Introduction
Family shareholder dynamics (how shareholders relate to one another, the business, the family, and external groups) are undoubtedly important influences on the direction and viability of the business organization, and they also clearly affect the business family’s dynamics. Although shareholder behavior is an important aspect of the family business system, it has received relatively little attention, compared with the business and family subsystems. In fact, with a few notable exceptions, family shareholder dynamics have largely been ignored in the literature on family companies and in the literature of related disciplines.

Some attention, however, has focused on the influence of an “ownership structure” (broadly defined as a business that is family run, entrepreneurial, owner managed, or professionally managed) on firm performance (Daily & Dollinger, 1992; Daily & Thompson, 1994; Lyman, 1991). This area of research helps distinguish family ownership from other forms of ownership and permits researchers to reflect on the benefits and costs of family shareholder groups. At the very least, such research can raise useful questions and hypotheses concerning family shareholder dynamics.

The Three-Circle Model (Tagiuri & Davis, 1996) and the Three-Dimension Developmental Model (Gersick, Davis, Hampton, & Lansberg, 1997) provide frameworks for the study of shareholder behavior. The Three-Circle Model of family business systems explicitly integrates the shareholder group into the study of the family business system. Gersick et al. build on the Three-Circle Model and on Ward’s (1987) concept of ownership stages for family companies by identifying family shareholder behavior in three ownership stages of the family business. The developmental approaches of Ward and Gersick et al. believe that the nature of particular family relationships (parent-child vs. siblings vs. cousins, etc.) strongly influence family shareholder dynamics.

Marcus’s (1983) study of dynastic families adds to the developmental knowledge about family shareholder groups. Marcus observes that, over time, in wealthy extended dynastic families the basis for trust, cooperation, and moral authority erodes because of the dominance of self-interest and the loss of the ancestor’s authority. As a result, the extended family loses its ways of sharing property that help bind it together. Marcus believes that a trust and trustee help impose order in the group, develop trust by regulating relationships, and give the family something to manage together. This helps keep the concept of the “family group” alive and allows concentrations of private capital to be transferred intact generationally so that both the business
and the “collective social stature” of a family can survive. Marcus’s work points out the important influences of time and history, group size, leadership, outsiders, formal contracts, and dependent relationships on family shareholder group dynamics.

A few other articles round out the meager offering from the literature on this topic. Murdoch and Murdoch (1991) describe issues that lead to family shareholder disputes. McCollum (1992) examines the role of trusts on the behavior of family shareholders. Williams (1992) describes practices that develop responsible family shareholders. Swartz (1996) presents the ways family heirs determine what is a fair distribution of ownership that is received through inheritance. These works describe typical shareholder goals and concerns, shareholder attachment to the company, and changes in shareholder behavior as the distribution of ownership changes.

Unfortunately, the literature does not adequately explain the reasons behind family shareholder behavior: What affects shareholder identification with and attachment to the firm and the family? How does one explain the alliances and coalitions that develop within family shareholder groups? What produces both the loyalty and the competition that arises in these groups? Some dynamics can certainly be explained by the nature of the family relationship, as well as by the family and shareholder history (how the company and family treat my branch of the family). But other factors certainly influence shareholder behavior: the size of the shareholder group, the size of an individual’s holdings, the distribution of voting power, the leadership of the group, the presence of an external enemy (e.g., a competitor), or perhaps the presence of an internal enemy (e.g., a relative who wants to sell the company), to name a few. Identifying the factors underlying shareholder behavior, we argue, can help family business systems develop better methods for managing the relationship between the shareholder and the business as well as the interactions of shareholders.

With little published research into these issues, we turned to the social psychology literature for insights on individual and group behavior. Although nothing has been written specifically on family business shareholder groups, we identified, with the assistance of an experienced researcher in this field, several concepts and theories that help explain aspects of family shareholder behavior. We assessed the veracity of each explanation by applying it to specific cases that illustrate common family shareholder behaviors.

Although our examination of the literature has been systematic, we do not claim to have identified all the social psychology concepts and theories relevant for this topic, nor have we tried to make the fullest use of each concept or theory for the understanding of family shareholder dynamics in these systems. We have also not considered the impact nonfamily shareholders of family companies have on the shareholder group.

In this article our modest goal is to call attention to existing theories and concepts that can help inspire and guide further study of family shareholder groups. We comment on the application of each theory for members of family companies and for consultants to these organizations, and we suggest directions for future research on this topic.

The Social Psychology of Shareholder Dynamics

Social psychology provides insights into the behaviors of individuals in groups and of the groups themselves—behaviors that are central to understanding shareholder dynamics. Family shareholder groups, like all stable groups, develop psychological boundaries that let members achieve a sense of belonging to and identifying with the group, which they enact in their interactions with each other and with those outside the group (Alderfer, 1976; Miller & Rice, 1975). Groups can provide members a sense of identity, security, self-importance, status, and prestige and can help individuals achieve personal and career goals, and even a direction in life. Group membership, however, can require time, energy, some loss of privacy, and intellectually and emotion-
ally demanding roles. Membership can also reduce personal autonomy and may mean joining with others whose values or goals are antithetical to your own (Gibbard, Hartman, & Mann, 1974). People often approach group membership with feelings of ambivalence and anxiety (Smith & Berg, 1987).

At a minimum, family business leaders, consultants, and researchers can assess the costs and benefits experienced by family shareholders using the above factors. Families in business often naively expect their shareholder group to be supportive of the company and its leadership, no matter what. Understanding what family shareholders want from their experience in the shareholder group can help leaders and consultants better manage the group and develop more responsible shareholder behavior. Researchers can use this information to establish the conditions under which family shareholder groups can work effectively.

Social psychologists have developed useful approaches to the issues of group cohesiveness, conformance, diffusion of responsibility, deindividuation, and social power. These concepts lever our understanding of family shareholder behavior, each of which we explain below.

**Group Cohesiveness.** The cohesiveness of the family shareholder group (how tightly connected the members are to the group) is perhaps the most fundamental measure of its effectiveness. Cohesiveness can nevertheless be difficult to maintain at all developmental ownership stages (Gersick et al., 1997). It is commonly observed that sibling owners often have difficulty maintaining high levels of morale or esprit de corps. Maintaining a shared family identity and sense of interdependence in a large extended business family is also a challenge. Because so much hinges on maintaining a supportive, aligned team, researchers need to identify the factors in a range of circumstances that influence shareholder cohesiveness. Such factors would be the basis for a contingency theory on that cohesiveness. In turn, family business leaders and consultants need reliable ways to measure and build cohesiveness.

The attractiveness and the costs of the group to the members, and members’ feelings of loyalty to the group (the sense of obligation felt by a shared history with the group) all relate to group cohesion. In general, groups tend to be cohesive when the members like each other, group membership confers prestige and other rewards, the costs of membership are small, and there are no other alternatives for the rewards the group provides (Sabini, 1995).

Many factors undoubtedly influence the cohesion of the family shareholder group. The social isolation of the family shareholder group affects the members’ ability to join other groups and, one would expect, their allegiance to the shareholder group (Thibaut & Kelly, 1959). The level of cohesion among sibling partners is often linked to their historical loyalty and rivalry (Gersick et al., 1997; Ward, 1987). Among cousins, the historical relationship of the branches, shareholder connection to the firm, the composition of active and nonactive members of the group, as well as the group’s size and complexity all seem to be important correlates to cohesion. At every ownership stage, the physical proximity and the ease and frequency of interaction of family shareholders affects the flow of information about the company as well as the relationships among the shareholders and between shareholders and the company.

Another factor affecting family shareholder cohesion may be the family name itself (which families generally assume to be the family name of the founder). A common name is a probable factor helping families maintain bonds, shared identities, and feelings of mutual obligation. The founder’s family name becomes less common in the shareholder group as relatives marry into other families, particularly in countries where only one last name is kept. One reason, we hypothesize, for Latin American families’ cohesiveness over time is that Latino families keep more than one last name and can trace family names back a number of generations, making it easier to establish a link with the founder and more difficult to establish alienating status differences based on last names.
Social Comparison Theory. Coalitions in the larger group affect groups cohesion. We are helped to understand the formation of coalitions in these groups by social comparison theory (Festinger, 1954). This theory assumes that people strive for a shared reality and also engage in comparative self-evaluation. Because people are confused about the nature of the shared world they live in, they consider other people's opinions to help them understand this world. People also worry about how they compare with other people and use others' judgments about them and their characteristics to help understand themselves.

Social comparisons take place frequently in families; they are particularly common in sibling groups but are also present between generations and between cousins. These comparisons create similarities and bonds between shareholders, in addition to rivalries. Family shareholders bond because of their similar in heritage, values, and commitments. On the other hand, differences in last names, the way their branch of the family is treated, and their employment in the business can cause rivalrous feelings.

One way that family shareholders compare themselves is by the number of shares they hold. Shareholding is a way to measure their own social status and success within the family and, more broadly, outside the company and the family. Social comparison theory contends that minority shareholders side with each other in part because they have something in common—similar ownership stakes. By comparing themselves to other minority shareholders they feel as attractive and significant, and part of a group with similar concerns and goals. Such comparisons, if not effectively managed, can create rifts between family shareholders, as shareholders form and act in coalitions rather than as individuals and for the benefit of all.

Is it better then to have equal ownership in family businesses to avoid these comparisons and coalitions? Equal ownership would probably reduce comparisons in terms of stock ownership, but comparisons would likely still exist in other areas: Who has a greater voice or power within the firm, who is the smartest, who is the patriarch’s favorite. Family business leaders and consultants are very interested to learn about the effects of various ownership distributions on shareholder dynamics. This needs to be a leading research topic.

Conformance with the Majority. Conformance involves acting against one’s beliefs because of pressure from others (Asch, 1952). Conformance can take the form of compliance (an individual going along with the group despite disagreements with an agenda) or internalization (accepting the group’s position). Conformance, which can be upsetting to an individual, may be helpful to a group in some situations and problematic in others. Conformance in family shareholder groups can create the appearance of family unity and increase the speed of decision making in the company. But it can also breed resentment and even revolt among shareholders and so must be managed carefully.

Unlike many institutional investors who are starting to take a more active shareholder role in the companies in which they invest, shareholder activism in family businesses is not the norm. Conformance is usually the rule in these groups. In our experience, only major family shareholders typically voice their goals and concerns. Smaller shareholders generally refrain from saying much, succumbing to the will of the majority even when it goes against their interests and beliefs.

Conformance results from group pressure, which can be categorized as “informational” or “normative.” Informational pressure influences individuals to accept the group as a source of information about the issue in question. Informational pressure involves persuasion by other group members and internalization by the individual being persuaded. Normative pressure plays on people’s fears that they will be sanctioned, excluded, or embarrassed if they present a different conclusion or opinion to that of the whole group. Normative pressure involves coercion by the group and compliance by the individual. As a result of these pressures, individuals often feel coerced by a group’s aggressive position and con-
form to the group’s decisions (Asch, 1952; Deutsch & Gerard, 1955). Research indicates that group conformity can be reduced when an individual or a small group of people challenges the overall group’s assumptions or viewpoints and when dissent and debate are encouraged (Maass & Clark, 1984; Nemeth, 1986; Nemeth & Wachtler, 1983).

With adequate knowledge about the company, shareholders can more readily participate in meetings, present their opinions, and appear informed in front of others. Information about the company also helps shareholders nurture their status within the shareholder group. But shareholders often feel both underinformed and pressured to appear decisive and informed in front of the other shareholders. Rather than display ignorance or confusion, they often refrain from asking questions, requesting more information, or challenging management decisions. They go along with other shareholders who are considered closer to the business. How do we explain this conformance? One shareholder might accept the position of others who are considered better informed and have persuasive views. This is an example of informational pressure. But a shareholder might also fear being excluded from certain gatherings, sanctioned or embarrassed by appearing ignorant, or considered disruptive in the group, all of which are examples of normative pressure. Although both informational and normative forces are probably active in most shareholder groups, we have found (through interviews with shareholders) that normative pressure often prompts shareholders into agreeing to courses of action they didn’t fully understand or agree with. We therefore hypothesize that normative pressure is particularly potent in family shareholder groups.

“Groupthink” (Janis, 1972, 1982), a concept related to social conformance, occurs when the social demands to reach consensus overwhelm a group’s decision-making demands. In this state of mind, group members can be convinced to make decisions by consensus, even when they recognize that the group’s decision is misguided, for the sake of keeping the group together or to avoid rejection by the group.

This pressure can be particularly strong in families. We contend that groupthink is common in those business families who strongly fear confrontation and try to encourage peace in the shareholder group and larger family to maintain an appearance of unity in the business. These shareholders typically avoid conflicts, arguments, or debates, agreeing with majority decision to keep harmony in the family. By doing so, of course, they run the risk of damaging both their company and their family.

Business leaders and consultants should be sensitive to pressures that lead to conformance and groupthink in family shareholder groups and the costs and benefits of compliance. Researchers need to help identify the factors that regulate shareholder conformance and those that reduce harmful compliance.

**Diffusion of Responsibility.** Diffusion of responsibility can cause individuals to avoid themselves taking an active role in a situation, while feeling that someone else should take the initiative. This is an alternative explanation (to conformance) for shareholder inaction or acceptance of others’ direction. Individuals in larger groups are more likely to engage in this type of behavior because the costs of inaction for each member are perceived to be low, thus making the decision to act more difficult to justify (Latané & Darley, 1968).

We contend that small shareholding, large shareholder group size, inadequate shareholder information, exclusion of shareholders from some discussions, low status in the group, and an assessment of low risk for inaction, can lead family shareholders to reject responsibility for themselves, while still believing that “someone should do something.” The assessed risk of inaction could be an especially potent factor. In our experience, only when family shareholders have to make decisions that may negatively affect their status and rewards in the group (e.g., decisions involving ownership dilution, dividends, or company leadership), do we observe many family shareholders being outspoken and challenging rather than silent and conforming. These condi-
Deindividuation. If diffusion of responsibility helps explain shareholder passivity, deindividuation helps explain shareholder aggression. Festinger, Pepitone, and Newcomb (1952) identify deindividuation as a factor likely to lead to mob violence. They argue that people control expressing aggression when they have a sense of being treated as individuals, but when they see themselves as part of an anonymous group, they can easily lose their sense of individuality and become aggressive. Family shareholders can experience deindividuation when they believe that their voices, roles, and significance as individuals are unimportant. They no longer have their own identities and particular needs but are part of a faceless group—perhaps called the passive shareholders or the Smith branch—in which individual contributions are no longer acknowledged. One could hypothesize that under these conditions the deindividuated shareholder group is ripe for aggressive behavior, perhaps revolt.

Larger groups, then, can generate two forms of behavior. Some individuals and groups are moved toward passivity and inaction as a reaction to a smaller role in the group. Their behavior is nonchallenging and conforming. Others may display aggressive confrontation that may even erupt into “mob violence.” Many family business leaders, for instance, have been toppled by angry family shareholders who band together and oust the leader or sell the company. Resentment possibly builds during a period of conformance and then explodes as shareholders experience individuation. An interesting research question would be to determine the factors that encourage conformance and those that trigger individuation. Managers and consultants may want to consider how to recognize the signs of deindividuation and address this condition before aggression erupts.

**Social Power.** How do some shareholders get other shareholders to conform to their wishes? To understand the process of influence in family shareholder groups, an explanation of the sources of social power within these groups is helpful. Raven and French (1958) identified five types of power and studied how these types of power affect other individuals. We illustrate these types of power for family shareholder groups.

Legitimate power depends on the size of an individual's holdings and also on the “moral authority” that some shareholders possess. Shareholders are generally seen as having the legitimate power to influence decisions when their ownership stake is large enough. Those who are seen as having an important role (company chairman, family leader, elder, heir apparent) also have legitimate power with other shareholders, even when their holdings are not large.

Reward and coercive power come from the size of an individual's shareholding and other factors that are seen as influential in the family business system. Shareholders who have a greater influence with the management of the company (to increase dividend payments for instance) are seen as having reward power with other shareholders. Shareholders might also influence the smaller shareholders through their coercive power, such as their ability to cut dividend payments or exclude smaller owners from attending important business meetings.

Shareholders can have referent power if they are seen as people worth emulating—they are interesting, have interesting careers, a commanding presence in society, are respected by others, and have larger equity stakes. Expert power derives from knowledge and expertise. Like referent power, expert power does not always correspond to the amount of stock owned in family businesses. When decisions need to be made, shareholders can turn to the “experts” because they have an in-depth understanding of what is going on and their judgment is respected.

Research on the topic of power in family shareholder groups should reveal the different
types of power that are most effective in certain situations. Business leaders and consultants should learn to assess their power and others’ power in these systems to understand how to effect change in these groups.

Conclusion

The family shareholder group is a relatively unexplored frontier in the family business field and deserves greater attention by researchers, consultants, and family business leaders. We have introduced concepts and theories from social psychology that should help explain why family shareholders behave as they do. The next step for researchers is to develop hypotheses using these theories and to test the usefulness of the concepts. We believe that as more family business leaders and consultants manage shareholder dynamics with insights provided by these tools, the longevity and health of these businesses and family groups will be better assured.

References


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