Family businesses as emotional arenas:

The influence of family CEO's empathy and external monitoring on the importance of family goals.

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Abstract

Extant research has recognized the important role that emotions play in organizational processes and behaviour. We assert that family businesses would appear to be especially rich contexts in which emotions influence processes and behaviour, which could provide deeper insights into the workings of a family business firm. In this paper, we take a modest step by studying the influence of family firm CEOs` empathic concern – an affective emotion – on the importance that is placed on family-oriented goals. Additionally, since family goals sometimes conflict with business goals, we include the moderating effect of the presence of external board members, as a monitoring device, on the importance of family-oriented goals. The results show that a family firm CEO`s level of empathic concern has a positive influence on the importance that is placed on family-oriented goals. However, the presence of an external board of directors attenuates this relationship.

Keywords:

CEO empathy, emotions, external board of directors, family businesses, firm goals

Introduction

Family businesses are pervasive and influential all over the world (Astrachan and Shanker, 2003; Olson, Zuiker, Danes, Stafford, Heck and Duncan, 2003; Shanker and Astrachan, 1996). Typically, in most family businesses, ownership and control are coupled, which implies advantages and disadvantages relative to ´professionally managed´ firms with widely dispersed ownership. Carney and Gedajlovic (2002) argue that "on the one hand, coupling ownership and control creates a powerful incentive for owner-managers to manage their operations efficiently and profitably. [However,] on the other hand, such tight control also allows majority owners to adopt inefficient practices that reflect their own particularistic values and interests". (p. 127). These possible inefficiencies seem to find their origin in the family business encompassing both the family and the business. Moreover, family businesses combine two systems with goals that are only imperfectly synergistic (Barnes and Hershon, 1976; Danco, 1975; Donnelley, 1988). The business system basically exists for economic reasons of making profit through the production and distribution of goods or services, whereas the family system exists to care for and nurture its members (Dyer, 1986; Kepner, 1983; Lansberg, 1983). The degree to which these two systems are synergistic or antagonistic could be explained by differences in governance systems (Gedajlovic, Lubatkin and Schulze, 2004; Zahra and Filatotchev, 2004), which result in differences in the goals of a family firm, one of the key antecedents of performance (Hall, 1977; Tagiuri and Davis, 1992). However, the research on goals in family businesses still seems to be relatively scarce (Chrisman, Chua and Sharma, 2005). Therefore, the study of family business goals is a worthwhile endeavour; and a better understanding of the drivers behind these goals is of critical importance.

In this paper, we consider a micro-driver of family-oriented goals, utilizing the extant literature on emotions. Contemplating organizations as “emotional arenas” (Fineman, 1993), emotions in general, as well as specific emotions have been related to various outcomes at both individual as well as the organizational levels (e.g. Fessler, Pillsworth and Flamson, 2004; Kemper and Collins, 1990; Lerner and Keltner, 2001; Maitlis and Ozcelik, 2004; Sayegha, Anthony and Perrewe, 2004; Shelly, 2004). Because families are a natural and universal social group with long histories and memories, they provide a rich context in which emotions play out with important consequences for both family members as well as family businesses. Partly in the hope of spurring more integration of the role of emotions in the study of family business processes and outcomes (Degadt, 2003), in this paper, we focus on one specific emotion – empathy – that has been studied extensively for its consequences on human behaviour (e.g. Smith, 2006). We develop testable hypotheses utilizing family CEO’s empathy as an antecedent to the importance that is placed on family-oriented goals. In addition, we also examine the moderating role of external board members – who are generally expected to emphasize business interests more than family interests – on the relationship between family CEO’s empathy and the importance placed on family-oriented goals. In conclusion, we discuss the implications of these results, and provide avenues for future research incorporating emotions in family business.

Theoretical background and hypotheses development

Goals in family businesses

Extant literature on goals in family businesses generally establishes that goals in family businesses are different from those in non-family business firms, and furthermore, family goals are orthogonal to business goals. To elaborate on the first issue, it has been argued that family goals and needs dominate in family businesses (Glueck, 1980). Several studies (Kelly, Athanassiou and Crittenden, 2000; Sharma, Chrisman and Chua, 1997) indicate that in family firms, goals related to family roles tend to be far more important than the traditional firm-value maximization goal. Sharma, Chrisman and Chua (1996) reemphasize this contrast with other firms by stating that family business goals “are likely to be quite different from the firm-value maximization goal assumed for the publicly traded and professionally managed firms”. Amongst those important family roles are survival, financial independence, family harmony and family employment (Donckels and Fröhlich, 1991; Trostel and Nichols, 1982; Westhead, 1997). These specific goals that family firms have also suggest that some of these may be orthogonal to the business goals. While this is a reasonable assumption, Leenders and Waarts (2003) examined this issue specifically and differentiated between more family-oriented and more business-oriented family firms. They indicated that these two dimensions are not correlated, and as a result, family firms can have different levels of both a family and a business orientation.

CEO´s level of empathic concern and family goals

In organizational behaviour research, the role played by emotions has been increasingly recognized (Ashkanasy, Zerbe and Hartel, 2002). In this context, it has been shown that emotions have an influence on a diverse range of subjects, such as organizational decision making (Maitlis et al., 2004), organizational adaptation (Nguyen, 2002), and the sociology of entrepreneurship (Goss, 2005). One emotion that has received particular attention and has been theoretically developed in an organizational context is affective experience (Weiss and Cropanzano, 1996). Because of the unique relationship structure that is apparent in family businesses, constituted by the involvement of the family in business, there is reason to believe that affective experience may be a valuable concept in explaining the way in which business is conducted. Therefore, theory about an affective emotion – empathy – is at the basis of this paper. More specifically, of interest here are the influence of the CEO's level of empathic concern on the importance placed on family-oriented goals, and the moderating role of external directors on this relationship.

Empathy and the role of empathy related processes in social and moral development have been discussed for centuries by philosophers as well as psychologists (e.g. Allport, 1937; Blum, 1980; Titchener, 1924). Moreover, empathy has been an important concept in several areas of psychology such as social psychology and personality psychology (e.g. Batson and Coke, 1981; Dymond, 1949; Goldstein and Michaels, 1985; Hoffman, 1984) of which the latter is perceived to be the area that gave birth to the concept (Eisenberg and Strayer, 1987b). As a result, a variety of definitions have been developed in the past[i]. The majority of these definitions agree on the sharing of affect as the primary component of empathy. This is also reflected in the widely accepted contemporary definition of empathy as a psychological trait that is used in this paper; empathy is an other-oriented emotional response congruent with the perceived welfare of another person (Batson, 1987; 1991) or group of persons.

In this paper, we specifically study the family CEO's empathic concern for the family. Family firm CEOs are the key drivers of family firms' goals and vision (Feltham, Feltham and Barnett, 2005; Goffee and Scase, 1985). The concept of founder centrality has been frequently shown to be accurate, indicating that the founder of a business has a profound influence on the firm's culture, strategic vision, values, goals and objectives, behaviour and top management group cohesiveness (Athanassiou, Crittenden, Kelly and Marquez, 2002; Kelly et al., 2000; Schein, 1983). Extending these findings to founding as well as non-founding CEOs of family firms, there is evidence that the locus of decision-making is centralized in family firms (Cromie, Stephenson and Monteith, 1995; Dyer, 1986; Goffee et al., 1985; Leach, 1991). As Tagiuri and Davis (1992) put it: "Owner-managers of family businesses usually have a stronger voice in the articulation and implementation of company goals. Not only does the owner-manager usually hold most of the power in a company, he or she also often holds a commensurate position of authority within the family" (p.44). Thus, past research has shown that the CEO – often the owner manager of the family business – has a profound influence on diverse areas in family businesses, including the firm's goals.

With respect to factors that influence the formation of family-oriented goals, the particular aspect of a family CEO's empathic concern has received relatively little attention. Literature on empathy in social-psychology has provided considerable evidence of a strong link between a person's level of empathic concern and the resulting prosocial behaviour and motivation to help others (Batson, 1991; Eisenberg and Miller, 1987a). There is also emerging evidence that for any given level of global empathy, the actual empathy deployed differs for different recipients or class of recipients. For instance, in a longitudinal field study of 166 AIDS volunteers, it was confirmed that empathy was a stronger predictor of helping when the recipient of assistance was an in-group member than when that person was an out-group member (Stürmer, Snyder and Omoto, 2005). In family businesses, this prosocial behaviour is likely to be directed toward the family and family members because of filial relationships as well as propinquity in time, space, and history. The relationship between family members and the opportunities to interact with them closely is likely to provide a context in which the CEO's empathic concern would translate into tangible goals directed toward benefiting the family – the objects of the empathic concern. Combining this argument with the strong effect a CEO has on the organisation and goal setting, it is argued here that the CEO's level of empathic concern positively influences his/her motivation to nurture and care for the family. This will be reflected in the degree of importance placed on the family-oriented goals of the firm.

Hypothesis 1: The higher the family CEO's level of empathy the more importance the CEO places on family-oriented goals.

The role of external directors

In addition to the influence of the family CEO and his/her emotions on the importance placed on family-oriented goals, another element of the governance system is included in the research model; the board of directors. Among other board aspects, board composition has been the focus of many studies (for reviews on this issue see: Johnson, Daily and Ellstrand, 1996; Zahra and Pearce, 1989). One recurring compositional issue of debate is the value of externals on the board (Dalton, Daily, Ellstrand and Johnson, 1998; Hillman, Keim and Luce, 2001). In the conceptual literature, there is general agreement about the connection between board effectiveness and the proportion of externals on the board (Lorsch and MacIver, 1989; Zahra et al., 1989). The functions and added value of externals on the board have been analyzed from various theoretical angles (Deakins, O´neill and Mileham, 2000). A major part of this literature is grounded in agency theory. From this theoretical perspective, separation of ownership and management can lead to a situation where management acts in their self-interest, pursuing their own wealth and power maximization on the shareholders' expense (Fama, 1980; Jensen and Meckling, 1976). The presence of external – independent – directors is suggested as an effective control mechanism to protect shareholders' interests from opportunistic behaviour (i.e. behaviour that detracts from achieving business goals) of the management (Fama and Jensen, 1983; Jensen et al., 1976). Besides agency theory, resource dependence theory is often employed as a theoretical perspective in the discussion on the external directors' value. Resource dependence theory has an outward focus and portraits a firm as an open system, which is dependent on external and environmental contingencies for its sustained success and long-term survival (Pfeffer and Salancik, 1978). From this perspective, the external director is valued for its provision of resources (through networking) such as legitimacy, spanning the boundary between the organization and its external environment, and providing access to resources external to the firm (Hillman, Cannella and Paetzold, 2000). However, following resource dependence theory, the external director does not necessarily need to be independent as is the case with agency theory.

In small and medium-sized firms, the monitoring and evaluation function of the board is acknowledged, however, more emphasis is placed on the positive influence of the board of directors through service functions (Daily and Dalton, 1992; 1993; Deakins et al., 2000; Forbes and Milliken, 1999; Huse, 1990; Van den Heuvel, Van Gils and Voordeckers, 2006). For family businesses in particular, the value and tasks of the external director is multifaceted and several lists of tasks have been provided (e.g. Nash, 1988). Throughout the discussion on the value that external directors can bring to the family business, objectivity is a recurring issue. For example, providing the owner-managers with objective help (Danco and Jonovic, 1981), objectivity to important decisions (Mueller, 1988) and processes (Donckels and Lambrecht, 1999), arbitrating inevitable family disagreements in change situations (Alderfer, 1988; Whisler, 1988), and helping to monitor succession plans in a disinterested manner (Jonovic, 1989) are highly valued tasks of the external director. This shows that the capability of an external director to be objective is expected to be a valuable asset for family businesses. Also among family business owners, the perception that externals are generally more focused on the financial performance of the firm rather than upon the non-financial aspirations of family owners, may prevail (Westhead, Howorth and Cowling, 2002). Moreover, external directors are likely to influence the strategic direction of a company through their influence on the decision-making process (Westhead et al., 2002). At the margin, these arguments would suggest a negative correlation between the presence of an external board member and the importance of family-oriented goals. This effect would still hold even if one acknowledges that external directors of family businesses may be selected for their understanding of family business needs. This can imply that the external directors may have some empathic concern towards the family. However, they may also have been appointed by family CEOs as a counter-balance to make sure that the family goals do not overwhelm business goals at all times, and business goals are paid due importance in appropriate contexts – after all, it is in the family's, as well as family CEO's interest, to ensure the longevity of the firm as well. External directors are rarely powerless even if they have been appointed by the family CEO, especially if they provide critical resources to the family firm. In general we would expect that because they do not share the deep connections and history of familial ties, their empathy level is unlikely to reach the level of a family CEOs. In addition, because of external directors' legal accountability for the success of the firm, they have more incentives to place more importance on goals relating to the welfare of the firm, relative to the goals relating to the welfare of the family. Therefore, the following hypothesis is posited:

Hypothesis 2: The presence of an external board member is negatively associated with the importance placed on family-oriented goals.

In addition to this direct association between the presence of an external board and the importance of family-oriented goals, it is also expected that the external board has a moderating effect on the relationship between the CEO's level of empathic concern and the importance placed on family-oriented goals. Adopting a cognitive perspective, external directors may change the way decisions are made through the different problem-solving styles (Rindova, 1999) and fresh perspectives (Judge and Zeithaml, 1992) they bring to the firm. As a cognitive resource, external board members change cognitive processes (Forbes et al., 1999) stimulating the CEO to collect more varied information, consider a broader range of opportunities and alternatives, and alter the way in which information is processed (Judge et al., 1992; Rindova, 1999). Thus, the presence of an external board member is likely to influence the decision-making process and behaviour of the family CEO in subtle and overt ways.

External board members do not have filial relationships and propinquity in time, space, and history with the family to the extent the family CEO has. They will remain outsiders relative to the family. Because of this "psychological externality," their mere presence may lead the family CEO to curb his/her natural tendencies to favor family goals. Therefore, in the presence of an external board member, a CEO may feel pressured to articulate goals that benefit stakeholders other than the family, and mute the importance placed on family-oriented goals relative to goals that are directed towards other stakeholders. In other cases, this may result from overt intervention and involvement of the external board member (Sapienza, Manigart and Vermeir, 1996; Westphal, 1999). In addition, Finkelstein and Hambrick (1996) indicated the influence of socialization and education of the CEO on his/her behaviour. In this light, the presence of an external board member on the firm's board may also lead the family CEO to internalize the necessity to balance the needs of various stakeholders, rather than placing a higher importance on goals that favour the family. The net effect of the arguments above is that the presence of external board members is likely to have a restraining influence on a family CEO's tendency to place higher importance on family-oriented goals.

Hypothesis 3: The presence of an external board member attenuates the relationship between the CEO's level of empathy and the importance placed on family-oriented goals.

Methodology

Sample

The sample used in our analysis consists of Belgian and Dutch small and medium-sized family firms. The sample for the data collection was drawn from the Belfirst database (Belgium) and the database of the Dutch Chamber of Commerce. The sample frame for the selection of the companies was based on three criteria: 1) companies with 5-250 employees, 2) industry code NACE[ii] Section D; 16-36 (manufacturing industry). From the databases, 4000 firms (2000 firms for each country) were randomly selected. Questionnaires were sent out to small and medium-sized businesses in Belgium and the Netherlands in winter 2004. They were specifically addressed to the CEOs of these firms with his/her name in the address label and additionally, the request that it should be filled out by the CEO was mentioned on the questionnaire itself. This approach follows the view that CEOs (often the owner/manager) of small and medium-sized family businesses are more influential and have a better understanding of their organization (Etzioni, 1961; Tagiuri et al., 1992). With 354 questionnaires (150 for Belgium, 204 for the Netherlands) returned the response rate was 8.85 percent.

Potential response bias was evaluated by analyzing late and early respondents. Since it was not possible to collect data on the whole population, a direct non-respondent analysis cannot be executed. However, Kanuk and Berenson (1975) and Oppenheim (1966) noted that late respondents are expected to be more similar to non-respondents than are early respondents. Using late respondents as a surrogate for non-respondents, a t-test was conducted to identify possible differences between the early respondents and the late respondents. Results indicate that no significant differences exits between the two groups on any of the variables included in this study, suggesting that no bias is to be expected in any of the variables used in this study (e.g. Hawes and Crittenden, 1984).

Furthermore, although we did not expected significant differences[iii] in the variables under study between the Dutch and Belgian subsamples, we tested this formally with multilevel analysis techniques. In order to test whether a nested structure in the full data set calls for multilevel analysis, we estimated the null model and tested whether the intraclass correlation is significant different from zero (Snijder and Bosker, 1999). This test revealed that only 0,3% of the total variance could be explained by the country of origin which was not of statistical significance (Wald Z = 0,189 and p= 0,85). This test indicated that the use of OLS regression is allowed because no different levels in the data are discovered. Further, we performed several t-tests and Chi-square tests and included also country dummies in the regressions. We did not find any significant difference between the Belgian and Dutch data.

From this sample of 354 observations, we selected the small and medium-sized family firms. First of all, we used the European definition of small and medium-sized businesses[iv]. In addition, the definition of a family business that is adopted in this paper is based on the ownership and management structure (Chua, Chrisman and Sharma, 1999) and the perception of the CEO (Westhead and Cowling, 1998). The criteria can be formulated as follows: 1) at least fifty percent of the shares are owned by the family, and the family is responsible for the management of the company and 2) in case the family owns less than 50 percent of the shares, the company is family managed and the CEO perceives the firm as a family firm. Because of the special focus of this paper on the empathy level of the CEO and to avoid potential biases in the results, we selected only the firms in which the CEO was a family member. Including only cases with full information on all data points, the final sample on which the analyses are conducted includes 191 cases.

The sample characteristics can be found in table I. The average number of employees that is employed by the firms in the sample is 43, based on a full-time employment equivalent. Furthermore, most firms report to be in their first (34%) or second (39%) generation. About one-fifth of the firms are in its third generation and a minority reports to have the involvement of the fourth or higher generation. A little over 13 percent of the firms indicate the presence of an external board (at least one external board member).

INSERT TABLE I ABOUT HERE

Measurements

Dependent variable

Incorporating the importance of family-oriented goals as the dependent variable, 5-point Likert type scale items are taken from the STRATOS questionnaire (Bamberger, 1994 p.399; Bamberger and Weir, 1990 p.109) and included in the questionnaire. Four questions of this questionnaire are related to family oriented goals. Hence, the four items of which the family-oriented goal composite variable consists are: 1) maintaining family traditions/family character of the business, 2) creating/saving jobs for the family, 3) independence in ownership, 4) independence in management. With a Cronbach's alpha (α) of .729, the scale demonstrates a high level of internal consistency (Nunnally, 1967).

Independent variables

As an independent variable, the *CEO's empathy level* was measured using the Interpersonal Reactivity Index (IRI) (Davis, 1980; Davis, 1983a). The IRI scale consists of four dimensions that measure global and more specific dimensions of empathy. In the questionnaire, the dimension ´empathic concern – global´ is included. This dimension consists of seven items that were measured on a 7-point Likert type scale and included in a confirmatory factor analysis. Therefore, empathy is included in the model by computing the factor scores from the seven items (for more information, see appendix I).

Discussion in the literature on what exactly constitutes an *external director* and an external board has resulted in various definitions and operationalisations (c.f. Fiegener, Brown, Dreux and Dennis, 2000a; 2000b; Schwartz and Barnes, 1991; Ward and Handy, 1988). In this paper, the classification of an external board as defined by Westhead (1999) and Johannisson and Huse (2000) is followed and a board is regarded as external when at least one external director is included in the board of directors. An external director is defined as a director that is neither employed by the company, nor affiliated to the company (e.g. external accountant, lawyer) and who is not a member of the family. The presence of an external board of directors was measured as a dummy variable[v]. The interaction variable is computed by multiplying the external board variable with the level of the CEO's empathy.

Control variables

Firm size traditionally has been included in studies as control variables (Miller and Simmons, 1992; Rosenstein, 1988; Zahra et al., 1989), especially in studies on small and medium-sized businesses (Huse, 2000). Firm size is measured by the number of full time-equivalents that are employed by the companies[vi].

Further, *generational effects* are included in the model since several studies have argued and shown (e.g. Davis and Harveston, 1998; Dyer, 1986; Dyer, 2003; Westhead et al., 2002) that these effects can be influential in the family business, and family business goals in particular (Gersick, Davis, Hampton and Lansberg, 1997; Ward, 1991). One predominant aspect of high intentionality for business owning families is the commitment to the perpetuation of the business for the family (Davis, 1983b). This value generally manifests itself through the family contributing, sharing and helping with the context of the business (Handler, 1990). When successive generations become involved in the business, the family involvement as a group is increasingly regarded as a constant to the firm (Miller, 1991) and thereby becomes institutionalized within the organization. This could lead to a higher importance of family-oriented goals for family firms that are managed and/or owned by successive generations. Generation effects are measured as recoded dummy variables with categories 2nd, 3rd, and 4th or higher generation, and the first generation serves as the reference category. The correlations between the variables included in the model are presented in table II.

INSERT TABLE II ABOUT HERE

Results

The results of the regression analysis are summarized in table III. The first model includes the control variables and the main effects. The interaction effect is added in the second model, which represents the complete model[vii].

INSERT TABLE III ABOUT HERE

A comparison of these models shows an increasing value of the adjusted r^2 (r^2-adj. = .054, and .086 for model 1 and 2), indicating that the main effects and the interaction effect increase the model fit as well as the explained proportion of variation in the dependent variable.

The results of both models show that the 2nd and 3rd generation effects significantly influence the importance placed on family-oriented goals. Thus, the commitment to the perpetuation of the business for the family indeed increases over generations, probably due to institutionalization effects of the constant presence and involvement of the family (Miller, 1991). The insignificance of the 4^{th+} generation effect is probably caused by the rather limited number of firms in the sample that are led by the 4^{th+} generation. Furthermore both models suggest that the CEO's level of empathic concern does have a significant positive effect on the importance of family-oriented goals (on a .05 and .01 significance level for model one and two respectively), therefore hypothesis 1 is supported. No support is found for hypothesis 2, which states that the presence of an external board is negatively associated with the importance of family-oriented goals, even though the sign of the coefficient is in the expected negative direction. In addition, it was also hypothesized that the presence of an external board would have a moderating effect on the relationship between the CEO's level of empathic concern and family-oriented goal importance. This relationship is supported by the results, thus supporting hypothesis 3, which posits an attenuating effect[viii]. To get a more detailed view on this effect, the interaction effect is plotted in figure 1.

INSERT FIGURE 1 ABOUT HERE

The plot clarifies that in family firms with an internal board of directors, the importance placed on family-oriented goals is positively influenced by the CEO's empathic concern. However, this relationship is reversed in case an external board is present, meaning that a higher empathy level of the CEO is negatively related to family-oriented goals' importance. An explanation for this change in the sign of the relationship could be that the CEO's cognitive processes are adapted by the influence of the external director. An external director may emphasize the importance of goals other than family-oriented goals, such as profit maximization, innovation and growth for business' survival and raise awareness with the CEO that striving for business-oriented goals may be beneficial for the family and raise their welfare in the long run. When the CEO's perception on the beneficial character of these business-oriented goals for the family is changed, the CEO's affection for the family may ultimately be shown through the higher importance on business-oriented goals at the expense of family-oriented goals.

Conclusion and discussion

The research objective of this paper was to examine the relationships between the family CEO's empathy level, the board of directors and the importance placed on family-oriented goals. More specifically, it was hypothesized that the presence of external board members moderates the relationship between the CEO's empathy and the importance placed on family-oriented goals. The findings support the idea that a higher level of empathic concern of the family CEO leads to a higher importance placed on family-oriented goals. A higher empathy level of the CEO would imply that he/she has more affection towards the family and by emphasizing family-oriented goals attempts to increase the family's welfare. Furthermore, the results show an attenuating effect of the presence of an external board on the relationship between the CEO's empathy level and importance of family-oriented goals. It is suggested that the (presence of an) external director influences cognitive processes of the CEO, raising awareness for the need to balance the interests of various stakeholders, rather than let the family needs dominate. Next, the theoretical and practical implications of the findings are discussed, the study's limitations are described, and suggestions for future research directions are made.

The results add to the literature that has examined the influence of the founder/CEO of small and medium-sized family businesses on their organizations, not only by reinforcing the claims that have been made about their influence on the organization in general (Cromie et al., 1995; Dyer, 1986; Feltham et al., 2005; Goffee et al., 1985; Leach, 1991), but also by indicating a more specific direct effect of a family CEO's personality trait on the family firm's goals. The results show that a higher level of empathy of the CEO translates into a higher importance placed on family-oriented goals. This effect is probably caused by the proximity of the CEO to the family in time, space and history. In such a situation it is likely that the prosocial behaviour induced by empathic feelings is directed towards the family, resulting in attention for the family through the firm's goals. Broadening the scope, this study shows that emotions play a role in the conduct of small and medium-sized family businesses. Moreover, the effect of emotions in this type of business should not be underestimated by researchers, practitioners and consultants working in the field of small and medium-sized family businesses.

Furthermore, the analysis of this study strengthens the argument that – in addition to the potential value that is directly added by external directors through their performance on normative board roles (Johnson et al., 1996; Zahra et al., 1989) – external directors' value to small and medium-sized family businesses can also be conveyed in more indirect ways (e.g. changing cognitive processes) (Forbes et al., 1999; Judge et al., 1992; Rindova, 1999). Some would argue that the objectivity that is brought in by external directors can also be brought into the family business by non-family managers. However, Goffee and Scase (1985) present strong evidence that latent control mechanisms will keep existing enabling the owner-manager to intervene in areas that have been formally delegated to managers. In this way, the owner-manager will maintain the attempt to align the way business is conducted to his/her values and interests. Thus, introducing an external director seems to be a more powerful way to directly and indirectly steer organisational goals towards the business side, fading the sole focus on family-oriented goals.

This paper has some limitations that should be acknowledged. First, the context of these findings may not generalize to other contexts. On the one hand, there is reason to believe that the relationships in the model can be generalized to other populations of family businesses since our study has combined data sets from Belgium and the Netherlands – two culturally different countries (Hofstede, 1980)– with no differences found in the model and the variables that were included. However, in a comparative study on differences of family business' structure and behaviour between Italy and the United States, Corbetta and Montemerlo (1999) show that the importance of business goals can vary between countries. Therefore, researchers should bear in mind that the magnitude of these relationships may vary across countries due to cultural and social influences, especially if they influence the importance placed on family-oriented goals in a systematical and directly way. Second, in this study, the family firm CEOs' global empathy level was measured, which refers to their overall capacity (or potential) to empathize. It is also likely that CEOs with high global empathy levels empathize highly with everyone, and therefore they place high importance on goals that favour the family, as well as goals that favour other stakeholders. Hence, studying the CEO's empathic concern for a range of recipients may be a fruitful area for future research.

Several other areas of future research also can be envisaged following this work. First, the importance of family CEO has already been well-documented in extant research (Feltham et al., 2005; Kelly et al., 2000). Future research may wish to focus on the influence of *emotions* that family CEOs and other managers bring to their job on firm processes as well as outcomes. Family firms are an especially ripe context for inclusion of emotions in individual and family firm behaviour because of relative porous boundaries between the family and the family firm. In addition, families are relatively unique social groups where greater latitude of emotions is tolerated relative to other work and social groups. Families are also unique in the sense that they provide a longer time horizon for emotions and behaviour to interact in the context of the family as a group, as well as specific family members, in addition to the family business. Following substantial research in the area of emotions and behaviour (Kemper et al., 1990; Shelly, 2004), we believe that in addition to empathy, the role of other emotions, such as confidence, fear, anger, jealousy, and loyalty, also has the potential to inform the context of family business processes and outcomes in this regard. These effects could be direct, or indirect through rearranging the status, relationships and dynamics of interaction among family members.

Future research may also study the influence of other variables related to the management team and family dynamics as moderators, influencing the relationship between CEO empathy and family-oriented goals, or the direct relationships to family-oriented goals. However, because these variables (as other process variables) have significant qualifications in terms of temporal maturation (e.g. the management team in one time period is not the same as the management team in another time period, even if the management team composition has not changed) and possibility of bidirectional influences, future research may benefit from longitudinal designs to clearly trace these influences.

Longitudinal research may also help unravel the relationships that are reported in this cross-sectional study. For instance, it could disentangle the direction of the causal effect in the relationship between outside directors and importance of certain family firm goals, or examine the change in level of effect of the external director over time. In addition, over time, external board members may become more involved in the firm and the family, reducing their level of independence (Vafeas, 2003). Positive affection towards the family via increased familiarity could turn them into insiders in effect. This could weaken the moderating effect that external board members have on the positive influence of the family firm CEOs' empathy level on the importance placed on family firm goals. More generally, longitudinal models can also unravel the changes in firm goals that arise from changes in governance systems in threshold firms (Daily et al., 1992; Gedajlovic et al., 2004; Zahra et al., 2004).

In conclusion, this paper reflects that a specific emotion, empathy, affects the importance placed on family goals. External board members serve as the expected moderating voice in this effect (and presumably lend a voice in favour of business goals in the strategic decision making of the firm). In broader terms, we believe that research in family firms will benefit from inclusion of theories of emotions in studies of family firm behaviour and outcomes.

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Table I: Sample characteristics

	Mean	Median	Range	Percentage
# of employees (2004 full time-equivalent)	43.07	26.00	6-190	
Generation:				
-first*				34%
-second*				39%
-third*				21%
-≥fourth*				6%
External board*				13%

N=191 (listwise exclusion)

* Dummy variables (0/1)

Table II: Correlation matrix

Variables	1	2	3	4
1 Family-oriented goals	1			
2 Firm size in FTE	-.069	1		
3 CEO's Empathy	.210***	-.131*	1	
4 External board	-.112	.263***	-.037	1

N= 191

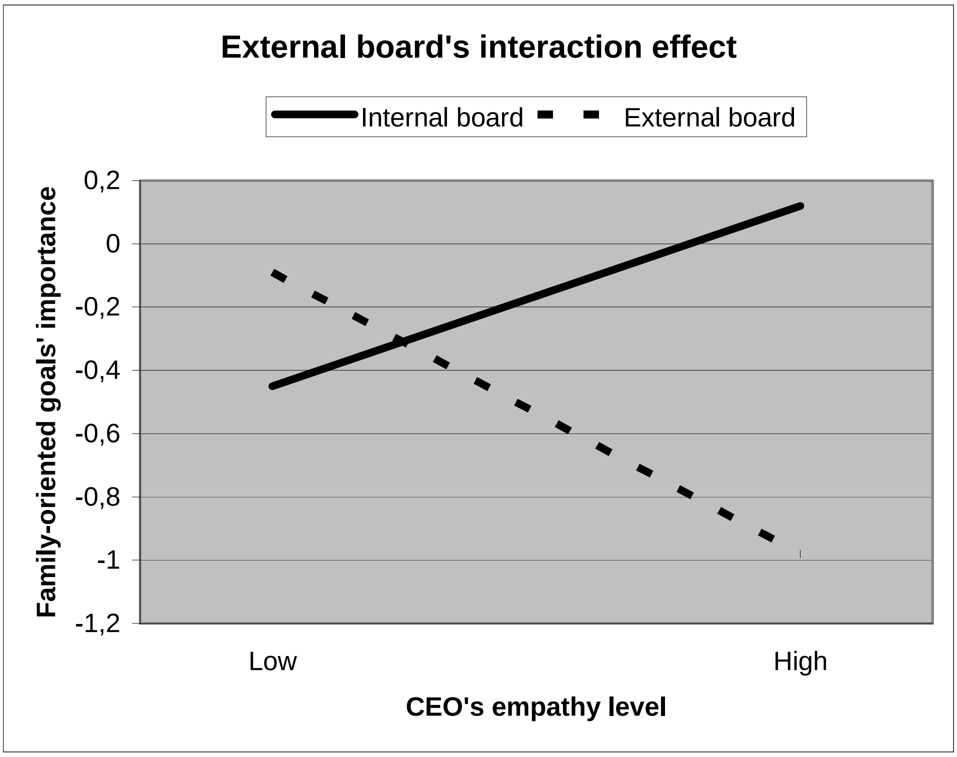
*** = sig. at .01 level, ** = sig. at .05 level, * = sig. at .10 level

Table III: Regression results

	Model 1	Model 2
Number of employees (fte 2004)	.000	.000
	(.002)	(.002)
Generation: Second	.336*	.339**
	(.172)	(.160)
Third	.404**	.412**
	(.204)	(.193)
Fourth +	.052	-.082
	(.320)	(.318)
CEO's empathy level	.231***	.292***
	(.073)	(.075)
External board	-.253	-.284
	(.227)	(.224)
Interaction (external * empathy)		-.648***
		(.237)
R-sq. adj.	.054**	.086***
N	191	191

Dependent variable: Importance of family-oriented goals; intercept not reported.
Standard deviation is reported in parentheses.
*** = sig. at .01 level, ** = sig. at .05 level, * = sig. at .10 level

Figure 1: Plot of interaction effect



* The x-axis indicates the value of the CEO's empathy level which represents the (standardized) factor score values (not a categorical value).

Appendix I: Empathy scale; Empathic concern - global

Please indicate on the following scale to which extent these statements accurately describe your personal situation. Circle the appropriate answer to each statement in the space provided following the statement. Try to describe yourself accurately and in terms of how you generally are (that is. the average of the way you are in most situations – not the way you are in specific situations or the way you would hope to be).

Items of Empathic concern – global ***Source: Davis (1980)***	***Factor loadings***
When I see peoples' misfortunes. it disturbs me	0.782
Generally I am touched by happenings	0.774
I feel concerned for the less fortunate	0.749
I feel protective when I see somebody is taken advantage of	0.501
I am good in listening to others' arguments	0.798
I often put myself "in his shoes"	0.850
I easily see from others' point of view	0.788
Model statistics:	
N	251
KMO measure of sampling adequacy	.877
Bartlett's test of sphericity (p-value)	.000
Percentage of explained variance	57.17%
Reliability coefficient: Alpha (α)	.866

The respondents were asked to answer the question on a 7-point Likert scale (1 = totally inaccurate – 7 = totally accurate).

Notes

[i] For an overview of definitions, Eisenberg and Strayer (1987b) is a useful reference.
[ii] NACE is the European activity nomenclature NACE Rev.1 that was established in an EG-Regulation in order to facilitate the structuring of economical and social statistical information.
[iii] Although Belgium has a one tier governance system and the Netherlands has a two tier system, an external board in both countries is not an obligation for the firms under study (family SME's). As such, an external board is solely the decision of the company and hence, this decision can be considered as not influenced by the legal context.
[iv] European definition of small and medium-sized firm: (1) < 250 employees and (2) Annual turnover <EUR 50 million and/or; (3) Balance sheet total < EUR 43 million.
[v] There could be a potential for endogeneity in our model due to the influence family-oriented goals may have on the adoption of external directors. In order to test for this, we estimated a 2SLS model. The results of the IV estimation were not significantly different from the results we found in the OLS regression.
[vi] Alternative analysis with ln size as the size control variable showed similar results. Results with absolute size are reported as they are easier to interpret.
[vii] Variance Inflation Factors (VIF) are all below 2, which is an indication that multicollinearity is not a problem in our regressions.
[viii] In order to test the robustness of these findings, we further scrutinized our results by splitting up our sample based on the median size criterion. Both subsamples showed the same results although the interaction effect for the larger firms has a t-value of 1.5 which is meaningful but not significant anymore on the 10% level. This slight decline in significance could be due to the rather small subsample size on which the regressions are performed. Despite these small subsample size, the results concerning the relationship between empathy and family-oriented goals stay very robust.