

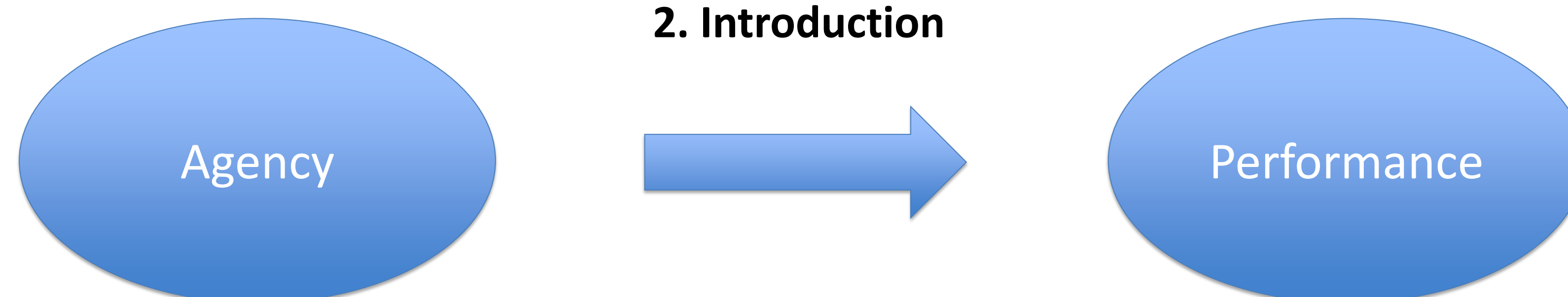
Agency and Psychological Ownership in Family Firms: Governance and Performance Issues

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1. Definition

“Psychological ownership is a *multi-level, multi-faceted* psychologically experienced phenomenon *to develop possessive feelings* that a family firm is ‘mine’ or ours’. Its *roots* are in the human needs for efficacy, self-identity and place. Its *routes* are in the possibility to control and intimately knowing the target and investing one’s self into the target” (Koiranen, 2006 (Italics added); after Pierce et al., 2008).

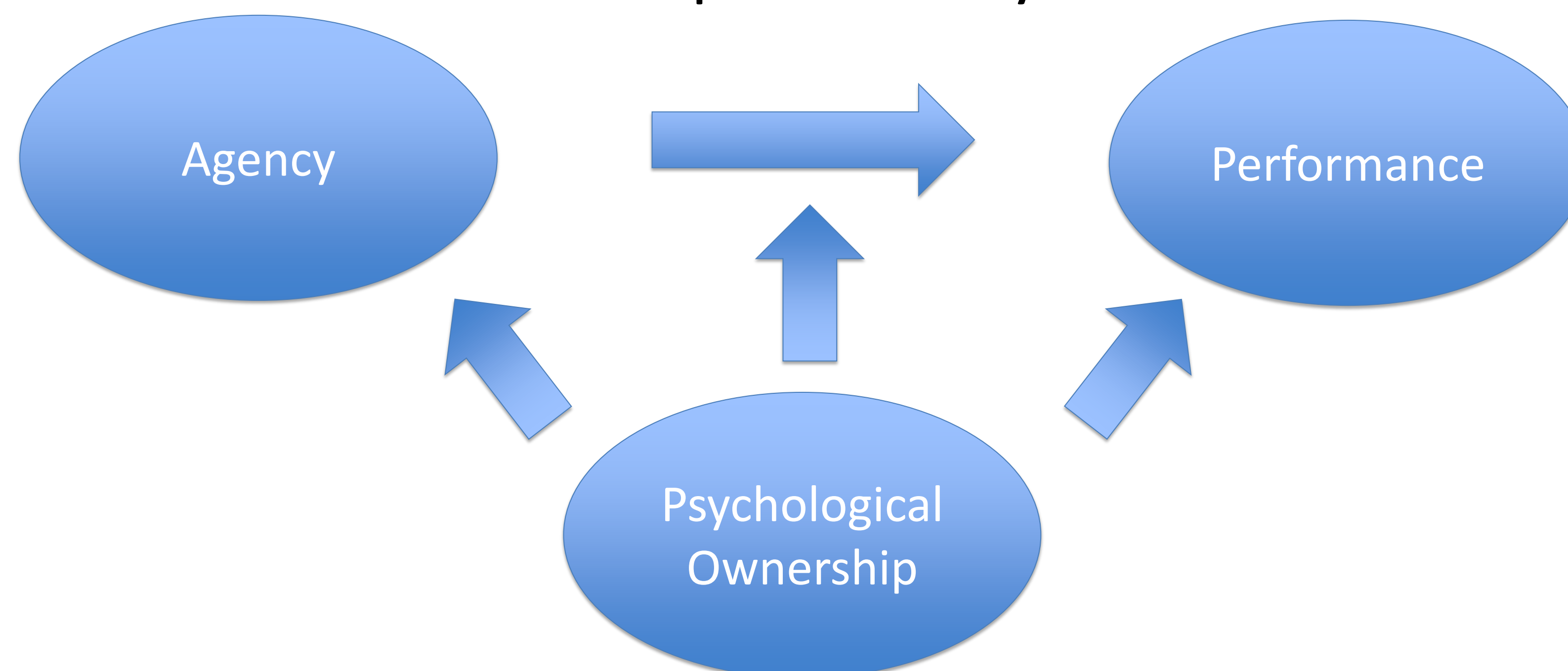
2. Introduction



Two facts are overlooked:

- Feelings of ownership often accompany legal ownership
- Legal ownership and psychological ownership are not necessarily tied together i.e. we can feel ownership for objects we are not legal owner of

3. Purpose of the study



4. Specific agency relationships

Agency problem 1: the classic owner-manager conflict

Increase of agency costs by PO:

- Information hoarding (protecting what is ‘mine’)
- Change resistance (the unwillingness to release previously acquired psychological possessions)
- Sense of responsibility – residual claim on the FF (the FF is ‘mine’ to manage according to my believes)

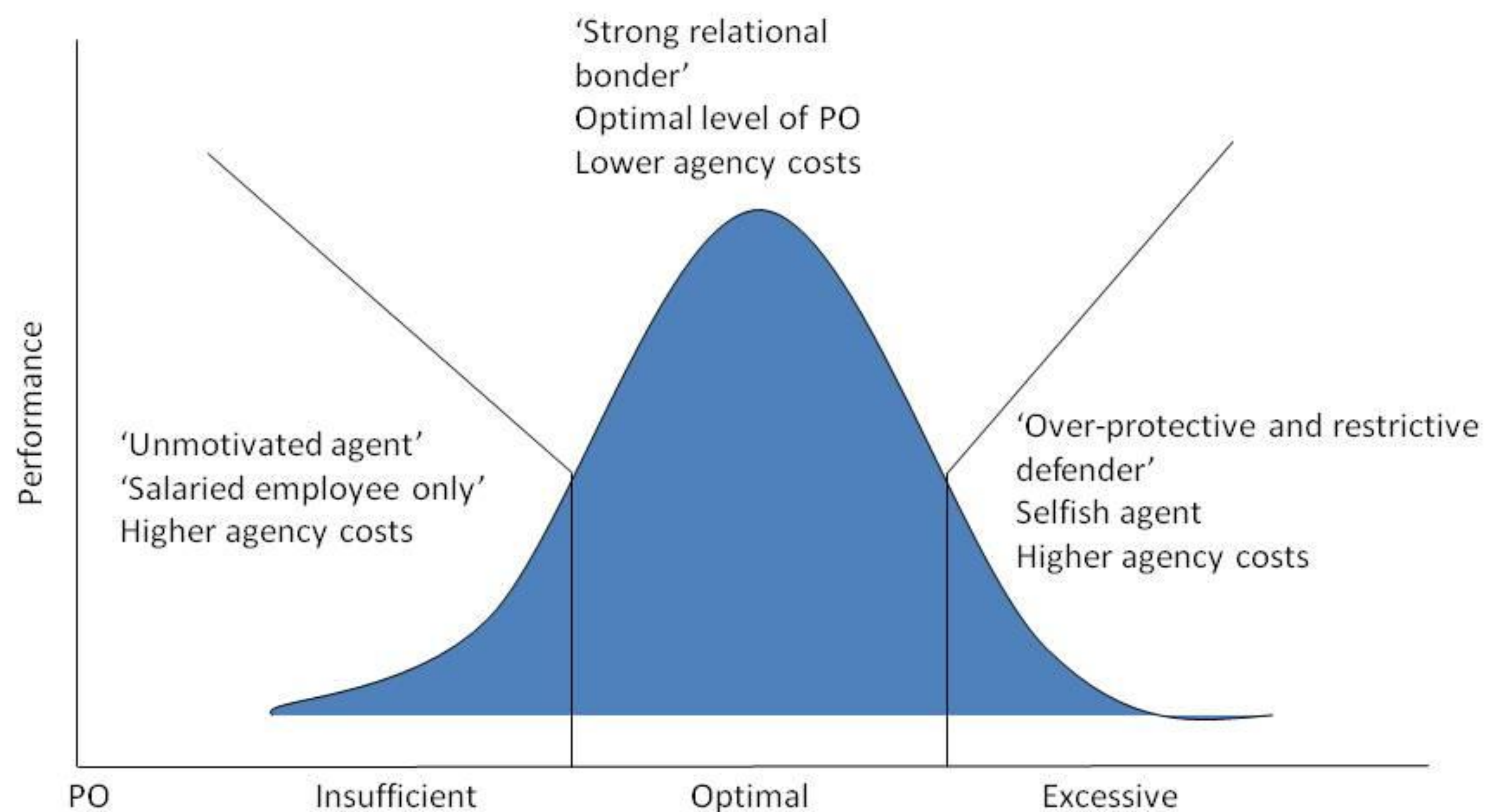
Decrease of agency costs by PO:

FF owner’s stage	Possibility to control	Intimate knowledge	Self-investment
Ownership :	++ (ind.PO)	++ (ind.PO)	++ (ind.PO)
Passing the batton	++ (coll.PO)	++ (coll.PO)	+ (coll.PO)
Expansion and formalization	+ (ind.PO)	++ (coll.PO)	+ (ind.PO)

Manager’s stage	Possibility to control	Intimate knowledge	Self-investment
Ownership	- (ind.PO)	- (ind.PO)	- (ind.PO)
Entering the business	- (ind.PO)	- (ind.PO)	+ (ind.PO)
Expansion and formalization	++ (coll.PO)	++(coll.PO)	++(coll.PO)

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Effects of PO on agency costs and performance:



Agency problem 2: Family agents inappropriate use of control

Family firms: no need to monitor? (Increase of agency costs)

If the large shareholder is an individual or a family, it has greater incentives for both expropriation (**'to take what is mine'**) and monitoring (**'to guard what is mine'**), which are thus likely to lead Agency Problem 2 to eclipse Agency Problem 1."

Decrease of agency costs?

Extrinsic motivator	Intrinsic motivator
Stock ownership	Transfer of PO from principal to agent (individual or collective)
Profit sharing	
Monitoring schemes	

5. Contribution

- We elaborate on the emergence of psychological ownership in family firms and link it to FF governance and performance
- We view psychological ownership as a two-sided medal in family firms, with both positive and negative effects on agency costs and performance
- We introduce a distinction between individual and collective psychological ownership in family firms. We argue this to be important for transferring PO from family to non-family members, thereby reducing agency costs
- In general, we introduce the idea of transferability of psychological ownership over time and from one actor to another.