

Out-group's discrimination in family firms

Contribution of social psychology of inter-group relations to organizational literature

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Abstract— This paper discusses the theoretical models which explain the discrimination against non-family members in small and medium-sized family firms, starting from the results of qualitative and longitudinal research carried out in a sample of SMEs (N = 12). This article also discusses the causes and reasons for such discriminatory behaviour.

However, the findings of this research and the review of the scarce existent empirical literature, suggest that discriminatory behaviour against non-family members is confirmed but is a non-automatic phenomenon typical of family SMEs. Therefore, it seems to be necessary to integrate organizational and managerial approaches with more complex insights derived from the social psychology of inter-group relations.

Keywords—component, formatting, style, styling, insert (key words)

I. Introduction

Family firms are different from non-family ones (Stewart, Hewitt, 2012). Family firms, especially SMEs, are characterized by the overlap between ownership and management. This institutional overlap (Landsberg, 1983) brings the entrepreneur (i.e., the parent) to act with a conflict of interests, since the role of control exercised by an external property is lacking, and exposes the entrepreneur to the risk of decisions functional to the pursuit, not of non-economic objectives but of business interest. The pursuit of organizational non economic-objectives (such as to warrant economic wellness to young family members) could lead to discriminative behaviours against non-family members in the firm.

Despite ample theoretical literature, little empirical research has been conducted, especially in family SMEs. The first purpose of this paper is to begin to contribute to filling this gap; collecting qualitative data about discrimination against non-family members in family firms. The second is to provide some theoretical insights, grounded on a socio-psychological approach, about inter-group relations in family firms.

II. Theoretical background

Many definitions of family firms currently exist. I've decided to follow Chua, Chrisman, and Sharma (1999, p. 25) by defining a family business as "a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families."

For the purpose of this paper, I briefly consider three theories in order to discuss discriminative behaviour against non-family members in family firms: Agency Theory, Social Exchange Theory and Social Identity Theory. I chose these theories because of their extensive diffusion in literature and effectiveness in explaining organizational dynamics, especially within family firms.

Agency Theory (AT). AT describes the exchange relationship between an actor (the Principal) who delegates to another actor (the Agent) the discretionary power (i.e., decision-making responsibilities) to act on behalf of the Principal for reward (Jensen, Meckling, 1976; Ross, 1973). This relationship aims to align the objectives of the Agent to those of the Principal, in order to reach the desired effect (for a review, Eisenhardt, 1989). Early work on AT (Jensen, Meckling, 1976; Ross, 1973) attributed a specific situation favourable to the family firm. The sense of belonging of family members can protect the company from the opportunistic behaviour of its members, to the benefit of the overall agency costs. This position has been challenged by the *economy of the family* (Becker, 1981): family firms are characterized by opportunistic behaviour and altruism expressed by parents (the Principal), generating costs related to adverse selection (eg, selection of their children according to criteria of belonging and not of expertise: Lansberg, 1983; Schulze, Lubatkin, Dino, 2003; Chirsman, Chua, Litz, 2004; Schulze, Lubatkin, Dino, Bucholtz, 2001). *Parental altruism* (Schulze, Lubatkin, Dino, 2003; Karra el al, 2006; Lubatkin, Durand, Ling, 2007) is a variable to take into consideration in AT. The parent-child relationship is characterized, even in business contexts, by attitudes and acts of generosity on the part of the older generation, according to a universal model of the relationship of care and help. Consequently, parental altruism is a variable explanatory of non-family members' discrimination. This feature makes the entrepreneur run the risk of acting once again in a functional manner in the pursuit of non-economic objectives. Altruism can generate different

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types of problems in firms' management, which decrease efficiency. For example, parental altruism and conflict of interest can lead to adverse selection especially when a daughter joins a/the family firm (Ferrari, 2014), and hence to the hiring of incompetent family members, with an obvious negative impact on performance. Second, and the most important for the aims of this paper, parental altruism can lead to assigning benefits (economic and otherwise) to family members, regardless of their merit, laying the groundwork for future deviant behaviour (Eddleston, Kidwell, 2010), and at the same time discriminating against non-family members. In both cases, it also generates a *disutility* for the firm.

In sum, in AT, the combined factors of a) conflict of interest of the Principal (as the parent) and b) parental altruism can lead to discrimination against the out-groups (or an out-group). Furthermore, in family firms altruism is usually asymmetric, from parent to child, and not *vice-versa*; this unilateral mechanism can also generate *disutility* for the organization, due to the exploitation of a parent (the principal) by the child (the Agent). This negative outcome is analyzed by Social Exchange Theory, another theoretical model awash with interesting suggestions to understand organizational dynamics.

Social Exchange Theory (SET). SET focuses on the nature of recurring exchanges between actors, noting that they are based on "relationship, reciprocity and exchange" (Coyle-Shapiro & Shore, 2007, p. 166). All social exchanges are based on actors' perceptions of a cost-benefit analysis between giving and receiving and are thus motivated by potential returns. In particular, actors focus on the immanent nature of returns and on how difficult it would be to achieve those returns elsewhere (Blau, 1964; Homans, 1961; Lévi-Strauss, 1969). In social exchanges, an individual believes that the exchange partner will reciprocate over an unspecified period of time. This expectation of reciprocity is one reason explaining the cohesiveness of social groups (e.g., Long & Mathews, 2011). Research distinguishes restricted and generalized social exchange relationships; these exchanges form two ends of a continuum (e.g., Uehara, 1990). Generalized exchanges are trust-based and person-oriented; each exchange aims at enhancing the underlying relationship; in contrast, restricted exchange relationships are focused on direct reciprocity to receive a particular benefit (Long & Mathews, 2011; Uehara, 1990). In organizations, previous studies show that generalized social exchanges encourage organization citizenship behaviour, affective commitment, tenure, identification with the organization, stewardship, and individual performance (Cropanzano & Mitchell, 2005; Long & Mathews, 2011; Shore et al., 2006). Conversely, in family firms, restricted exchange relationships grounded on blood ties (i.e.; between parent and children) are more likely to involve egotistical goals, information asymmetries, low levels of trust, and eventual exploitation of exchange partners. Furthermore, in family firms, during the business transmission process, a problem of *nepotism* could arise. Nepotism is defined as "hiring based on family ties and thus discriminating against non-family members (Jaskiewicz et al., 2013, 123). In family firms *nepotism* is the equivalent of adverse selection in AT, if it's based on restricted exchange relationships. In fact, restricted exchange relationships are more likely to lead to the

exploitation of family firm resources for personal gain rather than using them for the collective benefit of current and future family firm owners (Jaskiewicz et al., 2013). So, in SET, nepotism is an antecedent of out-group discrimination.

Furthermore, a basic element of SET is *reciprocity*: the cost-benefit analysis in restricted exchange. In family firms, asymmetrical altruism leads to augmented costs for the parent, due to the non-reciprocity from the next generation. This fact is well accepted by the parent because, accordingly to ongoing cited definitions (Chua, Chrisman, and Sharma, 1999), family firms are potentially sustainable across generations. In this way, the parent is likely to provide only family members with competences, economic resources and benefits in order to warrant or facilitate sustainability across generations, but discriminating against non-family members.

Social Identity Theory (SIT). Further to anthropological approaches describing these mechanisms in parent-child relationships, social psychology provides interesting suggestions to be introduced into organizational models in order to explain this discriminatory behaviour against non-family members: the categorization of oneself as a member of a group (Tajfel, Turner, 1986). Ample literature, almost exclusively psycho-social (with the exception of De Massis, 2012), describes the mechanisms and conditions under which individual behaviour is determined not by individual characteristics but by those of the group to which they are believed to belong. This condition raises the risk for the entrepreneur (and for all members of the family working in the company) to favour the in-group (the members perceived as belonging to the same group) and at the same time to discriminate against the out-group (those who considered to belong to groups outside one's own). Behind it all there seems to be a phenomenon of social categorization (Tajfel, 1970, 1971), a mechanism under which the social world is divided and organised into categories. But the categorization, in itself, would not justify favouritism towards the in-group (i.e., the category to which one feels one belongs). In fact, the research findings do not support the relationship between identification with the in-group and inter-group differentiation: there is not always a bias towards the out-group. Because favouritism occurs, it seems necessary for the categorization to be based on the individual's Social Identity Theory (SIT), which consists of their conception of themselves as a member of a group (Hogg, Mullin, 1999). In addition, since people tend to have a satisfactory self-conception (to protect their self-esteem), then comes favouritism. In these terms, an inter-group conflict is a competition for prestige as much as for material resources. This social competition is grounded on three basic processes: social categorization, which can lead to social identification, which in turn can lead to social comparison.

Recently De Massis (2012), discussing a contribution of Barlett et al. (2012), has proposed an integration of SET with suggestions drawn from SIT. The Author posits that "the relationship proposed by Barnett et al. (2012) regarding family control and generalized exchange system is dependent on the controlling family's ability in the form of discretion and resources. SIT predicts that this ability is affected by the

existence of different social identity categories among the family firm's internal stakeholders" (De Massis, 2012, 1231). SET must be associated with the risk of non-reciprocity: all forms of SE (both generalized and restricted) involve this risk, but a generalized exchange system is associated with the higher risk. The conclusion of De Massis (2012) is that "the risk of non-reciprocity is higher (lower) in a generalized (restricted) exchange system" (Ibidem, 1232).

In summary, in the opinion of this Author, out-group discrimination is due to different social identities among workers, in particular between family and non-family ones; this differentiation in turn affects the ability to manage generalized social exchanges, increasing non-reciprocity risk.

III. The research

In order to start to validate theoretical models and to get insights for further, more exhaustive research, I carried out a longitudinal study in a small sample of family firms. This research was conducted over a period of 4 years (2009-2013), on a sample of Italian family SMEs (N = 12), using a qualitative protocol. For each firm, the research was based on extensive interviews with a family member and at least one employee who did not belong to the family. I chose a clinical approach because of the nature of the data, which discouraged the use of a quantitative method, such as self-reported questionnaires. I feared that by using a self-reported questionnaire respondents would not provide truthful information, given the nature of the information sought (the existence of discriminatory behaviours against non-members). It is therefore felt that, methodologically, the collection of data through direct conversation in conditions of absolute confidentiality is the most effective choice, thanks to the level of professional confidentiality required from the interviewer. Furthermore, to prevent resistance and defence mechanisms by participants, the data was collected within already existing consultancy and tutoring activities, but formally with different purposes (such as, for example, actions to design and facilitate generational transmission or actions to improve the management of processes and policies Quality in SMEs). Despite the use of qualitative methods, I tried to scrupulously follow the literature guidelines (McCollom, 1990; Chenail, 2009), in order to: produce generalizable data about the entire population of SMEs (external validity); achieve an epistemologically unobjectionable process of intervention; keep the distortion costs of the researcher under-control; ensure a methodologically consistent system (internal validity).

In order to collect data about discriminative behaviours against non-family members, the research was carried out comparing family members' organizational status (type of contract, benefits, criteria of resources' distribution, the work-life balance and so on) versus non family members in the same job). The research collected data about the follow dimensions utilizing a semi-structured grid in the interviews:

- Type of contract (permanent contract, short term contract, temporary contract, consultants)

- Salary level in comparison with minimum wage
- Criteria for the distribution of economic resources: bonuses and incentives
- Criteria for the distribution of non-economic resources: benefits like company cars, cell phones, expense accounts etc.
- Work-life balance: working hours' flexibility, work permits.
- Application of the organizational rules and procedures
- Level of shared information
- Level of perceived discrimination experienced by non-family members

Furthermore, the interviews were combined with a 12-month diary that was filled in by the researcher during and at the end/at the conclusion of each meeting (usually once a week). In the diary, qualitative data was collected about relations systems among employees (both family and non-family members) and between employer and employees. Elements such as employees' impressions, comments, and opinions were noted, and all were referable to the sphere of perceived discriminative behaviour in non-family members' opinions, in reference to the present time but also, if possible, to the past. The results can be summarized as follows.

Type of contract. There is no evidence of strong difference in the type of contract between family and non-family members. Usually, permanent contracts are applied in all situations, with the exception of apprenticeship contracts, but only when the age of non-family member makes it possible.

Salary level. There is no evidence of strong difference in salary level between family and non-family members. - Minimum wage is usually widespread in family firms, with some exceptions, but normally in favor of non-family members.

Bonuses and incentives. There is evidence of difference in favor of non-family members. Often the owner and his/her relatives are excluded from bonus systems; furthermore, the criteria for assigning bonuses are usually very informal, and based on equality (rather than merit or need), and this fact is consistent with Italian literature on SMEs' managerial practices (Biasetti, Ferrari, Franciosi, Venturelli, 2008). Exploiting *instrumental resources* (in particular cell phones) for personal use is the norm for family members rather than non-family members.

Work-life balance. Very frequently, and only for family members (especially entrepreneur's wives and daughters) it is possible to set the working hours according to family needs (i.e. collecting children from school, or taking them to extra-curricular activities, sport etc). Absence for family needs is almost absolutely without limitations for family members, rather than non-family ones.

Application of organizational rules and procedures. Only the owner (and, less frequently, his/her relatives) is allowed to make changes in formal procedures, due to an 'emergency'. However 'emergencies' happen everyday...

Level of shared information. It seems, overall, very poor practice to involve or at least even inform employees who are not non-family members with regard to strategies, development programs and major investments, with the exception of when they have are owners themselves, participate in governance bodies or hold positions of responsibility... The perception of fairness arising from this level of shared information is, interestingly, almost identical between family and non-family members

Level of perceived discrimination experienced by non-family members. The overall level of discrimination perceived by non-members is average: non-members sometimes feel discriminated against compared to members, but that seems to have no particular effect on perceived organizational justice. The majority of non-members of the family respondents consider the company where they work as neither just nor unjust, but basically balanced.

In summary, the findings show no difference between family members and non-members as to the type of contract in place. So, there is no evidence that family members have access to additional monetary resources or other rewards as opposed to non-members, or that wage differentials are present for equal work (for example, the *superminimo*- a higher than standard minimum wage level defined by an employer/employee agreement). Thus, family firms are not strongly characterized by discrimination of non-relatives. Any discriminatory behaviour found is related to organizational aspects (working hours, time management and schedules) but not to other aspects such as pay and incentives.

iv. Conclusion

With regard to the phenomena of social categorization and inter-group discrimination, these findings do not provide strong evidence that supports ongoing cited theoretical models. For example, widespread opportunism of family members and parental altruism are both strongly in contrast with the first formulation of AT. However, discrimination of out-group members doesn't arise from parental altruism systematically, and this is in contrast with the traditional parental care model. Furthermore, Social Exchange Theory is also unsupported by these results: opportunism of family members is in opposition to the reciprocity principle. Finally, the research findings do not support the relationship between identification with the in-group and inter-group differentiation: there's rarely a bias in favour of the in-group. For example, non-family members often have a higher minimum wage (*superminimo*), and this fact takes the form of out-group favouritism which is in contrast to the SIT. Although family members (especially wives and daughters) are almost shown favouritism in work-family balance. It therefore becomes necessary to explore other approaches taken from social psychology.

At the end of the 1980s, the research shifted to inter-group processes and social groups as psychological entities: and so emerged the *Self Categorization Theory* (SCT) by Turner and colleagues (Hogg, Terry, 2000; Turner et al., 1987). It's possible to categorize people at three levels: as humankind, as

group members and as individuals among in-groups. In a specific situation, more salient social categories attract different categorizations to each level, according to the formula $\text{Categorization} = \text{Accessibility} \times \text{Fit}$ (Oakes, Turner, 1994). The cognition search for categories which maximizes the match between a category (real or imagined) and current stimuli. This socio-psychological mechanism can assist in the explanations of certain situations in which a family member acts, as a colleague to a non-family member, and either discriminates against him (or her). In addition to being motivated by self-enhancement, social identity processes are also motivated by a need to reduce *subjective uncertainty* about one's perceptions, attitudes, feelings, and behaviours and, ultimately, one's self-concept and place within the social world (Hogg, Terry, 2000). When people experiment simultaneously with multiple identities and involvement in various groups (such as in a complex organizational context) this subjective uncertainty "may produce a prototypically homogenous and cohesive organization or work unit with which members identify strongly (Hogg, Terry, 2000, 124)", and then exacerbate inter-group perceived difference, which in turn can lead to out-group discrimination.

For some years the psychosocial literature has raised criticism of the SIT (Brown et al., 1992): the author reports the fact that, especially in field studies, out-group discrimination is far from being an automatic phenomenon. Indeed, there is a possible occurrence of favouritism towards the out-group, or the same group favours the in-group of a certain size, the out-group of another and none of the others, again in contradiction with the SIT. So it seems that the assumption is that the basic processes of social identity are more complex than Tajfel argues (1978; 1981; 1982), and worthy of further investigation within organizations.

A promising line of research was started some years ago by Deaux and colleagues (2011), which explores the different functions of relational processes and affective identification with groups. These processes hitherto are considered to be only cognitive. According to the authors, in this context it is not to be taken for granted that the SIT will generate positive identities, and thus it is not obvious that the outcome is the identification of biological group membership (in this case, the owners' family).

Future research, therefore, is called for to investigate the affective, relational and motivational dimensions of these processes of identification with the in-group

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