ownership rights has been addressed by previous studies and findings are rigid. Yet, themes behind family members' psychological ownership in the business are not adequately shown in the literature. Accordingly, this study focuses on understanding the role of psychological ownership of managers who have a kinship to owners, without having legal ownership rights to the business. Using psychological ownership theory as the theoretical lenses, the emerging themes determining manager's personal, family and business objectives were explored. Based on purposive sampling technique, twenty managers from twelve diverse family businesses were selected as respondents for interviews. In the data analysis, three main behavioural themes of managers in relation to longevity of the business emerged: 'business objectives focused', 'family objectives focused' and 'self-identity'. Results of the analysis indicated that managers from family without having legal ownership rights are exhibiting extra-role stewardship and task performance behaviours, which are important to the longevity of the business. Further, to fulfil family and business requirements, managers have shown the behaviour of 'benevolent leader' coordinating business, family and other stakeholders driving the business satisfying family and other partners in the short term. Self-identity as a co-worker of the business and recognition as a legal owner are identified as claims of managers from owning family without having ownership rights to the business. Practically, these findings encourage effective governance decisions of family businesses.

**Keywords:** family business, ownership right, manager, psychological ownership theory, Sri Lanka

## Introduction

Relationship, attachment and ownership consents to an artefact making the behaviour of an individual or group differ to their natural behaviour. The objective of being attached to phenomena depends on the objectives of the individual or group. It has been a common concern that people's behaviour in the case of relationships within businesses depend upon their interactions outside of the business (Hakansson, 1982). Where the attachment of an individual to a business is concerned, the physical or mental attachment between owners, managers and owner/managers are vital in achieving business objectives. Specifically, if the objectives of owners and managers are aligned and consistent with each other, they would result in less agency cost and the business would perform more effectively (Fama & Jensen, 1983). Family businesses would benefit from such an operation.

Family businesses are known to perform more effectively over non-family businesses in the short term and for suffering survival problems in the long term, these significant features make family businesses differ from their non-family counterpart. Scholars in this field believe that the long term performance inefficiencies of family businesses should be addressed in strategic, tactical and operational levels of the businesses' objectives and decisions (Kruppuge & Gregar, 2016). Where the outperformance in the short term is concerned, family involvement has been identified as one of the most influential factors (Hiebl, 2015). Family involvement in business ownership, governance and management are common in family run firms. At the same time, when family involvement is considered at the individual level, family members are literally performing as owners, managers, owner-managers, and as employees in non-managerial positions. In this categorization, owners are considered as family members who purely own the business and may not attend to management activities in the

business. Owner-managers have been categorized as family members who are involved in the business both in ownership and management. Generally, owner-managers get the legal ownership rights of the business through the kinship. Once the founder transfers the business to the next generation, multiple heirs would get equal ownership right creating multiple owners. Managers who are involved in the business without having any ownership rights can be treated as a special category of individuals. They serve the business mainly for a salary; however, they are highly bounded by kinship with the owners of the business.

Family involvement in the ownership, governance and management of a business is adequately conceptualized by scholars in this field who have reviewed both the benefits and drawbacks (Chrisman, Chua, et al., 2005; Dyer, 2006). However, studies have been very limited regarding the behavioural aspects of blood relatives involved in family businesses. Although one study by Pierce et al., (1991) confirms the loyal service from managers from family saying that 'those blood relatives who serve for family firms have shown higher psychological ownership'. One way managers without ownership rights are bound to the business is through their job, achieving financial objectives. In another way, they are bound by family relations to achieve family objectives through the business. As a result, these contrasting pressures from family and business are accumulated for these managers. At the same time, the business community and family members who are employees and stakeholders recognize these managers as key persons in the business. Accordingly, it can be assured that the behaviour of managers who do not have ownership rights would be significantly different from other family members who are involved in the business (De Alwis, 2016). Previous studies about family businesses have not addressed the issue of detailing the behaviour of these managers or any correlations between them and the long term failure of family

businesses. This research attempts to address this gap, it will endeavour to understand the behaviour of family business managers with a kinship to owners but without having legal ownership rights and it will examine how these managers envisage the long term survival of their business through their personal and family objectives. Accordingly, this study will explore two sub areas of the main objective: to understand the 'psychological ownership' of managers without legal ownership rights, and to review their behaviour. Further, this article has been arranged in four parts, namely study background, theoretical and literature review, methodology, results and discussion and conclusion.

## **Theoretical and Literature Review**

### ***Psychological Ownership Theory***

Ownership refers to a feeling that somebody owns something and it arises mainly because of the ability to control, the level of awareness and the self-investment in the object. Psychological ownership indicates a 'psychological state in which individuals feel that they own material or immaterial artefacts which are achieved through targets' (Pierce et al., 2001: p. 14–15). Mainly, it does not necessarily need to be owned legally. Psychological ownership theory (Etzioni, 1991; Pierce et al., 1991) which explains human behaviour regarding psychological ownership has emphasized several human motives assisting in creating psychological ownership. These include: efficacy, self-identity and privacy. Pierce et al., 2001 stated that when psychological ownership is in an organizational context that a project, an idea or the organization as a whole would be enough to analyze.

Psychological ownership theory has proposed four dimensions as the roots of the theory; Self-efficacy, accountability, belongingness, and self-identity (Pierce et al., 2001; Avey et al., 2009). Self-efficacy – the first dimension– is defined as the belief of people about a specific task or action which

can be completed and implemented successfully (Bandura, 1977). Control of an action is identified as the prime motive of efficacy because controlling an action brings the pleasure of owning something (Pierce et al., 2001). Accountability is seen as the second dimension and is an expectation of a person's justification about some one's views, feelings and behaviours. Two aspects, namely the expectation of others to be accountable and self-accountability towards others in the business have made psychological ownership (Pierce et al., 2001). In general, knowledge and information sharing among members of a firm would assist to create accountability. Belongingness, considered as the third dimension, has been defined as the feeling of owning something. When a business is concerned, individual or group feeling that they belong in a business is identified as belongingness (Avey et al., 2009). When employees have belongingness, they feel like owners and they become so attached thinking that they 'have a place' in the business. Self-identity is the last dimension of psychological ownership theory. Possession of anything symbolically reflects the self-identity of individuals. However, people use ownership to express their self-identity, to define themselves and to maintain their continuity in the community (Pierce et al., 2001). In addition to the four dimensions of this theory, there are three concepts which are identified as routes of the theory (Pierce et al., 2001). These three concepts (routes) mainly explain the way that employees of the business feel about the ownership. Controlling power of objects, knowing the objects precisely and investing time, physical & mental effort are named as routes of psychological ownership theory.

### ***Family business and family involvement***

Studies on family businesses have increased tremendously in almost all the countries during the last couple of decades. Yet, researchers in this field have not agreed upon one universally accepted definition for family business (Klein, Astrachan & Smyrniotis, 2005). In general, family

businesses have been identified as a different type of business which is partly or fully managed, governed and owned by blood relatives of a particular family. One significant feature of this kind of business is that at least one member of a founding family represents the strategic level decision making body of the business (Kellemarrens et al., 2012). However, almost all researchers agreed upon two concepts. Firstly, family businesses are not similar to each other in most of their aspects – even though they are identified as a separate type of business. Secondly, family firms would fit into two different descriptions ‘lifestyle’ or ‘enterprising’ based on the purpose of running the business (Chrisman, Chua, & Sharma, 2005; Chrisman, Chua, & Litz, 2003). While enterprising family businesses are running mainly behind profit or financial objectives, lifestyle family businesses have given priority for non-financial objectives or family objectives. However, family involvement is identified as a common feature in both enterprising and lifestyle family businesses.

Research studies in business have recently stated family involvement as a considerable factor in the case of organizational behaviour (Sharma, 2004). Researchers in family business generally agree that family involvement makes family business different to non-family business (Miller & Rice, 1983). However, family involvement describes the influence of members of the owner family in managerial decision making and operational activities in the functional areas of the business. This influence can be seen in business ownership, management and governance (Chrisman et al., 2003; Klein et al., 2005) and creates typical business goals, behavioural, and performance differences even among family businesses (Chrisman, Chua, et al., 2005; Dyer, 2006). This happens mainly as members from owning family involve in the strategic and operational decision making process of the business (Le Breton-Miller & Miller, 2009). Furthermore, some studies have emphasized family involvement as workers in non-managerial

positions (Kuruppuge, 2013). Yet, evidence from much empirical research regarding family businesses suggests that family involvement in operational activities is far more important than the other involvement activities such as ownership and governance (Chrisman et al., 2005). Family involvement in operational or management activities indicates the way of carrying out duties and tasks by family members. The behaviour of family members from owning family is connected with family involvement (Kim, & Gao, 2013). Specifically, ownership rights of family members who are attached to business have directed the behaviour of individual members.

### **Methodology**

The main objective of this study is to understand the behaviour of family business managers who have a kinship to owners without having legal ownership rights to the business. Business culture and its components in Sri Lanka are significantly different to the Western countries being mainly similar to Eastern countries. Therefore, believing multiple realities in the world, the methodological stance for this research retains as qualitative. Multiple qualitative case study methods are executed as the strategy of inquiry of this research. Twelve family businesses, which are privately held and successful in business operations during the last couple of decades in Sri Lanka, were selected as case studies using purposive sampling techniques. The geographical location of these twelve cases was considered in the selection process to better reflect the understanding of the phenomena investigated. Accordingly, four businesses were selected from the Colombo district (Furniture production and sales; biscuits products; book publishing; supermarket), two were taken from the Kalutara district (restaurant and catering; jewellery) and the rest were obtained from Gampaha (Agricultural machinery; textiles; Optical and eye care; assets development). Twenty in-depth interviews with twelve managers of family businesses facilitated the

data collection process. All respondents were selected using purposive sampling technique and considered whether they have no legal ownership rights for the business and five years of experience in hand. Interviews were conducted in respective business premises during the period June - September, 2015. The interview guide consisted of open ended questions such as career development in business from the beginning, kinship to ownership of the business, moral attachment to the business, nature of psychological attachment, relationships among owners, family and managers in the business and future expectations working in the business. Interview guides were slightly modified in different rounds of the interviews. All interviews were recorded with permission of respondents and transcribed with respondents' pauses, exclamations and hunches. Twelve interviews were conducted in Sinhalese (local language) which were translated into English by the author and all the others were in English. Based on the English transcriptions of interviews, coding and categorization was performed. Content analysis and pattern matching were supported to analyze data and Atlas.ti 7 software was used to identify initial codes

... I have to attend for testing of almost all foods every day. And I prepare the menu for the day. This is routinely activity we do every day...

(Interview 04, male, 59 years old)

A manager from Gem & Jewellery industry, which is very popular business in Sri Lanka, explained his committed behaviour as follows. Further, he as a young manager was

.... Honesty is the first thing that I expect from my employees. If employees are not honest, we cannot serve our customers....

(Interview 11, male, 42 years old)

Almost all respondents show that they are keen on business performance. This type of behaviour is linked to task performance behaviour which is explained in Organizational Behaviour. Task performance behaviour is defined as goal-directed

and categories. Subsequently, analysis was done manually.

## Results and Discussion

The analysis of qualitative research is dependent upon the themes which emerge in interview transcriptions. The coding and categorization of interview transcriptions of this study ended up with three main categories of behaviour, namely 'business objectives focused', 'family objectives focused' and 'self-identity'. These three main behavioural aspects were identified with sub themes. However, analysis was performed in the light of psychological ownership theory. Specifically, the behaviour of managers from the family without ownership rights was analysed considering the four dimensions of; self-efficacy, accountability, belongingness, and self-identity of psychological ownership theory.

### *'Business objectives focused' behaviour*

Responses of managers clearly show their committed behaviour to achieve business objectives. Highlighting the performance, a manager from family business which is engaged in foods and catering industry explained,

supervising all the factories on behalf of the owner of the business. This manager is treated as the owner of the business by most customers and employees.

behaviour which assures that all tasks and duties are connected to reach organizational goals. At the same time, responses reflected the stewardship behaviour of managers as a sub theme. Almost every respondent treated the business as their own business even

though they do not have legal ownership rights. And they are behaving as stewards to owners of the business because the family

name, relations and individual survival are dependent on the business.

We discuss business matters in every moment that I meet my brother. He trusts me totally and I also trust him hundred percent as my CEO.

(Interview 11, male, 42 years old)

..I take decisions on behalf of the directors. But directors never go against me. They know that I would never take bad decisions against the company.....

(Interview 07, male, 59 years old)

Intentions to stay for longer period working as a manager, dedication to working after office hours and weekends, visiting the business premises voluntarily even after office hours, having discussions with the owners about the business informally and expectation of further development also emerged as sub themes of managers' responses. All these activities of managers from a family without legal ownership rights support the conclusion that managers are having extra role behaviours in the business. Furthermore, the four dimensions of psychological ownership theory have been clearly seen in business objectives focused behaviour of managers from a family without legal ownership rights of the business.

### ***Family objectives focused' behaviour***

The second theme which emerged in the analysis is 'family objectives focused' behaviour by managers. Family businesses are popular in the world for accomplishments of non-financial family objectives through the business. According to the analysis of this study, managers without any legal ownership rights are still keen on accomplishing family objectives through the business. They have customized their behaviour in line with family requirement and they have shown a greater care of family requirements. At the same time, they have shown a holistic concern over all employees, specifically subordinates' welfare which highlights a paternalistic leadership behaviour in the business.

I am acting like employee representative here. I am receiving many requests from employees to pass to higher management. Employees feel at ease contacting me.

(Interview 07, male, 47 years old)

'Family requirements are taken as important'.

(Interview 13, male, 35 years old)

The behavioural approaches of these managers are more likely to exhibit benevolent leadership which is one of the components of paternalistic leadership behaviour. This benevolent behaviour shown by managers cultivates the employees and the relevant parties feel an indebtedness, responsibility and obligation (Farh & Cheng, 2000). In addition, most managers act as an agent relaying messages of family

requirements to the top management in the business. The findings which have emerged in this part of the analysis are clearly in line with the dimensions of psychological ownership theory.

### ***Self-identity***

Self-identity is recognised as the last theme in this analysis and is also a dimension of

psychological ownership. According to respondents, managers customize their behaviour based on self-identity and they expect that all stakeholders, including family members recognize them as playing a very important role in the business. The self-identity based on this recognition has been shown to motivate managers to perform well

.. the founder of this business is my uncle. My mother also had some shares in the business at that time..... however, now I am only an employee in the business.

(Interview 17, male, 30 years old)

When future expectation was inquired about in the interview, around 90% of the respondents mentioned that they wanted to see a development in the business or improvement. Further, the managers mentioned that they are recognized by the

.. I am not sure. But I want my son to join with us after his studies.

(Interview 10, female, 53 years old)

This analysis clearly indicates that self-identity plays an important role in the behaviour of managers who have no legal ownership rights to the business.

### Conclusion

This study focused on understanding the behaviour of family business managers who have a kinship to owners without legal ownership rights themselves. Three themes emerged and the analysis of the behavioural data was performed. In the first category 'business objectives focused' behaviour of managers without legal ownership rights indicated some interesting findings: highlighting their nature to behaviour using professional, managerial techniques in handling the duties and tasks assigned to them. While managing relations to the owning family, they have exhibited professionalism through this extra-role in addition to stewardship and task performance behaviours. The manager's behaviour may increase the efficiency and performance of the business in the short

in the business. However, being a manager without legal ownership rights has made them dissatisfied. When they have very close kinship to the founder, they feel that they should also have legal ownership rights in the business

external community as a partner in the business and they do not want to lose that recognition. This phenomenon is explained in psychological ownership theory. The following statement is about the future generation of managers

term. This finding may be seen as controversial to earlier research studies as many studies have concluded that family managers do not show professional management practices in business, although the literature is partial to the outperformance of family businesses in the short term. Another finding shows managers' behaviour as a benevolent leader, coordinating business and family objectives. This finding emerged in the content analysis of responses from managers from families without having legal ownership rights in the business. The leadership behaviour of managers shows they treat employees of the business in the same way as the owners, and that they play a role of mediator, taking employees' requests to higher management. Recognition from others as a key person in the business is expected by managers. Some of them were keen in getting legal ownership as well. In addition, self-identity serves as the main motivational factor of managers. The four dimensions of psychological ownership theory, namely: self-efficacy, accountability, belongingness and self-identity, could be

clearly seen in the behaviour of managers from family without ownership rights to the family business.

This study was also carried out under limitations. The sample size is a limitation of this study as themes could emerge differently from more diversity of industries oriented as family businesses. Previous studies have divided family businesses into two descriptions as enterprising and lifestyle family business, yet this study has made no division regarding this. The managers' bias from family and business can also be reflected by their responses. However, eradicating any of these limitations would help the direction for future research.

It is important to review how these study findings could be applied to practice. Specifically, the knowledge of the behavioural patterns of managers who do not have ownership rights would make it easier for owners to take governance, administration and management related decisions. Policy makers also utilize this information to plan their policies, directions and guidelines. And finally, non-family managers and owner-managers of the same business could get benefits from these findings in cases of decision making.

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