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Discussion

Commentary on: the transacting cognitions of non-family employees in the family businesses setting

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1. Introduction

In this commentary, we discuss the origins of the academic study of family business and how this paper illuminates and is illuminated by prior research and theory in the family business and family systems fields.

The academic study of the family business field began in earnest with a look at the endemic conflicts and tensions of family business (Lansberg, 1983; Dyer, 1986; Ward, 1987; Davis and Taguiri, 1989). From that point forward, very little research in this field has occurred that has explored these tensions and their causes. What little theory that has been developed has not provided conceptual frameworks rigorous enough to be tested empirically. The classic sources of tension have been identified as differences in goals and expectations between people in three main roles in a family business: owner, family member, and business manager. These roles are not new and have been investigated somewhat in other literature, such as Transaction Cost Economics (Williamson, 1981) and Agency Theory (Jensen and Meckling, 1994). The general role of conflict, how it operates, and how it is resolved has been well explored in the family systems literature (Gottman et al., 1993; Breunlin, 1989).

The article "The transacting cognitions of non-family employees in the family businesses setting" by Mitchell et al. (2003) brings a new theoretical orientation to the family business

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arena: the role of transaction cognitions on the level of friction in the family business system and their effects on family business performance. This orientation fills an important gap in the current family business literature and can be helpful in understanding and researching the classic sources of tension by reframing them as friction and specifying the characteristics of friction and how friction can be managed.

The authors use several theoretical vantages to address and develop this new theoretical orientation, connecting them directly to the family business field. Most importantly, they employ the Transaction Cost Economics work of scholar Oliver Williamson (1981, 1985). Williamson identified multiple sources of inefficiencies in the nature of transaction relationships, and the one the authors focus on here is the nature of social friction within and between the family and business subsystems.

The authors also wisely employ a balanced definition of high performance, one that relies on achieving family and business goals. Family business literature often takes either a family or business point of view, emphasizing a goal of either business success or family harmony and rarely taking this important integrative approach. It cannot be emphasized enough that this is an important recognition of the integrated nature of family and business, which requires an approach that looks at all stakeholders to determine a true definition of success.

The authors provide several innovative ideas. Chief among these is the notion that social friction should not be thought of in terms of something that can be reduced, but rather something that can either help or hinder a transaction, as something to be smoothed, reduced in intensity, and managed. Rather than seeing these issues in absolutes that need to be resolved, this paper presents a framework that can see the management of these issues as a process rather than an end goal of resolution. This process view of conflict, as existing in four states of kinetic (sliding) friction, connects very well with existing family therapy and family business literature about conflict patterns (Gottman and Katz, 1997; Gottman et al., 1993). This suggests many changes in theoretical and practical approaches to the study and management of family enterprises.

Many of the authors' propositions are insightful and worth testing. For example, the authors argue that non-family managers and family should have a high level of interaction around business planning through the management of multiple planning cognitions. In fact, existing literature advocates a communication system for both the non-family executive and ownership to constantly communicate the evolving definition of shareholder value, so as to be incorporated into the strategic planning (Smith, 1999). While previous family business literature has examined the importance of managing differences in values and expectations (Astrachan and Astrachan, 1988), the friction theory proposed here allows for more insightful measurement of process effectiveness.

An important area covered by the authors concerns comments made in their discussions of "promise cognitions" about the alignment of family values with managerial values to avoid friction that might hinder performance. This is similar to the concept of value or cultural alignment as suggested by Astrachan (1988) and Aronoff and Ward (2000). It also seems to be very similar to the concept of trust that has been examined widely in both the family business and family therapy literature and sociology (Barnes and LaChapelle, 2000; Accordino and Guerney, 2001). The essence of which revolves around whether expectations is appropriately set and met by both family members and non-family employees. It is when these expectations or promises are not met by that trust erodes, theoretically increasing friction between the family and non-family employees.

This paper presents much advancement over existing theory. Prior theory has discussed several of these concepts in different terms, and it is important to reemphasize their importance in understanding some of the roots of how transaction cognition theory applies to family business. Very notably are the similar concepts of Goal Alignment (Jensen and Meckling, 1994; Fama and Jensen, 1983), expectation setting or "Psychological Contracting" (Kotter, 1973), and conflict management (Pinsof, 1995). In particular, conflict management theory can be viewed as a process to deal with the frictions created by differences in planning, promise, and competition cognitions.

There are several ways in which the theory could be expanded to overcome some internal limitations. In their discussion of promise cognitions, the authors essentially discuss the importance of the non-family executive having a clear understanding of what the family expects from the business. A correlative idea should be developed regarding what the business should expect from the family that is more inclusive than who can work in the business. Essentially, there is a corresponding business promise cognition of the knowledge that a family member needs to employ in order to avoid running afoul of business values and norms. Additionally, they might examine the implications of how promise cognitions vary between family and non-family employees (Aronoff and Ward, 2000).

The author's general approach seems to assume that cognitions have a positive nature expressed in self-interest-like terms. In other words, the cognitions they deal with concern situations where some party gains something and each party has a desire for gain. Perhaps cognitions can also be expressed in quite negative or malevolent terms, such as doing damage to other parties.

We agree that many relationships between behaviors and outcomes can have a non-monotonic relationship. For example, in many situations, if goals are highly aligned, monitoring behavior (which can be necessary for smoothing a transaction surface) can be shown to be counterproductive and/or indicative of a level of mistrust (McConaughy, 1994). In future work, one could more fully develop the idea that monitoring is more useful as transaction cognitions diverge because the inherent conflict needs to be managed. In essence, it can be argued that monitoring behavior is a friction management tool. On the other hand, alignment of transaction cognitions and goals with regards to personal interests can have an effect that the authors might be likely to describe as follows: Alignment makes interests the same, thus smoothing the transaction surface and reducing the costs associated with an irregular transaction cognition plane. In such case, when the cost of the process of alignment is more expensive, monitoring may be a more prudent course of action.

An interesting application of the theory to existing family business literature might be to explore the impact of the traditional family business governance tools, such as family meetings, family councils, and boards of directors as friction management tools (Astrachan and Kolenko, 1994; Aronoff and Ward, 1992; Ward, 1987, 1991). Traditional thought and experience from practitioners has advocated for these tools to manage the variety of values, visions, and goals among the family business stakeholders. Transaction cognition theory provides a beginning framework through which to evaluate the effectiveness of these tools.

An area that can also be more completely developed in future work is the area of self-interest cognitions. Where self-interest is widely divergent within the family business system, there can be greatly increased friction. Indeed, within the family system, there may be friction between self-interest cognitions, nuclear family interest cognitions, and extended family interest cognitions.

Realizing this complexity, one might suggest a hierarchy of cognitions. Such hierarchy might propose promise cognitions form the foundation upon which all other cognitions are based, trust. With a foundation of promise cognitions, the family business system is then allowed to explore friction in planning and competition cognitions more freely. One might then hypothesize that in a mature business environment, planning cognitions might then be more important than competition cognitions.

An additional layer includes the hierarchy of self-interest, family-interest, and business-interest cognitions. While the complexity of the cognitions involved is enormous, one might posit that in a family business environment that has very high friction levels in the area of promise cognitions, self-interest cognitions might have greater importance. In situations where the friction level of promise cognitions is smooth, one might assert that the individuals involved are able to place greater importance on family and business interest cognitions. In an arena where there is a high level of friction regarding promise cognitions, that is to say a lack of trust, non-family employees may be more likely to revert to advocating their own self-interests and creating more friction in planning and competition cognitions. Perhaps a matrix of friction points could be developed to connect with a hierarchy of cognitions and a list of friction management tools. Friction points might include shareholder expectations, performance-based compensation, differing generational needs, and competition for love and affection in the family.

An important area of omission from the article is the ownership system as a potential source of friction. Family businesses, in many cases, do have ownership stakeholders who do not fall in either the family or business systems and are additional sources of friction for the family business system. Extensive theoretical work on the alignment of shareholder values and goals has been done (Ward, 1987; Aronoff and Ward, 2000), and the authors would be well served to explore the relation of shareholder friction to their transaction cognitions.

Future theory might examine the relationship between transaction cognition friction and change. The idea that a certain amount of friction might be optimal to family business function can be explored. The family therapy and organization development literatures have explored this idea through the concepts of first- and second-order change (Agyris, 1993; Breunlin, 1988, 1989). This theory suggests that that a family seeks homeostasis and only certain types of change are possible without breaking this homeostasis. Using this theory, in order for second order (a major change in the systemic foundation), the tension must rise high enough to take the family and/or business out of its comfort zone in order to create the impetus for change. This might be similar for changing counterproductive cognitions.

Applying this theory, we might expect that in certain high-performing family business systems, a certain level of friction is necessary in order to make the family business system change. An example might be that a family business system may need to experience significant tension in business performance cognitions in order to force them to change their business model or address family issues. In this way, transaction cognition theory could allow for an empirical test of the often-taught three-stage view of change: unfreeze, change, and refreeze (Lewin, 1952).

In addition, the authors might consider the connection between the source of the cognition, the cognition itself, and the action imperative that is the result of that cognition. The family therapy literature has examined the multiple factors impacting both individual and family cognitions (Breunlin et al., 1997; Gottman and Katz, 1997; Pinsof, 1994). Factors such as biology, self-psychological makeup, position within the family, and position within the business system can all have major impacts on the source of individual cognitions. Additionally, individuals may be constrained in finding adaptive solutions to friction by problems in any of these areas (Breunlin, 1999; Pinsof, 1995).

Generational complexity is another platform of analysis for future research. It is clear that individuals have varying needs that are related to their age and life stage (Levinson, 1978). Exploring the impact of these differences on cognitions and friction could be a very rich endeavor.

As the reader may be able to determine, the present paper provides a rich lens through which to view the complexities of family business. The authors provide a sophisticated and interesting analysis of the importance of transaction cognitions and their impact on family business performance. We applaud their work and eagerly await future developments of transaction cognition theory as it applies to family businesses.

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