Managerial Long-Term Responsibility in Family-Controlled Firms

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Evidence suggests that long-term orientation (LTO) as a dominant strategic logic contributes to the sustainable performance of family-controlled firms (FCFS). Combining a review of the literature on LTO with stewardship theory and upper echelons theory reasoning, this article presents a typology of managerial responsibility and introduces the concept of long-term responsibility as a managerial characteristic constituting a major driving force behind creating LTO. The antecedents of long-term responsibility under family firm-specific conditions (stemming from the family system, the governance system, and family-firm managers' personal characteristics) are also identified and presented in an integrated model. The paper contributes to a more comprehensive understanding of intertemporal choice in FCFS and explains why they tend to be more long-term oriented than other types of firms.

Key words: managerial responsibility, long-term orientation, family-controlled firms, stewardship

Introduction

Firms which are under the control of the founding family have often been associated with a higher degree of long-term orientation (LTO) than their non-family-controlled counterparts. Zellweger (2007), for example, observed a longer time horizon of investments in family firms than in non-family firms and argued that due to a lower annual default risk, the cost of equity capital can be lower for firms with such longer planning periods. According to Le Breton-Miller and Miller (2006), LTO in family-controlled firms (FCFS) can also foster the development of sustainable core capabilities which in turn form the basis of competitive advantage in the market place, for example due to superior product quality or operational excellence. Lumpkin, Brigham and Moss (2010) argued that LTO in family firms leads to more innovativeness and proactiveness in seeking opportunities ahead of the competition, while Kets de Vries (1993) saw a greater willingness in more long-term oriented family firms to retain profits in the business, thus making them more resilient during hard times. In summary, Lumpkin, Brigham and Moss (2010, 245) see 'compelling evidence that an LTO can be a source of positive outcomes and strong performance by family firms.' Consequently, LTO as a characteristic feature of family firms has been in the focus of recent research (Le Breton Miller and Miller 2006; 2011; Lumpkin and Brigham, 2011; Miller and Le Breton-Miller 2005).

In light of the evidence of positive performance effects of LTO as a dominant logic in which decision-makers are setting priorities on strategic choices and investments that pay off over the long term (Lumpkin and Brigham 2011), it is intriguing that we do not yet fully understand the factors that influence the temporal orientation of FCF managers.

Definitions of LTO by Le Breton-Miller and Miller (2006) ('priorities, goals, and most of all, concrete investments that come to fruition over an extended time period, typically 5 years or more, and after some appreciable delay' (732)) and Lumpkin and Brigham (2011) ('a higher order heuristic that the dominant coalition employs to realize its long-term aspirations and priorities' (1151)) refer to LTO as a strategic action tendency, the manifestation of the strategic choices made by the firm's top management. According to upper echelons theory (Hambrick and Mason 1984), strategic choices are influenced by the characteristics of the top executives in a firm, in particular by their cognitive base and values, as well as by internal and external situational factors. The aim of this article is to explore how both, top management characteristics as well as external factors in an FCF context, can have an influence on LTO. This gap in the literature will be addressed by introducing the concept of long-term managerial responsibility as a driving force behind LTO, and discussing its antecedents in managerial characteristics and situational specifics of FCFs. Thus, the article complements Le Breton-Miller and Miller's (2006) and Lumpkin and Brigham's (2011) approaches, explaining how a long-term oriented dominant logic and long-term oriented strategic choices, respectively, are developed in FCFs.

The rest of the paper is organized as follows: First, the concept of managerial responsibility is defined and broken down into in its individual elements, thereby particularly also acknowledging its temporal dimension. Subsequently, the main antecedents of long-term responsibility in FCFs will be presented, categorized into influences of the family system, the governance system, and the personal characteristics of FCF executives. The resulting model helps to explain why managers in FCFs are usually more long-term oriented than their peers in firms which are not family-controlled.

Managerial Responsibility

Managerial responsibility, the felt moral obligation or duty of a manager to act in the interest of the organization and its stakeholders, includes both an extrinsic and an intrinsic dimension. Agency theory helps to explain the extrinsic dimension of responsibility, the accountability toward others. At the basis of agency theory lies the agency problem – potentially diverging interests and risk preferences of principals and agents and the costs that are incurred for a principal to supervise what an agent – who is supposed to act as a self-interest maximizer – really does (Eisenhardt 1989). Eisenhardt proposed both outcome-based contracts and behavior-based contracts combined with systems that provide information to verify agent's actual actions as possible means to align the interests of principal and agent. Agency theory researchers try to identify incentive mechanisms which make an agent accountable or responsible toward the principal for his or her actions, or in other words, how to oblige an agent to act in the interest of the principal.

To understand the intrinsic dimension of managerial responsibility, we need to resort to a different theoretical approach. The stewardship theory of management posits that managers do not always just act as economic maximizers of self-interest – rather, they can follow an intrinsic motivation based on higher order needs for personal growth, achievement, and self-actualization, and act in the best interest of an organization and its stakeholders (Davis, Schoorman, and Donaldson 1997). Seeing oneself as a steward means acting with responsibility toward the organization and its stakeholders. Factors which according to Davis, Schoorman, and Donaldson (1997) contribute to the tendency of managers to act as stewards are (a) their identification with and commitment to the organization, (b) the use of personal rather than institutional power as a basis to influence others, (c) situations which are involvement-orientated rather than a control-oriented, and (d) a more collectivist and lower power distance cultural background of the managers. The stewardship approach has been explicitly linked to family firms (Miller, Le Breton-Miller, and Scholnik 2008) as well as generally to a long-term orientation of managers (Davis, Schoorman, and Donaldson 1997).

Responsibility, whether extrinsically or intrinsically motivated, can manifest itself in different scopes. Managers can either see their responsibility mainly as a short-term (or intra-generational) one – being responsible for the performance of the organization within their tenure – or as a long-term (or inter-generational) one, also

Long-term (inter-generational)	Potential-building responsibility	Long-term impact responsibility
Short-term (intra-generational)	Performance responsibility	Stakeholder responsibility
	Economic	Societal

FIGURE 1 The managerial responsibility grid

feeling an obligation for ensuring that a basis for sustainable organizational performance is built which lasts long after their resignation from the top management position. On another dimension, managers can see their responsibility in purely economic terms, or they can also feel a duty toward other stakeholders, viewing the firm as part of a larger societal environment. The latter approach serves as the basis for much of the corporate social responsibility (CSR) literature. Dyer and Whetten (2006) found that while there is no significant difference between family firms and non-family-owned firms in their level of engagement in positive CSR activities, family firms try to avoid actions which could be seen as socially irresponsible. They also linked this tendency to image and reputation concerns of family members. For Gomez-Mejia et al. (2011, 684), 'it seems that family firms tend to be more responsive to stakeholders for intangible reasons that go beyond economic considerations.'

The resulting four categories of managerial responsibility are presented in figure 1 in the form of a 'managerial responsibility grid.' If the focus is on short-term, economic gain for the organization, managers see their main responsibility in achieving a certain level of performance (whether in terms of profit, growth, market share, or other indicators) in the current period. When managerial responsibility stays mainly economic, but extends to the long-term, a manager's focus on performance alone is no longer sufficient, and the managerial scope extends to feeling responsible also for building the potential for organizational performance in the future. Managers who, either extrinsically or intrinsically motivated, feel obliged also beyond the pure economic performance of the organization, also take responsibility for the effects of their decisions on various stakeholder groups (such as, for example, employees, suppliers, banks, or the local communities in which they are based), and, in the case of long-term responsibility, will also take the long-term societal and environmental impacts of their actions into account.

In the following, we will focus on the upper left quadrant of figure

1, long-term economic (or potential-building) responsibility, exploring its antecedents in a FCF environment.

Antecedents of Managerial Long-Term Responsibility in Family-Controlled Firms

As managerial responsibility has an intrinsic and an extrinsic side, also the reasons for making strategic choices that manifest themselves in LTO can lie both in the personal characteristics of a decision-maker and in external situational factors. In Hambrick and Mason's (1984) upper echelons theory terms, long-term responsibility as a basic managerial value is itself a characteristic of top executives. As such, it can be influenced by other either observable or psychological personal top management characteristics as well as by the specific conditions of the firm-internal or the external situation. The latter includes – among others – factors from the economic, institutional, cultural, or industry-specific environment. Zellweger (2007, 1), for example, observed that 'family firms are overrepresented on western European stock markets in cyclical industries in which business cycles inhibit short-term success.'

Two categories of situational factors influencing on managerial long-term responsibility are particularly salient in FCFs due to their nature: first – and specific to family firms – the influence of the family system, and second, the influence of the governance system, with both systems in turn being interrelated with each other.

The Influence of the Family System

FCFs are characterized by an intertwinement of family and business. James (1999, 47) asserted that 'the long-term perspective of family managers is a natural outgrowth of the membership in a family system' in which consumption is postponed 'out of a concern for the proprietor's children, grandchildren, as well as other family members.' This concern can be an altruistic one, in which the interests of other family members are naturally included in decision processes (Lubatkin, Durand and Ling 2007). Family executives thereby fulfill two distinct roles: 'a work role as steward of the company and a non-work role as fulfiller of family obligations' (Gomez-Mejia et al. 2011, 678).

In addition to a *concern for future generations* based on kinship and emotional bonds, which naturally leads to an adoption of long-term responsibility, also a *sense of co-ownership* can develop in families in which business matters are often discussed at the dinner table and in the presence of different family members (James 1999). This 'spirit of ownership' can pertain to the family as whole, when the collective rather than individual family members are perceived as the owners of a business (Williams 1992), and with future generations also having a say especially in decisions with long-term consequences. Ownership, in turn, makes people feel responsible for their property.

In a situation where the family and firm systems are seen as being closely connected by outsiders, family members are also concerned about their own reputation, as they *identify themselves with the firm* (Dyer and Whetten 2006). Both the perception of others as well as the self-concept of family members are thus closely tied with the family business (Gomez-Mejia et al. 2011), instilling intrinsic responsibility toward the firm. This is closely connected also to Gomez-Mejia et al.'s (2011) concept of 'socioemotional wealth' (or 'affective endowments'), which refers to the non-financial, mainly emotional benefits that a firm provides to the owner family, such as being a source of identity, or also as a means to perpetuate the family dynasty.

In a different perspective, family members can also view the continuation of the family-owned firm as a form of *insurance* (James 1999). Parents invest in their children in an intergenerational trade or reciprocity contract to gain both emotional and material support when they get older (Laferrère and Wolff 2006). Securing the continuous performance of the family firm across generations will therefore also provide the basis for old-age support that children can offer to their parents. In this context, the responsibility for the long-term performance of the firm is also a responsibility of current family executives toward their own future.

Based on the arguments forwarded in this section on the influence of the family system on the value base of family executives, the following proposition can be forwarded:

PROPOSITION 1 *Family executives show a higher level of long-term responsibility than non-family executives due to their concern for future generations, a feeling of co-ownership within the family, family identification with the firm and related concerns for their reputation, and a psychological contract of intergenerational insurance.*

FACTORS AT THE INTERSECTION OF THE FAMILY SYSTEM AND THE GOVERNANCE SYSTEM

In addition to factors stemming the family system itself, FCFS also show certain characteristics in their governance system which can have an influence on the long-term responsibility of its managers and consequently also on the LTO in the firm.

To begin with, FCFs are characterized by a *unification of ownership and control* (Carney 2005, 253, italics added), with the main advantage of having lower agency costs when the agent is actually also one of the main principals (Le Breton-Miller and Miller 2006). As they deal with their own money, family executives often show a high degree of parsimony (Carney 2005) in a desire to maintain a certain resource base, assuming their long-term responsibility. This is also consistent with Lumpkin et al.'s (2010, 256) observation that, 'higher levels of family ownership are likely to be associated with a stronger LTO.'

Entrepreneurial families also often maintain a *long-term presence as shareholders* of their firms. Anderson and Reeb (2003, 1305) noted that 'families potentially have longer horizons than other shareholders, suggesting a willingness to invest in long-term projects.' This tendency can also lead to more efficient long-term investment decisions (James 1999). If investors plan to hold on to their shares for a longer time span, we can assume that they will also feel a higher responsibility to the long-term success of the firm, especially if they are in the double role of owner-managers. In addition to long-term presence as shareholders, Zellweger (2007) argued that family firms generally have *more patient capital*. Laverty (1996) identified fluid and impatient capital as one of the main drivers of short-termism. Conversely, more patient capital in family firm can lead to an adoption of longer time horizons.

Due to their ownership status, family CEOs usually have far *longer tenures* than their non-family counterparts (McConaughy 2000). As Le Breton-Miller and Miller (2006, 733) noted, 'the anticipation of lengthy tenures drive some leaders to take a farsighted, steward-like perspective of the firm.' Long tenures can lead to the creation of tacit, idiosyncratic knowledge of family executives (Lee, Lim and Lim 2003), and CEOs who stay on the job for a longer period will also still experience the outcomes of their decisions with long-term effects. Rather than just succumbing to the pressure of quarterly results, they also need to find the right balance between performance in the current period and building the resource base and capabilities which form the basis for future performance. In other words, they need to assume long-term responsibility.

Finally, family-owned enterprises usually also strive for *long-term independence* (Zellweger 2007). Lumpkin, Brigham and Moss (2010) also linked LTO in family firms with the level of autonomy. Keeping the business under the control of the family – specifically also across generations – has also been identified as one of the main concerns for entrepreneurial families (Gomez-Mejia et al. 2011).

In contrast to the family system itself, which exerts its influence mainly on family members, the factors at the intersection of the family system and the governance system are not only affecting family executives, but also other top managers in FCFs, leading to the following:

PROPOSITION 2 *Executives in* FCFs *show a higher level of long-term responsibility than executives in non-family-controlled businesses due to the unification of ownership and control, the long-term presence of family shareholders, more patient capital, longer top management tenures, and the strive for long-term independence prevalent in* FCFs*.*

THE INFLUENCE OF THE PERSONAL CHARACTERISTICS OF FCF EXECUTIVES

Following Hambrick and Mason's (1984) upper echelons model, strategic decision-making tendencies are based on situational factors and top management characteristics. After exploring FCF-specific situational factors, we therefore also need to consider personal characteristics that are specific for family executives.

Kellermanns et al. (2008) point out the importance of *age of a family firm* CEO especially for entrepreneurial behavior. They built their argument on Levesque and Minniti's (2006) observation that CEOs generally tend to exhibit less entrepreneurial actions as they are getting older. With succession from one generation to another coming closer, there is a tendency toward taking less risks and an increasing focus on preserving the family wealth as well as the firm itself as a legacy for the children (Kellermanns et al. 2008). If younger entrepreneurs – who were focusing on expanding their business in the start-up phase and were taking on a lot of entrepreneurial risk – become more conservative when they get older and come closer to succession, the degree of a family executive's felt long-term responsibility could also be age-dependent. This is even more pronounced as very young entrepreneurs usually do not yet have children for whom they could feel responsible.

Furthermore, owner-managers of family firms often also feel the *desire to leave an entrepreneurial legacy* (Nordquist, Habbershon, and Melin 2008). Building a company that lasts, and continuing to have an enduring influence that long outlasts their own tenure or even their lifes in the form of 'founder centrality,' in which succeeding generations still refer to the culture, vision, and principles created by the founder (Kelly, Athanassiou, and Critteden 2000) can also be a driver for family executives – especially if they are also founders – to act in a way that shows long-term responsibility towards the firm.

For Laverty (1996), managerial opportunism is one of the main drivers of short-termism. Lumpkin, Brigham and Moss (2010) argue that there is *less propensity to act opportunistically* for owner-managers in family firms. In an agency theory frame, family executives are both principals and agents. Thus, opportunistic behavior is of less concern than in the case of outside managers.

Das and Teng (1997, 78) identify *future orientation* as 'an individual's psychological attribute regarding their perception of the future and the flow of time.' In contrast to the concept of LTO as a higher-order heuristic employed by top managers (Lumpkin and Brigham 2011), future orientation in Das and Teng's sense is a fairly stable psychological personality trait. More future-oriented people pay more attention to a relatively distant future, whereas more present-time oriented individuals are more likely to focus on the immediate future (Das and Teng 1997).

Following the discussion above, the potential influence of owner-manager characteristics on their long-term responsibility levels can be summarized in the following:

PROPOSITION 3 *Family executives show a higher level of long-term responsibility (a) the older they are, (b) the higher their desire to leave an entrepreneurial legacy, (c) the lower their propensity to act opportunistically, and (d) the higher their individual degree of future orientation.*

An overview of all antecedents of managerial long-term responsibility in FCFS, including personal characteristics as well as those situational factors which are attributable to the specifics of the family system and the governance system, is provided in table 1. The compilation shows that there are multiple internal and external influences on managerial long-term responsibility, and in particular highlights the salient role of the family system, which has both a direct and an indirect (over the governance system) effect.

Discussion and Implications for Family Business Research and Practice

Chrisman, Chua, and Steier (2011, 1111) recently noticed that 'we still need to know more about the long-term orientation of family firms.' This article contributes to a better understanding of LTO

TABLE 1 Overview of antecedents of managerial long-term responsibility in family-controlled firms

(1)	(2)	(3)	(4)	(5)
Concern for future generations	James (1999); Gomez-Mejia et al. (2011); Le Breton-Miller and Miller (2006)	×		
Feeling of co-ownership	Williams (1992); James (1999)	×		
Identification with the firm	Dyer and Whetten (2006); Gomez-Mejia et al. (2011)	×		
Family-based insurance	James (1999); Laferrère and Wolff (2006)	×		
Unification of ownership and control	Carney (2005); Le Breton-Miller and Miller (2006); Lumpkin, Brigham and Moss (2010)	×	×	
Shareholders' long-term presence	James (1999); Anderson and Reeb (2003)	×	×	
Patient capital	Laverty (1996); Zellweger (2007)	×	×	
Long CEO tenure	Le Breton-Miller and Miller (2006)	×	×	
Strive for independence	Zellweger (2007); Gomez-Mejia et al. (2011)	×	×	
Family executive age	Levesque and Minniti (2006); Kellermanns et al. (2008)			×
Desire to leave a legacy	Nordquis, Habbershon and Melin (2008)			×
Low propensity to act opportunistically	Laverty (1996); Lumpkin, Brigham and Moss (2010)			×
Individual future orientation	Das and Teng (1997)			×

NOTES Column headings are as follows: (1) factor influencing long-term-responsibility, (2) source, (3) family system, (4) governance system, (5) personal characteristics.

through introducing the concept of long-term responsibility (on the level of the individual manager) as a key factor influencing LTO (on the firm level). This is consistent with Lumpkin and Brigham's (2011) argument that LTO on the firm level is mainly determined by the degree of long-term thinking of the major decision makers (or the 'dominant coalition') in FCFs.

It is important to highlight the distinction between LTO and long-term responsibility once again here. LTO is a *dominant strategic logic* in the firm. As such – following upper echelons theory reasoning – it is contingent on personal characteristics of top management team members and situational factors. Long-term responsibility as a managerial value, on the other hand, is a salient managerial characteristic which guides an executive's strategic thinking patterns, which in turn influence a firm's LTO through managerial decisions and actions.

The three propositions presented in the preceding sections shed light on how managerial long-term responsibility develops in FCFS. A major role is attributable to the family system which has both a direct influence (Proposition 1) as well as an indirect effect through the governance system of the firm (Proposition 2). This is consistent with stewardship theory which sees responsible behavior toward the organization and its stakeholders as a typical feature of family-led firms (Miller et al. 2008). It is necessary to point out, however, that especially the family system does not always necessarily have a positive influence on managerial long-term responsibility. Conflicts within the family, struggles for control of the firm between family members, problems with succession planning (e. g. no suitable family member in the next generation able and/or willing to take over the CEO position), or nepotism – choosing family members for key positions although more competent alternatives would be available – could actually also contribute to more short-term thinking of family executives (James 1999). As James noticed, the stability of the family firm is intertwined with the stability of the family system. If due to conflicts within the family, the feeling of co-ownership and the concern for future generation diminishes, or if there is no more trust in the intergenerational insurance function of the family, this might have negative consequences on the long-term responsibility of family top managers, and thus also on the long-term performance of the family firm.

In contrast to the influence of the family system on managerial decision-making in FCFS, which has been widely discussed, the potential effect of personal characteristics of top managers has not yet been in the major focus of family business research. Proposition 3 has identified such characteristics, the age of the family business executive, the desire to leave a legacy, a low propensity to act opportunistically, and individual future orientation, and thereby contributes to a more comprehensive understanding of the development of long-term responsibility and LTO which is not reduced to contextual factors (particularly the family system) but also shows how both, external factors as well as individual values and predispositions can affect managerial decision horizons. Thus, the three propositions together meet the requirement of upper echelons theory and acknowledge that both factors of the objective situation as well as psychological and observable top management characteristics together deter-

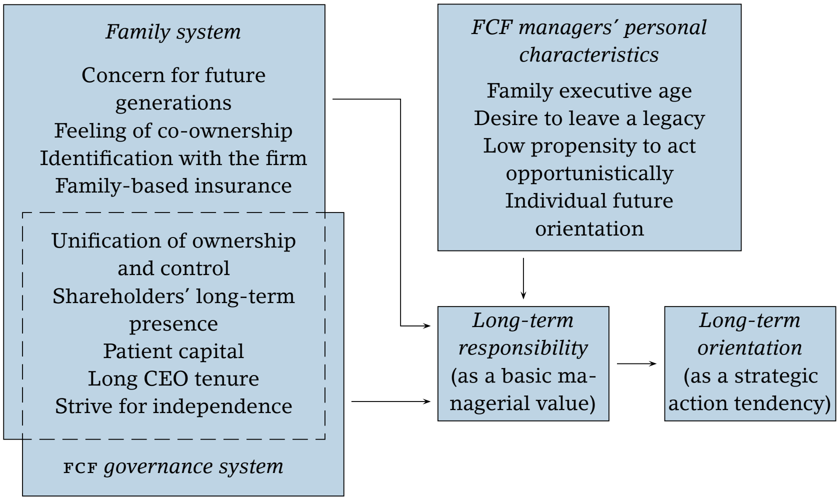

FIGURE 2 A model of managerial long-term responsibility in family-controlled firms

mine strategic choice tendencies (in this case LTO) (Hambrick and Mason 1984).

Figure 2 builds on the three propositions and presents a basic model of how FCF managers' personal characteristics and situational factors (in FCFS particularly those based on the specifics of the family system and its intersection with the governance system) influence on managerial long-term responsibility, and consequently also LTO, in FCFS.

The concept of managerial long-term responsibility and the three categories of influencing factors contribute to explaining how individual family executives acquire a LTO logic for their decision-making. Of course, one person alone with a high level of long-term responsibility within the top management team is not sufficient for building LTO as a dominant logic of the firm if there are multiple top decision-makers. Long-term responsibility therefore needs to develop not only on an individual but also on a group (for example, board) level in order to create a strong LTO in the firm. In addition to the managerial function, also owners play a crucial role here, following Chrisman, Chua, and Steier's (2011, 1110) argument that LTO is an 'implication of an intention for transgenerational sustainability on the part of family owners.'

There is ample opportunity for further research on managerial long-term responsibility and its effects on organizational strategies and performance. Empirical work could explore whether managers in FCFS really show higher levels of long-term responsibility than their counterparts in non-family-controlled firms as predicted by the model. Further, it could be investigated whether there are differences in long-term responsibility between owner-managers and non-family members of the top management team of FCFS. It is also possible that different groups of FCFS show different levels of managerial long-term responsibility. As Miller, Le Breton-Miller and Scholnik (2008) argue, in entrepreneurial firms with individual founders but no further family involvement, rapid growth and value creation might be a more important tendency than firm longevity. Lumpkin and Brigham (2011) also point out that the level of LTO could be dependent on the generational stage that FCFS are in.

The influence of other situational factors outside of the family and governance systems on managerial long-term responsibility and LTO could also be of interest for further studies. For example, future orientation (or the degree of short- versus long-termism) has also been identified as a dimension of national culture (Ashkanasy et al. 2004). Bertrand and Schoar (2006) argued that also the desire to build a family legacy can be culturally influenced.

There are several practical implications of the model presented in this article. It highlights the importance of the characteristics of the top management team – in particular of long-term responsibility – for the development of LTO in an organization. Thus, selection and development processes for top executives could specifically also focus on identifying long-term responsibility as a managerial value. Owners of FCFS can also assess whether the existing governance system of their firm fosters the development of long-term responsibility of the top managers.

It is a more general contribution of this article that it highlights the key role that managerial responsibility – not only for the performance of a firm or in CSR terms, but especially also in the form of long-term responsibility – plays for laying the basis for sustainable success in FCFS. As LTO 'is a construct whose research implications and practical usefulness is not limited to family firms' (Lumpkin, Brigham and Moss 2010: 243), so is long-term responsibility. The exploration of the importance of this concept in a non-family firm context could therefore also be a worthwhile endeavor.

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