Reconsidering socioemotional wealth: A Smithian-inspired socio-economic theory of decision-making in the family firm

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RECONSIDERING SOCIOEMOTIONAL WEALTH: A SMITHIAN-INSPIRED SOCIO-ECONOMIC THEORY OF DECISION-MAKING IN THE FAMILY FIRM

It is widely understood that business-owning families pursue socioemotional wealth (SEW) primarily to satisfy their desire for control over the firm. Unfortunately, due to the private nature of the gains SEW-based decisions are intended to generate, its pursuit is unlikely to serve the interests of those other stakeholders on which the business depends. In response, we draw upon Adam Smith's classic arguments from *An inquiry into the nature and causes of the wealth of nations* and *The theory of the moral sentiments* to develop a normative theory of decision-making in family businesses that balances the pursuit of self- and other-regarding interests. We propose that families that strive to generate *socio-economic* (rather than *socioemotional*) wealth are likely to survive in the long-run.

Socioemotional wealth (SEW), or the "non-financial aspects of the firm that meet the family's affective needs, such as identity, the ability to exercise family influence, and the perpetuity of the family dynasty" (Gómez-Mejía et al., 2007, p. 106), has become the dominant explanation for what distinguishes family businesses from non-family businesses. Empirical research on SEW suggests that family owners tend to make decisions in pursuit of SEW even at the expense of the businesses' performance. Recent critics of SEW, however, have argued that because the benefits of increased SEW are not intended to spill over to other members of the business or to society, SEW is a self-interested construct (Newbert & Craig, 2017).

Theories focused on self-interest may seem to reflect the thinking of Adam Smith. Indeed, Smith famously argued in *An inquiry into the nature and causes of the wealth of nations* (1994; hereafter WON) that self-interest should be the only guide for behavior in business, such an assumption is misguided. However, 17 years before Smith wrote WON, he wrote *The theory of moral sentiments* (1976; hereafter, TMS), in which he argued that while self-interest is indeed a virtuous motive for action, it should always be tempered by a concern for others. This more comprehensive view of Smith's thinking complicates our understanding of SEW. On the one hand, the empirical evidence seems to suggest that business-owning families are indeed pursuing SEW out of concern for their own interests, precisely as Smith advises in WON. On the other hand, their desire to pursue SEW at the expense of the viability of the business suggests that such a purely self-interested approach to decision-making to be a losing strategy. In other words, SEW may be "right" from a descriptive standpoint, we do question whether it is "right" from a prescriptive standpoint.

Given this understanding, we situate SEW within the totality of Smith's thought by building a normative theory of family business that can help family owners serve their interests (i.e., SEW as well as other private gains) while, concurrently, building mutually reinforcing relationships and synergies where everybody benefits. We use Smith's works as the foundation of our theorizing as they collectively align with the nature and boundaries of the phenomenon of interest far better than any contemporary theory (Zahra, 2016). In so doing, we are inspired by Thornton (2009: 21-22), who argues that "whatever form new theorizing will take, a good way to conduct such research and for organization and management studies to remain a vital segment of the social sciences is to examine and consider building on the foundations of the classics." The classics, she continues, are of particular use in theory-building as they "provide a common culture of discourse or point of reference for scholars – a function that is particularly important in social science because of the level of disagreement" (2009: 22).

To negotiate the tension of these seemingly competing logics, we synthesize Smith's arguments from WON and TMS, drawing upon Etzioni's (1988) I&We paradigm in order to reconcile the two. As a result, we propose that by tempering their desire to pursue their own interests with their moral obligation to protect and promote the interests of those with whom they maintain intimate relationships, individuals can generate both private *and* public benefits. We then contextualize this integrative model to the family business context by adopting (and adapting) Miller and Le Breton-Miller's (M&LBM) 4C framework (M&LBM, 2005a; 2005b). The 4C dimensions – community, connections, command, continuity – both reflect the main priorities of long-lived family businesses (the intended end state of our normative theory) and align closely with Smith's foundational constructs. The result of our theorizing is a set of propositions that prescribes how families can eschew the prevailing tendency to pursue *socioemotional* wealth in favor of *socio-economic* wealth (Tomer, 2001), a focus which should, in turn, facilitate their long-run survival.

Our engagement with the multiple literatures enables us to develop a normative theory of decision-making in family business "that can *prescribe* how business-owning families can seek private gain (including but not limited to SEW) without unduly detracting from and/or serving the interests of their broader set of internal and external stakeholders." (Newbert & Craig, 2017, p. 340). In other words, our theory is intended to help family business leaders to make decisions that facilitate the business' ability to survive in the long-run. We believe that such a theory can contribute to the literature in the following ways. First, the self-interested nature of SEW is inconsistent with contemporary understandings of behavior in organizations, in which decisions are largely irrational (i.e., Cyert & March, 1963), driven, at least in part, by one's moral obligations to others (Freeman, 1994). By encouraging business-owning families to weigh their desire for greater SEW with the harm that its pursuit may evoke upon their internal and external stakeholders, our theory is consistent with Eisenhardt's (1989) thesis that scholars integrate economic-based arguments (i.e., WON) with those from other literatures (i.e., TMS, I&We) in order to develop new theory that better approximates how individuals, who tend not to be purely self-interested, actually make decisions. In so doing, our research moves the SEW conversation away from the current "restricted" view, where the priorities set by the family "are highly family centric and often run counter to the interests of nonfamily stakeholders and the firm, at least in the long run," and toward an "extended" view, where those priorities "are referenced by scholars advocating stewardship, stakeholder, and sustainability perspectives ... [in which] the rewards accrue not merely to the family, but to other stakeholders as well" (M&LBM, 2014: 717).

Second, understanding why some family businesses prioritize serving the interests of some constituencies and not others represents a major gap in the literature (Shepherd, 2016). We maintain that this heterogeneity is due to the contingent nature with which family business owners approach the decision-making process. In response, our theorizing is informed by theory from psychology (cognitive moral development), ethics (bounded morality and bounded self-interest), and economics (temporal discounting and institutional quality). By infusing our theory with these perspectives, it provides insights into how decision-making in family businesses might be influenced by micro-level (cognitive moral development), meso-level (long-term orientation), and macro-level (moral stupefaction) effects.

Third, by leveraging M&LBM's 4C framework we provide a relevant foundation for understanding decision-making in long-lived family businesses. More importantly, we extend M&LBM's static use of these 4Cs that seeks to describe *what* factors do successful family businesses prioritize by developing a dynamic model that seeks to prescribe *how* families wishing to create successful businesses ought to make decisions based on those factors. In so doing, we hope to challenge scholars (and practitioners) to consider how the 4Cs might work in unison toward a common objective, namely continuity.

SOCIOEMOTIONAL WEALTH

Socioemotional wealth (SEW) is defined as the "non-financial aspects of the firm that meet the family's affective needs, such as identity, the ability to exercise family influence, and the perpetuity of the family dynasty" (Gómez-Mejía et al., 2007: 106). Positioned as a response to agency theory, the fundamental argument driving SEW centers on a tradeoff decision. Specifically, SEW explores the tendency for families to sacrifice performance for control over their businesses. Studying family business owners of olive oil mills in Spain, Gomez-Mejia and colleagues demonstrated that, in contrast to previous viewpoints, olive oil mill owners are "willing to take risks that incur a performance hazard … when it comes to decisions affecting their socioemotional endowment" (Gomez-Mejia et al., 2007: 111). In other words, they opt for tolerating lower performance if they have greater family control. Gomez-Mejia and colleagues continue by arguing that "the stronger the role of the family, the more likely the firm is to strive to protect its socioemotional wealth" (Gomez-Mejia et al., 2007: 109). In the decade since Gomez et al.'s (2007) study, voluminous empirical work has examined the role SEW plays in decision-making in family business (c.f., Cruz, Gomez-Mejia, & Becerra, 2010; Cruz et al., 2014; Gomez-Mejia et al., 2014; Jones, Makri, & Gomez-Mejia, 2008; Vardaman, & Gondo, 2014), with the generally accepted conclusion being that SEW is "the single most important feature of a family firm's essence that separates it from other organizational forms" (Berrone, Cruz, & Gomez-Mejia, 2012: 260), and "the most critical point of reference that guides decision making" (Cennamo et al., 2012: 1154). These claims, and the findings on which they are based, suggest that socioemotional interests are central to decision-making in family firms.

What is interesting to note, however, is that despite the nomenclature, the "wealth" resulting from such decisions is not "social" in the conventional sense of the word. For example, when a family makes decisions solely to retain and/or increase its control over its business, the family itself receives benefits in the form of meeting its affective needs, entrenching its identity with the business, etc. However, as Newbert and Craig (2017: 342) note, SEW-seeking decisions are not explicitly driven by a desire by the family to benefit any other members of society; rather, "they are pursued for the sole purpose of satisfying the family's interests; any beneficial consequences of the pursuit of SEW for other stakeholders are incidental and not necessarily the result of families' benevolent efforts to "do the right thing" for them". In support, critics of SEW have characterized decisions made in the pursuit of SEW as "family-centric" (Miller & LeBreton-Miller, 2014: 714) and contrary to proactive stakeholder management (Kellermanns, Eddleston & Zellweger, 2012), leading Newbert and Craig (2017: 342) to conclude that because families that adhere to the SEW argument seek to serve their own interests without consideration of the interests of other stakeholders, "SEW appears to be, despite Gómez-Mejia et al.'s effort to distance it from agency theory, a primarily self-interested construct."

At first glance, this characterization may appear consistent with the modern understanding of capitalist behavior. In WON, Adam Smith argued that self-interest should be the sole motive for action in one’s economic endeavors. While many today view Smith as advocating a purely self-interested approach to business, his thinking was actually much more complex than the few famous passages from WON with which many are familiar (Sen, 1997). If WON is read in the context of his other great work, TMS, as Smith intended (Raphael & Macfie, 1976), it becomes clear that while Smith believed that self-interest is indeed a virtuous motive for action, it should always be tempered by a concern for others. Notwithstanding this more enlightened view of Smith’s thought and the doubt it casts on theories advocating a singular reliance on self-interest, we do not dismiss the possibility that SEW may be “right” from a descriptive standpoint. The empirical literature alluded to above provides compelling evidence that family businesses tend to prioritize retaining authority, influence and identity with the business over its long-term viability. At the same time, we do question whether pursuing control for the family’s own benefit at the expense of all else is “right” from a prescriptive standpoint given the lack of consideration it suggests is given to the interests of non-family stakeholders. In light of Smith’s expansive writings on these very issues, we see merit in Newbert and Craig’s (2017) call to reconsider the value of SEW as a desired end state. In turn, we suggest that families might better ensure the survival of the firms they lead by making decisions that embody the totality of Smith’s thought by pursuing not *socioemotional* wealth, but rather *socio-economic* wealth (Tomer, 2001).

THE ECONOMIC AND SOCIAL FOUNDATIONS OF SEW

Smithian economic system

A resident of Glasgow, Scotland during the 18th century, Smith witnessed rising incomes and increased access to goods due, in large part, to trade across Europe and with the Americas. At the time Smith was writing WON, he was a member of a political economy club, along with several Scottish tobacco traders, who were among the wealthiest merchants in Europe (Merchant City, 2015). Likely due to the fact that these merchants, from whom Smith (a moral philosopher) acquired much of his understanding of economics, engaged in trade primarily with geographically and emotionally remote business partners (Herman, 2001), Smith situates his entire economic system within a context characterized by "relations between people not otherwise bound to one another by intimate ties" (Nieli, 1986: 624). Based on these influences, Smith believed that the benefits of economic exchange were obtained by acting solely out of self-interest. Smith observed that the merchants benefitting most from the economic development he was witnessing at the time were not intending this outcome, but instead were acting only out of concern for their own well-being. He writes,

> It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages. Nobody but a beggar chooses to depend chiefly upon the benevolence of his fellow-citizens. Even a beggar does not depend upon it entirely (1994: 15).

Smith further believed that the tremendous benefits that self-interested behavior was engendering were not restricted to the private gain of a few tobacco merchants, but rather spread among all the "servants, labourers and workmen of different kinds, [who] make up the far greater part of every great political society" and that "no society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable" (1994: 90). To articulate how this process unfolded, Smith writes that every individual "neither intends to promote the public interest, nor knows how much he is promoting it … he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention" (1994: 484-485). Despite Smith's silence on what the "invisible hand" is or how it operates, many scholars (i.e., Hill, 2001) have argued that it is a religious metaphor given that Smith invokes God in his two other uses of the term: "the invisible hand of Jupiter" (1795: 25), "the invisible hand of Providence" (1976: 185). Notwithstanding the eloquence and comprehensiveness of Smith's entire economic system depicted in Figure 1, we restrict our focus to Smith's *economic theory of the self* (Haakonssen, 1996) (see callout in Figure 1) in order to avoid constraining our subsequent theorizing by Smith's values regarding the non-theoretical mechanisms linking personal and public gain, thereby facilitating the clarification of semantic relationships among constructs essential to theory-building (Suddaby, 2010).

----- Insert Figure 1 about here -----

<u>The economic foundations of SEW</u>

When we consider the SEW construct, we see that it is quite reflective of the thinking in Smith's economic theory of the self. According to Gomez-Mejia et al. (2011: 656), "family owners are likely to see potential gains or losses in [SEW] as their primary frame of reference in the management of the firm." Because preserving the family's SEW "represents a key goal in and of itself" (Gomez-Mejia et al., 2007: 108) "family firms are willing to risk financial losses and bear a greater probability of failure in order to maintain control of the firm" (Gomez-Mejia et al., 2007: 131). Given this characterization, it seems that family business owners pursue SEW in self-interested fashion, driven by a desired end that benefits the family alone, without any consideration of the interests of how its attainment affects other firm stakeholders.

At first glance the pursuit of SEW by a family business leader "intend[ing] only his own gain" (i.e., Smith, 1994: 484), may appear to be precisely what Smith was articulating in his economic theory of the self. Yet, such a view is only valid if the decisions family business owners make in the pursuit of SEW affect geographically and emotionally distant stakeholders. Unfortunately for proponents of SEW, the context in which family businesses operate is not like this. On the contrary, family owners tend to maintain close ties to those who work for the business as well as those in the communities in which they operate. For example, family businesses have long been characterized by values-based, stewardship-oriented management styles designed to foster intrinsic motivation and a shared sense of purpose among employees (Davis et al., 1997; Habbershon & Williams, 1999; Neubaum et al., 2017). Moreover, family businesses are typically tightly embedded in their local business networks, resulting from past (and perpetuating future) reciprocity among network members (Bhappu, 2000; Niehm et al., 2008).

In sum, the SEW literature is a bit of a paradox. On the one hand, it presents, consistent with Smith's (1994) WON thesis, a purely self-interested approach to business, which appears to have been widely adopted by family businesses given the extant empirical evidence suggesting that families tend to make decisions in the pursuit of SEW. On the other hand, the literature suggests that the family business context is very different from that which WON was written to describe. Instead of interacting with emotionally and geographically distant actors, family businesses seem to operate in a social milieu characterized by intimate relationships with non-family stakeholders. Thus, the seeming applicability of Smith's economic theory of the self to SEW logic appears undermined by the fact that WON was not intended to address "the manner in which close friends or members of an extended family would conduct business among themselves" (Nieli, 1986: 619). Given this apparent disconnect, we consider how family business owners might serve their interests *and* those of the stakeholders on which they depend in order to more firmly solidify SEW's place in the discourse of family business.

Smithian social system

In TMS, Smith describes moral behavior in the social realm. Because Smith is unconcerned with economic relationships in TMS, the concept of *intimacy*, characterized by physical and emotional proximity, is central. According to Smith, the more intimate the connection between two individuals, the greater one's capacity to understand how one's actions will affect the other, what Smith refers to as *sympathy*, which he believed is endowed by God to enable the perception and internalization of the sentiments and passions of others. According to

Smith, although people are at times motivated to act in their own self-interests (as he elaborates upon in WON), they are also at times motivated to act in the interests of others, resulting in what Forman-Barzilai (2010, ch. 1) term a "conflicted self." Though in TMS Smith theorizes about the path to a virtuous society, he does not advocate that one pursue other-regarding motives unconditionally. Instead, Smith leaves the decision regarding motives up to one's judgment, which is a function of one's sympathies. Specifically, Smith believes that only once we internalize the feelings of those whom our actions will affect can we decide how to behave. Thus, for Smith, the capacity to sympathize is what allows us to resolve our internal tension by *regulating* (Montes, 2003) our conflicting motives. Yet, in regulating this tension, Smith argues that there is an "order in which individuals are recommended to our beneficence" (1976: 227). He argues,

> every man ... is first and principally recommended to his own care … After himself, the members of his own family, those who usually live in the same house with him, his parents, his children, his brothers and sisters, are naturally the objects of his warmest affections. They are naturally and usually the persons upon whose happiness or misery his conduct must have the greatest influence. He is more habituated to sympathize with them. He knows better how every thing is likely to affect them, and his sympathy with them is more precise and determinate than it can be with the greater part of other people. It approaches nearer, in short, to what he feels for himself … the affection gradually diminishes as the relation grows more and more remote. (1976: 219).

To facilitate the sympathetic process, Smith (1976: 130) introduces the *impartial spectator*, or "the great judge and arbiter of [our] conduct." Smith argues that because people are not naturally inclined to act in the interests of others, they tend not to consider the impact their actions may have on them. Thus, Smith (1976: 135-136) maintains that in order to properly assess the morality of our behavior, "we must change our position. We must view [the likely effect of our actions], neither from our own place nor yet from his, neither with our own eyes nor yet with his, but from the place and with the eyes of a third person, who has no particular connexion with either, and who judges with impartiality between us." In this sense, the impartial spectator, which facilitates our God-given sympathetic capacities, is a "transcendent source of knowledge and truth" against which our actions can be objectively evaluated *a priori* (Forman-Barzilai, 2010: 16), thereby providing the mechanism by which we may regulate our motives.

Smith believed that mitigating this tension was necessary not to promote benevolence per se, but rather to promote justice, which for Smith (1976: 269) means "to abstain from doing any positive harm." Although Smith (1976: 270) acknowledges that "we are said to do injustice to ourselves when we appear not to give sufficient attention to any particular object of self-interest" (1976: 270), he nevertheless believes that "one individual must never prefer himself so much even to any other individual, as to hurt or injure that other, in order to benefit himself" (1976: 138). Ultimately, Smith (1976: 235) believes that "at all times" sacrificing our own interests for those of society will ensure the just treatment of others in our social interactions (Viner, 1991a).

As a final note, Smith also prescribes how virtuous behavior contributes to macro-level social harmony (Viner, 1991a). For Smith, justice is "the main pillar that upholds the whole edifice. If justice is removed, the great, the immense fabric of human society … must in a moment crumble into atoms" (1976: 86). In other words, Smith believes that the aggregate effect of individual-level avoidance of harm to others is stability and order of society as a whole (Viner, 1991a). Smith's social system is depicted in Figure 2; however, in order to maintain consistency with our treatment of Smith's economic system, we focus the present discussion on Smith's *social theory of the self* (Haakonssen, 1996) (see callout), thereby avoiding theologically-grounded relationships and multiple levels of analysis.

----- Insert Figure 2 about here -----

<u>The social foundations of SEW</u>

When applied to the context of family business, it might seem that the pursuit of SEW is consistent with Smith's social theory of the self. After all, when family owners make decisions to preserve their SEW, they may simultaneously advance the interests of other stakeholders as well, such as when families protect the environment for reputational purposes (Berrone et al., 2010). Thus, the self-interested decision and the benevolent decision may at times appear to be one and the same. Unfortunately, such outcomes are, according to SEW logic which considers only the family's wealth, purely incidental and, therefore, benevolence toward non-family stakeholders is not assured. Though Smith's social theory of the self does not require the benevolent treatment of the most remote stakeholders (i.e., arm's-length exchange partners), it does require that the interests of those who have intimate ties with the firm (i.e., employees, customers, long-standing business partners, non-family owners) are not only considered, but to the extent that harm might result from a self-interested decision, must be "at all times" (Smith, 1976: 235) prioritized above those of the decision-makers (i.e., the family).

TOWARD A SOCIO-ECONOMIC THEORY OF FAMILY BUSINESS

While many scholars before us have noted the tension between WON and TMS and have gone to great lengths to try to reconcile Smith's writings (see Montes, 2003; Viner, 1927; Werhane, 1991 for seminal examples), attempts to integrate his thought into a holistic model of decision-making are lacking. Thus, we seek to synthesize Smith's views into a *socio-economic theory of the self.* In developing our propositions, illustrated in Figure 3, we avoid introducing new constructs into the literature, a practice that is fraught with ideological (i.e., resistance), theoretical (i.e., definitional), and empirical (i.e., measurement) challenges, and instead turn to M&LBM's (2005a; 2005b) 4C framework as its dimensions – community, connections, command, continuity – not only reflect the main priorities of long-lived family businesses (the intended end state of our theory), but also align more closely with Smith's main constructs than other models of family business.

In their groundbreaking study, M&LBM (2005a) examine how family-controlled businesses differ with regard to strategic, organizational, and leadership priorities. In so doing, they focus not on "the average family-controlled business, but [on] the great ones – large, old companies that have achieve market share leadership" (2005a: 7). Acknowledging that not all family controlled businesses are superior, they argue that "the long-term winners *do* have something to teach us all: how to manage not for short-term success but for very *long-term* market success and for the benefit of *all* organizational stakeholders" (2005a: 7). Based on their analysis, M&LBM (2005a) find that these long-lived family businesses more effectively exploit four main priorities in a way that serves not just the family, but other stakeholders as well: *community*, having in place an appropriate internal employee base to formulate and implement the strategy (Burns & Stalker, 1961); *connection*, having relationships with external stakeholders that can provide access to scarce resources (Hagel & Singer, 1999); *command*, having a bold approach to governance and leadership (Bennis, 2003); and *continuity*, having a focal mission and commitment to a set of related capabilities (Hamel & Prahalad, 1994). Although M&LBM employ the 4Cs to construct archetypes that describe *what* combinations of factors successful family businesses prioritize, we apply the 4Cs to our socio-economic theory to prescribe *how* families wishing to create successful businesses ought to make decisions based on those factors.

Smithian intimacy

We begin our theorizing by noting that Smith viewed the world as divided quite starkly between one's private (i.e., social) and public (i.e., economic) life, with no crossover between the two (Viner, 1991b). As both Nieli (1986) and Wilson and Dixon (2006) note, Smith believed that each individual belonged to a personal network characterized by strong emotional attachments to and dependencies on one another, where relationships were governed by trust, mores, and customs. Moreover, business matters were never conducted between individuals from within the same intimate primary group, but rather between members of different groups. This view constitutes what Nieli (1986: 620) has termed Smith's "spheres of human intimacy … which helps to explain [Smith's] overall view of man and of the sorts of relationships in which love and benevolence, as opposed to self-interest and acquisitiveness, might be expected to dominate." As Nieli (1986: 623-624) argues, "the higher virtues of love and benevolence, Smith believed, are regularly practiced only between people who have some intimate 'connexion' with one another." In the absence of such connections, sympathizing becomes less precise and self-interest should, therefore, dominate. As Smith (1976: 140) writes, "all men, even those at the greatest distance, are no doubt entitled to our good wishes … But if, notwithstanding, they should be unfortunate, to give ourselves any anxiety upon that account, seems to be no part of our duty."

At first glance Smith's economic and social theories of the self may seem antithetical due to their emphasis on diametrically opposed motives. However, if we consider Smith's underlying assumption that economic exchanges do not occur among people from within one another's inner sphere of intimacy, their compatibility becomes apparent. As Wilson and Dixon (2006: 270) note, "behaviour motivated by self-interest dominates the discourse of WON, not because Smith (sometime between TMS and WON) changed his opinion on how people are motivated. It is rather that WON (unlike TMS) is not concerned with situations in which a 'benevolent' disposition is to be expected." In other words, in a context in which interactions occur only with geographically and emotionally remote individuals, acting out of benevolence is "absurd and unreasonable" (Smith, 1976: 140). It is only when interacting with individuals with whom one is intimately-related that decisions should be driven by benevolent motives instead of self-interested ones.

When we consider Smith's influences during the time he wrote WON, the connection between it and TMS becomes clear. Smith's own inner sphere of intimacy included the wealthy tobacco merchants of Glasgow, all of whom met regularly as part of a Political Economy Club

(Herman, 2001). Importantly in the development of Smith's WON, this network of individuals who were well connected with one another through strong ties, traded not with each other but rather with producers in colonial America and sellers throughout Europe who belonged to other intimate primary groups altogether. Given the heavy influence these merchants are believed to have had on Smith's WON (Herman, 2001), it is perhaps not surprising that Smith's intimate association with them resulted in a rather generalized view that *all* market exchange occurs between emotionally and geographically distant parties who, as modern-day network theorists argue, have no incentive to act out of anything but self-interest given that they lack a sense of mutual obligation and reciprocity (Adler & Kwon, 2002).

Unfortunately, this understanding of markets does not reflect the realities of 18th century Scotland in which business matters were not only conducted among socially distant or arms-length actors, but also with individuals from *within* one's inner sphere of intimacy. Consider the following depiction of commerce in Glasgow during the years in which Smith wrote WON:

> Then came the hours of business, when [small business owners] bargained with customers in their little shops – it was always the business of the purchaser to "cheapen" an article … As noon drew near, some of the merchants might be seen at the half-door of their shops, exchanging a word with a neighbour or a passing customer; and when the bells in the steeple of the Tolbooth rang out their merry tune, there was an adjournment to the nearest tavern for a "meridian," and the exchange of news, much as an adjournment is made to some coffee-room in the twentieth century for a "coffee" and a word on some point of business with a friend. (Eyre-Todd, 1934: 106)

Of course, 18th century Glasgow is not unique in this regard. The voluminous literature on the importance of tie strength and embeddedness in business settings (Burt, 1992; Granovetter, 1973; Uzzi, 1999) suggests that today's market transactions also occur regularly between actors in close physical, affective, and cultural proximity (Forman-Barzilai, 2010, ch. 5).

M&LBM's Community

The exemplar firms in M&LBM's study foster a cohesive organizational community of employees for whom joining family businesses is akin to joining the owning family itself. These families are stewards who understand that the business is a precious asset for *all* stakeholders and, therefore, go to great lengths to "treasure those who staff and sustain [the business]" (M&LBM, 2005b: 521) by "uniting and tending to the tribe" (M&LBM, 2005a: 38). As a result, the benefits of the accrued social capital are not appropriated solely by the owners, but rather are shared with employees (Habbershon & Williams, 1999). Such an approach stands in contrast that taken by business-owning families who pursue SEW to satisfy the family's affective needs (e.g., identity, influence, control) without regard to those of other stakeholders (Gómez-Mejía et al., 2007).

For the community, association with family owners tends to be very intimate for a variety of reasons. As members join a community in which adhering to deeply held values rooted in the founders' beliefs and institutionalized by subsequent generations is the principal driver, selection processes tend to be focused on value alignment. With such a recruitment process in place, a community of employees whose hearts and minds are engaged with the organization emerges, which results in a "cohesive, gung-ho community of employees" (2005a: 38) that contributes to a collectivist social philosophy (e.g., the Hall family of the Hallmark Card Company) characterized by "strong values, not just stated, but pervasively enacted; incessant socialization in those values; a welfare state to enlist employees in the good fight; and an informal way of operating that engages interaction and collaboration" (2005a: 39). In return for this shared sense of belonging, the community of employees developed by long-run family businesses is committed to working with and on behalf of the family in order to achieve the business' mission (M&LBM, 2005a). The owners and the community succeed together by displaying a "moral commitment to enter into an enduring relationship of broad reciprocity – like friendship or even kinship…a felt bond between employee and employer" (2005a: 42).

M&LBM's Connection

In contrast to community, M&LBM conceptualize connection as an externally-oriented construct: "being good neighbors and partners" (2005a: 42). Just as concentrating on building enduring relationships with a community of employees is important, successful family businesses build mutually beneficial relationships with business partners, customers, and society by using "an ancient toolkit: being honest, farsighted, and generous" (M&LBM, 2005a: 42). By being "meticulously honest" and delivering more than promised "contacts grow into contracts, and contracts into age-old partnerships" (2005a: 43). M&LBM observe that successful family businesses favor "long-term, win-win relationships over transactions" and are willing to "put time and money into potentially sustaining associations that take a long time to pay off" (2005a: 43). They are characterized as benevolent partners who build a "devoted cadre of supply chain soul mates" (2005a: 44) and believe that "there is no such thing as an ex-customer" (2005a: 44).

Though the stakeholders with which M&LBM's successful family businesses develop enduring connections would seem, at first glance, to reside well-outside Smith's inner sphere of intimacy, the relationships family owners forge with them tend to be based on trustworthiness, generosity, and high ethical standards rather than pure self-interest, which as we have shown above to be the primary focus of SEW. In fact, to keep the growing family connected to their external partners, it is seen as the responsibility of the incumbents to pass on their connections to their kin. In other words, the business-owning families in M&LBM's study often develop intimate ties with market-based actors, a possibility that Smith ignored in TMS and deemed unimaginable in WON.

Smithian sympathy

Although Smith's failure to acknowledge the human element of exchange in business is typical of classical economists (Biggart & Delbridge, 2004), it has implications for the role sympathy, and by extension benevolence, play in an economic system. To the extent that exchange is a one-time game among distant parties, as Smith describes in WON, self-interested behavior is optimal (Axelrod, 1984) and sympathizing is unnecessary. However, to the extent that economic ties are socially-embedded (Polanyi, 1957), such as when exchange is a repeated game among members of intimate groups, there are benefits to cooperative behavior even among otherwise self-interested actors (Axelrod, 1984) and sympathizing assumes a meaningful role. At the same time, the multidimensional nature of distance does not necessarily mean that intimacy, or the ability to sympathize, is assured in the private realm. As Forman-Barzilai (2010: 5) notes, "I can be remote from someone sitting just before me, or close to someone across the globe." In other words, sympathizing with actors within the same geographic space and/or from the same extended family is more or less difficult than Smith assumes.

By synthesizing the above arguments, we can triangulate on what Smith believed about intimacy and sympathy but, due to his disaggregation of the self into its social and economic halves, did not express in a holistic way. Specifically, we argue that for Smith, one's capacity for sympathy is not determined by the economic or social nature of a relationship between two individuals but rather by the geographic and emotional proximity between them. In other words, the more intimate one's relationship to an actor, whether in the public or private realm, the greater one's capacity to predict how one's decisions might affect that actor.

In the context of family business, the concurrent focus on prioritizing commitment to building both an internal *community* of employees passionate about adherence to the family's values-driven culture and developing long-term, trust-based external *connections* with loyal partners suggests that family owners have intimate relationships with a broad array of internal and external stakeholders. According to the logic Smith lays out in TMS, this heightened level of intimacy should afford these owners with the ability to better understand how their decisions will affect these actors than he assumes in WON. For example, M&LBM note that families often "absorb misery" (2005a: 40) when stakeholders face challenging situations, as evidenced by the distress felt by Walter Haas Jr., chairman of the Levi Straus board of directors in 1973, when the firm's stock price plummeted over 70 percent.

Thus, the intimacy upon which business-owning families' relationships with their stakeholders is built can provide them with great insight into their stakeholders' feelings. The benefit of these sympathetic capabilities is that family owners can be more mindful of how their employees and business partners may respond to any potential decisions they might make *a priori* so as to avoid action that might cause them undue harm.

> *Proposition 1: The more intimate the relationships business-owning families develop with internal (i.e., community) and external (i.e., connection) actors, the better their ability to assess the impact of their decisions on those actors (i.e., sympathy).*

----- Insert Figure 3 about here -----

Regulating benevolent and self-interested motives

The most common criticism of Smith over the years has been the apparent inconsistency among the dominant motives of behavior in TMS (benevolence) vs. WON (self-interest). In defense of Smith, it is important to recall that he does not ignore self-interest entirely in TMS. Indeed, he argues that the capacity to sympathize means that individuals are able to determine whether self-interested or benevolent behavior is appropriate. One would only restrain self-interested motives in favor of benevolent ones if and when self-interested behavior was likely to result in asymmetrical "feelings" such as by benefiting the actor but harming others (Montes, 2003). Though Smith is ultimately deferent toward benevolence in TMS, he disregards it entirely as a legitimate motive in WON given the misguided assumption that markets (with the exception of commodity markets) consist solely of anonymous exchange partners and that all market-based behavior is and should be driven by self-interest (Viner, 1991b).

Because business matters are often conducted among individuals who are intimately related and for whom self-interest is *not* the sole or even the focal motive, interactions in the public realm seem to evoke the very same tension that Smith emphasizes in TMS but dismisses entirely in WON. This is a serious omission in his economic theory of the self as it ignores any discussion of how market actors can regulate the tension between their benevolent and self-interested motives. Thus, by integrating WON and TMS, we see that the greater one's capacity to sympathize with others – whether in the private *or* public realm – the better one can alleviate his/her "conflicted self" (Forman-Barzilai, 2010) and maintain the social bonds upon which their relationships are based (Etzioni, 1988).

M&LBM's Command

M&LBM define command as family business leaders "acting independently and adapting freely" (2005a, p. 45). Their outstanding family businesses view the freedom to act decisively as a vital source of their "competitive originality and business renewal" (2005a: 45). A common theme among these leaders is the ability to embrace unorthodoxy and break the rules in order to serve the long-term interest of the business and not their own self-interest. This is in contrast to a family's pursuit of SEW simply to retain control of the business even if doing so harms its long-run survival (Kellermanns, Eddleston, & Zellweger, 2012; Miller & LeBreton-Miller, 2014; Newbert & Craig, 2017). Of course, M&LBM are quick to point out that due to the family's responsibility for the business's long-run viability and the family's reputation, "boldness takes form not in gambles, but in programs of courageous, targeted adaption" (2005a: 48). It is here that Smithian sympathy comes into play. As he writes in TMS,

> But though the virtues of prudence, justice, and beneficence, may, upon different occasions, be recommended to us almost equally by two different principles; those of *self-command* are, upon most occasions, principally and almost entirely recommended to us by one; by the sense of propriety, by regard to the sentiments of the supposed impartial spectator. Without the restraint which this principle imposes, every passion would, upon most occasions, rush headlong, if I may say so, to its own gratification. (1976: 262, emphasis added)

In other words, it is only by consciously and impartially analyzing how our decision will affect others that we can exercise any "command" over our otherwise unconscious motives.

In similar fashion, business-owning families' knowledge of the perspectives of employees and business partners gained through frequent and long-standing interactions provides them a platform from which they can assess how to behave without disenfranchising them. For example, when faced with a major product defect, Corning's non-family CEO, Tom MacAvoy, proposed to family owner and Chairman, Amory Houghton, that Corning recall an entire product line. Despite the exorbitant cost, Houghton agreed in order to protect the company's, and the family's, integrity and reputation. In this example, the ability to sense failing confidence in the family business on the part of employees and customers was the impetus for action. In the absence of his sympathetic capabilities, MacAvoy might not have been mindful of the impact the company's product line was having on its community and connections and may have, in turn, chosen a course of action less sensitive to their needs. Yet, his awareness of their feelings provided the motivation needed to spearhead what became a $14 million recall, a considerable expense (especially in 1979 dollars). While the exercise of command need not always be costly for the business, it must in all cases be informed by an understanding of what its internal and external stakeholders value that derives from Smithian sympathy.

In sum, business-owning families that exercise command empower their leaders to make bold decisions that, while not always in the family's short-term economic interest, support its social relationships with employees and business partners. Yet, command does not materialize out of thin air; rather, it requires the ability to assess the ramifications of the business's actions on these stakeholders so that decision-makers can evaluate the potential impact of their decisions. Only with these sympathetic capabilities can family owners make the type of bold decisions that ensure that the firm's long-run survival are placed ahead of their own.

> *Proposition 2: Business-owning families' ability to assess the impact of their decisions on internal and external stakeholders (i.e., sympathy) will provide them with the courage necessary to make decisions that balance self- and other-regarding interests (i.e., command).*

Smithian impartiality

Given our argument that individuals can and should sympathize with actors with whom they share market-based relationships, we reject Smith's implicit assumption that the impartial spectator plays no role in economic decision-making. On the contrary, we contend it enables individuals to evaluate their behavior *a priori* (Forman-Barzilai, 2010) in order to determine whether self-interested behavior would detract from the interests of others. In support, Etzioni (1988, ch. 2) argues that individuals regularly pass moral judgment over their urges rather than automatically yielding to them. Indeed, it is for this reason that Sen (1997: 8) rejects Smith's belief that individuals should only consider their own interests in their economic endeavors, essentially bypassing the impartial spectator altogether, and argues instead that the principles that guide business behavior often "extend well beyond the straightforward seeking of individual advantage." In other words, economic behavior *requires* some moral arbiter of conduct.

It seems then that the tendency to objectively evaluate our actions may not necessarily be absent in the public realm as Smith would have us believe in WON. On the contrary, because individuals also often feel compelled in market-based interactions to seek interests aside from or in addition to their own, the impartial spectator may play an important a role in evaluating the moral implications of behavior not only in their social lives, but their economic lives as well. By infusing Smith's economic theory of the self with his metaphorical impartial spectator, we see that the ability to understand others' feelings and, in turn, regulate the tension between one's benevolent and self-interested motives when interacting with them in either the public or private realm is heightened by the ability to impartially assess the effects of one's actions a priori.

Smith believed that understanding how one's actions might affect another's feelings was critical to the fair and honest evaluation of those actions a priori. However, at the same time, he recognized that these "fellow feelings" can be no more than approximations due to the inability of the observer to infer them with complete accuracy. For this reason, he noted that, while the sentiments of the individual and the impartial spectator "will never be unisons, they may be concords" (1976: 22).

What this means for our theory of family business decision making is that, regardless of the desire to do the right thing, decision-makers are nevertheless bound by their capacity to be wholly impartial. Though Smith stops short of articulating the reasons for this impaired decision-making, modern-day scholars have begun to provide some insight. Specifically, research on "bounded morality" (Stephans & Lewin, 1991) suggests that micro-level (i.e., cognitive moral development; Kholberg, 1969), meso-level (long-term orientation), and macro-level (moral stupefaction) factors may impair one's ability to regulate his/her self- and other-regarding motives. We explore these contingencies below.

<u>Cognitive moral development</u>

According to Stephans and Lewin (1991: 1490), cognitive moral development (CMD) theory "is the most widely accepted means of assessing the quality of individuals' ethical thinking" and has, in turn, "been applied widely in work on business ethics, and in many models of the ethical decision-making process" (Christensen, 2008: 452). Originally developed by Kholberg (1969), CMD stipulates that the quality of one's ethical thinking can be assessed on the basis of the criteria they use to inform those decisions. On one end of the spectrum are those who seek only to avoid punishment and who, therefore, make decisions solely on the basis of self-interest. On the other end of the spectrum are those who seek justice and who, therefore, make decisions in pursuit of universal ethical principles. As Stephans and Lewin (1991: 1491) argue, for those at either end of the spectrum, decisions are relatively straightforward given that there is no conflict among motives – individuals are either driven by pure self-interest or pure benevolence. However, for those in between these ends, decision-making is complicated given the presence of conflicting motives and the need to regulate them.

In an effort to facilitate the decision-making of this middle group, Rest (1986) proposes that ethical decision-making is enhanced by [1] understanding how others will be affected by a focal actor's decisions, [2] adjudicating on the morality of decision alternatives, [3] prioritizing those alternatives based on their moral content, and [4] taking moral action. As can be seen, Rest (1986), like Smith before him, acknowledges the important role one's sympathy plays in regulating one's conflicting motives. Unlike Smith, however, Rest (1986) assumes that this process of impartial decision-making is a rational one. As Christensen (2008: 453) notes, "Rest's model, though, does contribute to our understanding of the ethical decision process that managers use by acknowledging that many may not see an ethical dimension to business decisions, and even if that dimension is recognized, may still not take a moral action." In support, Stephans and Lewin (1991: 1492) argue that the cognitive complexity … implicit within the CMD model is enormous" and go on to conclude that "the sheer difficulty of ethical decision making places a boundary on ethical outcomes" (1991: 1493). These authors go on to argue that due to the cognitive limitations of the human brain, decisions tend to result not via the rational, stepwise process laid out by Rest (1986), but rather via simplifying heuristics that intend to (but without precision) ensure ethical outcomes. In this way, Stephans and Lewin (1991) argue that ethical decisions are plagued by "bounded morality."

Taken together, CMD provides insight into the problem Smith (1976) raised when he introduced the impartial spectator. Cognizant, as Formal-Barzilai (2010: 67) notes, that "even the most refined imagination must fall short of primary experience," Smith realized that impartiality was an ethereal construct. In that time, CMD scholars have provided additional insight into the limits of human cognition in an effort to help us understand for whom conflict among motives is likely to be most salient and how this conflict, in the absence of regulation will lead to morally bounded decisions.

> *Proposition 3: Business-owning families' ability to assess the impact of their decisions on internal and external actors (i.e., sympathy) and, in turn, make decisions that balance self- and other-regarding interests (i.e., command) is heightened in the presence of moderate levels of cognitive moral development.*

<u>Long-term orientation</u>

Although CMD posits that individuals lie along a spectrum whereby their decision criteria range from purely self-interested to purely benevolent (Kholberg, 1969), one's position on that continuum is not fixed. On the contrary, individuals are constantly pushed and pulled along that continuum due to external pressures, the most influential of which are argued to be those emanating from the organization itself (Stephans & Lewin, 1991). To the extent that the organization condones norms of fairness, individuals will be less-inclined to make base decisions on pure self-interest, and to the extent it condones norms of self-interest, they will be less likely to base decisions on pure benevolence (Bosse & Phillips, 2016; Stephans & Lewin, 1991).

It is widely accepted that one of the most distinguishing characteristics of family firms is a long-term orientation (LTO) (Anderson & Reeb, 2003; Lumpkin, Brigham, & Moss, 2010; Zahra, Hayton, & Salvato, 2004). According to Brigham, Lumpkin, Payne, and Zachary (2010), a LTO is a fundamental component of the family firm's culture, which "consists of focusing on not only the future but also the concomitant influence of the past, present, and future." A cultural predisposition toward the long-run has been found to exist on a global scale (Wang, Rieger, & Hens, 2016) and, in the context of family firms, generally thought to stem from owners' desire to pass the business down to future generations (Lumpkin et al., 2010). Indeed, such chronic salience of and preoccupation with the future tends to result in a lower "discount rate," or a willingness to delay immediate gratification for longer-term benefits (Carter et al., 2012).

Interestingly, the notion of temporal discounting has its roots in Smith's writings. According to Frederick, Loewenstein and O'Donoghue (2002: 351), intertemporal choices

> not only affect one's health, and happiness, but, may also, as Adam Smith first recognized, determine the economic prosperity of nations … Not long after Adam Smith called attention to the importance of intertemporal choice for the wealth of nations, the Scottish economist John Rae was examining the sociological and psychological determinants of these choices.

Rae subsequently theorized that an orientation toward the future would be promoted by "the prevalence throughout the society of the social and *benevolent* affections" and "the extent of the intellectual powers, and the consequent prevalence of habits of reflection, and *prudence*, in the minds of the members of society" (1834: 58, emphasis added). As Smith argues in TMS, whereas benevolence "prompts us to promote [others'] happiness," prudence "restrains us from hurting [others]." The reason Smith juxtaposes these virtues is that he recognizes that individuals can only serve others once their own needs are met. Specifically, while an orientation toward the future may encourage owners to forego short-term rewards and, in turn, make decisions that further the interests of their stakeholders, such would, according to Smith (1976) and Rae (1984), be a mistake. Instead, these owners should act to prudently secure their own interests up to the point at which they are certain that their businesses can survive over time; only then should they exercise benevolence. In so doing, owners can resist the temptation to consume all of their wealth in the present in favor of having more wealth to consume (and share) later on (Krusell, Kuruşçu, & Smith, 2002). Of course, identifying when such a threshold has been met is not easy. As noted above, Smith (1976: 157) acknowledges that acting in ways that conflict with our self-interests is difficult given that, "when we are about to act, the eagerness of passion will … discolour our views of things" to the point at which "everything appears magnified and misrepresented by self-love." For this reason, he argues that "the prudent man is always both supported and rewarded by the entire approbation of the impartial spectator" (1976: 215).

Applied to the context of family firms, a family firm's LTO is analogous to Smith's impartial spectator as it serves as a "transcendent source of knowledge and truth" (Forman-Barzilai, 2010: 16) from which family owners can draw when seeking to evaluate objectively the degree to which their decisions align (or not) with the family's long-run interests. Indeed, the long-lived companies in M&LBM's study reveal an impetus to survive, not for the sake of the present owners, but for that of the next generation. Thus, while understanding internal and external actors will help family owners make decisions that go beyond blind self-interest and toward protecting and promoting the interests of those actors as well, the presence of future time orientation will enhance that process by ensuring that the owners remain "disciplined" in their "command over their passions" (Forman-Barzilai, 2010, ch. 3).

Proposition 4: Business-owning families' ability to assess the impact of their decisions on internal and external actors (i.e., sympathy) and, in turn, make decisions that balance self- and other-regarding interests (i.e., command) is heightened in the presence of a long-term orientation.

Moral stupefaction

While Schlaile, Klein and Bock (2018) acknowledge that bounded morality is a limiter on ethical decision-making, they also contend that in order to fully-understand this process, the environment in which these decisions are made must also be considered. In particular, they argue that although individuals may have previously (by way of their natural predisposition toward benevolence or their ability to regulate their inherent self-interest) sacrificed their own interests for those of others, they may nevertheless choose not to do so going forward due to the perception (misguided or not) that future efforts to serve those interests will be unsuccessful. In a process they refer to as “moral stupefaction,” Schlaile, Klein and Bock (2018: 574) argue that when efforts to serve others do not result in sufficient ethical progress on a macro-scale, individuals may become “impervious to the suffering of others” in the future. In support, Heidbrink (2008: 10) argues, “permanent confrontation with the world’s misery makes sure that our moral sense of duty loses its edge.” It is important to note that this condition is not the result of a lack of concern for others but rather the lack of hope that one’s decisions can influence their plight. As Schlaile, Klein and Bock (2018: 575) argue, moral stupefaction is best articulated via the following rhetorical question: “if we cannot change anything anyway, then why should we even make an effort?”

Such a lack of hope for the future is found in many economically- and socially-depressed contexts across the globe. According to North (1986, 1993), institutional stability, consistency, and predictability are critical for economic growth and the functioning of modern economic systems. Unfortunately,

> the quality of institutions across countries is not evenly distributed. Instead, institutions tend to be far more robust in developed countries than in emerging ones, primarily due to the fact that governmental policy in emerging economies is often characterized by implicit insurance schemes and credit restrictions, a lack of creditor and shareholder rights, and weak judicial enforcement. (LiPuma, Newbert & Doh, 2013: 819)

In this way, institutions provide a context in which resources are made available to and can exchange (relatively) frictionlessly between firms. Munificent environments such as these enable firms to obtain and generate value from slack resources (Aldrich, 1979; Cyert & March, 1963), which they may, in turn, choose to appropriate for themselves or share with society (Porter & Kramer, 2011). Not surprisingly, environmental munificence is widely believed to support various indicators of long-term social and economic health (e.g., Ansoff, 1965; Beard & Dess, 1979, 1981; Dess & Beard, 1984; DeCarolis & Deeds, 1999; Hofer & Schendel, 1978). For these reasons, Khanna and colleagues (Khanna & Krishna, 2000; Khanna & Palepu, 1997, 2000; Khanna et al., 2005) have repeatedly called attention to the risks associated with environments characterized by the absence of formal, functional institutional mechanisms. In response, emerging market scholars have largely concluded that the impacts these "institutional voids" have on firm behavior detract from the health of the economy (i.e., development; Huang & Khanna, 2003) and society-at-large (i.e., corruption; Uhlenbruck, Rodriguez, Doh, & Eden, 2006).

Unfortunately, due to the broad-based and deeply-rooted nature of institutions, they serve as an important constraint on ethical decision-making. In fact, in less munificent environments, institutional voids are often seen as "so complex, uncertain and difficult to resolve that [they seem] intractable, like ending global hunger or eradicating extreme poverty" (Gil, 2019: 248). The pervasiveness of such moral stupefaction is likely to undermine any efforts family business leaders might otherwise undertake to regulate their conflicting motives in order to sacrifice their own interests (at least in part) in order to serve others. Indeed, their sense of hopelessness that others' interests simply cannot be served in any meaningful way due to the inability (or unwillingness) of the macro-economic and social systems to support the transmission of wealth – economic and/or social – to non-owner stakeholders will, therefore, reduce the ethical quality of decisions.

Proposition 5: Business-owning families' ability to assess the impact of their decisions on internal and external actors (i.e., sympathy) and, in turn, make decisions that balance self- and other-regarding interests (i.e., command) is limited in the presence of moral stupefaction.

Etzionian "I&We"

Unlike much of the above argument, which highlights the similarities across non-market and market contexts and, in turn, extends the apparatus Smith develops to guide decision-making in the former context to the latter, a reconciliation of the *outcomes* of those decisions is less straightforward. For Smith, the objective in social interactions is the avoidance of harm, whereas that in economic exchange is private gain. If the interests of society's members are viewed as a zero-sum game, the ends these theories seek to explain seem contradictory and, therefore, incompatible. For example, in TMS Smith argues that although people may prefer to seek their own interests, they restrain this primal instinct due to their overriding "desire to be loved and approved of" (Forman-Barzilai, 2010: 78). Similarly in WON, in which Smith is almost entirely silent on the negative effects unchecked self-interest, he does introduce a lone caveat: "Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way" (Smith, 1994: 745). If, however, we view these ends as a positive-sum game, we can begin to understand how they might be integrated into a coherent whole. According to Newbert and Craig (2017), guidance on how self- and other-regarding interests might be reconcilable can be found in Etzioni's "I&We" paradigm, which

> sees individuals as able to act rationally and on their own, advancing their self or 'I,' but their ability to do so is deeply affected by how well they are anchored within a sound community and sustained by a firm moral and emotive personal underpinning – a community they see as theirs, as a 'We,' rather than an imposed, restraining 'they'. (1988, p. ix-x)

Grounded in socio-economic thought and presented as a rebuttal to neoclassical economic doctrine, Etzioni (1988) acknowledges, as does Smith, that tension exists among self- and other-regarding motives. Yet, Etzioni (1988) expands on Smith's argument by suggesting that to assume behavior motivated by benevolence is social-approval-seeking and behavior motived by self-interest is pleasure-seeking is to fail to appreciate both the complexity of the decision-making process and the context in which decisions are made. For starters, Etzioni (1988, ch. 4) argues that all behavior ultimately derives from a combination of both motives, each with relatively more or less influence depending on the situation. In this way, people do not choose self-interest over benevolence or vice versa; rather, self- and other-regarding motives work together to "co-determine" (Etzioni, 1988, p. 63) behavior. If a proper balance among these motives is struck, individuals may satisfy their self-interested impulses (the "I") without undermining the interests of and their relationships with other members of society (the "We").

While the argument that family owners ought to pursue the "I" *and* the "We" may appear consistent with many prominent theories of business ethics, it adds an important distinction as well. For example, although stakeholder theorists contend that firms have non-owner stakeholders to whom they are morally accountable (Freeman, 1994), social contract theorists maintain that managers have a moral duty to avoid serving their own interests should they unduly detract from those of others (Donaldson & Dunfee, 1999), and social enterprise scholars advocate the pursuit of organizational goals that benefit both the business and society-at-large (Santos, 2012), these theories have tended to view the social and economic goals of a business as "competing logics" that contradict one another and can be reconciled through a rational decision-making process (Pache & Santos, 2013). Etzioni (1988), however, views these goals and, more importantly, the motivations that drive managers to attain them, as *complementary* logics that inform one another (i.e., as two sides of the same coin rather than two different coins). As such, Etzioni (1988: xi) contends that decision-making from an I&We perspective is "sub-rational" as the drive for efficiency (i.e., self-interest) is tempered by emotions/values (i.e., benevolence). Such a view is consistent with the behavioral theory of the firm, one the first major responses to the long-held view by neoclassical economists, who argued that economic actors were nothing more than rational opportunists. In response to this circumscribed view of human nature, Cyert and March (1963) argued that few organizational decisions are purely self-interested due to conflict among and within the individuals who make them.

We are inspired by Etzioni's (1988) I&We paradigm as it helps to align Smith's advocacy of the pursuit of self- ("I") and other-regarding- ("We") interests, while at the same time recognizing the interdependence among these two ends as well as the means to achieve them. Following Etzioni's (1988) logic, we argue that a proper integration of Smith's theories of the self must not conceptualize the objective as a false choice between personal *or* social gain pursued by the homo-economicus Smith invokes in WON (Viner, 1991b), but rather as a coherent, unified whole pursued by "homo *socio*-economicus" (Tomer, 2001: 289). Accordingly, the better able individuals are at regulating the tension between their benevolent and self-interested motives, the better able they will be to balance the pursuit of desired personal ends with their moral obligation to those members of society on whom they depend. We believe this conceptualization is useful as it is only by judging our behavior and regulating the conflicting motives that underlie it that "we ultimately become disciplined social creatures" (Forman- Barzilai, 2010: 87), which is, after all, ultimately the end Smith was trying to explain.

<u>M&LMB's Continuity</u>

M&LBM (2005) argue that continuity refers to a healthy, long-lived company and is achieved through sacrifice and careful stewardship by the business-owning family. In M&LBM's (2005a) successful family businesses, commitment to continuity through a clear intention to keep the business within the family is evident. These companies express a desire for the business's long-term survival by ensuring that generational leaders promote good stewardship behavior in their organizations (Davis, et al., 1997; Hernandez, 2008). For them, social accomplishments are as important—if not more so—than reputational enhancements to the financial security of the family. Such a focus is quite distinct from the pursuit of SEW. As noted above, while families that seek to maximize their SEW do so with the hopes of "perpetuating the family dynasty" (Gómez-Mejía et al., 2007: 106), their motives are "family-centric" (Miller & LeBreton-Miller, 2014: 714) and do not intentionally consider the interests of non-family stakeholders (Kellermanns, Eddleston, & Zellweger, 2012). As such, while the pursuit of unorthodox strategies, counter-intuitive human resource and leadership approaches, and agendas that enhance economic as well as social motives are evidenced to be synonymous with M&MLB's (2005) conception of family firm continuity, they also require that family owners have the courage to make the "right" decisions even if they do not always further their own interests.

This interplay between the "I" and the "We" manifests in many of the communities in which the M&LBM companies were founded and remain headquartered. Consider, for example, the city of Corning, home of the fifth-generation Houghton family's Corning Glass Works, where "the family connections and values account for much of Corning's character and culture" (Dyer & Gross, 2001: 4). When floods destroyed the glassworks in 1972, threatening the firm's continuity, then Chairman Amory Hougton went on local radio to rally the company and community:

> "We are not only going to rebuild what we have lost," he said, "but we are going to add significantly to our manufacturing facilities in one of our plants…I want those of you who are employees of our company to know that as long as we respond well to our customer's needs your jobs are secure. Not a flood, nor a hurricane, not any other act of nature is going to jeopardize this. You are the Corning Glass Works, particularly in this city which is our home and our headquarters" (Dyer & Gross, 2001: 313).

As this example suggests, though "manifested in objectives such as making a superb product, pioneering technology, or establishing an effective brand," the most successful family businesses understand that their purpose is not only to provide value for future generations of the family, such as by maintaining control of the firm and enhancing the bottom line, but also to provide value to the societies in which they operate, even if they have to sacrifice their own interests in the process. By striving "to make a difference in how people live, in social or scientific progress, even in the joyfulness of life" (M&LBM, 2005a: 35), they enact the tenets of Etzioni's (1988) I&We paradigm. The essence of continuity, therefore, is a devotion to a greater cause, which encompasses both self- and other-regarding objectives (Tomer, 2001). As such, we contend that successful family businesses will be those whose owners have the capacity to strike the delicate balance between the "I" and the "We".

> *Proposition 6: By having the courage to make decisions that balance self- and other-regarding interests (i.e., command), business-owning families will best position themselves to lead successful businesses into the future (i.e., continuity).*

DISCUSSION

A decade ago, the construct of SEW emerged as a response to agency models of decision-making under the guise that they did not accurately reflect decision-making in family businesses. In turn, scholars argued that family business leaders tended to overwhelmingly make decisions in order to satisfy socioemotional, rather than economic, interests. Unfortunately, due to the private nature of the gains SEW-based decisions are intended to generate (i.e., benefiting the family alone), it is a largely self-interested construct (Newbert & Craig, 2017). Such a result is concerning given widespread evidence that an SEW-based approach to decision-making is a distinguishing feature of family business. In an effort to establish a morally-sound, normative basis for the pursuit of SEW, we have developed a theory of family business grounded in WON and TMS, wherein Smith's articulated how and why disconnected and highly individualized human behavior tends to coalesce to produce harmonious order in both the social (TMS) and economic (WON) realms. Unfortunately, the fact that Smith wrote TMS and WON without specific reference to one another limits each book's ability to predict and explain the complexity of human decision-making. By focusing on Smith's micro-level "theories of the self" (Haakonssen, 1996) we seek to integrate his central ideas from TMS and WON in a way that accounts for the blurriness of the division between our social and economic lives (Polanyi, 1957).

We contend that economic behavior is in reality much more complex than Smith would have us believe in WON. Specifically, we argue that the rich social context in which economic exchange takes place (Biggart & Delbridge, 2004) positions benevolence, ignored in WON but treated at length in TMS, as a legitimate motive for business-related behavior. By synthesizing his economic and social theories of the self into a unified whole, we see that Smith believed that arriving at decisions that serve the "I" and the "We" (Etzioni, 1988) result from conscious, impartial assessments of the potential outcomes of those decisions. Thus, it is only by integrating Smith's arguments from WON and TMS that we can arrive at a comprehensive understanding of the self in which behavior is co-determined by our self- and other-regarding motives. We, therefore, develop a theory grounded in these two works in which the pursuit of justice is not restricted to non-business endeavors, but rather is an essential component of economic exchange. Due to the overlap in their private and public lives, we propose that people do not seek to create social *or* economic wealth, but rather a combination of the two, or what we, drawing on Tomer (2001), refer to as *socio-economic* wealth. As Tomer (2001: 289) argues, homo socio-economicus is (like homo economicus) self-interested, but he is also "reflective in the sense that he reflects on his behavior in light of his moral values." It is this dual pursuit of the "I" and the "We" that is most likely to characterize long-run survival. Finally, by mapping the main considerations of long-lived family businesses (i.e., M&LBM's 4Cs) onto our Smithian socio-economic theory of the self, we arrive at a normative model of decision-making that allows business-owning families to balance their desire for private gain with their moral obligation to protect and promote the interests of those on whom their businesses depend. We believe that our theorizing can contribute to the understanding of decision-making in family businesses in the following ways.

First, our research highlights what we believe to be an important, yet only recently recognized, facet of SEW; namely that it is essentially a self-interested construct (Newbert & Craig, 2017). While economists have long-cited Smith's WON in defense of the pursuit of self-interest (Samuelson, 1961), they have ignored the depth of his appreciation for benevolence and justice in TMS (McKloskey, 2008). In light of the evolution of thought in this area, we believe it is important to remind scholars that while Smith believed self-interest to be a virtuous motive for action, he also understood that we must only allow self-interest to motivate our behavior when interacting with individuals with whom we do not share geographical or emotional attachments and/or when our decisions would be likely to harm others; otherwise, benevolence ought to be the preferred motive. Smith's recognition of the complementary nature of self- and other-regarding interests is an important distinction from most theories of business ethics that take an adversarial stance toward theories of self-interest (Freeman, 1994). We believe Smith's appreciation for the rights one has to pursue one's own interests, so long as it does not cause undue harm to others, can perhaps bring theories of self-interest and those that oppose them closer together. By heeding Eisenhardt's (1989: 72) call to "look beyond the economics literature" in order to more accurately depict decision-making in organizations, we provide the bridge linking the modern limited understanding of capitalism, reflective of the restricted view of SEW, to a more enlightened understanding, reflective of the extended view of SEW (M&LBM, 2014), as social economics scholars have long advocated (Etzioni, 1988). This bridge is important as it challenges the assumption of a fundamental division between social and economic behavior that permeates many modern theories of decision-making including, but not limited to, SEW. Indeed, the influence of orthodox economic thinking on management theory has resulted in the adoption of a "narrow model of human motivation and behavior [and a] negative moral characterization of managers" (Donaldson 1990: 369). In response, Newbert and Hill (2014: 257) argue that because most organizations seek to serve their own *and* society's interests, we "need to revolutionize existing theory so that it accurately reflects the comprehensive reality of what firms generally endeavor to do." By leveraging Smith himself to expand the range of interests family business leaders serve in their business endeavors from the "I" to the "We" (Etzioni, 1988), we believe our theory more accurately accounts for the social orientation of human nature (Aktouf, 1992) in the context of economic exchange in general, and family business in particular, than current explanations.

Second, our research may contribute to the literature on family business heterogeneity. As Shepherd surmises, "perhaps businesses more dominated by family are more prosocial towards the communities in which they are embedded (e.g., local neighborhood and/or family-oriented groups) which may or may not mean that they are less prosocial toward distant groups" (2016: 155). We maintain that one source of this heterogeneity may be the micro-level (cognitive moral development), meso-level (long-term orientation), and macro-level (moral stupefaction) factors that shape their understanding of the decisions with which they are faced. Due to the idiosyncratic conditions in which all family businesses leaders make decisions, it is unlikely that a uniform theory would be universally applicable. Thus, we have attempted to contextualize our theory by infusing theory from psychology (cognitive moral development), ethics (bounded morality and bounded self-interest), and economics (temporal discounting and institutional quality), such that it reflects many (though by no means all) of the contingencies faced by family business leaders. We believe the inclusion of these moderating effects is valuable as they may help add clarity in determining why some business-owning families "'do good' for some but not others" (Shepherd, 2016: 155). Specifically, decisions that balance self- and other-regarding interests are most likely to be made by those families characterized by moderate levels of cognitive moral development, those who have adopted LTOs, and those who do not suffer from moral stupefaction. By connecting the family business literature with theory in psychology, ethics, and economics, these contingencies enhance the predictive potential of our theory in substantive ways. To our knowledge, cognitive moral development, bounded morality, bounded self-interest, temporal discounting, or institutional quality are, to date, absent in the family business literature. We believe that by demonstrating how these contingencies can inform decision-making heterogeneity in family business, our theory encourages future scholars to both consider how else these constructs might inform family business theory and introduce other meaningful (but as yet absent) constructs to the field.

Third, by applying M&LBM's 4Cs to our theory, we have endeavored to rely upon a well-accepted set of constructs that might convey relevance in our propositions regarding decision-making in family businesses. While M&LBM provide an ideal platform from which to advance our theory, we believe our theory may, in turn, add richness to their main thesis that long-lived family businesses concurrently deliver economic performance and societal impact to an increasingly complex cadre of internal and external, family and non-family stakeholders. Given that M&LBM merely develop archetypes of such firms on the basis of varying emphasis on the individual 4Cs, we believe our work may help establish connections among those Cs. For example, by positioning continuity as the dependent variable and highlighting the economic and social aspects of its attainment, we acknowledge the vital roles communities of employees and their connections to external stakeholders play in helping family business owners steward their legacy across generations, and by doing so, generate both social *and* economic wealth.

Given this premise, we believe a viable next step would be to for scholars to consider ways to operationalize M&LBM's constructs as well as the additional constructs we introduce. While established instruments are readily available to be used to measure the independent and moderating constructs (for example, bonding and bridging concepts adapted by Salvato and Melin (2008) or Uhlaner et al. (2015) hold potential for operationalizing community and connection), it is the social aspect of our dependent variable that may present a challenge. One suggestion would be to draw inspiration from Lumpkin and Bacq's (2019) civic wealth creation (CWC) framework. These authors suggest civic wealth is created when coalitions of diverse stakeholders intentionally pursue joint interests to achieve positive societal change. They present four types of wealth created by CWC stakeholders—social, economic, communal, and civic—which align with four types of capital derived from Parsons' (1937) seminal work —social capital, economic capital, cultural capital, and strategic capital (Groen, 2005). We encourage researchers to explore how assessing levels and types of capital can be used as a proxy for assessing socio-economic wealth creation, and as an extension, family business continuity.

Alternatively, researchers may consider adopting the measurement norms in economics. Neither of the authors is adequately versed in this area to offer direction but our research into heterodox economics, and subsequent decision to adopt this as our theoretical frame in this research note, uncovered many options. As well, there is an increasing interest and sophistication in measurement emanating from the sustainability and corporate social responsibility literatures, which could provide solutions. For example, Epstein (2018) includes specific guidance, and provides a list of sample measures on how to identify and measure social, environmental, and economic impacts.

While we believe our theorizing offers sound, normative advice for business-owning families, our arguments are not beyond reproach for the following reasons. Our focus on Smith's theories of the self admittedly does not consider the macro-level outcomes that Smith envisioned were the result of self-interested and/or benevolent behavior. While such a restricted focus may seem to fail to do justice to Smith's work, our goal is much more modest than Smith's. Rather than theorize about the entire macro-economic and social systems in which all individual and firm behavior plays out, we seek only to develop a theory of managerial decision-making. Thus, much of what Smith describes in his wide-ranging books falls outside the scope of our research. That said, if Smith is right, micro-level decisions intended to serve the "I" and the "We" ought to, in aggregate, lead to economic prosperity and social justice. Thus, we encourage scholars to consider how business-owning families might contribute to these higher-order ends in future research.

In addition, while we believe the theory we present herein provides a useful lens through which to understand how family owners might appropriately serve the "I" and the "We," we also recognize that our use of M&LBM's 4Cs has shaped the manner in which we have adapted Smith's thought within the context of family business. As we argue above, the 4Cs represent relevant, contemporary constructs that both reflect issues of great concern to business-owning families and map well onto the arguments put forth by Smith and, therefore, make them an appropriate choice. Moreover, given that a critical step in development of any new theory is empirical testing, the lengthy discussions in which M&LBM (2005a) engage surrounding the definition and dimensionality of each of the 4Cs provides a useful roadmap for how scholars might operationalize them. Nevertheless, we acknowledge that there are many other conceptual frameworks in the family business literature (i.e., FIBER; Berrone et al., 2012) upon which we could have also drawn and encourage scholars to consider whether, how, and to what extent they might alter (or not) normative advice for decision-making in family businesses.

Ultimately, we believe the results of our theorizing is a historically-grounded and theoretically-robust set of propositions that may contribute to how we understand managerial decision-making in family businesses. In so doing, we recognize that we are challenging the dominant role SEW has played in the family business literature to date. Yet, rather than simply highlight its shortcomings, we seek to follow the lead of critics before us (i.e., Schulze &

Kellermanns, 2015) by providing a forward-looking prescription that has relevance for family business scholars and practitioners. While we do not aver to deliver the definitive word on these issues, we are hopeful that through the integration of Adam Smith's theses, complemented by Etzioni's (1988) I&We paradigm, and supplemented by M&LBM's context-grounded study of the idiosyncrasies of successful family businesses, we hope to have provided a provocative consideration of how decision-making ought to unfold in family businesses.

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Figure 1. Smith's economic system

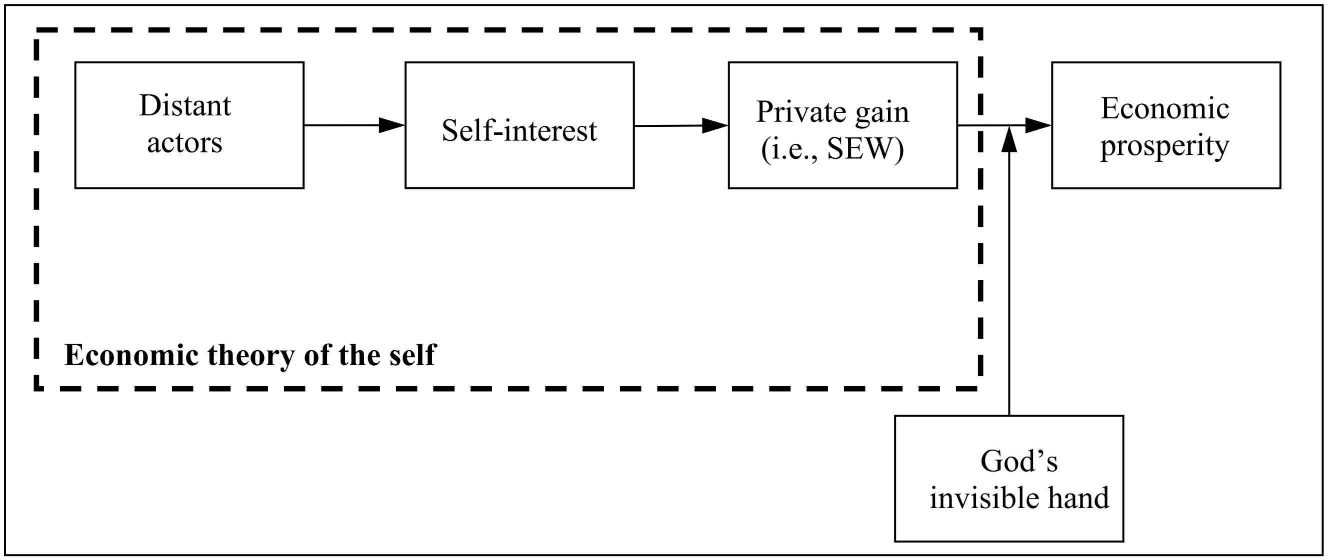

Figure 2. Smith's social system

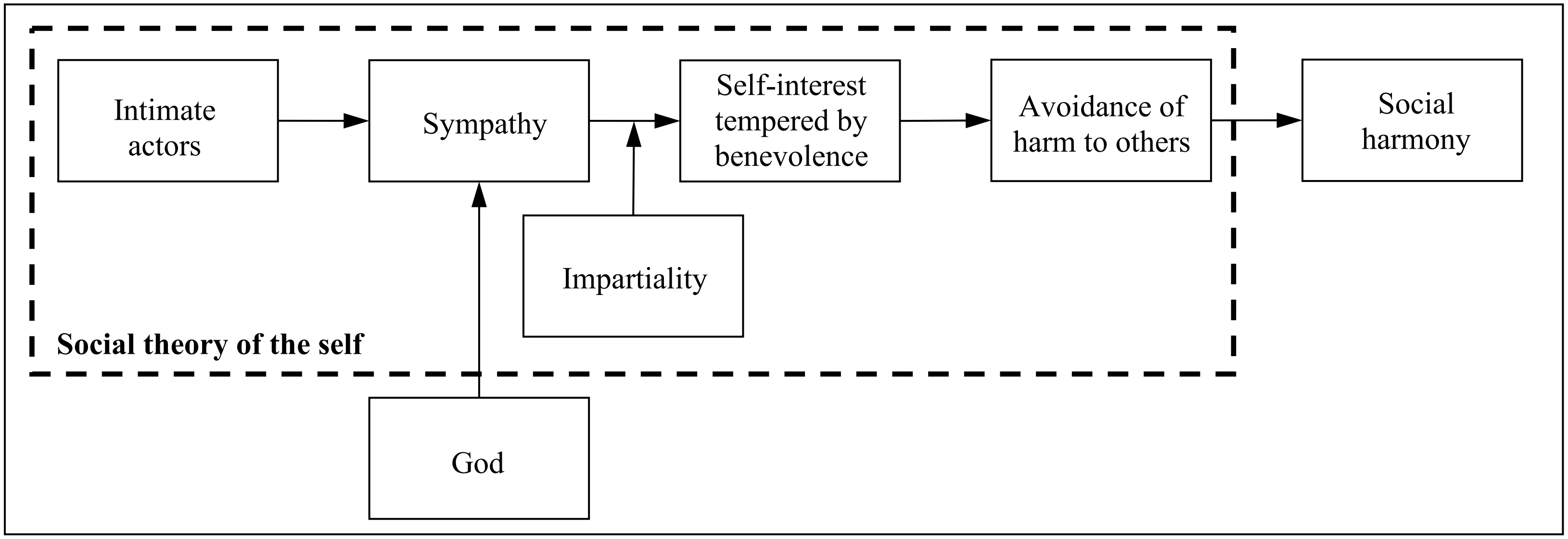

Figure 3. A socio-economic theory of decision-making in the family firm