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CHAPTER 13.

THE LABOR PRODUCTIVITY OF FAMILY FIRMS: A SOCIOEMOTIONAL WEALTH PERSPECTIVE

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13.1. INTRODUCTION

In this chapter we examine the relationship between family firms and labor productivity. We focus on labor productivity for two reasons. First, it is an essential component of total factor productivity for which recent analyses have found differences between family and non-family firms. Second, it is directly tied to employees' attitudes and behavior and therefore is a key indicator to look at in order to further understand people management related issues in family firms. A family firm is a firm controlled by a group of individuals related to each other by ties of blood or marriage. Family ownership is the most common type of ownership form in almost every country (La Porta et al., 1999; Gomez-Mejia et al., 2003). Further, family firms can be found in all economic sectors and size categories, and are also significantly present among publicly held firms (Gomez-Mejia et al., 2010). Because of this ubiquity, family firm research in recent years is becoming one of the classic lines of inquiry in the management and economics literature. This literature has gained momentum during the last decade, with significant contributions published in major academic journals.

The study of family firms is not only relevant because of family firms' prevalence in the business landscape around the world. The analysis of family firms improves our understanding of how non-economic goals and priorities affect business decisions and results. Over the years the literature on family firms has described in detail the non-economic utilities that controlling families try to obtain and preserve. These utilities—which include maintaining control of the firm, emotional attachment to the company, a sense of belonging and identification or the value of handing the business down to future generations—are grouped under the socioemotional wealth (SEW) label (Gomez-Mejia et al., 2007). More importantly, research has shown that the decision making process in family firms is strongly driven by a desire to protect SEW, even at the expense of pure economic goals (Gomez-Mejia

et al., 2007; Berrone et al., 2012). Because of the desire to protect SEW, the strategic decision-making process in family firms differs from those found in non-family firms (Berrone et al., 2010; Gomez-Mejia et al., 2010; Cruz et al., 2014).

The strong preference of family firms for alternatives that preserve their SEW may generate differences in performance, and more specifically in productivity, when compared with their non-family counterparts. The few studies that have tried to disentangle whether or not the presence of controlling families in firms is beneficial for firm productivity have not reached a clear consensus (Barbera and Moores, 2013; Barth et al., 2005). As part of the ongoing debate, it has recently been suggested that perhaps family firms may show better labor productivity (i.e. the amount of output per unit of labor) than nonfamily firms particularly when firms are small (Barbera and Moores, 2013). However, this advantage in labor productivity among small family firms may vanish as they grow in size. Additionally, the literature on family firms has noted that family-controlled firms would be less likely, particularly when management is also in the hands of the family, to implement people management practices that result in better labor productivity (e.g. Cruz et al., 2011; Bloom and Van Reenen, 2011).

In light of these results, the goal of this chapter is to present a framework to further understand the impact that family ownership may have over the company's labor productivity and reconcile the existing evidence. While labor productivity can vary with factors such as capital intensity, technology or scale, we suggest, based on the SEW perspective (Gomez-Mejia et al., 2007; 2011), that SEW protection may be another factor that explains differences in labor productivity between family and non-family firms, as well as among different family firms. We acknowledge that SEW preservation is a core determinant in the decision making

process of family firms, but also that SEW has multiple dimensions or facets such as control and influence, identification with the firm and binding social ties (Berrone et al., 2012). Based on these ideas, we contend that controlling families may differ in the way they prioritize those dimensions of SEW with some families emphasizing, for example, control while others may seek to guarantee strong social ties first. Consequently, we argue that different SEW priorities lead to differences in the way family firms manage their employees, which eventually translates into differences in labor productivity. In particular, we propose that the SEW dimensions prioritized by the controlling family affect the formation of trust, the leadership style, the presence of influential nonfamily managers in family firms, and the adoption of High Performance Work Practices (HPWPs), all of which ultimately influence labor productivity in family firms. Underlying our argument is the notion that through its effect on trust, leadership, appointment of nonfamily managers and people management practices, SEW priorities affect the attitudes and behaviors of the workforce and, all else being equal, end up influencing labor productivity. Prioritization of certain SEW dimensions over others may have an influence on decisions such as capital investment, that may alter total factor productivity and eventually labor productivity. However, in this chapter we would like to focus on how SEW may influence people management and thus impact the attitudes and behaviors of the workforce, which are the primary indicators of resourceful labor use.

The remainder of this chapter is organized as follows. In the next section, we briefly review three literature streams that elucidate how family control of the firm may end up influencing the attitudes and behaviors of the workforce and ultimately affect the firm's labor productivity. Then, we build upon the SEW perspective of family firms to develop a set of propositions that connect SEW priorities, trust, leadership style, nonfamily managers, and HPWPs with labor productivity. The underlying idea is that SEW priorities warrant adoption

of a set of policies and behaviors among the controlling family managers that shape the behaviors and attitudes of the workforce, and these in turn affect labor productivity. Importantly, our model helps explain differences in labor productivity between family and nonfamily firms across different firm sizes, as well as differences in labor productivity among family firms. The final section summarizes the main conclusions of our approach.

13.2. LITERATURE REVIEW

In this section, we briefly review the main findings of three different and largely disconnected streams of research that help explain the theoretical framework we develop later: productivity and family control of the firm, productivity and people management, and decision making in family firms.

13.2.1. Productivity and family control of the firm

Firm-level productivity is a central variable in the study of firm performance. Because of its importance, it has been a topic of interest in many research efforts across years and disciplines (see, for example, Huselid, 1995; Grifell-Tatjé and Lovell, 1999; and Lagakos and Waugh, 2013). Despite the widespread interest in this variable, relatively few studies have attempted to explain the impact that ownership may have on firm productivity (Palia and Lichtenberg, 1999; Bloom and Van Reenen, 2007, 2011; Barbera and Moores, 2013). These few studies converge on a common conclusion: that the person at the helm matters when it comes to explaining differences in productivity levels. As noted in the introduction, families are one of the most common types of firm owners in every country. Yet if little is known about the effect of ownership generally on firm productivity, even less is known about the impact of family control. The fairly exhaustive list of previous investigations on the subject compiled in a

recent article by Barbera and Moores (2013) only identifies six studies. Only a few more recent studies could be added to this short list.

The studies conducted to date on the impact of family control on productivity have not reached a consensus on whether family firms are more or less productive compared to their nonfamily counterparts, or the circumstances under which family firms are more productive. Most previous studies have focused on the question of whether family firms are more or less productive than nonfamily firms. A review of the results shows that some studies report better productivity among family firms (Galve-Gorriz and Salas, 2011; Sraer and Thesmar, 2007), while others report worse productivity (Barth et al., 2005; Bloom et al., 2012). There are also some papers that indicate no differences in productivity (Barbera and Moores, 2013). Differences in samples, time frames, and/or methodologies may explain this lack of consensus to a certain degree.

In this context, Barbera and Moores (2013) have suggested that family firms may exhibit better labor productivity than their non-family counterparts, particularly in the case of small firms. This apparent advantage in labor productivity may disappear as a firm increases in size. This relative advantage of family firms in terms of people's contribution to productivity stands in sharp contrast to another finding in the literature on family firms, which is that family-controlled firms are, in general, less likely, particularly when they are family-managed, to implement more sophisticated practices that result in greater motivation and productivity among employees (Cruz et al., 2011; Bloom et al., 2012; Bloom and Van Reenen, 2007; 2011). The theoretical framework we develop later in this chapter seeks to reconcile this apparent contradictory evidence.

13.2.2. Productivity and people management

There is a long line of studies in HRM that have looked at how HRM practices impact labor productivity. Similarly, there is also a large related stream of studies on the relationship between people management practices and firm performance as well as on employees' attitudes and behavior.

Most of the research efforts within this literature have been concerned with the question of whether a set of people management practices, often identified as HPWPs, improve labor productivity independent of the context in which they were implemented, or whether their influence is contingent upon certain factors. HPWPs encompass a set of mutually reinforcing people management practices that positively impact labor productivity by enhancing ability, motivation, and the opportunity to participate (Appelbaum et al., 2000). Extensive training, rigorous selection procedures, cross-functional and cross-trained teams, information sharing, participatory mechanisms, above-market pay and performance based rewards are among the practices usually acknowledged as part of HPWPs. In this vein, it is also argued that the effectiveness of these practices should be greater when they are implemented as a bundle than when they are implemented in isolation (Datta et al., 2005).

Early research showed that HPWPs were indeed beneficial for labor productivity (e.g., Huselid, 1995; Ichniowski et al., 1997). A comprehensive study conducted by Datta and colleagues (2005) concluded that while the impact of the implementation of HPWPs on labor productivity may vary depending on industry characteristics, it is always beneficial. A more recent meta-analysis conducted by Jiang and colleagues (2012) also pointed towards the positive influence of HPWPs on labor productivity. While these authors covered a broader range of research in their meta-analysis, they confirmed that different bundles of HPWPs

positively influence employee human capital and motivation. Their impact subsequently reduces turnover rates and improves operational outcomes, including productivity, and finally firm-level financial performance (Bloom and Van Reenen, 2011; Bloom et al., 2012).

Another relevant aspect concerning the effectiveness of HPWPs and their influence on labor productivity has to do with managers and their leadership style. For example, the research conducted by Bloom and associates (2007, 2011, 2012) presents managers and their actions as key drivers of firm-level productivity. Managers may vary in their leadership styles. A common classification of leadership styles in studies exploring the impact of leadership on employee behavior and performance is the transformational versus transactional dichotomy (Burns, 1978; Bass, 1985). Transactional leaders set clear goals and targets for followers and employ rewards or punishments to encourage compliance with those goals. Transformational leaders, on the other hand, create a vision to guide change through inspiration and execute change through the commitment of the members of their group. Studies on the impact of these two leadership styles have shown that transformational leadership may be more effective in generating positive employee attitudes and behaviors, and ultimately greater labor productivity (Jung and Avolio, 2000; MacKenzie et al., 2001). For example, in a study of salespeople's performance, MacKenzie et al. (2001) observed that transformational leadership influences salespeople to perform above and beyond the call of duty. The impact of leadership styles on employees is often mediated by employees' trust in managers, which is another key variable that may help explain the relationship between HRM and employee attitudes and behaviors (Jung and Avolio, 2000; MacKenzie et al., 2001; Zhu and Akhtar, 2014).

13.2.3. Decision making in family firms

The large body of literature on family firms has always pointed towards the relevance that non-economic goals play in the decision-making processes and outcomes of family-controlled firms. The close association between the family and the firm spheres in this particular type of firm introduces targets in the management process that are not necessarily compatible with pure economic or efficiency goals. While non-economic goals may also be present in nonfamily firms, they are particularly noticeable in family firms. Furthermore, the literature on family firms has been able to identify and describe the non-economic goals that are most relevant to family firms. Gomez-Mejia and colleagues (2007) grouped these non-economic goals that meet the family's affective needs under the SEW label.

Importantly, Gomez-Mejia and colleagues (2007) use behavioral theory to argue that decision making in family firms is primarily directed towards the preservation of SEW, even if this means accepting greater economic risk. They find support for this proposition in a study of Spanish olive oil mills. Other studies have confirmed the importance of SEW protection motives in the decision-making processes of family firms and have helped to consolidate the SEW perspective as one of the principal frameworks for the study of family firms (Gomez-Mejia et al., 2011).

SEW protection—and more specifically, the desire to protect one of the key dimensions of SEW, control—has also been linked with the likelihood of incorporating nonfamily executives within the firm. In certain family firms, the fear of losing control over firm operations explains the absence of nonfamily executives. This is important because the absence or presence of nonfamily executives explains part of the variation in HRM practices among family firms, with nonfamily executives bringing more advanced management practices to the firm (Bloom and Van Reenen, 2011). The failure to adopt advanced

management practices by family firms run by family members may be important, as its use has been linked with improved labor productivity and finally improved financial performance (Bloom et al., 2012). We will delve into the consequences of family versus outside management later on in section 13.3.3.

Recently, some studies have set out to further refine and develop the SEW perspective in an attempt to reach a better understanding of the decision-making processes in individual family firms and of the differences in such processes among family firms. In this vein, Berrone et al. (2012) argue that SEW is a multidimensional construct composed of five interrelated dimensions they summarized under the FIBER label: family control and influence (F), identification with the firm (I), binding social ties (B), emotional attachment (E), and the renewal of family bonds (R). F refers to the utilities family members receive from exerting control and influence over the business. It addresses the close identification of the family with the firm. B captures the reciprocal bonds seen within family businesses which are not exclusively between family members but are extended to a wider set of constituencies. Nonfamily employees often share the family's attachment to the firm via a sense of belonging, promoting stability and commitment to the firm. E captures the affective content of SEW and refers to the role of emotions in the family business context. Because the boundaries between the family and the corporation are somewhat blurred in family businesses, emotions permeate the organization, influencing the family business's decision-making process. Finally, R refers to the intention of handing the business down to future generations.

Relatedly, Miller and Le Breton-Miller (2014) differentiate between restricted and extended SEW. The former captures the emphasis on permanent job security and access to business

resources for all current family members, while the latter encompasses the long-term wellbeing of the firm through formation of sustainable relationships with stakeholders to increase the chances of firm survival, and to ensure goodwill toward the family and its business. Different facets or dimensions of SEW may trigger different strategic responses and behaviors.

Because of the multidimensional nature of SEW, sometimes there may be a conflict among its dimensions. For example, Cruz et al. (2014) indicate that social activities may improve family image and reputation but may threaten control. These authors suggest that in order to protect their SEW endowment as much as possible, family firms may try to satisfy both goals by differentiating their approach when dealing with different groups of stakeholders.

Specifically, they note that when it comes to corporate social responsibility, the way to address the conflict between competing SEW dimensions is to be more socially responsible with external stakeholders but less socially responsible with internal stakeholders—including the firm’s employees—than nonfamily firms. Their analysis in a sample of large publicly traded European firms confirms the latter view and finds no differences between family and nonfamily firms with regard to their social responsibility towards external stakeholders.

13.3. A SEW FRAMEWORK OF LABOR PRODUCTIVITY IN FAMILY FIRMS

In this section, we build upon existing literature on family firms, and particularly on the SEW perspective, to link family control of the firm with labor productivity (i.e., the contribution of people to the firm’s output). In line with recent developments in the family business literature, we take into consideration the multidimensional nature of SEW to propose that controlling families may prioritize certain dimensions of SEW over others, either because these dimensions conflict with others or simply because controlling families show a personal

preference for these dimensions. This prioritization, that manifests in the desire to protect primarily certain aspects of SEW, will influence a firm's decision making and therefore will impact organizational aspects such as trust formation, leadership style, the presence of influential nonfamily managers, and the adoption of HRM practices, all of which may ultimately influence the basis of firms' labor productivity: employees' attitudes and behavior. In our model, firm size is projected as a central factor for understanding the effect of SEW priorities on labor productivity.

But before we develop the specific propositions of our model, we must consider the specific dimensions of SEW and their prioritization. We are going to build our arguments upon the previously described FIBER model proposed by Berrone et al. (2012). While interrelated, the five dimensions of SEW described in the FIBER model may lead to different behaviors and reactions, which may have different implications for firm management. Families seek to maximize their SEW and it may seem logical to expect that families will look for improvements in all SEW dimensions. However, family members may also show a preference for some dimensions over others. That is, within their overall tendency to protect their SEW, they may prioritize some dimensions or aspects of SEW over the others, and therefore seek to protect those dimensions first. These priorities may reflect the personal preferences and experience of the owning family. In cases in which SEW dimensions may conflict (Cruz et al., 2014), these preferences would determine which dimension is attended first. Since decision making will be influenced by the SEW dimension or dimensions that are ranked higher, differences in prioritization may lead to differences in the decisions taken by different family firms. Depending on the dimensions of SEW that are prioritized, family firms may face different productivity outcomes.

We argue that two main groups of family firms can be distinguished based on which SEW dimensions of the FIBER model they rank first: those that primarily emphasize F and E versus those that put emphasis on I, B, and R. This dichotomization is in line with a recent proposal by Miller and Le Breton-Miller (2014) that differentiates between restricted SEW and extended SEW. While restricted priorities are highly family-centric and at odds with the interests of nonfamily stakeholders and the firm in the long run, extended SEW priorities result in benefits that go beyond the owning family. The emphasis in protecting each of these two types of SEW may trigger different strategic responses and behaviors. For example, restricted SEW could be connected with conservatism, sparse investment, risk aversion or family extraction of funds from the business. In contrast, extended SEW leads to investment in products and processes and continuous reinvestment in the business and its renewal. We suggest that the FIBER dimensions of family control and influence and emotional attachment (F and E) are representative of restricted SEW priorities and that the dimensions of family identification, binding social ties, and the renewal of family bonds (I, B, and R) are characteristic of extended SEW priorities.

We now move to our theoretical framework. In what follows, we first elaborate on the relationship between SEW priorities, trust and labor productivity. Then, we connect SEW priorities with the leadership style of managers, and explore its consequences for the development of trust and ultimately for a firm's labor productivity. We then move to an analysis of the link between SEW priorities and the presence of non-family managers, connecting it with the adoption of HPWPs and labor productivity. Finally, and based on all the preceding arguments, we advance propositions about the relationship between SEW priorities and the firm's labor productivity. In all these cases, we observe that as a firm grows in size focusing on certain SEW priorities may be more beneficial for a firm's labor

productivity. Our model predicts, in line with some recent empirical evidence (Barbera and Moores, 2013), that small family firms show better levels of labor productivity than non-family firms of the same size. However, as firms grow in size, the labor productivity of family firms that focus on the F and E priorities of the FIBER model will be lower than that of comparable non-family firms, while the labor productivity of family firms emphasizing the I, B and R priorities of the FIBER model will be on par with that of non-family firms of similar size.

13.3.1. SEW priorities, the formation of trust and labor productivity

Trust, or the willingness to make oneself vulnerable to others despite uncertainty about their motives and prospective actions (Kramer, 1999; Mayer et al., 1995; McAllister, 1995), is often a central feature in relationships that involve the exchange of valuable resources. Trust is perceived to foster better cooperation (Messick and Brewer, 1983) and richer information exchange (Uzzi, 1996) than would otherwise occur.

The extant literature on trust distinguishes between cognition-based trust and affect-based trust. The central distinction between these two forms can be explained in terms of how people place trust in others—from the head (cognition-based) versus from the heart (affect-based). Cognition-based trust is based on performance-related cognitions such as competence, responsibility, reliability, and dependability. Conversely, affect-based trust refers to “emotional bonds between individuals” that are grounded upon “expressions of genuine care and concern for the welfare” of the other party (McAllister, 1995). It emphasizes empathy, affiliation, and rapport on the basis of a shared regard for the other person. The distinction between cognition-based and affect-based trust brings to the fore two distinct systems of social-psychological processes. While cognition-based trust evolves from a calculative and

instrumental assessment, affect-based trust emerges through empathy, rapport, and self-disclosure (Chua, Ingram, and Morris, 2008).

The creation of both cognition-based and affect-based trust can enhance a firm's labor productivity. However, affect-based and cognition-based trust represent two different functions (Colquitt et al., 2012), and therefore the processes through which they affect firm productivity are different. Affect-based trust reflects a sense of social obligation to reciprocate and reinforce emotional bonds between two individuals, whereas cognition-based trust gives people a sense of confidence about the other party's decisions and actions (Mayer et al., 1995), thus reducing the sense of uncertainty and risk within a social exchange relationship (Colquitt et al., 2012). The prosocial motivation that arises through both forms of trust triggers employees' desire to expend greater effort and leads employees to engage in citizenship behaviors (Grant and Mayer, 2009) that can enhance a firm's labor productivity.

Within the context of family businesses, SEW priorities in family firms may influence the development of cognition-based and affect-based trust, and ultimately labor productivity. When a family firm is small in size, it is far more likely to have a strong communitarian culture (Nicholson, 2008). Such a culture lends itself well to the formation of affect-based relationships. At this stage, irrespective of the SEW priorities emphasized by the family firm, we expect a higher incidence of open communication, resource sharing, and cooperation. In small firms, it is considerably easier for family owners to convey care and consideration to a majority of employees. This behavior can help foster positive perceptions of the owning family's motives and enables the formation of affect-based trust. Affect-based trust in turn can contribute to a belief among employees that the owning family will form positive social exchange relationships with them and encourages them to invest time and effort in a way that

benefits the firm (Zhu and Akhtar, 2014; Colquitt et al., 2012), thus enhancing labor productivity. Importantly, the proportion of family members who are also employees or managers of the firm is higher in smaller firms than in larger firms. Hence,

Proposition 1a: Employees in small family firms will show high levels of affect-based trust which will positively contribute to a firm's labor productivity.

However, as a firm grows in size, fostering affect-based trust will become more challenging. Larger firms are less likely to have a communitarian culture, and their family owners are less likely to share close ties with a majority of employees. Under these conditions, because it is more difficult for family owners to form personal relationships with employees, it is unlikely that family owners will be able to create an impression of care and concern for employee welfare (Miller, Minichilli, and Corbetta, 2013). The proportion of family members in the workforce is also smaller in large firms.

We contend that a focus on the SEW priorities of family identification, binding social ties, and the renewal of family bonds (I, B, and R) can enable the formation of cognition-based trust. In contrast, a focus on firm control and influence and emotional attachment (F and E) is less likely to facilitate cognition-based trust as the firm grows in size. Family identification with the firm aligns the interests of family owners and a number of other stakeholders, including employees and consumers. This tendency stems from the fact that a family owner or employee experiences deep psychological gratification when their beliefs about the firm become self-referential or self-defining (Gomez-Mejia et al., 2007); hence, it is in their interest to ensure that they maintain an attractive and a positive organizational identity. Family owners and managers' strong identification with the family business also leads the

firm's employees to infer that the firm has qualities such as power, competence, efficiency, and moral worth (Gecas, 1982) and gradually facilitates the formation of cognition-based trust. With regard to binding social ties, family firms possess unique opportunities to generate reciprocal stewardship through their time-honored relationships with family and nonfamily members. These binding ties are a source of social capital for the family firm (Arregle et al., 2007) and can facilitate positive perceptions about the firm's reliability and competence; hence, they also facilitate cognition-based trust. The desire for the renewal of family bonds encourages family owners to adopt an attitude that is less one of personal self-interest than one of stewardship (Le Breton-Miller and Miller, 2009). Furthermore, it can also foster a long-term strategic perspective on the business and allows firms to mitigate the pitfalls of short-termism (Nicholson, 2008). Together, these SEW priorities facilitate the formation of cognition-based trust among employees.

Further, although it is difficult for affect-based trust to emerge in a large family firm, the formation of cognition-based trust among employees can serve as a stepping-stone to the formation of affect-based trust. While cognition-based trust relies on evidence of another person's reliability and competence, affect-based trust arises from an individual's emotions and a sense of another person's feelings and intentions. Prior research suggests that affect-based trust is more enduring and generalizable over situations than cognition-based trust (Lewicki and Bunker, 1996). Within a family firm setting, the experience of successful social exchange interactions that stem from cognition-based trust between nonfamily employees and family owners/managers will gradually facilitate the formation of closer personal ties between them. These ties in turn may facilitate the formation of affect-based trust. While this does not mean that affect-based trust necessarily follows from the formation of cognition-based trust, it has been suggested that a baseline level of cognition-based trust is

a precursor to the formation of emotional attachments that are characteristic of affect-based trust. Thus, cognition-based trust may positively influence the formation of affect-based trust (McAllister, 1995).

In sum, as family firms grow in size cognition-based trust is more likely to develop in those firms that prioritize family identification (I), binding social ties (B), and the renewal of family bonds (R). Cognition-based trust may also gradually evolve into affect-based trust. Therefore, it follows that only family firms that emphasize the I, B, and R dimensions of the FIBER model would develop cognition-based trust, which would potentially lead to affect-based trust, and that both forms of trust would foster the prosocial motivations that will ultimately contribute to improved employee productivity. Hence,

Proposition 1b: As a family firm grows in size, only family firms with a focus on the I, B, and R priorities of the FIBER model will be likely to experience both cognition-based and affect-based trust, which in turn will positively contribute to a firm's labor productivity.

13.3.2. SEW priorities, leadership styles and labor productivity

The SEW priorities emphasized by family firms also determine the type of leadership approach adopted by family owners and managers. An emphasis on restricted SEW priorities, such as family control and influence and emotional attachment, favors a transactional approach towards managing people. The desire to exercise authority and maintain family influence is compatible with the transactional approach for a number of reasons. First, although transactional leadership is conceptualized as an exchange of valued outcomes, scholars have observed that relationships between leaders and followers are often based on contingent rewards and reprimands. Effective transactional leaders clarify the roles followers

must play and the task requirements they must accomplish to reach their goals while fulfilling the mission of the firm (Kuhnert and Lewis, 1987). Furthermore, they also monitor followers' performance and take corrective action when necessary (Howell and Avolio, 1993). The weight given to performance monitoring within the transactional approach is a good fit for the owning family's desire to exercise family control and influence.

The emotional attachment dimension of SEW, which suggests that family businesses are places where the owning family's needs for belonging, affect, and intimacy are satisfied (Kepner, 1983), is associated with the transactional approach for different reasons. A high level of emotional attachment among members of the owning family is often associated with job security and access to business resources for family members. However, it can give rise to asymmetric altruism where the altruism that is extended to family employees is generally not extended to nonfamily employees, thus triggering feelings of injustice among nonfamily employees. This type of altruism may also result in nepotism, entrenchment, and family extraction of perquisites from the business. In an environment where nonfamily employees' perceptions of organizational justice are of secondary importance, the firm will likely focus on merely reaching an agreement between leaders (management) and followers (employees) concerning what the follower will receive for achieving a negotiated level of performance (Howell and Avolio, 1993). Thus, we expect an emphasis on emotional attachment to be associated with a transactional approach towards managing employees.

Proposition 2a: In family firms, a focus on the F and E priorities of the FIBER model will be associated with a transactional leadership style in people management.

On the other hand, the presence of extended SEW priorities such as family identification, binding social ties, and the renewal of family bonds through succession creates an environment that is conducive to a transformational leadership approach towards managing people. Transformational leadership originates within the personal values and beliefs of leaders and goes beyond an exchange of commodities between leaders and followers (Bass, 1985; Kuhnert and Lewis, 1987). It focuses on developing, intellectually stimulating, and inspiring followers to transcend their own self-interests for a higher collective purpose or a vision. Thus, transformational leaders center their efforts on “longer term goals and place value on developing a vision and inspiring followers to pursue the vision; change or align systems to accommodate their vision rather than work within existing systems; and coach followers to take on greater responsibility for their own development, as well as the development of others” (Howell and Avolio, 1993: 891–92). Extended SEW priorities encompass benefits that go beyond the family and include goals such as enhancing a firm’s reputation with stakeholders as well as forming sustainable relationships with partners (Berrone et al., 2012). Given these characteristics, we argue that a transformational leadership style, with its long-term and inspirational approach towards pursuing a desired vision, is a good fit for a firm that emphasizes extended SEW priorities.

Proposition 2b: In family firms, a focus on the I, B, and R priorities of the FIBER model will be associated with a transformational leadership style in people management.

Differences in SEW priorities would engender differences in leadership styles that in turn are likely to generate differences in labor productivity between firms, particularly as they grow in size. As mentioned earlier, while trust among managers and employees can be developed with relative ease in small family firms, as the firm grows in size the formation of relationships

that facilitate the emergence of trust among employees becomes more challenging. However, transformational leaders who operate out of deeply held value systems are able to demonstrate confidence and motivate followers to change their existing perceptions, beliefs, and goals. Indeed, transformational leaders can arouse followers' trust in both cognitive and affective domains (Schaubroeck et al., 2011), but will do so for different reasons (Zhu and Akhtar, 2014). Transformational leaders may engage in a number of impression management activities to establish a devoted and capable image (Bass, 1985). Often they may utilize written communications or public speeches to successfully convince their followers to believe in their vision. The trust arising from such a process has a cognitive element because direct social interaction may not necessarily be involved (Zhu & Akhtar, 2014). These behaviors send out signals about the leaders' qualities and followers may draw inferences about leaders' characteristics, such as integrity and ability that lead to cognition-based trust (Dirks and Ferrin, 2002).

On the other hand, the development of affect-based trust is contingent upon the formation of socioemotional relationships between leaders and followers (Dirks and Ferrin, 2002). Once a certain number of interactions involving cognition-based trust have occurred between leaders and followers, the two parties may develop affect-laden relationships with each other. When that happens, followers begin to perceive transformational leaders as their role models, internalize the leaders' values and beliefs, and learn desired behaviors that are consistent with these values and beliefs (Kark et al., 2003). At this point, leaders may also show concern for followers' needs and their fulfillment. When employees perceive care and consideration from their leaders—in this case, family owners or managers—they reciprocate by developing affect-based trust towards their leaders. As we previously stated, we expect that an increase in

both cognition-based and affect-based trust would trigger the processes of employee motivation and prosocial behaviors that improve labor productivity.

In sum, generating trust among employees that would contribute to better labor productivity becomes more challenging as the firm grows in size. Family firms that use a transformational leadership style will be more likely to generate that trust when the firm grows larger. Taking into consideration our previous propositions about SEW priorities and leadership style, only the family firms that focus on the I, B and R priorities will be the ones that will be likely to adopt such a transformational leadership style, and therefore the ones that will be more likely to experience the positive effects that such a style may bring to labor productivity as the firm grows in size. Hence,

Proposition 2c: As a family firm grows in size, only family firms with a focus on the I, B, and R priorities of the FIBER model will be associated with a transformational leadership approach that will favor the formation of both cognition-based and affect-based trust, which in turn will positively contribute to a firm's labor productivity.

13.3.3. SEW priorities, nonfamily managers and labor productivity

We also expect that the dimensions of family influence and emotional attachment will have a negative impact on the appointment of nonfamily managers and adoption of HPWPs, whereas an emphasis on family identification, binding social ties, and the renewal of family bonds will be positively associated with the inclusion of nonfamily managers on the top management team and the use of HPWPs. The absence or presence of nonfamily managers generated by different SEW priorities may hold important implications for a firm's labor productivity, particularly when the firm grows larger.

Family owners' desire to maintain strong control over the firm can lead to asymmetric treatment of family versus nonfamily managers. The SEW perspective predicts that, in order to preserve SEW, family owners perceive the need to control the firm on a permanent basis (Berrone et al., 2012). Thus, they engage in strategies that empower them to retain or extend their power over the firm's operations. Often, they do this by employing family members on the top management team even though they are not qualified (Chua et al., 2009). The "emotional attachment" dimension of SEW can also explain this differential treatment. Due to the type of social links family members have with their firms, family companies become the place where family owners satisfy their needs for affection and belonging (Berrone et al., 2012). The presence of family altruism fosters a set of interdependent relationships among family members that differentiates them from people outside the family (Chua et al., 2009). Thus, family altruism can cause inconsistencies in the application of organizational rules depending on whether the employee is a family or a nonfamily member. The presence of emotional attachment among family members also gives rise to a natural inclination to prioritize income and employment for family members (Levie and Lerner, 2009) and to appoint more family members within the top management team. Moreover, the asymmetries in treatment that arise from an emphasis on restricted SEW priorities (i.e. control and emotional attachment) might generate agency issues such as adverse selection and opportunism. These issues could be at odds with the adoption of practices such as HPWPs (Bloom et al., 2012), which emphasize consistent application of performance standards, active employee participation in decision-making processes, and unbiased progression opportunities for all employees. Hence, family firms that emphasize the F and E dimensions of SEW are less likely to incorporate nonfamily managers, which will hinder the adoption of HPWPs. Consequently,

Proposition 3a: A focus on the F and E priorities of the FIBER model will hinder the presence of nonfamily executives in family firms, which in turn will hinder the adoption of HPWPs.

On the other hand, an emphasis on extended SEW priorities facilitates the presence of nonfamily executives on the top-management teams of family firms. These SEW priorities promote stewardship motivations, which can manifest in lifelong commitment to the firm, farsighted perspectives, assiduous management of organizational resources, and a number of competency-creating investments (Davis et al., 1997). In family firms that attach value to the family identity, family owners and managers may be more willing to do what it takes to strengthen the business (Donaldson and Davis, 1991). Moreover, firms that esteem long-term social ties and encourage the renewal of family bonds through succession are particularly likely to shun quick-fix solutions. They are less likely than firms that emphasize restricted SEW priorities to make opportunistic decisions that may serve the family's self-interest in the short term but destroy morale and erode the firm's human capital and knowledge base in the long term (Lavery, 1996). Thus, we expect such family firms to favor professionalizing the firm by appointing nonfamily executives who are hired on the basis of merit from a competitive labor pool. Competent nonfamily managers, who tend to make decisions based on logic and rational analysis, are more apt to adopt sophisticated management practices such as HPWPs than family managers (Bloom et al., 2012; Bloom and Van Reenen, 2011), whose decisions are often dictated by intuition and altruism. In addition, nonfamily managers tend to focus on economic goals to increase their payoff at the employing firm and to enhance their human capital, which improves their standing in executive labor markets (Patel and Cooper, 2014). Furthermore, nonfamily managers have a more positive attitude towards change and

growth (Poza, Alfred, and Maheshwari, 1997) and focus consistently on practices that are likely to reap better economic rewards. Thus, we expect there to be a higher incidence of HPWPs as the number of nonfamily managers on the top-management team increases.

Proposition 3b: A focus on the I, B, and R priorities of the FIBER model will facilitate the presence of influential nonfamily executives in family firms, which in turn will facilitate the adoption of HPWPs.

As a family firm grows in size, higher productivity can be ensured through the presence of talented and engaged employees. However, scholars have recognized that there are limits to the quality of human capital in family firms because the goal of providing employment for family members to preserve key elements of SEW such as control, leads to hiring suboptimal employees (Sirmon & Hitt, 2003). Family firms can surmount these deficiencies in talent by increasing the heterogeneity of their human capital, particularly in their Top Management Team (TMT). Hiring external managers involves changes in the firm's authority relationships, norms of legitimacy, and incentives (Gedajlovic et al., 2004), but it may also bring some important benefits for the company when it becomes larger. In complex administrative situations within large firms, the value of more formalized managerial skills and the mastery of management practices surpasses the benefits of the tacit knowledge that family members may possess (Miller et al., 2013). Hence, family members' lack of experience may put them at a disadvantage vis-à-vis outside nonfamily managers who are chosen from among a much larger pool of candidates on the basis of their competence alone (Salvato et al., 2012). Greater heterogeneity in their TMTs would also increase family firms' stock of competing ideas, alternatives, & assumptions (Sirmon & Hitt, 2003; Schweiger, Sandberg, & Ragan, 1986).

Additionally, as we previously noted, nonfamily managers will have a strong incentive to professionalize the family firm through the introduction of sophisticated practices such as HPWPs so as to enhance their power and influence within the firm and reduce the amount of risk they face in a family firm context. This can not only ensure the family firm's long-term sustainability but may also attract external talent to overcome the firm's human capital deficiencies that emerge as family firms grow larger, and enhance labor productivity levels (Jiang et al., 2012). Hence, allowing nonfamily managers into the family firm may lead to improvements in labor productivity as the firm grows.

Within family firms that emphasize extended SEW priorities of family identification, binding social ties and renewal of family bonds, there is a strong belief that efficiency and productivity can be reinforced by bringing in professional nonfamily managers (Dyer, 1989). Therefore, as the family firms grows in size, emphasizing I, B and R dimensions of SEW will show better labor productivity levels than family firms that prioritize the F and E dimensions because nonfamily managers will face fewer obstacles to implementing sophisticated human resource practices such as HPWPs in firms with extended SEW priorities.

Proposition 3c: As a family firm grows in size, only firms with a focus on the I, B, and R priorities of the FIBER model will be associated with the presence of influential nonfamily executives and the implementation of HPWPs which in turn will positively contribute to a firm's labor productivity.

This prediction is consistent with the evidence reported by Bloom and associates (2007, 2011, 2012) who note that family firms run by family members are less likely to implement advanced practices, such as those previously described under the HPWPs label, which in turn hinders firm productivity. Our model proposes a mechanism to explain the

conditions that favor or deter the presence of nonfamily executives in family firms, and its link with the adoption of advanced practices and labor productivity.

13.3.4. SEW priorities, firm size, and labor productivity

Our previous propositions link elements that, having been analyzed in different lines of research, have remained largely unconnected in business scholarship. In doing so, these propositions suggest a relationship between SEW priorities and firms' labor productivity that is contingent upon firm size. This association would be consistent with the limited prior empirical evidence on the impact of family firms on labor productivity.

When a family firm is small in size, irrespective of its SEW priorities, we expect it to have higher levels of labor productivity than small non-family firms. As stated previously, in small family firms employee trust formation is independent of the SEW priorities of the controlling family. Essentially, small size favors personal contact and exchange between different actors in the firm, and most importantly between employees, managers, and owners of the company. Open communication, resource sharing, and mutual adaptation mechanisms are common in small firms, and these characteristics help build both cognitive-based and affect-based trust.

In a small family firm, family owners associate closely with their business over a prolonged period (Miller, Minichilli, and Corbetta, 2013). Close ties and familiarity with a firm enhance attitudes of stewardship over a business, which signify highly valued emotional attachments to employees, customers, and other stakeholders both internal and external to the firm (Gomez-Mejia et al., 2007). The "family-like" atmosphere of such firms is likely to extend to other nonfamily workers when the firm is small enough. For example, there is evidence that family firms are more likely to offer employment protection to their workers (Bassanini et al.,

2013; Block, 2010), which could be considered proof that family owners protect their employees “as they would do their own sons” and may engender a heightened sense of commitment among their workforce (Miller and Le-Breton Miller, 2005). Because of this, and largely independent of the SEW dimensions emphasized by the family, we expect small family firms to experience better levels of labor productivity than comparable nonfamily firms.

Proposition 4a: Labor productivity in small family firms will be higher than in comparable nonfamily firms.

However, as a firm grows in size and complexity, the factors that contributed to higher productivity when the firm was small will not have the same effect. It is at this stage, we argue, that the type of SEW priorities emphasized by the firm will either enhance or diminish labor productivity. We expect that growing family firms that emphasize family control and emotional attachment will show lower levels of labor productivity than those that emphasize other dimensions of SEW. This is because family firms that focus primarily on the former dimensions will experience lower levels of trust as the firm grows, which may hamper the firms’ ability to encourage the necessary attitudes and behaviors from their employees to maintain high labor productivity levels. This is in part due to the fact that a focus on family control and emotional attachment will lead to a transactional leadership style, which does not guarantee the appropriate levels of employee trust. In addition, we have also noted that a focus on the F and E dimensions of the FIBER model does not facilitate the presence of influential nonfamily managers in the firm. Thus, firms that emphasize these dimensions may be associated with a lower likelihood of implementing HPWPs.

Proposition 4b: As a family firm grows in size, a focus on the F and E priorities of the FIBER model will result in lower levels of labor productivity than those of comparable nonfamily firms and comparable family firms that emphasize other SEW dimensions.

On the other hand, extended SEW priorities such as family identification, binding social ties, and the renewal of family bonds foster higher labor productivity in family firms and bring it on par with that of nonfamily firms that are similar in size. It is possible that family firms that emphasize these priorities will continue to experience the superior labor productivity levels of small family firms even as they continue to grow. In contrast to family firms that focus on restricted SEW priorities, these family firms are capable of creating and maintaining employee trust even when the size of the firm complicates the formation of close personal relationships and continuous exchange. Additionally, the managers of these family firms show a transformational leadership style that further reinforces trust formation. This, added to the presence of influential nonfamily managers and the greater likelihood of implementing HPWPs, forms the basis for higher levels of labor productivity. Therefore,

Proposition 4c: As a family firm grows in size, a focus on the I, B, and R priorities of the FIBER model brings family firms' levels of labor productivity on par with those of comparable nonfamily firms.

13.4. DISCUSSION AND CONCLUSIONS

Labor productivity is the result of a combination of different factors. Employee attitudes and behaviors are central elements of that combination. In this chapter, we have argued that labor productivity in family firms may vary as a function of SEW priorities, defined as the dimensions of the family's SEW that are prioritized and attended first. Such priorities

influence the leadership style adopted by family leaders, the formation of employee trust, the presence of nonfamily managers in the firm, and the implementation of HPWPs. Together, these elements influence the attitudes and behaviors of the workforce and ultimately labor productivity.

Our model provides a mechanism to explain the impact of family ownership on firm-level productivity. More precisely, it clarifies some of the differences in labor productivity levels observed between family firms and comparable nonfamily firms and also among family firms as a group. Specifically, as noted in the introduction, the existing empirical evidence indicates that family and nonfamily firms may not be so different in terms of total productivity, and that the levels of labor productivity achieved by small family firms are actually superior to those obtained by comparable nonfamily firms. However, such differences in labor contributions may vanish with firm size.

In line with this evidence, our model considers how the influence of SEW priorities on labor productivity varies with size. Essentially, when family firms prioritize extended SEW dimensions (i.e., identification with the firm, binding social ties, and the renewal of family bonds), family leaders are more likely to use a transformational leadership style and to engender higher levels of cognition-based trust. Likewise, these family firms are more likely to incorporate nonfamily managers and to implement HPWPs. As the size of the firm increases, those elements are the ones that may guarantee the necessary attitudes and behaviors to keep labor productivity high. A more restricted SEW perspective (i.e., emphasis on control and emotions) is less likely to engender a positive response from employees as the firm grows and direct communication between family leaders and the larger proportion of nonfamily workforce becomes impossible. These types of family firms gravitate towards a

leadership style that is less likely to generate trust as the firm grows, and consequently, they show a lower propensity to incorporate nonfamily managers or HPWPs. As a firm grows in size, such decisions may limit the possibilities for engaging the company's workforce and achieving good labor productivity levels.

The SEW framework stresses the links between the preferences of family owners, their decisions, and the consequences of those decisions. Our model further develops that framework by establishing, in line with other recent developments in the literature on family firms (Cruz et al., 2014; Miller and Le Breton-Miller, 2014), the possibility of a categorization of the SEW priorities. In particular, our model links these priorities with specific outcomes and ultimately with people's attitudes, behavior, and labor productivity. In this sense, the model further underscores the importance that the family owners' preferences may have for firm decision making and results. While the firm's performance will clearly be influenced by forces outside the control of the firm's owners and managers, the goals and objectives that these owners and managers pursue have a bearing on the evolution of the firm.

While our focus in this chapter has been on labor productivity, our caveats and basic logic could be extended to the broader debate about the superior or inferior financial performance of family-controlled firms, and could provide insights into the factors that explain the heterogeneity of family firms. We link those differences directly with the preferences of the controlling family members. Family firms with a restricted SEW perspective would be less likely to outperform other family firms and comparable nonfamily firms, particularly as they grow in size. As explained, when the firm is small, direct contact with employees and the relatively large presence of family members in the firm may create a "family-like" atmosphere that compensates for other inefficiencies that may arise due to a restricted view of

the firm's goals. However, as the firm grows in size, the relationships and leadership styles that tie the firm together tend to evaporate and new ways of managing the workforce become necessary to remain competitive. In a growing family firm, the restricted SEW view is an impediment to the adoption of the people management practices that are necessary to facilitate desired employee attitudes and behaviors.

Future research attempts may be directed towards empirically testing the propositions developed above. For example, it may be interesting to obtain further evidence on the labor productivity differences, and by extension on financial performance, across family firms of different sizes. Methodologies such as the one employed by Barbera and Moores (2013) could be applied to further explore the connection between the family control of the firm and productivity levels, especially labor productivity levels. Also, because these authors focused on small firms, it may be worthwhile to complement their findings with samples of medium-sized and large firms. Secondary data sources may be helpful for this endeavor.

But a direct test of our propositions would probably need the use of primary data sources. Survey instruments, case studies, or family stories could be instrumental in testing our propositions and may provide interesting insights. Probably the biggest challenge here, which could be extended to all research on the SEW perspective of family firms, is how to properly measure the family's SEW. While measures of other central constructs in our model such as trust, leadership style or HPWPs have been developed, and even validated, in the literature, we still do not have a standard measure of SEW. There have been some attempts to measure SEW, but the path ahead is replete with methodological difficulties, and much needs to be done to build a reliable measure of a central concept of contemporary research in family firms. In this sense, the suggestions provided by Berrone et al (2012) may be a good starting

point to develop and validate a measure of SEW. This validation is not easy though, since the identification of and access to firms and controlling families is a major barrier.

The difficulties just described involved in measuring SEW could be extended to the task of measuring the different dimensions of SEW and their relative importance for the controlling family that our framework requires. In this sense, the dichotomous categorization of SEW priorities we proposed in our model (i.e. extended versus restricted) facilitates this task. We can either ask for the relative importance the family gives to each of the two categories, or try to measure, using for example a 1 to 7 Likert type scale, how important a particular dimension is to the owning family and determine whether the family favors one set of dimensions over the others.

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