

The missing lens in family firm governance theory: A self-other typology of parental altruism[☆]

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Abstract

Drawing on three prominent views about the “self” and the self’s relationship with “others”, a typology of five parental altruistic archetypes is derived that exhausts the possible altruistic influences on the governance of family firms. When taken in concert, these five types comprise a more balanced explanation of the cross-sectional variance in the governance efficiency of these firms than do the explanations from agency theory and more recently, by Schulze and colleagues. Therefore, the typology provides an improved explanation of why some family firms are more able than others to capitalize on the family governance’s positive attributes.

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1. Introduction

“Parent–Owner” family firms (PO firms) are considered to be the most common ownership form in most nations, including the U.S. (La Porta et al., 1999). PO firms are those where ownership and managerial control are held within a family unit, and concentrated in the hands of a single principal within a family unit, who is both the head of the household and the chief executive of the firm. But, do these firms have an efficient governance structure? That is, does their governance structure minimize agency threats and the governance costs required to defuse those threats? (Agency threats emerge in the presence of information asymmetries, which allow agents the ability to withhold effort or to divert resources in an attempt to effectively

increase their compensation in ways that the owners will have difficulty detecting. Governance costs refer to the costs associated with administrating, monitoring, and incentive mechanisms that are intended to reduce agency threats.)

Agency theory suggests ‘yes’ to this question (Amihud and Lev, 1981, 1999; Fama and Jensen, 1983, 1985). This theory predicts that the combined effects of large-block ownership (Amihud and Lev, 1981, 1999), owner–management (Denis and Sarin, 1999), and the kind of familiarity with each other’s conduct that comes with family relationships (Fama and Jensen, 1983), make PO firms particularly efficient at minimizing information asymmetries and aligning managers’ interests, and thus, effective at muting agency threats without incurring high governance costs.

Schulze, Lubatkin and their colleagues offer a less optimistic view (Schulze et al., 2001, 2003a,b; Lubatkin et al., 2005). Drawing from the writings of such noted household economists as Gary Becker and James Buchanan, they argue that parental altruism (a trait that positively links a parent’s welfare to that of their children and other members of their family), when coupled with abundant and readily available resources and private ownership, can engender substantial governance inefficiencies. This combination does so by causing parent–owners to behave

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in ways that compromise their own long-term welfare and that of family agents who depend on them.

However, neither the views of agency theory nor those of Schulze and colleagues adequately capture the range of governance outcomes that are possible within family firms. In particular, as stand-alone theories, the agency view is naïve and the view of Schulze and colleagues is dire, because the former understates the influence of parental altruism, while the latter overstates its negative influence.

This paper builds on these two views by incorporating both along with three other forms of parental altruism not recognized by either view in a way that offers new and more robust understandings. Specifically, a classification scheme for five parental altruistic archetypes is developed. The classification scheme is based on a self-other typology, which exhausts the possible altruistic influences on the governance of PO firms. How the resulting typology provides a grounded basis for explaining variance in the governance efficiency of these firms, and why some PO firms are more able than others to capitalize on family governance's positive attributes is also explained.

2. A self-other typology of parental altruism

In a general sense, altruism is a particular kind of “self-other” relationship, representing the tendency of principals (the “self”) to integrate interests of “others” into their decision processes and actions. Applying this self-other representation to the actors at PO firms, the parent (who heads the household and the firm) is considered the principal, while the parent's offspring that are employed at the firm are the others. Drawing from different literatures that deal with the topic of altruism, three prominent views of self-other relations that are particularly relevant to understanding the various types of parental altruism that may be present at PO firms are discussed. The first view, *Subjectivity*, represents those instances where the self deduces the identity and values of others based on the self's own identity and values. The second view, *Inter-subjectivity*, represents those instances where the self co-defines his or her identity and values with those of others. And, the third view, *trans-subjectivity*, represents those instances where others' identity and values pre-define those of the self.

These three self-other views define the *Y*-axis of a typology of parental altruism (Table 1). The typology's *X*-axis is based on whether the self's interests predominate in their relationships with the others (which is agency theory view), or whether the other's interests dominate (which is the Schulze et al., view).

Thus, in the left column of the table, parent-owners act more like owners than like parents, while in the right column, they act more like parents. The 3×2 configuration categorizes five parental altruism archetypes (principal-based, ideal-typic, family-oriented, paternalistic, and psycho-social). The sixth cell is left empty because that cell is formed by an implausible combination. The discussion begins with the two subjective altruistic types, because they appear to impart an important influence even though both types are rarely observed. However, the subjective altruistic types are discussed first because both are based on rich and widely held theoretical traditions.

3. Two subjective types of parental altruism

Subjective altruistic expressions are those where the self deduces the identity and values of others based on the self's own identity and values. Lying at the core of this view, which originated with *Descartes* (1637) and was extended by I. Kant and A. Comte, among others, is the belief that individuals are incapable of accessing or experiencing the authentic interests and passions of others. However, individuals can deduce others' interests and passions based on their own feelings, emotions, experiences, and the knowledge gained from those experiences. Said differently, subjectivity views the existence of others in neutral and impersonal terms. Taken in this light, the subjectivity view reveals two contrasting altruistic forms that pertain to PO family firms. As shown in Table 1, these are principal-based altruism, which is in line with agency theory, and ideal-typic altruism, which is consistent with social justice theory.

3.1. Principal-based altruism

True to its agency theory roots, this minimal form of parental generosity and concern lies at the intersection of subjectivity and the primacy of principals. In this case, POs view their personal interests as coming before that of their family agents. Accordingly, POs make no attempt to differentiate the interests of others. Instead, they define others' interests entirely from the inner inquiry of their own interests, consistent with the subjectivity view where individuals restrict their comprehension of others' identity and values to neutral impersonal terms, like money. Said differently, principal-based altruism, as a direct extension of agency theory, is based on the assumption that parents and family agents alike are driven by a same self-serving desire to maximize a single utility (generally a trade-off between money and leisure), because they are all rationally

Table 1
Types of parental altruisms

	Principal-primary	Principal-secondary
Subjectivity Other's identity and values are deduced from parent-owner's identity and values	Principal-based altruism	Ideal-typic altruism
Inter-subjectivity Other's identity and values are co-defined relative to parent-owner's identity and values	Paternalistic altruism	Family-oriented altruism
Trans-subjectivity Other's identity and values are prior to parent-owner's identity and values	Implausible	Psycho-social altruism

economic, and therefore cannot be differentiated. Also consistent with its agency theory roots, this reductionist form of altruism assumes that only economic co-dependencies matter. Accordingly, with this altruistic form, social context in general, and specifically organizational context — which manifests itself in the form of generalized norms, socialization rules, and obligations — will play a nominal role in explaining the attitudes and behaviors of the actors.

Therefore, while agency theory may be useful to derive patterns in other contexts, like widely-held professionally managed firms, its principal-based altruism view offers an arid and underspecified portrayal of exchange relationships in PO firms. Put another way, because agency theory views the interests of the PO as primary and the identity and values of others as definable from a self-applied deduction, this theory portrays family firms as existing without family bonds — and, in so doing, constructs a reality that for these firms borders on being oxymoronic.

3.2. Ideal-typic altruism

A second form of parental altruism, which lies at the intersection of subjectivity and the primacy of others, is rooted in a social justice view (Rawls, 1972). This form of altruism is labeled as ideal-typic in reference to Max Weber's (1909) ideal-types; i.e., pure ideas necessary to develop scientific theories of social phenomena devoid of moral and religious taints. This altruism form requires that the “self” abandon what represents her own attributes and gives prevalence to that of others. This is to say that these principals must conceal, under a “veil of ignorance,” information about their social positioning and intellectual capacities to both themselves and to others, so as to base a fair contract and make fair decisions.

Broadly speaking, ideal-typic altruistic expressions have been used by political scientists to understand why societies do not succumb under anomic tendencies. The benefits of ideal-typic altruism, however, are less obvious for explaining governance patterns of exchange relations in specific situations. For example, POs are expected to have difficulties in both abandoning their personal, familial, and business concerns when deriving family agents' values and wants, and in attaining a socially retributive pact that all family members agree is fair. Indeed, the notion that individuals can retract from their intellectual, social, and economic attributes may be a useful theoretical depiction for explaining how they can cohabitate in a “Rawlsian-like” utopian society, but this notion has questionable utility for explaining the daily challenges facing POs. For these reasons, the ideal-typic altruistic form appears to lie largely outside the boundaries of family firms. While POs might view ideal-typic altruism as a desirable governance form, this archetype remains largely an abstraction in the daily realities of organization life.

3.3. Summary remarks

Both subjective altruistic archetypes — one based on agency theory, where the self's interests dominate, and the other

consistent with social justice theory, where the others' interests dominate — may be well suited to explain ecological forces at the societal level, where markets for capital, labor, and ideas exist and are sufficiently large to select efficient governing principles and mechanisms. However, neither archetype appears well suited at less macro-levels like PO firms, where motives and actions are neither derived purely rationally from economics, nor are just interests taken in isolation. The principal-based altruism reduces too much what the others' interests can be, while ideal-typic altruism presents another extreme situation where everyone's interests are deemed respected. Moreover, both subjectivity altruistic archetypes share an a-historic version of altruism where family history and generation cycles do not easily fit. Thus, while the two subjective self-other altruistic views are both based on rich theoretical traditions, neither form imparts an important or consistent influence on principal–agent relations at PO firms.

4. Two inter-subjective types of parental altruism

Inter-subjectivity represents those instances where the self co-defines their identity and values with those of others. Originating with Hegel (1806), this view assumes that in a self's attempt to affirm her identity, the self is confronted with the desires of others to do the same. The outcome is a synthesis, where individuals affirm their own identity by appropriating identity traits from the others. Accordingly, the agents (the other agents) become the master of the principal (the self), because principals cannot lead without the agents' cooperation. Hegel, thus, argued one cannot be conscious of oneself without someone else being present to co-define the respective self-other positions and identities of each other.

The consequences of inter-subjectivity, however, will vary, depending on whose consciousness is regarded as primary — that of the principals or the agents? Should this be the agents' then altruism takes on the attributes and dire consequences of family-oriented altruism, as described by household economists and later adopted by Schulze and his colleagues. Should the principals' be primary, altruism takes on a different set of attributes and consequences associated with paternalism. Next, both parental altruistic types and how they relate to family firms are discussed.

4.1. Family-oriented altruism

This view of altruism was first formalized by noted economist, James Buchanan (1975), who proposed the theorem, the “Samaritan's Dilemma”. Buchanan used parental altruism to explain incentive problems associated with household exchange relationships. His theorem was then later enriched and debated by other ‘household’ economists, like another Nobel Laureate, Gary Becker (1981) and his “Rotten Kid” theorem, and Bergstrom (1989) and his interpretation of the biblical parable, “Prodigal Son.”

In brief, these economists note that altruism partly stems from a parents' endogenous co-dependency with their children, in which the parents' interests are secondary. As a result, parents

have a strong incentive to be generous towards their offspring, even if their offspring do not appear to appreciate these transfers or gifts, but instead view them as entitlements. This gives the offspring a powerful incentive to manipulate the content of their parents' transfers to cater to the offspring's self-serving wants. This inter-subjective altruistic view thus gives parents a rationale to take actions that, however innocent the intent, can encourage their offspring to free-ride (e.g., leave an assigned household chore for a parent to complete or be a spendthrift with their parent's money), shirk (e.g. misrepresent their actions), and demonstrate other forms of self-centered (egotistical) behaviors, all of which serves to spoil them and, in turn, engenders household governance inefficiencies.

The dilemma facing all Samaritans is thus clear. Parents may prefer that their children show less self-regarding behaviors and more other-regarding ones. However, because this form of altruism is endogenous to parents' inter-subjectivity nature, and characterizes a situation where the children's interests take precedence over that of the parents, parents' behaviors become largely governed by the interest of their children (Buchanan, 1975). Or, put in Hegel's (1806) terms, parents affirm their identity when confronted with their children's antagonistic desires, such that the "children become the master of the parents." When faced with their offspring's desire for instant gratification, parents are therefore tempted, even compelled, to change their payoff structure and act myopically. Buchanan's theorem, thus, suggests a two-edged altruistic sword. On one hand, the engendered co-dependencies serve to shape and sustain a family bond. On the other hand, that bond may prove dysfunctional, for family-oriented altruism can also threaten even well intended parents to act in ways that inhibit the alignment of household interests and jeopardize the long-term welfare of the altruist and recipient alike.

Schulze, Lubatkin and their colleagues (previously cited) reasoned that this theory of exchange relationships in the household could shed light on explaining familial exchanges at family firms. First, they argued that POs are predisposed to be altruistic to their adult children after hiring them into the firm — lavishing them with above-market employment contracts and perquisites, or what economists refer to as "normal goods;" that is, those goods intended to gratify an individual's economic wants for consumption and leisure. Second, they argued that family-oriented altruism can give the POs incentives to not adopt the kind of internal formal mechanisms that might minimize the governance inefficiencies associated with these altruistic relationships. For example, parents may be unwilling to establish incentive-based pay schemes, fearing that they might engender a jealous rift among the employed family. POs may also be unwilling to discipline those who reduce their input (e.g., labor, time, effort), fearing the effects that disciplinary actions might have on familial relationships inside the firm and among the extended family outside the firm. Finally, even in presence of control mechanisms, family-oriented altruism may bias the POs' perceptions against finding fault with their family members' job performance. Hence, when the "slave becomes the master of the master," the PO's family-oriented altruism can engender governance inefficiencies. Formalizing Schulze and

his colleagues' thesis in the context of the proposed typology leads to the following proposition:

Proposition 1. *The degree to which parent–owners are driven by family-oriented altruism is positively associated with normal good allowance, motivational bias, and ineffective use of existing governance mechanisms, which, in turn, are positively associated with governance inefficiencies.*

This dire family firm prediction is not without merit, as indirectly evidenced by numerous case and field studies in the family business literature. On the other hand, this literature also observes that PO firms are the world's most common form of business organization (La Porta et al., 1999) — this in spite of the dire predicted consequences of family altruism. These observations suggest that the Schulze et al. representation, based on an inter-subjectivity/other-regarding view of altruism, does not exhaust reality; a second form of self-other relationships, which is thus far overlooked in the family firm governance literature exists.

4.2. Paternalistic altruism

Like family-oriented altruism, paternalistic altruism assumes that parents (self) and their familial others' interests differ, but their conscious recognition of co-dependency enables both sets of actors to affirm their individual identity and values. However, differing from family-oriented altruism, and because of the predominance of the principal's values in the self-other relationship, paternalism is motivated by what the parent perceives to be in their offspring's best economic interest. Three features further distinguish paternalism from family-oriented altruism. The first has to do with the nature of the incentives being exchanged. Whereas family-oriented altruism is directed mostly to the transfer of 'normal' goods, paternalism is directed mostly to the transfer of 'merit' goods. Merit goods are those actions, values and consumption patterns that parents judge to be essential for their children's future success and happiness, once they are grown and leave the home (Pollak, 1988).

Second, whereas a parent's family-oriented altruistic preferences are driven by unrequited generosity, thus making the parent vulnerable to being manipulated, paternalistic preferences, being more principal regarding, are driven by required generosity. Behaving paternalistically means taking an active role in affecting their offspring's consumption of merit goods, usually by making the transfer of their resources conditional on how well they perceive that their offspring are conforming to their judgments (Lindbeck and Weibull, 1988). For example, paternalistic reward schemes like "tough love" can be crafted to fit virtually any desired period, including the short ("You get your allowance only after your chores are done"), near ("Do well in school and I'll pay for your college education") and long term ("Someday this might all be yours!").

Finally, unlike family-oriented altruism, paternalism does not pose a dilemma to the Samaritan, for the recipient has considerably less influence on the content or timing of the

reward scheme (Chami and Fullenkamp, 1997). Said differently, paternalistic behaviors emanate from a utility function that positively links the welfare of parents to the conditional ‘take it or leave it’ offer that they present to their offspring. In short, while paternalistic POs, consistent with the inter-subjectivity views of self-other relations, affirms their identity by appropriating identity traits of their children (e.g., “my son the doctor”), they do so in ways in which they attempt to remain the master.

Unfortunately for the parent, however, their position of power may turn out to lead to governance inefficiencies for three main reasons. First, paternalistic actions are based on the parent’s belief that they know better than the child that which ultimately is in the best interest of the child (and may anticipate that the child will later thank them for their parental wisdom). As such, these actions are prone to be calculative, coercive and transactional, and thus can inadvertently threaten the children with moral hazard by providing them with incentives to rebel against the parent’s wishes. For example, Hirshleifer (1977) points out that if the parent decides on the transfers before the child decides on the action, the incentive that the child might have to abide by the parent’s wishes is diminished, while the incentive to act badly is increased, much to the parent’s dismay.

Second, paternalism is also predicated on the assumption that parents can accurately observe their offspring’s actions. Chami and Fullenkamp (1997) question this assumption about information symmetry and observability, particularly when dealing with children who are old enough to be spending more time away from the parent’s watchful eye, as is the case later in their lives when they are being employed at the family firm. In response to this, paternalistic parents would have incentive to over-control. For example, they may withhold all rewards until the child fully conforms to their judgment, or constantly increase their expectation and judgment criterion, all of which could promote children’s incentive to rebel.

Third, co-dependencies engendered by paternalism, given its calculative, coercive, and transactional nature, can erode the family bond by embittering the children, and cause them to rebel in ways that shifts the balance of power between “master and slave”. Should POs consistently favor paternalism over family-oriented altruism (that is, view every exchange with their child as involving a merit good), they can end up shaping an undersocialized governance structure for both their household and later their firm — a nexus of parent–children contracts, but devoid of any semblance of kinship. Thus,

Proposition 2. *The degree to which parent–owners are driven by paternalistic altruism is positively associated with merit good allowance, excess of control, and family bond erosion, which, in turn, are positively associated with governance inefficiencies.*

5. One trans-subjectivity type of parental altruism

Trans-subjectivity represents the third and last view about self-other relations. Differing from subjectivity, where the construction of one’s self remains largely independent of the authentic interests of others, and from inter-subjectivity, where

the construction of one’s self is built through a co-definition with others, trans-subjectivity entails the construction of the self through a co-evolutionary progression of acceptances of the other’s pre-existing differences. As such, trans-subjectivity presumes a context-specific theory of self-other relations, based on a dynamic process of adjustments and reciprocity, where others exist always prior to the self, such that they predefine the self (Levinas, 1969; Ricoeur, 1992). As a consequence, principals are secondary relative to the others, leaving as implausible the trans-subjective cell in Table 1 that intersects with the principal as primary.

The parental altruism’s counterpart to this trans-subjectivity/principal secondary view is what is called psychosocial altruism, a type of altruism that management scholars may refer to in different contexts as social learning (e.g., Bandura, 1997), mentorship (e.g., Gersick et al., 2000; Ibarra, 1997), and practical wisdom (Durand and Calori, 2006). Whereas family-oriented altruism associates generous transfers of normal (economic) goods, with agents’ wants in mind, psychosocial altruism views these generous transfers in terms of how parents contribute to their children’s psychological and social development. Principals conform to the social norms that pre-exist them, meaning that they look beyond their personal values and consider also the pre-existing values embedded in their society.

Thus, depending on the society in which the parent was socialized, psychosocial transfers may include basic incentives, like love, nurturing, and security, as well as more complex incentives, like ethical clarity (to be taught the difference between right and wrong), socialization (to learn what behaviors are approved by others), and self-esteem (to gain a sense of identity, competence, and confidence). As such, psychosocial altruism involves the endogenous propensity for parents to transfer predefined socially embedded values and norms to their offspring. Implicit to this type of altruism, therefore, is the parent’s commitment to construct a socially-acceptable familial context within the household and later within the firm, which compromises the unique personal identities of neither the parent nor the children. Given this, psychosocial altruism seems likely to engender governance efficiencies for four reasons.

First, psychosocial altruistic values and norms’ transfers rely on mimetic (“lead by example”) forms of influence (where the children acquires, adopts, or imitates the desired values through conscious consent, because the children think that what they acquire represents best practices) and normative (“socialized”) forms of influence (where the norms are imprinted or unconsciously incorporated by the child due to the socialization context constructed by the parent). Institutional theorists like Di Maggio and Powell (1983) understand these two forms of influence to be more effective and efficient influence forms than is coercion (previously discussed in the context of paternalism).

Second, in psychosocial altruism, parents conform to norms and values as salient items of their embedded culture and transfer them on to their offspring who, in turn, benefit from them. Close members in the embedded network benefit from advantages (information access, adaptation, economic rent) due to their socialization and psychological understanding of

idiosyncratic rules and principles in place in the society. Being mutually altruistic with family members is a particular type of *ex ante* commitment and network dependence. Such values conveyed through psychosocial altruist transfers are less susceptible to depreciate with time, because the recipient is more apt to internalize incentives that are conveyed through mimetic and normative means rather than coercion or required behavior. Thus, the incentives embedded in psychosocial altruist transfers serve as *ex ante* enforcements; they can offset any counter-vailing incentives to shirk or free ride.

Third, psychosocial altruism — as not based on generosity in economic—only terms, but on pre-existing social embedded values — causes parents to not act myopically (i.e., not choose instant gratification for their children in spite of delayed cost). Indeed, such myopic behaviors have less meaning in the context where a child’s psychological and social development is at stake and is advanced through mimetic and normative means.

And, fourth, psychosocial altruism is less prone to pose a Samaritan with a dilemma, for the recipient who has internalized socially embedded virtue is not as likely to view the transfer of normal goods like money, and merit goods like ethical behaviors, as entitlements, and thus, are less likely to be spoiled by them. The co-dependencies fostered by psychosocial altruism, therefore, are more apt to shape and sustain a functional family bond predicated around reciprocity and other — regarding behaviors in a manner similar to Ouchi’s (1980) notion of “clan control”. This family bond, in turn, will transfer a history, identity, and language to the family firm, because these two social institutions are temporarily linked. This can imbue the family firm with a uniquely positive governance form that other governance forms cannot imitate or approximate. For example, communication and some types of decision-making are simplified, due to the intimate knowledge about each other those family members bring into the firm (Gersick et al., 1997). This idiosyncratic bond can also serve to align preferences for growth and risk taking within the family, and thus limit a major source of agency conflict.

In summary, whereas family-oriented and paternalism altruisms are each positively associated with governance inefficiencies, psychosocial altruism is positively associated with governance efficiencies, because the employed offspring are imbued with pre-existing norms and values, *ex ante* enforcements, and a family bond that promotes reciprocity and other-regarding behaviors.

Proposition 3. *The degree to which parent–owners are driven by psychosocial altruism is positively associated with the norms, values, ex ante enforcements, and durable family bonds, which, in turn, are positively associated with governance efficiencies.*

6. Discussion and conclusion

Building on the family governance research by, among others, Fama and Jensen (1983, 1985) and the recent articles by Schulze et al. (2001, 2003a) and Lubatkin et al. (2005), this paper broadens the theoretical base of the family altruism concept and relates that concept to PO firms’ governance efficiency. Specifically, three prominent views about the “self” and the self’s relationship with “others,” and whether the interests of the principals or that of the agents dominate are integrated. From this integration, an exhaustive typology of parental altruism, consisting of five altruistic archetypes is derived. Propositions are then offered, based on how these types and mechanisms (type of good allowance, of control, of enforcement, of agents’ motivation, and of family bond) may relate to family firm governance. The typology and the derived propositions presume that the firm’s social context plays an important role in explaining the attitudes, behaviors, and altruistic preferences of the actors inhabiting that context. Table 2 summarizes the mechanisms involved in each type of parental altruism.

Our typology also presumes that the firm’s social context is path dependent on the household’s history. That is, the nature of the firm’s social context is temporally variant, as shaped by an on ongoing set of family-specific parent–child interactions dating back to the child’s formative years. As such, the efficiency of family firm governance can be understood as an outcome of a dynamic social process. Recognition of this process represents a further step in explaining cross-sectional variance in the governance efficiency of PO family firms, and why some PO firms are more able than others to capitalize on the family governance’s positive attributes.

Future research might consider how the influences of the various parental altruistic types interact. By saying this, no claim is made that a parent–owner, when confronted with stimuli from any social context, might concurrently feel and act on two or more archetypes, for such a statement would be inconsistent with the nature of typologies and the ideal types derived from them. However, the presumption is that over the span of parent–child interactions, beginning in the household, a parent is likely to act

Table 2
Mechanisms and altruism types

	Principal-based altruism	Ideal-typic altruism	Family-oriented altruism	Paternalistic altruism	Psychosocial altruism
Good allowance	Normal goods	Absent due to original position	Normal goods	Merit goods	Norms and values
Control	Efficient Monitoring	<i>Ex ante</i> via justice	Inefficient control	Over-control	embedded and <i>ex ante</i>
Enforcement	<i>Ex post</i>	<i>A priori</i>	<i>Ex post</i>	<i>Ex post</i>	<i>Ex ante</i>
Agent’s motivation	Trading-off between money and leisure	Reaching social justice through fair contracts	Withholding information and effort	Responding to parental injunctions	Integrating the society via mimetic and normative behavior, but without compromising their own individual history
Family bond	Treats as being irrelevant	Not applicable	Engenders dependencies	Erodes	Enhances

upon feelings, instincts and sentiments associated with each of the five altruistic archetypes. As a dynamic social process, therefore, how a parent might have responded to the needs and wants of their children in one context might influence the efficiency of their response in a latter context.

Consider, for example, parents that consistently view their relationship with their children primarily in inter-subjectivity terms. As summarized in Table 2, these parents can be generous with both normal goods (family-oriented altruism) and merit goods (paternalistic altruism), but not with the transference of norms and values (psychosocial altruism). Family-oriented altruism (unrequited generosity), by itself, can engender inefficient governance by giving the children incentives to be self-centered (e.g., recall the “Samaritan’s Dilemma”). Paternalism (requited generosity), by itself, also engenders inefficient governance, by eroding the family bond. Therefore, one inter-subjective altruistic form is not well suited to mitigate the dysfunctional effects of the other (two wrongs will not make a right). That is, high levels of both family-oriented altruism and paternalistic altruism might cause the family agents to be spoiled and later resentful, a toxic combination that can give family agents incentive to behave opportunistically — either by seeking additional compensation in the form of added benefits (e.g., perquisites or the misappropriation of the firm’s resources), or by reducing effort (e.g. the withholding of effort and information). As such, should parental altruism be expressed over its history primarily in inter-subjectivity terms, PO family firms will be exposed to a complex mix of agency threats, all rooted in the family agents’ moral hazard, which, raises the cost (lowers the efficiency) of these firms’ governance.

However, should the parent also be generous in terms of trans-subjective (psychosocial) altruism, the strength of association between inter-subjective altruism and governance inefficiency will weaken. Put another way, the concern that parents show for their children’s psychological and social well-being can mitigate the unfavorable governance consequences of family-oriented and paternalistic altruism because the children internalize the positive sides of a family bond, like being responsible, caring, and cooperative. This should allow the POs to occasionally succumb to their impulse for unrequited generosity of normal goods — lavishing their employed children with above-market employment contracts, perquisites, and lax enforcements of control — without the fear of spoiling them. Similarly, like a tough, but caring mentor, these POs can hold their offspring to high expectations and make rewards conditional, without necessarily demotivating them, or causing them to rebel against authority.

Viewing these three altruistic archetypes as co-evolving social process suggests that psychosocial altruism imparts more than a direct positive influence on governance efficiency, as predicted in the third proposition. Psychosocial altruism can also impart an indirect effect by mitigating the good allowance problems of parental altruism and paternalism’s risks of inappropriate controls. Of course, this assumes that the norms and values that are transferred to the children generally ‘fit’ the governance requirements of modern business life in the greater society.

Our typology thus sheds light on the mechanisms that impact the governance efficiency of family firms, and therefore what

makes this common ownership form theoretically distinct. The typology also provides a theory-based explanation as to why agency theory’s view about family firm governance is naïve: that view is naïve because the focus is entirely upon a subjectivist perspective of the self-other relationship in which the principal’s interests takes priority, and therefore understates the influence of altruism. And, the typology provides a theory-based explanation as to why the view of Schulze and colleagues is dire; their view is dire because they focus entirely on an inter-subjective perspective where the principal’s interests are secondary. Both views overlook the direct effects of psychosocial altruism, and thus failed to provide a complete understanding of family firm governance.

Future research might also extend the typology to more distal others, like that of the extended family, in-laws, and even non-family agents. Here, the literature on diversity, stakeholder theory, and corporate social responsibility may prove useful. By doing so, governance differences can be explained, not only among PO family firms, but also among the family firms that have entered what Gersick et al. (1997) referred to as the “sibling partnership” or “cousin consortium” stages. Finally, future research might compare self-other relationships in non-family firms. This way, an answer can be obtained to the more general question, “how does the governance of family firms, which exhibit different forms of altruism, compare with the governance of non-family firms?” Like done by Chrisman, Chua, and Litz (2004), such comparison study can help to show what non-family firms can learn from family firms and what the study of family firms can contribute to the mainstream management literature.

In attempting to focus on the various forms of parental altruism that the principal (‘self’) might demonstrate, the simplifying assumption that the children are entirely driven by self-interest and therefore prone to acting opportunistically if left ungoverned has been made. This assumption, therefore, overlooks motives like reciprocal altruism (see Eaton et al., 2002) that can also drive the children’s behaviors and positively affect the efficiency of a PO firm’s governance structure. While mentioned in the context of psychosocial altruism, future explorations might explore whether reciprocal altruism is also possible, though might take on different forms, in the presence of altruism that is based on purely economic motives (i.e., principal-oriented), instant gratification (family-oriented), and compliance (paternalism).

Thus, agency costs vary among family firms because the path-dependent development of every family firm is idiosyncratic and in a continual state of adjustment, due to the intertwinement of family and business contexts. In trying to make sense of these intertwinements, a typology of parental altruistic archetypes was proposed that more fully captures the influence of parental altruism on the governance of family firms than have recently published explanations.

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