

Familiness & Emotional Ownership

Learning materials for family businesses
Module no. 7



Erasmus+

In this module you will learn

What is family ownership

What is emotional ownership (EO) and why are family businesses special?

Emotional ownership vs legal ownership

How to boost EO in the next generations

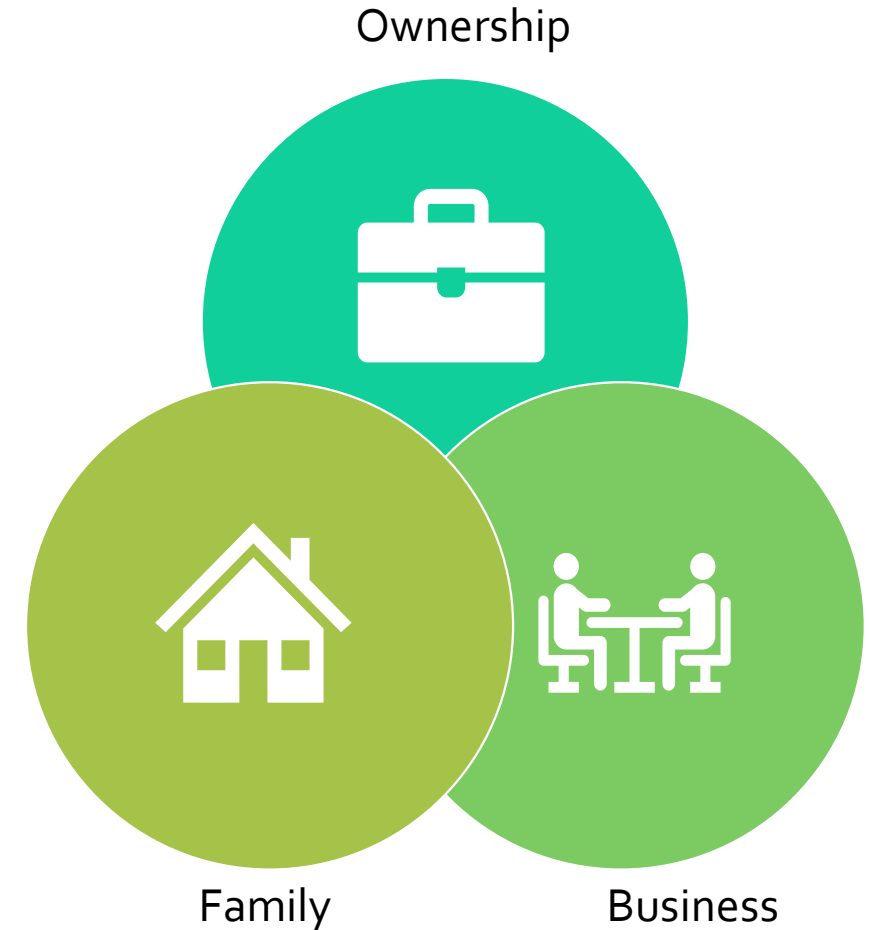
Self-assessment / Awareness of socio-emotional wealth in your family

Family ownership – what is it?

Family-owned, family-controlled, family-managed companies are usually referred to as **family businesses**.

Family business means any business where business and ownership are intertwined with family members operating (but not always) the company and the majority of ownership of the control lie within a family. Family members are not necessarily involved in the day-to-day management of the business.

Family ownership is the commitment and participation of family members; it is a unique source of business culture strength, enabling survival and success.



Why is family business special?



More innovation driven

A balance between tradition and change

Long-term orientation

Family values

Active and visible owners

One for all, all for one

Why are family businesses special?

Families in business tend to effectively nurture and grow the intangible assets of their business: identity and culture, values, reputation, trust, brands, relationships, networks, etc.

According to Zellweger, family businesses tend to generate more trust amongst stakeholders.



Edelman Trust Barometer 2020



What is Emotional Ownership (EO)?

From a very young age, we experience feelings of ownership – “my bicycle”, “my house”, “my neighborhood” and eventually – “my company”.

Familiness is a specific bundle of capabilities and resources unique to a business traditionally measured as an indicator of the implication of the family in the business.

Academics agree on the fact that EO is closely linked to the concept of familiness, psychological ownership and socioeconomic wealth.



What is Emotional Ownership (EO)?



Fermin, the current owner of the family business Sobrina de las Trejas with his two daughters.

EXAMPLE: The emotional ownership of the Spanish company “Sobrina de la Trejas”

Fermin, a current owner of a family-owned confectionery and pastry-making business “Sobrina de las Trejas” says that the secret for a successful and harmonious succession lies in keeping family traditions alive. *“We have learned - parents to children”* – he says proudly. He feels strongly that it is very important to instil love in the family business when children are young, let them engage in the daily work and learn the value of the family working together. He uses his example, whereby he started working there very young – his first job was being a “human doorbell” – sitting in a small chair by the door, the little boy’s job was to welcome and announce new customers.

Read the full [case study](#) on the SUFABU website

Emotional Ownership in family business



EO is an ability to continue with family business over the generations with passion and love.

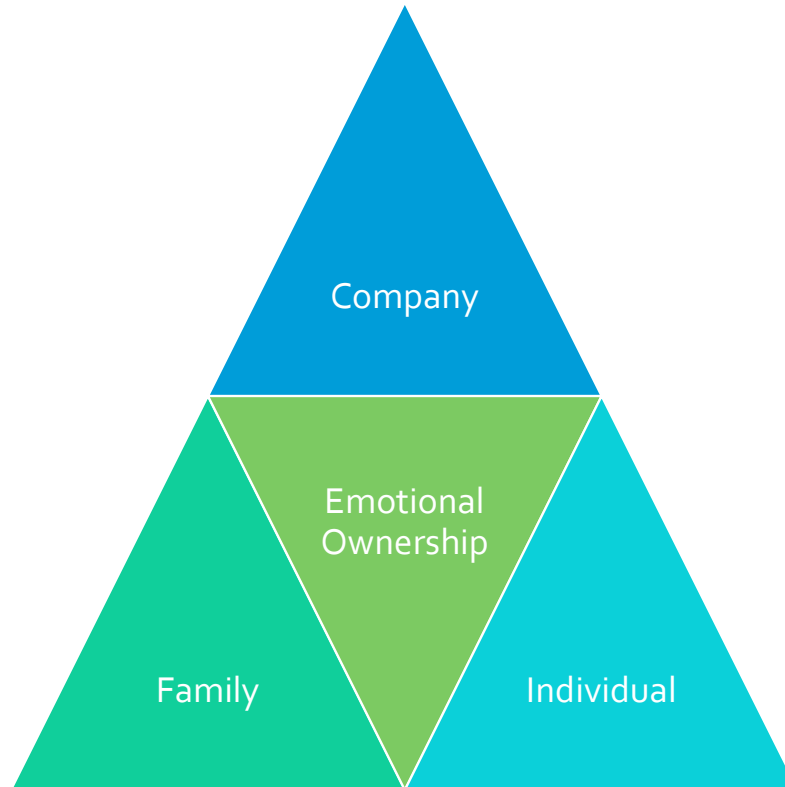


EO is a natural state of mind in a healthy family, but it needs to be nurtured from quite early on and can be easily disturbed by bad parenting and lack of engagement.



EO is a critical pathway that connects the past with the future and the next generation with the business¹.

Principles of Emotional Ownership



Emotional Ownership is shaped along three axes:
the company, the family and the individual.
These axes are distinct yet interdependent.

GLITCHES **conexión** **SHARING**
Attachment **INCLUSION** **ENGAGEMENT**
ANGAŽOVANOST **INCLUSION** **passion**
BELONGINGNESS
L' AMOUR **engagement** **ZÁJEM**
passion **support** **identification** **INCLUSION**

Principles of EO: what are the factors associated with higher and lower EO?



Higher

- Life satisfaction
- Equity ownership
- EO increases with age
- Stable relationship & children of your own
- Larger companies
- Larger families
- Healthy family climate
- 'Dinner table' talk
- Integrated governance approach



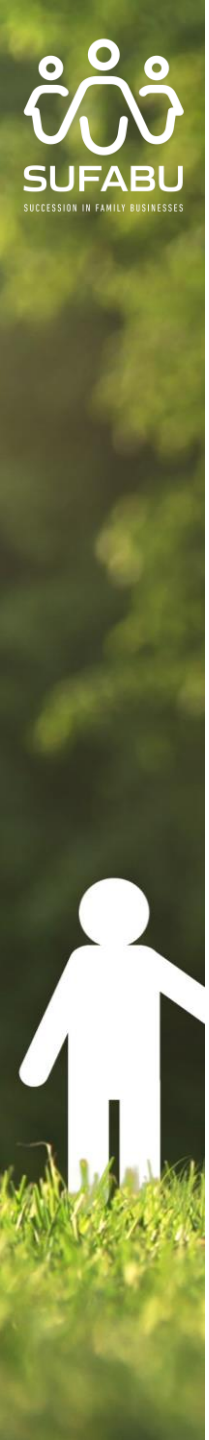
Neutral

- Perceived company performance
- Family conflict
- Negative emotions towards the family business
- Outside mentor
- Exchange program with other family businesses
- Ownership concentration
- Number of relatives working in the business
- Company age (generation)
- Job role (for 'insiders')
- Being first-born
- Friends' and other close people's opinion about your career

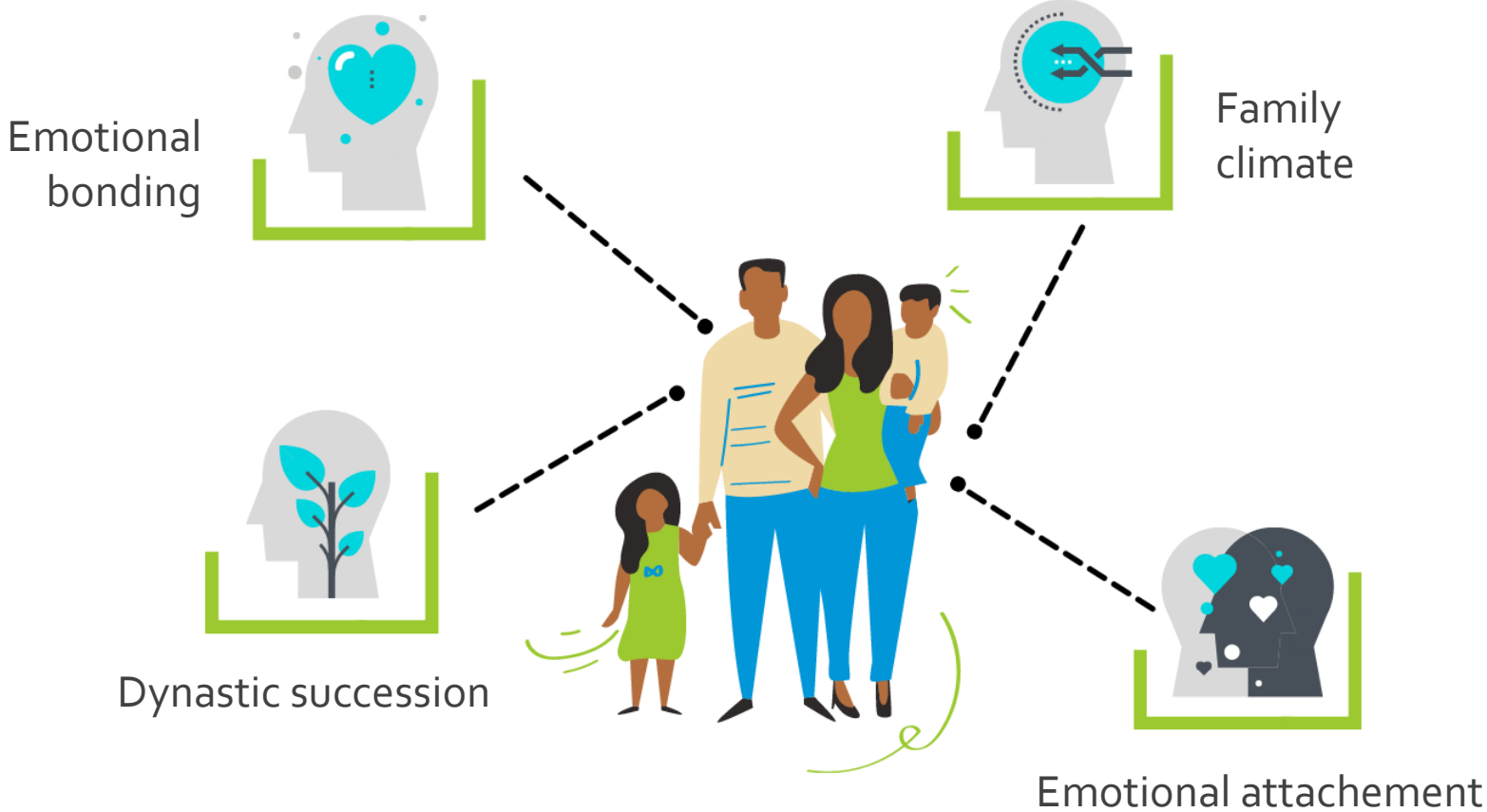


Lower

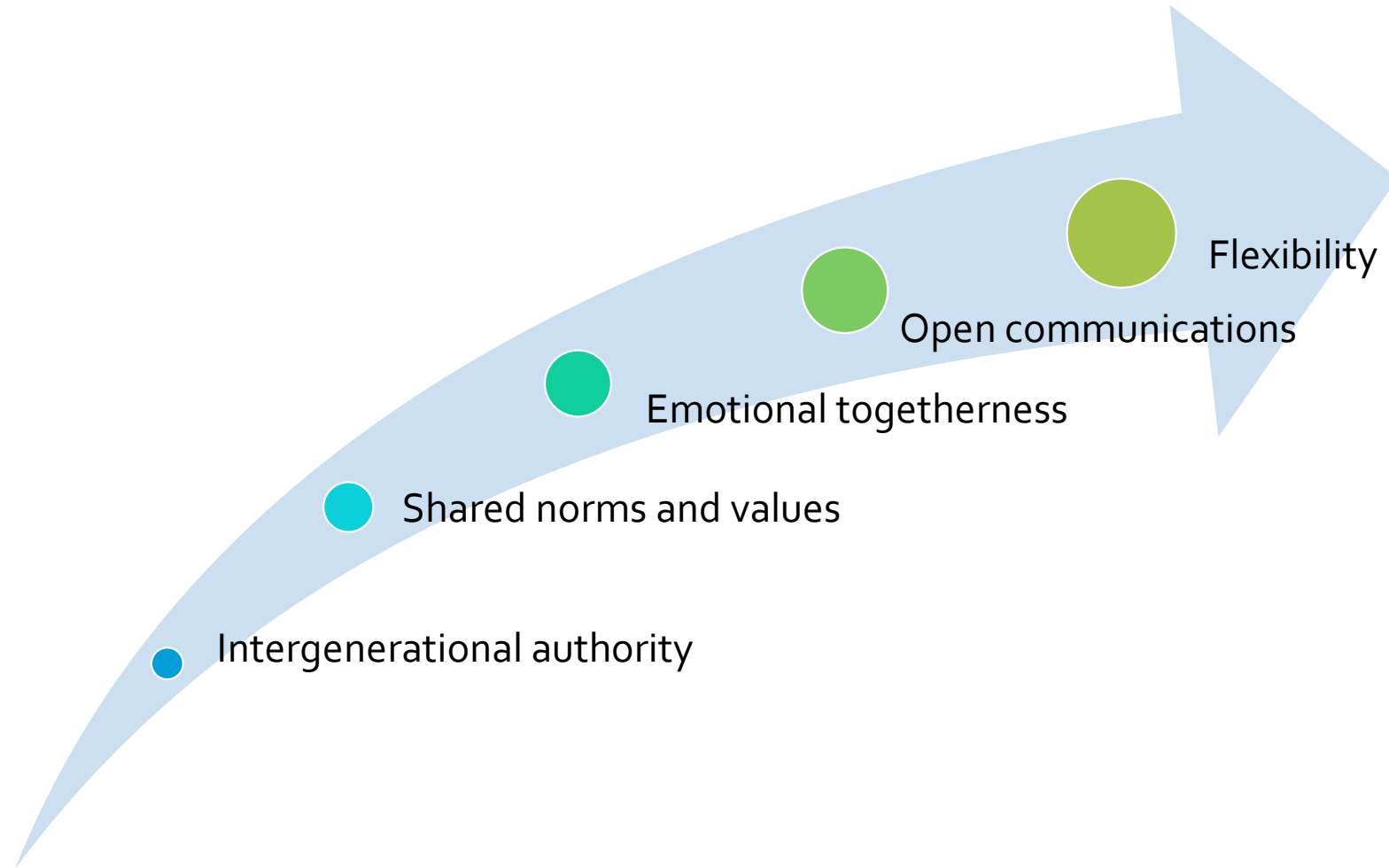
- Formal meetings
- Ownership conflict
- Giving priority to males in employment in the family business



Components of EO



Relationship between family climate and EO (in order of strength)



“

*Emotional ownership is the innovation driver
for family business*

”

Björnbergn & Nicholson, 2018



Emotional ownership vs legal ownership

Emotional ownership is distinct from **legal ownership**: one may feel that the family business is theirs and no one else's (i.e. psychological or emotional ownership), but legal ownership of the business is about owning shares.

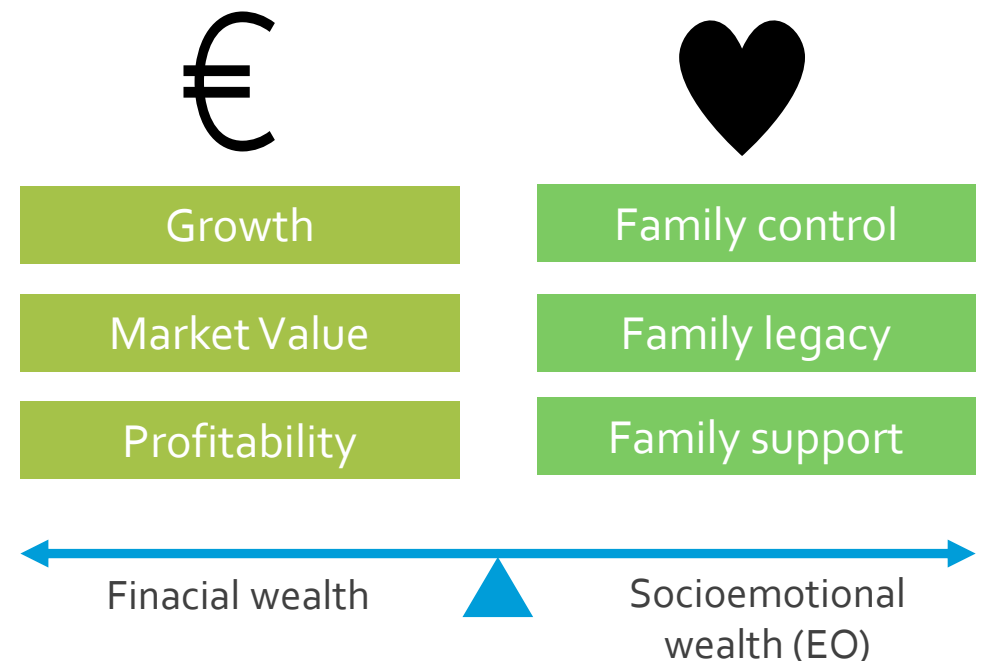
Family members who are legal owners of the business are not necessarily involved in the day-to-day management of the business. The operational activities can be done by the board of shareholders which runs the company for the benefit of shareholders.



Emotional ownership vs legal ownership: creating value across two different dimensions

Emotional ownership is closely linked to **socioemotional wealth (SEW)**. SEW is a key driver of family firm behaviour based on that family firms are motivated by the preservation of SEW in their strategic decision-making. SEW refers to the “affective endowments” of the owning family which derives from the family’s controlling position in a particular firm.

As a theoretical model SEW has proved its value in explaining the differences in strategic choices of family firms compared with non-family firms, for example in risk-taking choice, environmental protection, internationalization, human resources management, proactive stakeholder engagement.



Emotional dimensions within family business: emotional costs vs emotional returns

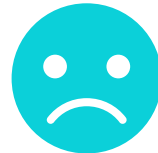
According to the study of Astrachan & Jaskiewicz (2008), the total value of a family business is not only composed of its financial worth and private benefits, as is usually assumed by traditional financial theory, but that emotional components also have an impact on valuation. They suggest a valuation formula of a family business from an owner's perspective that addresses **emotional costs (ER)** and **emotional returns (ER)**.

$$ER - EC > 0$$



The total value to the family owners exceeds the pure financial value of the business, e.g, the employment of inefficient family members can have a positive emotional return for the owners and, consequently, owners might accept lower profit margins in the business. In total, the owner's total value might still be higher than in the case of having external managers in the business.

$$ER - EC < 0$$



In this situation, traditional finance theory would overestimate business value to an owner. If $ER - EC$ is negative, it lowers the perceived total business value of the family business to the owner and increases the probability of business sale or liquidation.

Emotional dimensions within family business: emotional intelligence (EI)

Emotional intelligence (EI) is a set of emotional and social skills that help emotional and intellectual growth of a family business. EI is based on the following elements:

1. Awareness of social surroundings is the process of succession from one generation to the next. The owners should have good knowledge and awareness of potential next-generation members, who could have the motivation and capabilities to take over one day.

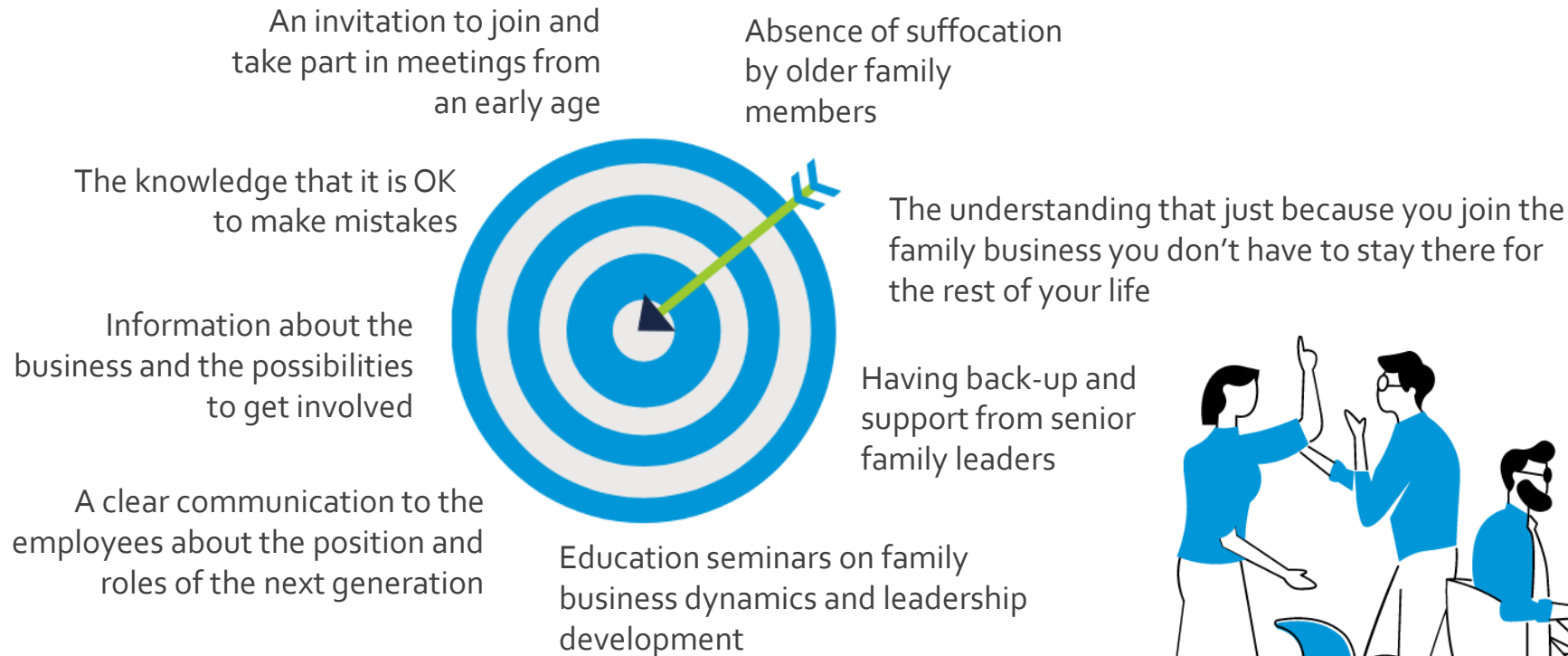
2. Self-Management or self-control is essential in family businesses. Reduced or non-existing control may lead to hostile relations and avoidance of family members in the long run.

3. Social skills such as leadership, communication, being a catalyst for change, managing conflict, creating bonds, collaboration are vital in family businesses as the family members need to manage relationships not only with the business but also within the family. The more skilled family members are social, the higher is the probability that their interactions are strengthened.

“
If you lead with emotional intelligence, then you will have a better chance of creating a family business that's built to last.
”

Mallori, 2015

How to stimulate the EO of the NxG leaders?



Takeaways: How to stimulate the EO of next-gen leaders? (Senior owner perspective)

Develop a special relationship with the next generation

Integrate and engage with your young family members

Provide educational activities

Set up a clear governance system

Support career development

Give the next-gen a choice

Takeaways: How to stimulate the EO of next-gen leaders? (Family perspective)

Provide a healthy and supportive family climate

Manage relationship conflicts

Expose young family members to the family business

Support the next generation with their choice

Maintain the business as a positive and essential component of the family identity

Make young members need to feel that the family-owned business is an important part of their identity

Takeaways: How to stimulate the EO of next-gen leaders? (Next-gen perspective)

Be proactive and contribute to the business

Be curious about your family history

Seek a mentor within your family and develop your leadership skills

Understand the legacy of your family business

Define what you want to do with your professional life

Inspire yourself by developing a family gonogram

Most known family business with high EO



“

You can do anything. But never go against the family.

- Don Corleone

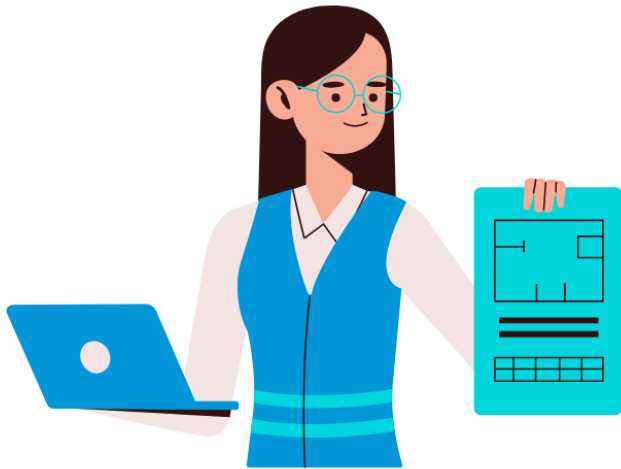
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Are you a next-gen family business owner?

Let's follow the self-assessment on the next two slides to find out your emotional ties to the family business and the awareness level of the socio-emotional wealth in your company.



Self-assessment: How do you feel about your family business?



Attachment to tradition:

- ❖ The activities of our family business are strongly rooted in tradition and our golden age
- ❖ Each year we organize events to celebrate our ancestors and share our story with new employees

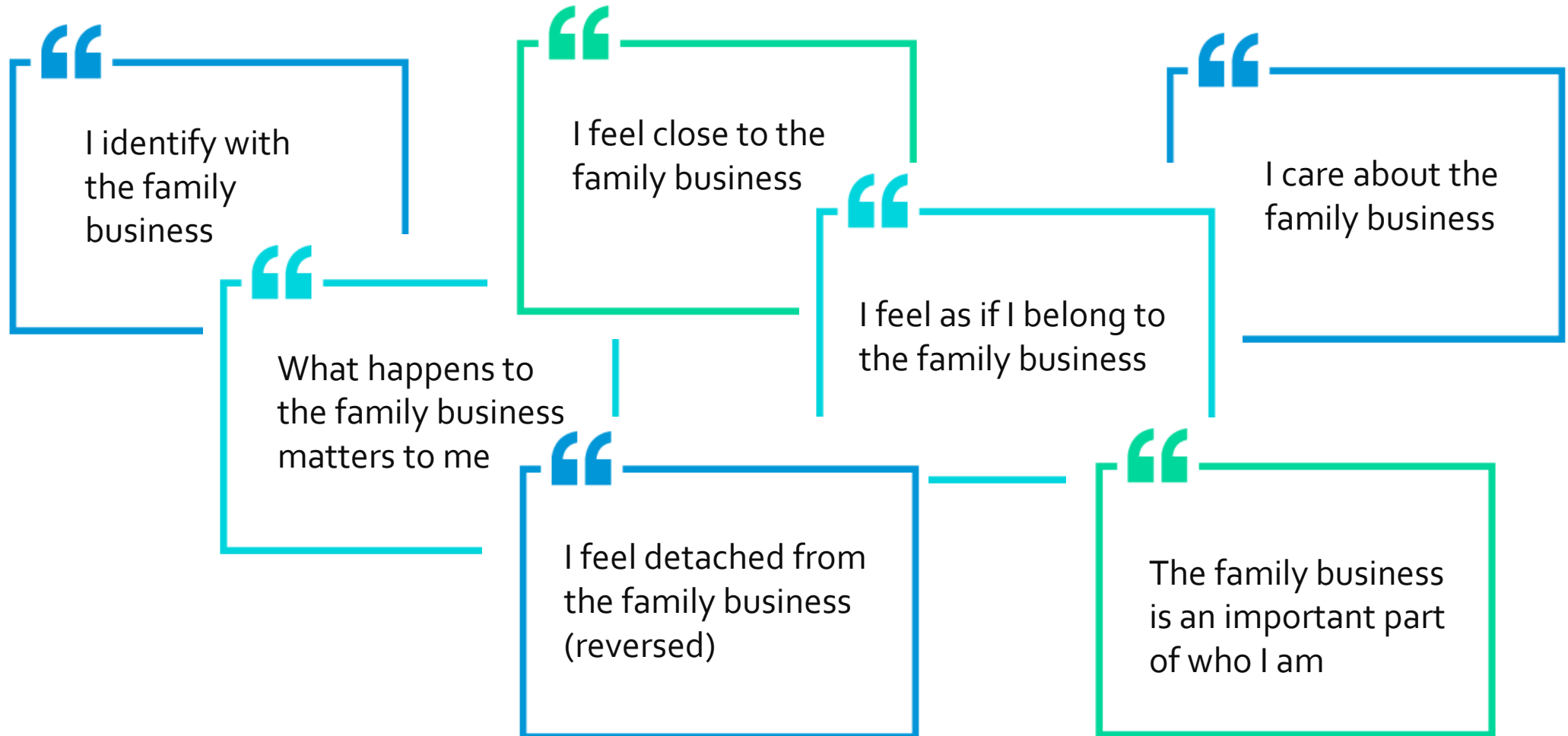
Family cohesion:

- ❖ In our family business, family members get along better with employees from outside of the family than with those who are relatives
- ❖ Family members consult other family members on important business decisions
- ❖ Family members working in the family business are very close

Family goal diversity:

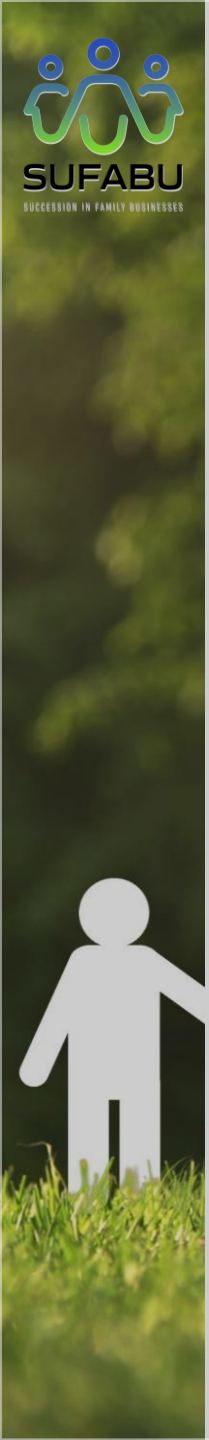
- ❖ As a family, we recognize that each family member may have personal goals that differ from other family members' goals
- ❖ If we were to ask family members to list their three most important professional goals, we would find much overlap

Self-assessment: How do you feel about your family business?



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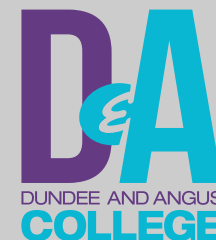
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