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A Different Perspective on Defining Family Firms: The Ownership Construct Revisited

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Abstract Our paper contributes to the question: ‘How can we define a family firm?’ We argue that the roots of this question can be found in the ownership of the firm, which in this case is a family. We argue for an approach that emphasizes its psychological dimension, that is, the feeling of ownership, as crucial for our understanding of family businesses. Moreover, we stress that ownership behaviors are key indicators for family involvement. Our level of analysis is the individuals that own and manage the firm, more specific, their legal ownership combined with their experienced feelings of ownership and their consequential ownership behaviors. Lastly, we discuss how this psychological dimension of ownership relates to agency theory and the RBV in family firms.

Keywords: family business, family firm definition, psychological ownership, ownership

Introduction

Ownership is a *'dual creation, part attitude, part object, part in mind, part real'* (Etzioni, 1991: 466).

For the past decade, ownership has been a well documented phenomenon in the context of family firms. It lies at the very heart of the family business research field, as a family firm is often defined as a firm owned by a family. As much as this definition of what constitutes a family firm seems warranted, some family business scholars disagree. They argue that family ownership is only a minimum threshold to classify a firm as a family firm. In this context, Chrisman, Chua and Sharma (2005) notice a convergence among family business scholars towards two definitional approaches: a components of family involvement approach and an essence of family involvement approach. While a components approach focuses on combinations of ownership, control or management, an essence approach looks into actual behavior of family members in the business.

Proponents of the components approach state that family involvement in ownership, management or control is sufficient to classify a firm as a family firm. Critics, however, argue that this approach only reflects the potential to influence the family firm, and that actual behavior should be the focus of attention (Chrisman et al., 2005; Zellweger, Eddleston & Kellermanns, 2010). Besides this, the definition dilemma has been addressed by moving the definition from a merely dichotomous answer to a continuum (Astrachan et al., 2002; Klein et al., 2005), namely the F-PEC scale. Although this scale is not the answer to all questions, it is by far the most quoted one when it comes to tackle the definition dilemma. However, the latter instrument primarily finds its merit in the assessment of family involvement and influence in a firm and its effect on firm behavior and performance (Chrisman et al., 2010). We follow Chua et al. (1999) in their argument that the field must first develop a theoretical definition before it can effectively move to an operational one. Furthermore, in order to be efficacious it is argued that a family firm definition should contribute to a simple measure, capable of emphasizing the differences between a family and a nonfamily firm. In sum, numerous attempts towards conceptual and operational definitions have not lead to a state of widespread acceptance of a family firm definition (e.g. Sharma, 2004; 2002; Chua et al., 1999; Litz, 1995; Astrachan, Klein & Smyrniotis, 2002; Westhead & Cowling, 1998). This lack of consensus on what constitutes a family firm may lay a warrant on the reliability, reconcilability and consistency of research results (Chua et al., 1999) and in the end on the credibility of the family business research field.

This paper revisits the concept of ownership as a basis for a unified definition of the family firm. We propose that it is a preferred strategy to revisit the roots of the problem, i.e., family ownership of the business. However, narrowing ownership to its legal dimension, denies a knowledge base on ownership of more than a century. Therefore, we introduce the psychological dimension of ownership in the debate. So called 'psychological ownership' (PSO) is a state in which individuals feel as though the target of ownership (e.g. an object, a firm, a task), or a piece of it is "theirs" or "ours" (Pierce et al., 2001; 2003; 2009; Van Dyne & Pierce, 2004; Vandewalle et al., 1995). We show that PSO is particularly interesting when it comes to linking ownership with control, which is essential for our understanding of family influence on the firm.

Our paper contributes to the question: ‘How can we define a family firm?’ We argue that the answer to this rather broad question can be found in the ownership of the firm, which in this case is a family. Thus, more specific we contribute to the question: ‘How can we define a family firm by means of its ownership?’ We react upon a reduction of the meaning of ownership to the percentage of legal ownership of the family in the firm, rooted in the components approach, and show that the concept of ownership is much more complex than its legal dimension. The difference between our proposed approach and a components approach, is that our approach lays an emphasis on the component of ownership and its psychological dimension, as crucial for our understanding of family businesses. Moreover, we also go beyond an essence approach and show how family act towards their ownership and consequently influences the firm. The difference between our proposed approach and an essence approach is that our model lays a emphasis on ownership behaviors. It is not our intention, however, to reach the state of a static definition, as we will show that (psychological) ownership holds in it the promise of a continuum. Neither is it our intention to overlook research questions or contextual factors that may call for a different approach.

Our approach revisits the concept of ownership from a different perspective. We argue that ownership and especially its psychological component holds the promise of a unified definition that grasps the essence and the components of a family firm and that contributes to a measurable definition. In this sense our approach differs from other theoretical and operational attempts to define the family firm (e.g. Zellweger et al., 2010; Sharma, 2002, Astrachan, Klein & Smyrnios, 2002). Furthermore, our approach answers to the call by Dyer & Dyer (2009) of putting the family back into family business research, as there exists a strong interrelationship between the family and their feelings of PSO, both towards the family as towards the business. In sum, our approach puts family ownership of the business in the center of attention, with a strong emphasis on ownership in its various dimensions.

We start with a theoretical exploration of the concept of ownership, followed by a theoretical inquiry on PSO and the relationship between PSO and control. We combine family business and PSO literatures and we discuss important consequences of PSO for previous and future research that sets apart family from non-family firms. Finally, we set out a research agenda that may contribute to an advanced theory of ownership of the family firm.

Theoretical background

For the past decade family business scholars have debated extensively on the question ‘When can we call a firm a family firm? Authors seem to agree on the finding that there is something distinctive about firms owned by a family, and family influence on ownership and management is the key factor herein (Chrisman, Chua, Sharma, 2005). For example, family firms have been found to differentiate from non-family firms in terms of (noneconomic) goals (e.g. Westhead & Cowling, 1998), ethics (Adams et al., 1996) and corporate governance (Randøy & Goel, 2003). The key variable, however, seems to be the ownership of the firm which is in hands of one or more controlling families.

This has lead scholars to conclude that a family firm is best defined as a firm in which the majority of the shares is owned by family members, the threshold usually set at 50 % of ownership. Combined with components such as the percentages of family control

or family management, this approach which was subsequently labeled as the components-of-family-influence approach, has a clear advantage of measurability. It is often criticized, however, because it is based on self reported data, and it is lacking a theoretic basis why these components are important (Chrisman, Chua & Sharma, 2005). This has lead to a so called essence-of-family-involvement approach, that argues that the percentage of family ownership is only a minimum threshold, and the focus should lie on actual behavior of family members in the business. The advantage of this approach is that it is theoretical in nature and that it has the potential to contribute to a theory of the family firm (Chrisman et al., 2005; Zellweger, Eddleston & Kellermans, 2010). The disadvantages lie in the operationalization and measurability of distinctive family behavior. Moreover, both approaches are limited in explaining *why* family members engage themselves in the business beyond the level of normal managers or owners (Zellweger et al., 2010). Also, the attempt by Astrachan, Klein & Smirnios (2002) to reconcile both approaches in a validated scale of family involvement in the business, has not lead to a state of widespread acceptance of a family firm definition (e.g. Sharma, 2004; 2002; Chua et al., 1999; Litz, 1995; Astrachan, Klein & Smirnios, 2002; Westhead & Cowling, 1998). In this light, Chrisman, Chua and Sharma (2005) state that ‘if the component-of-involvement approach defines what is ultimately created as a result of using family involvement to influence the business (in effect, the essence), the gap between the two approaches would narrow significantly, moving the field toward a better understanding of its boundaries of investigation’. We agree that the current lack of consensus on what constitutes a family firm may lay a warrant on the credibility of the family business research field in the future. We propose, however, that the emphasis should lie on one of the components of family involvement, more specific on family ownership. We propose that it is a preferred strategy to revisit the roots of the problem which lies in family ownership of the business. We will argue that ownership holds the key to reconcile the components of what constitutes a family firm, with the actual behavior of its employed family members. For this, we first revisit the concept of legal ownership and then move to its psychological dimension.

Ownership and psychological ownership

The concept of ownership has a tradition of more than a century. Ownership has different definitions, for example, the legal right of possession, the ability to control and use an object (Hall, 2005), having voting shares or voting power (Ward & Dolan, 1998). What these definitions have in common is the basic ownership model that consists of an owner (the subject), an ‘ownable target’ (the object), and the relationship and interplay between them (Ikävalko et al., 2006). Ownership defined in terms of a relationship goes back at least to Hobbes, Locke and Marx. For example, Locke defines ownership when he says: “(...) for I have truly no property in that, which another can by right take from me, against my consent” (Locke, 1967:138). In other words, ownership gives the owner of an object legal control over it to use it in any way whatsoever limited only by law (Rahmatian, 2008). It also has a relational side, in that property assigns rights to the owner, that can be contested against others that might claim the owned object.

The common understanding of ownership, however, confines it to its legal side. Nevertheless, in early works on ownership, we can find psychological explanations of property rights. David Hume, for example, remarked that “what has long lain under our eye, and has often been employ’d to our advantage, *that* we are always the most unwilling to part with; but can easily live without possessions, which we never have

enjoy'd (...)" (Hume, 1984: 554-555). This thought can also be found in the work of Kames (1792), sometimes referred to as "the father of the Scottish Enlightenment", who had a substantial influence on David Hume and Adam Smith. For example, Kames stated that "men are fond of power, especially over what they call their own; and all men conspired to make the powers of property as extensive as possible" (Kames, 1778: Book 1, Sketch 2: 117). Adam Smith, for example, stated that everybody "has property in his own labor", which to his belief was the original foundation of all property (Smith, 1776-1976; Rahmatian, 2008). These examples learn us that property can be experienced as a feeling, that can be directed towards material or nonmaterial targets of possession. These ideas were elaborated on by psychologists and sociologists, which they underpinned with evolutionist and socio-biologist explanations of property (Rahmatian, 2008). In their seminal 2001 article Pierce and colleagues synthesized these ideas. They introduced the concept of psychological ownership (PSO) and applied it to an organizational context. With PSO the focus of the attention moves from the formal, legal ownership, to 'a state in which individuals feel as though the target of ownership, being material or immaterial in nature, or a piece of it is "theirs" or "ours"' (Pierce, Kostova & Dirks, 2001). From the PSO literature we learn that ownership may also be experienced as a feeling of ownership. This feelings of ownership may be material or immaterial in nature, it can develop toward a variety of objects both legally owned or not, and it has important behavioral, emotional and psychological consequences (Pierce, Kostova, & Dirks, 2001). Current theoretical work (Pierce et al., 2001; 2009) shows that three major experiences may lead to PSO, in particular, the possibility to control a target of possession, intimate knowing the target, and/or investing one's self into this target (Pierce et al., 2001; 2003; 2009). The concept nowadays has a long tradition in organizational studies, where it is a validated and frequently studied phenomenon.

Both ownership and PSO are best noticeable when people *act* as (psychological) owners and when they exercise control. This behavioral dimension of ownership finds its roots in the using, controlling and transferring of possessions and what we regard as 'ours'. The manipulation of possessions is socially bound and constructed or internalized in the process of interaction between the owner and the target of possession. Ownership gives the owner rights to use, control and transfer the owned object. Moreover, ownership behaviors have been shown to correlate with financial performance. For example, Wagner et al. (2003) find a strong correlation between ownership behaviors and financial performance of the firm. They also find a strong correlation between PSO and ownership behaviors. In their study on workgroup behavior they assessed ownership behaviors in terms of employees' financial information seeking behavior, their willingness to improve their job performance, their cost cutting behaviors and their innovation initiatives. Other important correlations Wagner et al. (2003) find, are a strong relationship between legal ownership and PSO, and between PSO and employee attitudes toward the organization. Ownerships behaviors thus stem from PSO (Wagner et al., 2003), but also from personal and shared values of responsibility. Ownership brings with it ethical aspects (e.g. how do I act responsible towards my possessions, without hurting others (Koiranen, 2010)) and caring aspects (e.g. stewardship behavior and self-sacrifice or a sense of burden sharing (Avey et. al, 2009, Pierce et al., 2003)), and it questions which values we hold toward our possessions (Pierce et al., 2003). Finally, feelings of accountability are also routes that lead to ownership behavior. Accountability is the "implicit or explicit expectation that one may be called on to justify one's beliefs, feelings and actions to others" (Lerner & Tetlock, 1999: 255). Accountability is connected to ownership and PSO through two mechanisms: (1) the

expected right to hold others accountable for influences on the target of ownership and (2) the expectation to be held accountable for our possessions or target of ownership (Avey et al., 2009).

INSERT TABLE 1 ABOUT HERE

For the past decade, ownership has been a well documented phenomenon in the context of family firms. It lies at the very heart of the family business research field that assumes that whoever owns the firm, makes a difference for its performance. Surprisingly, recent theory that considers the failing or success of family firms proposes that the psychological dimension of ownership may be essential, but the concept is not further elaborated on (e.g. Corbetta & Salvato, 2004; Eddleston and Kellermanns, 2007; Zahra, 2003). In general, the concept suffers from a lack of attention from family business scholars. Only recently some of PSO's antecedents and consequences in family firms were empirically elaborated on (Bernhard & O'Driscoll, 2011; Sieger, Bernhard & Frey, 2011). This is surprising because when the individuals that own and manage the firm are the most important element for firm performance, these should be the level of analysis. The question then should be whether or not these individuals are owners, whether they feel like owners and whether they act towards their ownership. For this reason, it is unlikely that the extent to which a family holds shares of the company, covers insight in ownership feelings and ownership behaviors. In this sense, the question whether or not family members feel like owners and act accordingly may be essential. Consequently, PSO may hold the key to bridge the components of what constitutes a family firm, with the actual behavior of its employed family members (cf. Table 1). As we will soon argue, this is due to the roots of PSO in family firms that differ from their nonfamily counterpart. The difference between our proposed approach and a components approach, is that our model lays an emphasis on the component of ownership as crucial for our understanding of family businesses. The difference between our proposed approach and an essence approach, is that our approach lays a emphasis on ownership behaviors and ownership feelings.

Psychological ownership and control: exploring family involvement

Family involvement is said to differentiate a family business from a nonfamily one (Chrisman, Chua, Sharma, 2005). At this stage we will explore the nature of this family involvement, more specific the relationship between family members' PSO and their enacted control on the family business. To better understand this relationship we must first seek an answer to the questions 'Where do feelings of PSO emerge from in family firms?' and 'How is this different from non-family firms?'. We will argue that the routes that lead to PSO in family firms, have different roots in family firms compared with their nonfamily counterpart, and this is what sets them apart. We will then elaborate on the question 'How is PSO related to family involvement?' For our analysis we will build on the three routes that lead to PSO: intimate knowledge of the object of possession, investing oneself in the target of possession, and controlling the target of possession (Pierce et al., 2001). In family firms these routes translate into intimate knowledge of the family firm, investing time and effort into it, and having factual control over it. Our arguments build on the relationship between (factual and/or perceived) ownership and control, combined with the routes of PSO (Pierce et al., 2001). Our arguments we will synthesize in research propositions.

The routes to psychological ownership in family firms

In this section we argue that the routes that lead to psychological ownership in family firms find their origin in family legal ownership and in the collectivity that we call family. This is what sets them apart from nonfamily firms. What unites them is the ability to build psychological ownership for the business. However, these routes (i.e., intimate knowledge of the object of possession, investing oneself in the target of possession, and controlling the target of possession (Pierce, 2001)) are not static, in a sense that they develop over time, and some develop in parallel while others do so independently. They therefore do justice to a continuum approach, similar to e.g. the approach used in the F-PEC scale (Astrachan, Klein & Smyrnios, 2002).

The first bases for feelings of PSO in family firms we find in the legal ownership of the firm by family members. As we showed before, PSO has strong connections with legal ownership. Because family firm owners' object of possession is mainly the family firm itself (Koiranen, 2006), legal ownership provides for a strong basis for feelings of PSO towards the family firm. In the majority of family firms shares are in the hands of one or more controlling family. This may provide for strong feelings of PSO of these family members towards the family business. However, this relationship may not be as straightforward as expected. Because psychological ownership is a feeling that is dependent on individual perceptions of ownership (Pierce et al., 2001) it is reasonable to assume, for example, to find strong individual PSO feelings among controlling owners, but not so much because of their extent of share ownership and the benefits they gain by it, but from the accompanying feelings it may generate. It not only provides them with factual control but also with a feeling of control. It not only urges them towards the ownership related responsibilities, but also to a greater amount of self-investment (e.g. Corbetta & Salvato, 2004) and identification with the company they feel ownership for (e.g. Pierce et al., 2003), and with their position as an owner or CEO. From psychological ownership literature we learn that strong identification, large self investment and large factual control lay a foundation for feelings of PSO. Furthermore, not only do legal ownership and psychological ownership correlate (Pierce, 2001; 2003; 2009), both they also give rise to ownership behaviors, such as responsibility, personal sacrifice and stewardship behavior (Davis et al., 1997; Pierce, Kostova & Dirks, 2003).

However, feelings of psychological ownership based on legal ownership are not static (Pierce, Van Dyne & Cummings, 1992). They may ebb and grow over time, leading to different outcomes, such as levels of affection and commitment to the business. For example, when a family firm develops into the sibling partnership stage (Gersick et al., 1997), ownership becomes diluted among two or more siblings. The success of this inter-generational transfer of ownership, dependent upon factors as the successor's personality, intelligence, persuasion to enter the business and the reactions of those that are not chosen (see Churchill and Hatten, 1987), may even be dependent on the successor's extent of psychological ownership towards the business. In other words, legal ownership by the next generation does not necessarily lead to psychological ownership towards the family business, and to the associated ownership outcomes. However, successors' personal and shared values of responsibility, self-sacrifice or a sense of burden sharing (Avey et al., 2009, Pierce et al., 2003) and accountability (Avey et al., 2009), may lead to positive ownership behaviors. Especially, when legal ownership and psychological ownership coincide they provide for a strong basis for responsible, stewardship behaviors. We therefore hypothesize that:

Proposition 1A: Family legal ownership is positively correlated with psychological ownership feelings

Proposition 1B: Psychological ownership feelings based on legal ownership are positively correlated with stewardship behavior towards the family firm

In family businesses there is a convincing reason to assume a second basis for PSO, i.e., the family itself. The family may play an critical role in PSO feelings formation. As an individual we are part of a family in which we are born into, where most of us live in and from where we finally die out. These simple facts facilitate PSO feelings formation. Based on psychological ownership literature, three major experiences present in family life lead to PSO feelings; our possibility to control the family (i.e. to be able to create a family tradition, family values, etc.), the intimate knowledge we have of our family, and/or the extent to which we invest ourselves in the family (Pierce et al., 2001). In other words, being born into a family makes us automatically psychological owners of the family itself, felt by each member to some extent. The formation of psychological ownership towards the family is to be found, in part, in the fact that family territory constitutes from early childhood the social playground to learn what is part of 'me' (the self), 'mine' (the extended self) and 'thine' (not part of me or the extended me). In a later developmental stage children learn what is part of the family territory and what is not, what is 'us' and 'ours' (Pierce, Kostova & Dirks, 2003). Thus, kinship and family bonds play a crucial role in the development of feelings of PSO. Extending these familial relationships to the firm, there exists a long tradition in family business research that supports family influence on the business and its related behavior, e.g. loyalty and commitment towards the firm (Sharma, 2005), protective behavior, responsible behavior (Arregle et al., 2007), altruism towards family members (Schulze, 2001; 2003a; 2003b). These outcomes can also be related to feelings of psychological ownership (Pierce et al. 2001; 2003; Pierce & Jussila, 2009).

However, psychological ownership feelings based on kinship and family bonds are not static. The possibility to control, the intimate knowledge of the family business, and/or the extent to which generations invest themselves, varies along the sequential developmental stage of the family. From a junior generation perspective (Gersick, 1997), the possibility to control the family business grows along the years, as their active involvement in the business widens. Simultaneously, the junior generation's intimate knowledge of the business enlarges, and they convey to their active or passive choice to invest themselves in the business (Cabrera-Suarez et al., 2001). From a senior perspective, all three routes of psychological ownership may be strongly present in a young business family (Gersick, 1997) but factual control and self-investment may decline over the subsequent stages. Next generation members in family business grow up in close (physical and psychological) proximity to the business (Steier, 2001). Hence, they develop an intimate knowledge of the business early on. However, it may not be until they become legal owners or managers of the business that they might invest themselves in or control a part of the business. Nevertheless, family bonds and psychological ownership form a natural coalition and they provide for a strong basis for caring, responsible and stewardship behaviors. Extending these familial relationships to the business, we hypothesize that:

Proposition 2A: Family bonds are positively correlated with psychological ownership feelings towards the family business

Proposition 2B: Psychological ownership feelings based on family ties are positively correlated with stewardship behavior towards the family firm

The third basis for PSO in family firms, is the business itself. Organizational literature on psychological ownership has convincingly shown that organizations may be a breeding ground for PSO, both towards the organization as towards the job (Pierce et al., 2001; Wagner et al., 2003; Avey et al., 2009; Mayhew et al., 2009; Vandewalle, van Dyne & Kostova, 1995). In this perspective family businesses do not differ from nonfamily businesses.

PSO feelings towards the business and the job are not of a static nature. They vary according to contextual factors such as organizational structure (Chiu et al., 2007), leadership style (Bernhard & O'Driscoll, 2011) and organizational routines. For example, a start-up business owner may have stronger feelings of PSO than an owner in a mature business, formalization creating a gap between the invested labor and its visible fruits and thus inhibiting psychological attachment to the fruits of labor. For this reason we expect higher PSO feelings in start-up businesses than in second generation more formalized and expanded businesses. Consequently, we expect higher levels of PSO feelings in second generation businesses than in mature, third generation family firms.

However, in family businesses there may exist a counterforce to this process, i.e., the existence of a strong family identity in the business (Zellweger, Eddleston & Kellermanns, 2010). A strong family identity finds its origin in several roots, e.g. in the sense of belonging to the firm (Zellweger et al., 2010), in kinship, shared family history (Sundaramurthy & Kreiner, 2008) and in the human need for self-identity and having a place (Pierce et al., 2001). This family based organizational identity that we find in family firms shares common ground with PSO (e.g. the need for self-identity and belonging are considered as motives for the development of PSO), nevertheless the two concepts are distinct in their theoretical base. Organizational identification answers the question 'Who am I in this organization?', while PSO addresses the question 'What do I feel is mine?' (Pierce et al., 2001; Avey et al., 2009). Nevertheless, organizational identification is theorized to positively correlate with PSO (Pierce, Kostova & Dirks, 2001). A strong family firm identity is theorized to form the foundation of a family business and is associated with positive organizational outcomes (Zellweger et al., 2010).

Upholding the positive outcomes of PSO towards the family firm and a strong family firm identity, may be the prior challenge when the business enters the next generation. The coincide of a strong family firm identity and PSO feelings towards the family firm we expect to counter the negative behavioral results of formalization, decline of control, dilution of shares and potential conflict among family members (Steier, 2001) when the family business enters the succession phase.

Recapitulating, we elaborated earlier on the intertwine between family PSO and family business PSO. Furthermore, the correlation between family identity and family firm identity has been established. We also laid the connection between PSO feelings for the family firm and family firm identity. Finally, we explicated the positive organizational outcomes of both family firm oriented PSO and family firm identity. We therefore hypothesize that:

Proposition 3A: Family identity is positively correlated with psychological ownership feelings towards the family business

Proposition 3B: Psychological ownership feelings based on family identity are positively correlated with stewardship behavior towards the family firm

Proposition 3C: The effect of succession on PSO feelings is mediated by family firm identity

In sum, the roots of PSO in family firms differ from their nonfamily counterpart. In family firms, the primary source of PSO we find in ownership in the hands of family members. A second source of PSO feelings is to be found in familial bonds and kinship, which form a natural ground for its development. The third source of PSO in family firms is to be found in the business itself. In the latter a family business is no different from a nonfamily one. However, a strong family firm identity may be crucial for the potential transgenerational sustainability of PSO feelings and their associated stewardship outcomes.

Family influence: factual and perceived control

A crucial question is still to be answered, that is, ‘How is PSO related to family involvement?’ Family involvement may be best noticed when family members feel and act as though the family firm, or a piece of it is “theirs” (Pierce, 2001; 2003; 2009). In other words, it is not sufficient that family members are owners and feel like it, but there is also the need to *act* as owners, in order to notice family influence on the firm. When family members exercise their (perceived) right to control the firm, (psychological) ownership is acted upon. Moreover, family members that act as psychological owners bring with them a set of antecedents and consequences of PSO, as there are: a strong sense of belonging (e.g. Avey et al., 2009), a sense of identification with the family firm (Zellweger et al., 2010), stewardship behaviors (e.g. Eddleston, Kellermanns & Sarathy, 2008), altruistic behavior (Schulze, 2001; 2003a; 2003b), commitment towards the firm (Sharma & Irving, 2005), shared values and goals among family members (Sharma, 2004). This explains *why* family members engage themselves in the business to an extent that is beyond the level of what is expected.

As to the *how*, the (factual and/or perceived) right to control the family firm may stem from legal ownership or from PSO, because PSO provides family members with a sense of control, even in the absence of legal ownership (Pierce et al., 2001; 2003; Pierce & Jussila, 2009). For example, empirical findings show that in family-owned firms, for a variety of reasons, a separation of ownership and control is less likely (James, 1999; Harris & Ogbonna, 2007). It is assumed that closely held ownership adds to *de facto* control as well as legal control, even though this may not be true in all cases (see: Harris & Ogbonna, 2007). We follow the latter authors in their questioning that *de facto* control is merely a function of the proportion of ownership. As psychological ownership literature reveals a feeling of control may arise even in the absence of legal ownership. When it comes to family involvement and firm performance the authors convincingly show that firm profit not only depends on legal (based on proportion of ownership) control, but also on *de facto* control, i.e. the extent to which family members exercise their control. We add to this equation the perception family members have about their control (rights). The tripartite thus is formed by legal control (proportion of shares) – *de facto* control (enacted upon control) – perceived control (based on a feeling of control).

The extent to which a family business is successful may well be dependent on this tripartite.

The interrelationships we see as follows. To begin with, family members' PSO is in part determined by their perceived control (Pierce, 2001), and also contributes to it. In other words, PSO is evoked by the possibility to control (e.g. having legal ownership, having a voice in discussion making), but in turn also leads to a feeling of control. Legal control over the firm adds to PSO, as we described in our theoretical overview (e.g. Pierce, 2003). Legal control also contributes to perceived control, as our overview on ownership shows (e.g. Wagner et al., 2003). Furthermore, PSO contributes to ownership behaviors (e.g. *de facto* control), as we explained in table 1. Ownership behaviors in turn have a positive effect on financial performance and we expect this to be equally true for family businesses (e.g. Wagner et al., 2003). We therefore hypothesize that:

Proposition 4A: The *de facto* control family members have over the family business is positively correlated with their psychological ownership towards the family firm.

Proposition 4B: The perceived control family members have over the family business is positively correlated with their psychological ownership towards the family firms

Proposition 4C: Family members ownership behaviors are positively correlated with the financial performance of the firm

Exploring the distinctiveness of family firms: Psychological ownership and leading theoretical explanations

Our approach not only reconciles a 'components' and 'essence' approach, but it may also contribute to an understanding of the impact of family involvement on strategic processes that lead to competitive advantage and performance. To support this proposition in this section we focus on two leading theoretical explanations on competitiveness and performance, i.e., agency theory and the RBV (see: Chrisman, Chua & Sharma, 2005 for an overview). In this section we focus on the aforementioned mainstream theories and their potential relationship with PSO. However, in order to proceed, we need to show a cross-over effect between PSO felt by an individual family member employed in the family business, and the family business itself. In this light, Pierce & Jussila (2009) recently introduced the concept of collective psychological ownership, as a collective, enacted upon feeling that an organization is 'ours'. The authors propose that a sense of ownership can also exist as a group level phenomenon, i.e., as a single and shared mindset. This may sound very familiar to family business scholars, as a family business is often perceived as a business built around shared family values and goals (Sharma, 2004), and with a shared mindset directed towards the business. The question is now whether PSO feelings by (family and nonfamily) members in a family firm add to its competitive advantage and performance.

Psychological ownership as a resource in family firms

Can psychological component be regarded as part of the family firms' key resources, i.e. physical capital resources, financial capital resources, human capital resources and organizational capital resources (Barney & Clark, 2007)? Given its roots, it is likely that

PSO has connections with human capital and organizational capital. PSO has been indicated by several family business scholars as a distinct and a key nonfinancial value creator (Uhlener, Floren & Geerlings, 2007), leading to a strong sense of identification and high value commitment towards the firm, to strong feelings of responsibility and a sense of burden sharing for the organization (Corbetta & Salvato, 2004), related to heightened involvement, and to positive behavioral outcomes (e.g. to behave in the best interest of the firm) (Eddleston and Kellermanns, 2007).

Can PSO then be regarded as a source of family firms' competitive advantage? In other words, can we regard family members PSO as a rare, valuable, imperfectly imitable resource and can the family firm exploit its potential offered (Barney & Clark, 2007)? PSO and family business literatures seem to suggest that PSO can be regarded as valuable (as it contributes to the positive organizational behavior), imperfectly imitable (as it is correlated to specific individual and collective contexts present in a specific family firm), and some family firms seem to exploit its potential. As to the 'rare' factor, literature suggests not only family businesses may profit from PSO feelings (Pierce et al., 2001; 2003; 2004). We argued before, however, that the family members PSO has different roots in family firms as opposed to non-family businesses. We therefore expect the rareness factor to stand firm. The PSO resource also has the potential of a sustained advantage, because it is rooted in at least two roots with a potentially long time horizon, that is, the family itself and its ownership of the firm.

We therefore hypothesize that:

Proposition 5a: PSO feelings are positively correlated with the human capital of the family firm

Proposition 5B: PSO feelings are positively correlated with the organizational capital resources in a family firm

Psychological ownership and agency theory

Agency costs arise when there exists a conflict of interest and asymmetric information between a principal and an agent, who engage in contractual relationships. In order to control for self-interested behavior on the part of the agent, the principal applies efficient but costly agency controls to safeguard his interests. From PSO literature we deduce that psychological owners need less agency controls, therefore adding to lower agency costs in family firms.

Literature shows that individuals that are psychological owners, show greater effort towards their tasks and towards their companies goals (Avey et al., 2009). This may have an impact on the agent's tendency of shirking or opportunism, assumed by agency theory, and on the accompanying agency controls. The PSO literature would suggest that some individuals perform well and are committed to the companies goals irrespective of agency controls. Their tendency of shirking or opportunism is likely to be overshadowed by their PSO towards the firm. It is suggested that psychological owners are less affected by monitoring or incentive alignment, in contrast to individuals that are less psychological owners. The former already put forth greater effort toward the company and may be less affected by agency controls. These controls even may have a reverse effect on their performance. Contrary, individuals that are less psychological owners have their utility increased through better performance either by

receiving higher compensation or by avoiding punishment (Fong & Tosi, 2007), thus shirking becomes a less attractive option. Consequently, PSO holds the promise to contribute to lower agency costs in family firms because of expected high levels of PO among family members in leading ownership and management positions. Principal's and agent's shared high levels of PSO towards the family firm thus may align their interests, lowering the need for costly agency controls.

Proposition 6A: Psychological ownership is negatively correlated with agency costs in family firms

Discussion

Numerous attempts towards conceptual and operational definitions have not led to a state of widespread acceptance of a family firm definition (e.g. Sharma, 2004; 2002; Chua et al., 1999; Litz, 1995; Astrachan, Klein & Smyrnios, 2002; Westhead & Cowling, 1998). This lack of consensus on what constitutes a family firm may lay a warrant on the credibility of the family business research field. This paper revisits the concept of ownership as a basis for a unified definition of the family firm. We propose that it is a preferred strategy to revisit the roots of the problem, i.e., family ownership of the business. Our model shows that ownership not only consists of a legal dimension, but also of a psychological one. We therefore go beyond a components-of-involvement approach that focuses on degrees of family management, ownership and control. We also go beyond an essence-of-involvement approach, by laying a focus on ownership behavior as a key differentiator. We show that PSO is particularly interesting when linking ownership with family control, for two reasons. First, in family firms the routes that lead to PSO have different roots. These feelings are strongly rooted in the family, in family ownership and the business. Second, family members not only have factual control over the family business, they also have a sense that the family business is 'theirs'. This PSO towards the family business may be regarded as a rare, valuable, imperfectly imitable resource. It may also have substantial consequences for agency relationships in family firms.

Several scholars argue that either family ownership or family involvement differentiates a family business from a nonfamily one. To our understanding, it may not be family involvement and influence on the enterprise, nor mere ownership that may be the relevant issue, but the extent to which they act upon their ownership and the extent of PSO among family firm stakeholders.

Limitation and future research

We need to address a few limitations of this paper and provide for a future research agenda. While we based our model on ownership literature of more than a century and literature on PSO of more than a decade, little is known about the antecedents and consequences of PSO in family firms. As this work is mainly theoretical in nature, we are in desperate need of empirical findings on PSO in family firms.

Recently, Pierce and Jussila (2009) identified a collective aspect of PSO and the routes that lead to it. This paper does not address collective PSO. As families are collectives

(although they do not always act towards it), adding collective PSO to the equation would be a valuable addition.

An empirical examination should therefore include a multilevel approach. To measure PSO feelings in family firms, Van Dyne & Pierce's (2004) validated scales can be employed. However, these measures apply to the individual level of PSO, and a collective level measurement instrument is momentarily non-existent. As families are collective entities, there is a strong call for group measurement tools.

Another area to explore are the possible negative effects of family members PSO. PSO is also known to lead to protective behavior, therefore resisting change (e.g. Pierce, 2001; Dirks et al., 1996). This paper only focuses on the positive effects. It may well be that PSO adds to additional costs that jeopardize the performance of family firms. Certainly more research is needed to explore whether the scale tips to the positive or the negative side.

In this paper we discussed two leading theories on the distinctiveness of PSO, that is, agency theory and the RBV. In this light, family business scholars identified some distinct features of family firms. In the context of the RBV scholars argue so called "familiness" (the idiosyncratic bundle of resources and capabilities resulting from the interaction of the family and business systems, Habbershon et al., 2003: 451) to be the key differentiator (e.g. Zellweger et al., 2010). In the context of agency theory the tendency for entrenchment by majority stakeholders, and altruism effects between owners and managers, are mentioned as sources of agency costs in family firms (e.g. Anderson, Mansi & Reeb, 2003; Steier, 2003). In this paper we did not address the issues of familiness, entrenchment and altruism. We call for more research that focuses on the relationship(s) between these issues and PSO.

Finally, our paper focused on the definitional consequences of adding PSO. PSO, however, may not only broaden our understanding of what constitutes a family firm, but it may also offer us a promising path to a richer ownership theory of the family firm.

Table 1: Dimensions of ownership including strengths and challenges for the family firm

	Legal ownership	Psychological ownership	Ownership behaviors
Definitional focus	State of possession	Feeling of possession	Acting upon possessions
Basis	Legal, socially constructed, institutionalized	Emotional	Behavioral
Associated rights	Factual control over a legally owned object	Perceived control over a target of possession	Using, controlling and transferring the possession
Nature	Verifiable, legally transferable	Relational, relativistic, processual	Socially constructed and/or internalized in the process of interaction
Routes	Social agreements, law	Intimately knowing, controllability, self-investment	Psychological ownership, accountability, personal and shared values of responsibility
Strengths for the family firm	Captures the basic threshold for family involvement in the business. Lays a basic foundation for firm performance, by means of maximizing return-on-ownership. Is easily measurable.	Bridges the ownership component and the essence of ownership. Has a solid theoretical and empirical base. Has different roots in family firms, thus has the potential to contribute to a family firm definition.	Captures the potential for a competitive advantage. Investigates how family members act upon their ownership of the firm.
Challenges for the family firm	Captures only the potential to influence the firm	Little empirical data on its antecedents and consequences in family firms	Measurability

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