

# **The Role of Empathy in the Family Firm: A Theoretical Framework**

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*Empathy, which has been extensively covered in the areas of social and personality psychology, still remains untapped in the area of family businesses, which is the business of relationships after all. This paper looks into exploring the way the different levels of empathy between parents and children may affect the succession process and paves the way to investigate alternative methods that can prepare a smoother succession starting from the family environment.*

## **THE ROLE OF EMPATHY IN THE FAMILY FIRM: A THEORETICAL FRAMEWORK**

Family firms continue to have an important role in the economy, with 83.1% of businesses in America being wholly family owned, a percentage that is expected to be maintained at the same levels in the years to come (American Family Business Survey, 2007). Successful succession is imperative for the continuity of family-owned businesses and this subject has been thoroughly researched in literature, looking into factors affecting succession effectiveness (Handler, 1989), the satisfaction of the members involved with the succession process (Sharma, Chrisman and Chua, 2003), and finally the overall success of the succession process in terms of the combined succession effectiveness *and* family firm member satisfaction with the process (Pyromalis and Vozikis, 2009).

However, although the importance of family relationships have been pointed out (Morris, Williams, Allen and Avila, 1997), research has focused mainly on attributes that each party should address on a personal level, without proposing a way to achieve the desired results. Empathy, which has been extensively covered in the areas of social and personality psychology, still remains untapped in the area of family business, which is the business of relationships after all. This paper looks into exploring the way different levels of empathy between parents and children may affect the succession process and paves the way to investigate alternative methods that can prepare a smoother succession for the family environment. It will concentrate on the impact that offspring empathy has on the family and the family firm, as it was bred and created from the perception of parent positive or negative emotions and feelings. In order to

illustrate the way present and future relationships are dynamically affected by offspring empathy as a result of their parents' positive or negative emotions and feelings a conceptual framework with four variations of the different perception situations within the family and the family firm is constructed and analyzed.

## THEORETICAL FRAMEWORK

Although the term “family business” seems easily understood by most people, providing a clear definition proves to be quite difficult. Since the question “*What is a Family Business?*” was posed in the first issue of Family Business Review (Lansberg, Perrow, and Rogolsky, 1988), many definitions have been given throughout the literature. A survey conducted by William Dennis yielded five different definitions, which were considered equally good, since each one offered a different perspective (Dennis, 2002). An even more comprehensive exploration was provided by Chua, Chrisman and Sharma (1999) by identifying over 21 different definitions by reviewing over 250 different research papers and concluding that: “*The family business is a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families*”.

Regardless of the differences in defining a family business, most authors agree on the fact that there must also be a clearly established vision to keep the business in the family across generations (Chua, Chrisman and Sharma, 1999; Barach & Ganitsky, 1995; Litz, 1995). The succession process is defined as “as the actions, events, and developments that affect the transfer of managerial control from one family member to another” (Sharma, Chrisman, Pablo and Chua, 2001). However, the difficulty of this process becomes obvious upon considering the collected data on family-owned business since only 38,2% of the firms go beyond the first generation and less than 13% survive past the second generation (American Family Business Survey, 2007).

### Succession in the Family Firm

Success in the succession process has two interactive dimensions; satisfaction with the process, which comprises the subjective assessment of the process (Handler, 1989) and effectiveness, which is the objective determinant on the performance of the firm (Morris, Williams, Allen & Avila, 1997). The majority of research focuses on the latter, exploring factors such as the quality of successors (Kets De Vries and Miller, 1987, p. 1), the desire to pass on a business (Dascher and Jens, 1999, p. 2), baton-passing techniques (Dyck, Mauws, Starke & Mischke, 2002, p. 144) and family relationships (Morris, Williams, Allen and Avila, 1997, p. 392). Regarding the satisfaction dimension Sharma, Chrisman and Chua (2003, p. 671) identified as critical success factors the incumbent's propensity to step aside, the successor's willingness to take over, the agreement among family members to maintain family involvement, the acceptance of individual roles, and the overall succession planning.

As mentioned earlier, a business may be labeled as a family business to the extent that its *outputs* flow to a family, rather than non-family recipients. Moreover, a family may be said to be a business family to the extent that it derives its *inputs* from the business rather than non-business sources. In case of a family business, family members find the opportunity to set up business related discussions or even debates upon every gathering. Parents tend to discuss business issues with their children by sharing their concerns and ideas, the firm's failures or successes, etc. Thus, by sharing feelings, information, and visibility, parents, either knowingly or unknowingly, are trying to pass on their values, morals and positive family culture to their children so inevitably, the potential successors are highly involved with business issues at an early stage. This involvement begins with simple attendance to discussions and eventually over the years evolves into interactive participation.

Throughout the literature however, there has been scarce information addressing the relationship per se between parents and children and how it affects the success of the succession process, although researchers mention that this relationship is considered to be the dominant variable in successful business

transitions (Morris, Williams, Allen and Avila, 1997, p. 398). Most of the literature deals with the static levels of relationship issues, such as the levels of trust and affability that the incumbent enjoys, the affirmative level of commitment of a potential successor's and the level of emotional attachment to, identification with, and finally involvement in the family business organization as a definitive career path (Sharma and Irving, 2005) and finally the negative impact that a certain level of dysfunctional parent-child interactions have on the behavior and mentality of mainly the successor (Miller, Steier and Miller, 2003). Even more critical however, is the fact the literature does not address the *dynamic* nature of family relationships as a way as to increase empathy between the affected parties and improve the quality of the relationship in a dynamic and constructive manner.

## **Empathy**

Empathy is a concept with many different definitions, such as “the capacity to know emotionally what another is experiencing from within the frame of reference of that other person, and the capacity to sample the feelings of another or to put one's self in another's shoes” (Berger, 1987), as well as “a sense of similarity in feelings experienced by the self and the other, without confusion between the two individuals” (Decety and Jackson, 2004). A simple but all-encompassing understanding of empathy is advanced by Goldman (1993) who labels empathy as “the ability to put oneself into the mental shoes of another person in order to understand his/her emotions and feelings.”

Although empathy has been addressed extensively in the areas of social and personality psychology, regarding family interactions and relationships, it has been sporadically mentioned in the field of family-owned enterprises. It has been addressed either in relation to how the level of empathy of the CEO of the firm affects the performance of the firm (Hauvel, et al., 2007) or as a gender specific approach, between mother-to-daughter succession (Higginson, 2010). It appears from the literature review that the literature mainly deals with the static quality levels of family relationships but there is a lack of definitive information surrounding the way these relationships evolve and are energetically affected by the different levels of positive and/or negative emotions and feelings that empathy between parents and children generates, especially in a family business setting.

## **How Empathy Works In a Family Firm**

Through the aforementioned process of exchanging feelings, ideas and information, children should identify the positive threads that run through their family and the family firm that has led to personal and business success. Furthermore they should be allowed to identify how they can benefit from these family traits and how these family traits and values have been transformed into business success over the years.

This bidirectional empathetic communication is a prerequisite for a constructive and smooth succession process. A common characteristic of individuals who are successful as business leaders and family members is their ability to be empathetic. Empathetic people are skilled in placing themselves inside the shoes of another person and seeing the world through that person's eyes.

Specifically, empathetic children have the ability to co-experience the difficulties or achievements that their parents face and understand their thoughts and emotions and “where they are coming from”. Moreover empathetic children have the ability to identify covert “vibes” implicitly and indirectly emitted by their parents, such as depressed feelings, regrets and secret desires that are carried without being directly acknowledged or expressed. Empathy also empowers self-awareness and vigilance for these children in order to find some way of consciously addressing business and family issues, so that certain important resolutions can be made, and insights gained.

As far as parents in a family firm are concerned, trying to empathize with their children means that they need to develop and establish a common framework of understanding within the family. Parents who are empathetic have developed a mindset that continuously works towards on how their children will be most responsive, involved and concerned. They want their children to appreciate what they are communicating, respond cooperatively and consider their perspective and their point of view. By continuously demonstrating empathy, parents encourage their children to expose their consciousness and be more responsive and approachable.

Empathy therefore, works toward building the bidirectional understanding mentioned above, and increases only if there is an alignment of experiences and ideas. Conversely, empathy weakens and the bidirectional understanding fails when family members become upset, angry, unwilling to listen, or disappointed with each other on a more or less permanent basis, in other words when the family firm communication “bridge” between generations is malfunctioning. While most individuals consider themselves and would freely declare to be empathetic, in fact, it is difficult to be empathetic when one is frustrated or angry with others, even if he or she tries hard to be empathetic. Obviously, members of a business family are more exposed to situations that may lead to frustration, misunderstandings or even fights, since they have to operate both within the family and the business domains. Under these circumstances empathy is always threatened and unfortunately in most cases if empathy is diminished or completely lost, it is very hard to be reconstructed and regained.

It needs to be emphasized that within a family firm, because of their presumed maturity, parents are the ones that need to take the initiative in establishing empathy. Empathetic parents should make the first steps by being respectful and by applying as many non-punitive ways as possible in teaching children life’s principles. As far the children are concerned, it is believed that children's behavior (and misbehavior) is almost always an attempt to meet a need. Even if parents frame the interactions with their children to be based on mutual respect and empathy, some children tend to be naturally more empathetic than others, and some even within the same family, seem to totally lack the ability to acquire this virtue. As the perennial “nurture vs. nature” controversy dictates, here too, there is a real debate of whether the inability to develop empathetic relationships by children should be blamed on genetic versus environmental causes. However, it is clear that children can become more empathetic with help from their parents in their lives, since parents are the first and foremost teachers. Nevertheless, the final outcome is highly dependent on various factors. Nevertheless, according to recent research by University of Chicago’s Jean Decety, the programming for empathy is something that is “hard-wired” into the brains of normal children, and it is not entirely the product of parental guidance or other type of nurturing. Thus, whether children are going to be empathetic or not is not absolutely and positively related with the presence of empathetic parents (Decety, 2004).

### **Empathy and Succession in a Family Firm**

In an attempt to conceptualize how empathy works towards a smooth succession process in a family firm, the initial concern should naturally be whether children are actually willing and eager to be involved in the family business as potential successors. Since for empathy to exist requires a priori a well-established mutual understanding, empathy should be conceptualized as a continuous exchange of stimuli, ideas, information and feelings. Furthermore, given the fact that parents are the initial originators of these streams of continuous exchanges that build relationships based on empathy, we believe that a basic and fundamental assumption should be that parents are really trying to establish and settle on an effective interaction with their children that will serve the family firm well later on when the succession issue comes into the play.

However, even if parents try hard to build a relationship based on empathy and mutual understanding as far as succession in the family business is concerned, the outcome depends on the parental signals regarding the family firm’s well-being and prospects for future prosperity, as well as the parental capacity of positive emotional intelligence. Thus, the communicated exchanges of stimuli, ideas, information and feelings may be:

- *Positive, Optimistic, and Constructive* or
- *Negative, Pessimistic, and Destructive*

On the other hand, children could be unresponsive, indifferent and unreceptive despite the fact that parents are working hard towards establishing a strong empathetic relationship. As mentioned earlier, having empathetic parents does not guarantee that children will also become empathic. On that basis, children may respond by a positive or negative way:

- *Reinforcing a bidirectional empathy, or*
- *Weakening a bidirectional empathy, remaining apathetic*

**Conceptual Framework**

This paper concentrates on the impact that the communicated exchanges of stimuli, ideas, information and feelings have on empathy as far as first the family, and subsequently the family firm is concerned, caused and created from the perception of parental signals of positive or negative emotions and feelings. In order to illustrate the way present and future relationships are dynamically affected by offspring empathy as a result of their parents’ positive or negative emotions and feelings, we introduce in Exhibit 1 below, a conceptual framework with four variations of the different perception situations within the family and the family firm. These four variations of the empathy possibilities within the family can be conceptualized based on whether positive/optimistic/constructive or negative/pessimistic/destructive signals of emotions and feelings are “transmitted” from the parents in an attempt to reinforce or conversely weaken a bidirectional empathy **and** whether the children’s perception and understanding is active (*high empathy*) reinforcing thus the bidirectional empathy or inactive (*low empathy*) weakening the bidirectional empathy.

**EXHIBIT 1**

<b>EMPATHY DYNAMIC RELATIONSHIPS IN A FAMILY FIRM AS A RESULT OF INITIATED PARENTAL SIGNALS OF POSITIVE OR NEGATIVE EMOTIONS AND FEELINGS</b>		
<b>PARENT Positive Emotions and Feelings</b>	<b>1 Optimistic parents Pessimistic children</b>	<b>2 Optimistic parents Optimistic Children</b>
<b>PARENT Negative Emotions and Feelings</b>	<b>3 Pessimistic parents Pessimistic children</b>	<b>4 Pessimistic parents Optimistic Children</b>
	<b>LOW OFFSPRING EMPATHY established within the Family</b>	<b>HIGH OFFSPRING EMPATHY established within the family</b>

These four different empathy situations within the family have the consequences of four different circumstances within the family firm, in terms of what are the conditions under which offspring will be willing and eager to be involved in the family business as potential successors, and are depicted in Exhibit 2 below:

## EXHIBIT 2

<b>EMPATHY SUCCESSION CONSEQUENCES IN A FAMILY FIRM</b>		
<b>PARENT Positive Emotions and Feelings</b>	<b>1</b>  <b>OPTIMISTIC PARENTS PESSIMISTIC CHILDREN</b> <ul style="list-style-type: none"> <li>• Initial offspring reluctance for succession</li> <li>• Survival of the family firm depends on parents</li> <li>• Possible succession later, IF offspring develop empathy</li> </ul>	<b>2</b>  <b>OPTIMISTIC PARENTS OPTIMISTIC CHILDREN</b> <ul style="list-style-type: none"> <li>• Initial parental AND offspring enthusiastic willingness for succession</li> <li>• Survival of the family firm depends on BOTH parents and offspring</li> <li>• Most likely, an effective and satisfactory succession for all parties involved is accomplished</li> </ul>
<b>PARENT Negative Emotions and Feelings</b>	<b>3</b>  <b>PESSIMISTIC PARENTS PESSIMISTIC CHILDREN</b> <ul style="list-style-type: none"> <li>• Absolute parental AND offspring reluctance for succession</li> <li>• Survival of the family firm depends on succession by an outsider</li> <li>• Possible turnaround IF unexpected and critical family events occur</li> </ul>	<b>4</b>  <b>PESSIMISTIC PARENTS OPTIMISTIC CHILDREN</b> <ul style="list-style-type: none"> <li>• Initial parental reluctance for succession</li> <li>• Survival of the firm depends on the offspring</li> <li>• Possible succession later IF parents develop empathy</li> </ul>
	<b>LOW OFFSPRING EMPATHY established within</b>	<b>HIGH OFFSPRING EMPATHY established within</b>

### *1<sup>st</sup> Quadrant*

This situation describes a family in which parents try to build a relationship based on mutual understanding and empathy by being optimistic and by communicating positive emotions and feelings. They tend to focus on the successes and the benefits from the business, and they constantly pinpoint the good and constructive aspects of being part of the family firm always remaining confident for the business and the family.

However, children may not share the same visions and thoughts or simply the communication “bridging” of the positive/optimistic/constructive signals is not working. Under these circumstances, children may be reluctant to participate in the family business and in a subsequent succession process because of an obvious lack of empathetic connectivity with their parents. They may wish to avoid involvement in the family business in order to avoid debates, fights, hurt feelings and everything that they believe could be negatively carried out in the future, by following their own career path outside the family firm, therefore the survival of the firm heavily depends on the ability and the willingness of the parents to carry on being in charge and taking care of the family business.

There is a distinct possibility however, that, if the offspring experience with the “outside” world does not turn out as positive and satisfactory as they had assumed and wished for, and if the family circumstances are still favorable while the business is still prosperous, they may try to reconnect by finally developing empathetic relationships with both the family and the business. Obviously the long-term survival of the family business in this quadrant is dependent on the developing support mechanisms aimed at mending family relationships and moving toward Quadrant 2. The supporting mechanisms are actually the continuously strong empathetic behavior of the parents and their constantly positive and optimistic mindset.

### *2<sup>nd</sup> Quadrant*

This scenario illustrates a family in which parents try to build a relationship based on empathy with positive/optimistic/constructive signals and they finally achieve it. The children's mindset is fully attuned with their parents and the bidirectional communication is being reinforced and properly maintained. Moreover, this relationship is constantly enriched with optimism and encouraging feelings from parents creating enthusiasm and strong desire by the offspring to participate in the family business and in a subsequent succession process. Under these circumstances empathy increases through an alignment of experiences and ideas from both sides, and the future of the family business relies on parental effective coaching AND the offspring's competence and hard work. Consequently, a successful succession, both effective and satisfactory for all concerned parties is the most likely outcome for this empathy scenario, and staying in this quadrant over a sustained period of time would be the most desirable situation for the family business, and of course for the family itself.

### *3<sup>rd</sup> Quadrant*

This combination describes a family in which parents may consciously or may not be trying at all to build a relationship based on mutual understanding, since the signals they send to their offspring tend to be negative/pessimistic/destructive signals of their true emotions and feelings by continuously complaining about the family firm's difficulties and by focusing on the failures, risks and the dangers of being in business rather than the benefits. This manifestation of insecurity secure and lack confidence about the business has a serious impact on relationships within the family. Regardless of whether the parents are expressing rational concerns or not, a low empathy or a complete apathy will most likely be established among the offspring and within the family, and the parental signals will be ignored as "none of my business". As a result apathetic children will stay unresponsive and indifferent to any aspect of the family and the family business and both they and their parents will be reluctant to involve each other in any succession process. This state of affairs is progressively overwhelmed by the negative "energy" that is produced by both parties and in the long run, family relationships inevitably will be strained by disconnection, discontent and conflict. Under these circumstances the long-term survival of the family and the business in this situation is highly dependent on the parents finding a suitable successor outside the family. Failure and disconnection on the family dimension is likely to create durable incongruity that may take several years to fade, if ever. However, through self-reassessment and self-awareness, especially if unexpected and critical family events occur, such as serious illness, death, suicide, divorces, etc., the negative empathy state of affairs may be turned around and the beneficial aspects of the family and the family business may finally be acknowledged and appreciated and positive/optimistic/constructive signals may begin to finally flow creating bidirectional empathy with constructive consequences for the family, the family business, and intra-family succession possibilities. Although the most desirable position for these families would be Quadrant 2, they may have to follow a path through Quadrant 1 or 4 to finally reach that stable state.

### *4<sup>th</sup> Quadrant*

This situation also describes a family in which parents communicate uncertainty and transmit negative/pessimistic/destructive signals of their true emotions and feelings. However, in this case children are endowed with high levels of "hard-wired" empathy without allowing themselves to be discouraged or demoralized from the incoming negative signals. These empathetic children in this state of affairs, sense the dissonance within their parents about the family, the family business, and business related situations, and the seemingly obvious reluctance on the part of the parents to allow them to participate in the family business as workers or potential successors, even though the empathetic child is definitely willing to participate actively in the family business. In this dimension families may or may not enjoy strong relationships among family members, because parents are continuously complaining and show utter lack of confidence about the future as far as the family and/or the family firm is concerned. However, since the offspring are endowed with high levels of emotional capacity and high levels of empathy the parental negative/pessimistic/destructive signals are discounted or dismissed and this is what holds the family and

the family business together, since the future of the family and the family firm rests with the offspring continuing to endure this barrage of negativity without losing their empathetic strength, and consequently, family relationships can support these families to endure poor business performance and uncertainty at least for a short period of time. There is a distinct possibility however for resolution of this stalemate, if the family and the family business circumstances are still favorable, and if the parents try to at long last reconnect with the offspring by finally developing empathetic relationships with both the family and the business through positive/optimistic/constructive signals. Then, the offspring willingness and eagerness to engage themselves in the family firm's succession process will be matched by similar parental willingness to do the same, and the long-term survival of the family business in this quadrant is dependent on the developing support mechanisms from both sides aimed at mending family and business relationships and moving toward Quadrant 2.

### **Concluding Remarks**

The obvious argument from our conceptual framework is that certainly, we should accept that empathy is a fundamental and essential virtue for successful relationships within a family and even more so for a family firm, since it is a prerequisite and a key factor for a smooth succession. It seems that the stronger the empathy is, the stronger the related experience with the family and the family business, and if empathy is established as solid and bidirectional, then both parents and offspring will be able to exchange information, insights, visibility, concerns and ideas and share both tangible and intangible benefits. However, this sharing and alignment should not be misinterpreted, and we must be very clear about what empathy is and is not. We should not confuse that being empathic is giving in or not being assertive. Empathy has nothing to do with obedience and passive compliance. One can be empathic and yet disagree with another person. One can be empathic and validate what another person is saying, but have an entirely different view of the situation. Under positive empathetic relationships between parents and offspring, a significant step towards a smooth and successful succession, both in terms of effectiveness and satisfaction for all parties involved, is warranted and most likely accomplished.

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