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Psychological Ownership of Family Firm Successors: A Conceptual Approach

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Researchers have reported high turnover intention among family successors of family firms. Successors' low commitment to the family firm and high turnover rate is puzzling since most have equity in the firm and/or potential future financial benefits associated with the firm. In this paper we use psychological ownership theory and a new concept of psychological ownership (PO) consideration set to explain a successor's commitment and turnover intentions. We refine the psychological ownership theory and argue that a successor may concurrently develop psychological ownership toward multiple targets, including the family firm. The development of psychological ownership of other target(s) may conflict with their attachment to the family firm; this may influence their turnover intention and commitment to the firm.

As succession is a key definitional attribute of family firms, it attracts significant research effort (Sharma, Chrisman, & Gersick, 2012). Parent-successor relationship (e.g. Bachkaniwala, 2001; Cabrera-Suarez, 2005), incumbent characteristics (e.g. Sharma, et al, 2001), family relationship (e.g. Venter et al, 2005), and successor characteristics (e.g. Aronoff & Ward, 1992) are some of the topics explored in research on succession in family firms. On the stakeholder side, the issue has been examined from the perspective of founders (e.g. Sharma et al, 2001) and family (Morris et al., 1997) but perspectives of successor and non-family employees (Bernhard, 2011; Griffeth, Allen, & Barrett, 2006) has attracted scarce attention. A significant effort in family firm literature has been devoted to understanding the underlying causes and correlates of stakeholders' behaviors and actions that impact the succession process and outcome.

Recently in succession research, focus has shifted to the study of emotions and attitudes of the family members (Bernhard, 2011; Ramos, Man, Mustafa, & Ng, 2014). Commitment, embeddedness, satisfaction, and psychological ownership are some of the constructs investigated in the research. However, progress in understanding the behaviors of family business stakeholders is still limited and needs significantly more research efforts (e.g. Ramos et al., 2014; Sharma, Chrisman, & Gersick, 2012).

In the current literature on family firm succession, successors have received limited attention compared to the founders (Chrisman, Chua, Pearson, & Barnett, 2012; Griffeth et al., 2006). The majority of limited coverage that successors received in literature is negative (Birley, 2002; Jaffe & Lane, 2004). For example, in a widely cited study, Anderson and Reeb (2003) found successor controlled family firms to be inferior to founder controlled firms on financial performance. Kets de Vries (1993) noted the high mortality of family firms post founder departure. Ward (1987) found that over a sixty-year period less than 15 percent of his family firm sample was still active. Furthermore, among the surviving firms, only 1/3 (or 5 percent of the original sample) had positive performance. Scholars attribute such low odds of survival for family firms to a variety of interrelated factors that include limited capital, maturing markets, family conflicts affecting second and third generation, and weak or incompetent successors (Jaffe & Lane, 2004; Sharma, 2004; Ward, 1987). Some researchers have reasoned that successors lack the same commitment and entrepreneurial drive of the founders (Mishra & McConaughy, 1999; Sharma & Irving, 2005).

Successor involvement in a firm fulfills a family's intention of transgenerational control of the family firm (e.g. Stewart & Hitt, 2012). The transgenerational control intention impacts not just the firm behavior (Chrisman, Chua, Pearson, & Barnett, 2012), but also the firm performance (Bennedsen, Nielsen, Perez-Gonzales, & Wolfenzon, 2007). However, a family's control intentions may not be in line with a successor's intention of involvement in the family firm, a topic that has received limited attention in family business literature (Birley, 2002; Stavrou, 1996). Researchers have suggested that a large percentage of heirs express no intention of joining their family's firm. For example, Stavrou (1999) in her survey of family firm heirs found that 1/5 participants had no intention of joining their family firm; a staggering 61 percent of the participants expressed a less than 50 percent possibility of joining their parent's firm. Such findings are puzzling considering successors may or will have an ownership stake in the family firm and common wisdom suggests that people nourish and protect their possession (Bernhard, 2011), especially valued possessions (Belk, 1988; Dittmar, 1992) such as a family firm. Given that ownership is a tool used for aligning interests of principal and agent (e.g. Klein, 1987; Tannenbaum, 1983), it is critical to understand why ownership tool fails to motivate successor involvement in family firms.

The employee stock ownership (ESOP) literature posits that employers providing employees with equity ownership can mitigate agency problems undercutting a successful firm (Bakan, Suseno, Pinnington, & Money, 2004; Tannenbaum, 1983). Stock owning employees gain wealth when the firm is performing well and lose wealth when the firm's performance deteriorates. These financial effects, according to agency theory, enhance employees' commitment to the firm and motivates them to exert extra effort working for the firm. The theory of psychological ownership (PO) (Pierce et al., 2001) offers a diverging outlook on the effect of ownership on motivation compared to the agency theory. The PO theory, unlike agency theory that assumes ownership automatically generates commitment, suggests that ownership may generate commitment only when it prompts strong possessive emotions. Building on PO theory, we develop a theoretical model of successor commitment to family firm to explain why ownership may not be sufficient if a critical commitment-generating component is missing. Figure 1 depicts our proposed theoretical model.

We explain why some successors are more committed to a family firm versus others. In the process, we expand the PO theory by introducing the possibility of psychological ownership towards multiple targets at the same time and the consequences of such emotions on an individual's attitude and behavior. We propose that an individual's attitude and behaviors are functions of not only their psychological ownership of the target but also their psychological ownership of competing target(s). Finally, our research fills the recently identified gap in family business literature on successor's motivations and intentions (e.g. Sharma. Chrisman, & Gersick, 2012; Yu, Lumpkin, Sorenson, & Brigham, 2012) by theoretically explaining how a successor's experience in the family firm influences their emotions towards the firm.

In the Literature Review section, we summarize some of the literature on commitment and successor's commitment to a family firm. We provide an overview of PO theory in the next section. We build theoretical arguments for our propositions and the conceptual model in the Model Development section. We conclude by discussing our model, providing some practical implications and offering some direction for future research

LITERATURE REVIEW

The quest to achieve competitive advantage has led many organizations to focus on employees' attachment to organization (e.g. Meyer et al, 2008; Pfeffer, 2010). Multiple studies have confirmed the positive impact of employees' attachment on firm outcomes such as performance, turnover, and absenteeism (Baruch, 1998). Strong attachment to a firm motivates employees to go the extra mile (Rousseau & Shperling, 2003) and enhance their contribution, which adds to a firm's overall performance (e.g. Meyer et al, 2008). The feeling of reduced stress and low work-family conflict associated with attachment to firm may also lead to higher employee performance (Meyer, Stanley, Herscovitch, & Topolnytsky, 2002).

Organizational commitment (OC), which O'Reilly & Chatman 1986) defined as psychological attachment, reflects the degree to which a person internalizes the cultural characteristics of an organization. Employees with high commitment not only perceive their values to be similar to the firm, but also identify themselves with the firm (merger of their identity with the firm identity). Recently Meyer and Herscovitch (2001) defined OC as a specific mindset that compels and binds an individual to an organization. Empirical findings have mostly shown a positive link between OC and firm valued outcomes such as lower employee turnover and higher employee performance (Lam & Liu, 2014; Meyer et al., 2002). For example, Lam (2012) found positive impact of OC on performance in a sample of sales people. Meyer and Herscovitch (2001) found higher OC resulted in lower turnover intentions among employees.

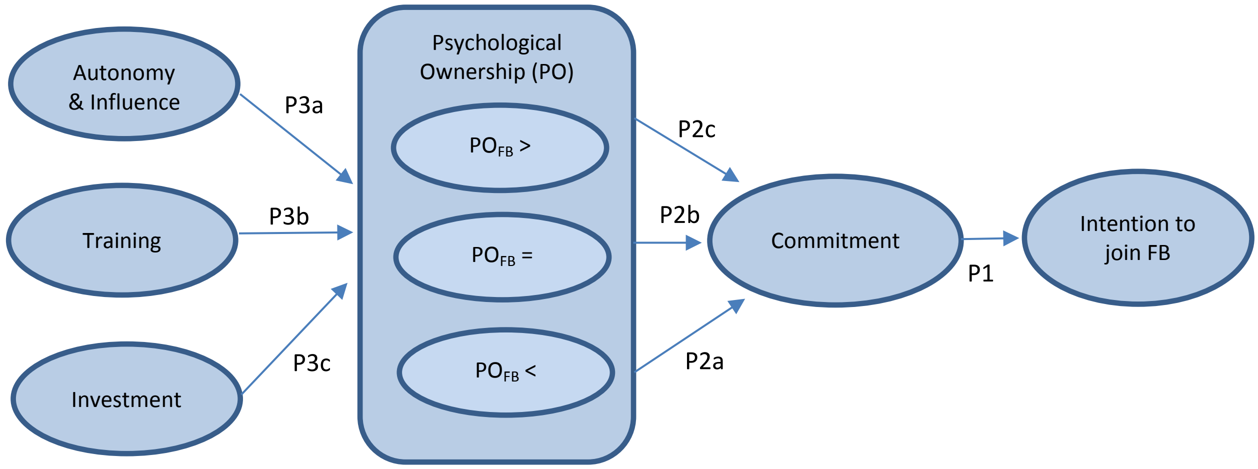
Commitment has received wide attention in family firm literature (e.g. Pieper, 2007; Sharma & Irving, 2005).). Handler (1989; 1992) suggested commitment to family facilitates succession in family firms. Griffeth et al (2006) suggested commitment as an antecedent of successor's intention to join the family firm. Mahto et al (2010) suggested commitment as a predictor of family's satisfaction with firm's financial performance. Mahto and Khanin (2014) suggested family firms with committed family members are likely to assume higher levels of risk and exhibit superior performance.

Extant management research has identified numerous antecedents of commitment such as job satisfaction (Mathieu & Zajac, 1990), person-organization fit (Kristof-Brown et al., 2005), and ownership (Tannenbaum, 1983). The latter factor has been thoroughly researched in strategy and finance literatures focused on agency conflicts in firms. Agency conflicts emerge when managers (agents) act opportunistically and their behavior goes against the interests of owners (principals) (Jensen & Meckling, 1976; Walter, Kroll, & Wright, 2010). In sum, agency theory suggests that managers (agents) need to become owners and be monitored to align their objectives with those of the principals'.

Similar arguments have been developed in the ESOP literature. ESOP is a popular tool corporations use to align their employees' interests with stock holders' goals (Walter, Kroll, & Wright, 2010). The underlying assumption in ESOP is stock ownership automatically enhances an employee's commitment, which results in positive change in their attitude towards the firm (Tannenbaum, 1983). However, ownership per se may not lead to positive attitudinal change (Bernhard, 2011; Pierce, Kostova, & Dirks, 2001) as small or insignificant amount of equity offers limited or no opportunity to influence decision making in their firm. Multiple studies on ESOP did not find support for the ownership-commitment relationship (Buchko, 1992; Pierce & Furo, 1990).

Family firms offer family members, including successors, a greater opportunity for financial reward and security (Jonovic, 1982). Successors may have equity in the family firm or potential future financial benefits associated with the family firm. The current or future equity potential may offer successors an ability to influence decision making in the family firm. However, a successor's potential family firm ownership stake and influence on firm decision making does not always translate to their commitment to and intention to join the family firm as turnover intention among successors is four to eight times higher than turnover in regular firms (Griffeth, et al., 2006). Furthermore, many researchers have suggested that successors may have low commitment to their family firm (Bachkaniwala et al., 2001; Sharma and Rao, 2000). We need a better understanding of successors' commitment to a family firm in order to address Griffeth, et al.'s (2006) criticism of succession research, "succession planning tends to ignore the critical role of the motivation of potential successors to continue in the FOB (page 491)". We believe the theory of PO can enhance our understanding about the development of a successor's commitment.

Figure 1: *The proposed conceptual model of successor's psychological ownership of the family firm.*



THEORY OF PSYCHOLOGICAL OWNERSHIP

The connection between people and their possession has received wide attention in different fields (see Bernhard, 2011). According to social psychology, valued possessions become integrated with an individual's identity and loss of possession may equate to giving a part of self (Belk, 1988; Dittmar, 1992). The possession and associated psychological phenomena influence an individual's attitude and behavior (Pierce, Van Dyne, & Cummings, 1992). Pierce, et al (2001) used psychological ownership to study the phenomena. While proposing the theory of PO, they suggested that individuals develop psychological ownership towards a target through three routes: 1) control over the target, 2) intimate knowledge of the target, and 3) investment of self in the target. The theory suggests that an individual with psychological ownership towards a target tends to be more committed and assume extra responsibility for their possession.

Psychological ownership is offered as the antecedent of OC. Empirical findings have supported psychological ownership as the antecedent of OC (Bernhard, 2011). For example, O'Driscoll, Pierce and Coghlan (2006) found psychological ownership as the predictor of OC. Bernhard and O'Driscoll (2011) reported similar findings in their sample of family firm employees in Germany. Druskat and Pescosolido (2002) reported lower psychological ownership was associated with reduced commitment. Researchers have reported positive relation between psychological ownership and a correlate of commitment, job satisfaction (Mayhew et al, 2007; Van Dyne & Pierce, 2004). Psychological ownership also has positive influence on individual performance and organizational citizenship behavior (Avey et al., 2009; O'Driscoll et al., 2006).

MODEL DEVELOPMENT

COMMITMENT AND INTENTION TO JOIN FB

Employee commitment produces outcomes that enhance firm value. Commitment not only motivates employees to enhance performance (Lam, 2012) but also reduces negative work behaviors such as absenteeism and voluntary turnover (Maertz, Griffeth, Campbell, & Allen, 2007). Meyer and Herscovitch (2001) suggests commitment as the predictor of turnover intention or intention to join. Meta-analysis studies on commitment have reported positive influence of commitment in reducing employees' intention to quit (Meyer et al., 2002).

In family firm context, commitment has been identified as a universal attribute of an effective successor (Bachkaniwala et al., 2001; Chrisman, et al, 2010). Handler (1989; 1992) suggested successor's commitment is critical for the success of the succession process. Sharma and Irving (2005) emphasize the importance of development of commitment in successor for their positive disposition towards family firm. Griffeth et al (2006) also propose a negative relationship between commitment and turnover intention of family firm successors. Finally, Bernhard and O'Driscoll (2011) found negative correlation between commitment and turnover intention among family firm employees. The probability that family members will pursue a career in the family business increases dramatically if family members are committed to the family firm (Dyck, et al., 2002). Overall, the finding in the literature has consistently supported positive influence of commitment in reducing employee turnover and vice-versa.

Proposition 1: A successor's commitment to family firm is positively associated with their intention to join the family firm.

PSYCHOLOGICAL OWNERSHIP AND COMMITMENT

The inconsistent findings in literature on ownership and commitment (Klien, 1987) led many researchers to suggest psychological ownership as the mediator of the ownership and commitment relationship (Pierce et al, 1991). In order to develop commitment, ownership, whether formal or informal, should create feelings of perceived ownership towards a target. In developing the theory of PO, Pierce, Kostova, and Dirks (2001) theoretically developed arguments for psychological ownership as the predictor of commitment.

Empirical findings in the literature have supported the psychological ownership as a predictor of commitment (see Bernhard, 2011). For example, Bernhard and O'Driscoll (2011) found positive relationship between psychological ownership and commitment of family firm employees. Similar findings emerged in Van Dyne and Pierce's (2004) and O'Driscoll, Pierce, and Coghlan's (2006) studies. Druskat and Pescosolido (2002) further validated the relationship and reported lower psychological ownership resulted in lower commitment.

PO theory (Avey et al., 2009; Pierce et al., 2001, 2003), however, has examined only an individual's possessive emotions toward a single target. The assumption of a person developing psychological ownership towards a single target independent of their emotions towards other objects may be unrealistic. Any person can or may possess or have feeling of possession towards multiple objects, and may develop varying levels of psychological ownership towards those targets. Different levels of psychological ownership towards multiple possessions may result in emergence of varying levels of commitment. If not impossible, it may be difficult to assume that an individual will have the same level of psychological ownership and associated outcome (i.e., commitment) towards all of his or her possessions. The high psychological ownership of a target "A" may not generate commitment to it if the presence of psychological ownership of another competing target "B" hinders expression of ownership feelings towards the target "A". For example, Davis & Taguiri (1989) provided support for the statement by suggesting, "the father is often emotionally attached to his company as to a child, and this attachment competes with his son. The father must decide which child – his son or his company means more to him" (p. 73).

We introduce the notion of psychological ownership (PO) consideration set to explain the varying levels of psychological ownership towards multiple targets concurrently. We define the PO consideration set as the collection of all targets that a person may have an emotional attachment to, and feelings of psychological ownership. The strengths of the three routes of psychological ownership (control of, knowledge of, and investment in) of various targets in PO consideration set vary, leading to an individual developing different levels of psychological ownership of various targets. The three routes of psychological ownership may determine the level of importance each particular possession holds for an individual. It may be possible to arrange various targets in the PO consideration set based on their level of importance to an individual. The targets ranked high in PO consideration set may generate high commitment as individual may have higher control and knowledge of the target and may have high investment in it. Similarly, low ranked targets in an individual's PO consideration set may generate proportional commitment to it.

If an individual's psychological ownership of a target remained unaffected by other competing targets in the PO consideration set, then their commitment (to the target) is based on the target's ranking in the PO consideration set. In family firm, if a successor's psychological ownership of family firm (PO_{FB}) has no interference from their psychological ownership of other possessions (PO_{Xi}) in the PO consideration set, then we conjecture.

Proposition 2: A successor's psychological ownership of family firm is positively associated with their commitment to the family firm, if their psychological ownership of family firm has no other competing target.

If a successor's PO consideration set has some other target(s) competing with the family firm, then their development of commitment to the family firm may be a function of successor's psychological ownership of both targets $\{f(PO_{FB} - PO_{Xi})\}$. The function offers three conceivable cases of a family firm's relative ranking in a successor's PO consideration set:

1) In the first case, a successor's psychological ownership of family firm (PO_{FB}) is lower compared to successor's psychological ownership of the competing target(s) in the PO consideration set (PO_{Xi}) or $PO_{FB} < PO_{Xi}$. In such a scenario, successors may give priority to the competing target(s) for their commitment, and will have lower commitment to the family firm.

2) In the second case, a successor's psychological ownership of family firm (PO_{FB}) is equal to successor's psychological ownership of the competing target(s) in the PO consideration set (PO_{Xi}) or $PO_{FB} = PO_{Xi}$. In such a scenario, successors will have a dilemma in deciding their commitment to either targets resulting in low commitment to the family firm.

3) In the third case, a successor's psychological ownership of family firm (PO_{FB}) is higher compared to successor's psychological ownership of the competing target in the PO consideration set (PO_{Xi}) or $PO_{FB} > PO_{Xi}$. In such a scenario, successors will give priority to the family firm, and will have high commitment to the family firm.

If successor's PO_{FB} is higher compared to successor's PO_{Xi} then successor will have higher commitment to their preferred target, the family firm. In other two cases, the successors may have to sacrifice other target(s) for their choice of the family firm resulting in a feeling of loss. This resentment may cause them to reduce their commitment to family firm. This leads us to the following propositions:

Proposition 3a: A successor's commitment to family firm is low if their psychological ownership of family firm (PO_{FB}) is lower compared to their psychological ownership of the competing target(s) (PO_{Xi}) ($PO_{FB} < PO_{Xi}$).

Proposition 3b: A successor's commitment to family firm is low if their psychological ownership of family firm (PO_{FB}) is equal to their psychological ownership of the competing target(s) (PO_{Xi}) ($PO_{FB} = PO_{Xi}$).

Proposition 3c: A successor's commitment to family firm is high if their psychological ownership of family firm (PO_{FB}) is higher compared to their psychological ownership of the competing target(s) (PO_{Xi}) ($PO_{FB} > PO_{Xi}$).

OWNERSHIP EARNED VS. OWNERSHIP INHERITED

Family firm researchers have offered many reasons for failure of succession in the majority of family firms. Literature on successors has highlighted their challenge in exceeding or matching performance standards of the founder or the incumbent. Many times successors experience the feeling of guilt and self-doubt associated with the inherited wealth (Jonovic, 1982; Ward, 1987). The lack of credibility with employees and perception of inheriting the job despite being unqualified may demotivate a successor. Successor's conflict with parent or incumbent generation may turn them away from family firm as well (Dyer, 1986; Jonovic, 1982). In many family firms, the founder accumulates decision making authority, leaving successors with titles without power and limited chances to prove themselves (Alcorn, 1982; Handler, 1992). Often times, parents who are supervising the family successor during the succession process, end up creating lower attachment to family firm by being overly critical of them (Rosenblatt et al., 1985). These negative experience may increase successor's turnover from the family firm, which is four to eight times higher compared to employees in corporations (Griffeth, Allen, & Barrett, 2006). The higher successor turnover may be a reflection of their low psychological ownership of the family firm.

Successors involved in successful succession process make significant investment, have autonomy and influence, and receive adequate training. For example, family firms engaged in successful intergenerational transfer of control have successors, who have positive experience working in the firm at an early age (Goldberg, 1996; Lea, 1991). These successor make significant investment in acquiring knowledge and capabilities needed to assume the responsibility of the firm (Morris, et al., 1997). Those successors had advanced education and leadership skills (Aronoff & Ward, 1992) to prepare themselves for the family firm (Cabrera-Suarez et al., 2001; Venter et al, 2005). Bernhard (2011) suggested that in the absence of a significant personal investment in the firm, successor may not accept the firm as their own and avoid psychological ownership of the entity. The significant investment in preparation of a successor represents one of the three 'routes' of psychological ownership, which generates attachment to the family firm.

Besides investment in the family firm, successors have training to obtain firm related expertise and knowledge (Griffeth, et al., 2006). As we mentioned above, for many successors training starts at an early age in the form of working at some position in the family firm. Founders, involved in successful succession, understand the importance of a positive training environment and they develop a relationship of mutual respect, trust, and good communication (e.g. Goldberg, 1996; Handler, 1991). Successors receive positive mentoring and are encouraged to participate in decision making (Handler, 1992). They are given challenging assignments and offered chances to prove themselves (Aronoff & Ward, 1992). In many cases, successors receive leadership training (Cabrera-Suarez, 2005) to make them self-confident and remove self-doubt about their capabilities and skills (e.g. Lea, 1991). Training and mentorship facilitate knowledge transfer from incumbent to successor and provides the latter with deep firm and family level expertise (Cabrera-Suarez, et al., 2001; Cabrera-Suarez, 2005). Bernhard (2011) supported the importance of training in creating psychological ownership among successors. He argued that failure to support successor through appropriate training and preparation may reduce their feeling of psychological ownership. As knowledge is one of the three 'routes' of psychological ownership, successor's efficacy and expertise generate feeling of psychological ownership toward the firm.

Finally, successors in successful succession have influential and meaningful positions in the family firms (Jonovic, 1982). They are updated on important firm level decisions and are encouraged to participate in the decision making process. Successors also have freedom to decide the level and time of involvement in family (Cabrera-Surez, 2005). Most firms allow these successors freedom to obtain outside experience or engage in self-employment before engaging in family firm. They participate and influence the succession process and plan (Dyck et al., 2002) alongside the founder or incumbent. As successors join the firm on their own terms and have significant influence in firm decision making, they are able to decide and control a firm's direction. The control of firm, a 'route' to achieve psychological ownership, allows a successor to develop attachment to their family firm. Therefore, we propose:

Proposition 4a: A successor's influence in family firm is positively associated with their psychological ownership of family firm.

Proposition 4b: A successor's training in family firm is positively associated with their psychological ownership of family firm.

Proposition 4c: A successor's personal investment in family firm is positively associated with their psychological ownership of family firm.

RESEARCH IMPLICATIONS AND CONCLUSIONS

Succession is a bellwether topic of family business literature (Sharma, Chrisman, & Gersick, 2012). However, Griffeth, et al. (2006) said, "focus on succession planning tends to ignore critical role of the motivation of potential successors to continue in the FOB (Family Owned Business)". The need for more research on successor's motivation and intention to join and stay with a family firm is urgent because of low commitment and high turnover among them. In Stavrou's (1999) study of heirs, one fifth of the participants expressed no interest in joining their family firm; and 61 percent of them expressed a less than 50 percent possibility of joining the firm. The numbers were equally grim in Birley's (1986) study with 42 percent of possible successors expressing no intention of joining family firms. The link between ownership and commitment, as predicted in ESOP theory (Bakan, Suseno, Pinnington & Money, 2004), has failed to explain high family firm successor turnover paradox.

We believe our model explains the process of a successor's attachment to a family firm. We use the theory of PO, which has not been deployed in family firm literature to explore successor's attachment and intention to join a family firm. We expanded the theory of PO to include the possibility of psychological ownership of multiple targets concurrently and the possibility of conflict among psychological ownership of competing targets. As a result, our model has potential to explain difficulty of some founders in letting go of a family firm (Davis & Tagiuri, 1989; Sharma et al., 2001) or their failure to plan succession (Yu et al., 2012). We use theory of PO to explain why certain successor characteristics are needed for a successful succession.

We introduce the concept of PO consideration set to explain successors' varying level of commitment to a family firm. We argue that higher ranked possessions or targets in the PO set lead to high commitment and vice versa. Additionally, we introduce the notion of relative ranking of the family firm compared to other targets, and examine three situations when the PO ranking of a family firm is higher, lower or approximately the same as the ranking of competing possession.

Although our model can explain successor's commitment and intention to join a family firm, it has some limitations as well. We caution readers against applying this model beyond North American context as the primary goal was to explain high successor turnover intentions reported in the North American context. Also, our model has scope for inclusion of additional cultural variables, and we encourage future research endeavors on that topic. The model needs empirical testing to assess practical applications. Bernhard (2011) found some empirical support for a model of psychological ownership of family business founder-manager. Empirical research may allow researchers to assess the directionality of proposed relationships in our model. Future researchers can explore other antecedents of a successor's psychological ownership of family firm, such as family size and culture.

Moreover, our model provides family firm owners a tool to reduce turnover intention among next generation of family members. Family firm owner's desire of maintaining transgenerational control of their firm is dependent on successor's commitment and intention to join it (Chrisman et al., 2005). Unfortunately, fairly large percent of family firms fail to bridge intergenerational divide as "30% of family businesses make it to the second generation, 10-15% make it to the third generation and 3-5% make it to the fourth generation" (Aronoff, 1999, p. 1). Family firm owners can generate psychological ownership in successor by exposing them to the family firm at an early age and training them to lead the firm. Incumbents have to constantly make successors realize their importance to the family firm so that they generate strong attachment to the firm. This process can lead to higher ranking of the family firm in the successor's PO set.

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