Ethics in the Family Firm: Cohesion through Reciprocity and Exchange

Rebecca G. Long and K. Michael Mathews

ABSTRACT: The ubiquity of family dominated firms in economies worldwide suggests that inquiry into the nature of the ethical frames of these types of firms is increasingly important. In the context of a social exchange approach and the norm of reciprocity, this manuscript addresses social cohesion in a dominant family firm coalition. It is argued that the factors underlying this cohesion, direct versus indirect reciprocity, shape unique attributes of family firms such as intentions for transgenerational sustainability, the pursuit of non-economic goals, and strong interpersonal ties. Exchange structures, represented by direct and indirect reciprocity, lead family and non-family firms toward development of distinctive ethical frames of reference.

ARE FAMILY FIRMS MORE OR LESS ETHICAL than non-family firms? If so, how and why do these types of firms differ? Frank Capra's 1946 film "It's a Wonderful Life" neatly encapsulates the dichotomous nature of these questions. Are the managers of non-family firms like Capra's Mr. Potter in that they see their sole responsibility as profit making (e.g., Friedman, 1970); while family firm proprietors like George Bailey see their "business only as a way of helping family, friends, and community" (Nobile, 2003)? Was Bailey Savings & Loan more ethical because it was a family business? To be sure, recent history provides several examples of non-family firms immersed in, at best, shallow moral waters (e.g., AIG, Enron, WorldCom). However, the Bailey family aside, from the trading and banking families of the Italian Renaissance to today's commercial families, there are myriad examples of questionable behavior in family firms as well (e.g., the Krupp family's involvement in Nazi arms production).

Such a broad range of examples suggests that the focus of these questions may be misplaced. That is, a comparison of the quality of ethical outcomes across types of businesses addresses the wrong level of analysis in that the ethics of an organization, like its structure and culture, are grounded in the particular schemas and interactions of those individuals and groups of which it is composed (e.g., Giddens, 1984; Schein, 1985). More specifically, organizations are social entities created by social beings in concerted and purposeful interaction with one another and thus represent a particular social and historical context (Carr, 2003; Fiske, 1990, 1992). Organizations and their ethical frames are thus merely manifestations of underlying social interaction processes, reciprocal exchange obligations, and the group cohesion that is their result (e.g., Ekeh, 1974). The approach to the family firm proffered by Chua, Chrisman, and Sharma (1999; Chrisman, Chua & Sharma, 2005) implicitly acknowledges the defining importance of social cohesion within a dominant social

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group (i.e., family coalition) when it defines the family firm in terms of group intentions, shared vision, and pursuit of transgenerational value creation (Chrisman, Chua & Litz, 2003a). A focus on the importance of the functioning of the family coalition in delineating what is and isn't a family firm suggests that examining the reciprocal relationships underlying group cohesion may be an important step in understanding firm ethics as well as furthering the development of family firm theory. Focusing on the family coalition suggest a need for theory that can explain how family members act in concert to create a cohesive group structure while simultaneously satisfying their own (often contrary) interests.

Coleman (1986) asserts that to have a complete picture of this sort of social reality a theory must be able to explain a) individual actions, b) how the actions of various individuals combine to create social structure, and c) the means by which those structures influence subsequent behaviors. Social exchange theory (e.g., Blau, 1964; Coleman, 1986; Ekeh, 1974; Gillmore, 1987; Hechter, 1987; Kelley & Thibaut, 1978) has been used to address successfully each of these requirements and, we believe, offers an excellent basis for examining family firm ethics. Indeed, some extant work on the family firm (e.g., Habbershon & Williams, 1999; Habbershon, Williams, & MacMillan, 2003; Pearson, Carr, & Shaw, 2008) fits well with the efforts of the various social exchange approaches to capture an important element of organization—patterns of interaction and exchange among individuals and groups that condition group cohesion. The purpose of this paper is to use social exchange theory to delineate two broad ethical frameworks that we argue arise from "the behaviors or resources that make a [family] firm distinct from non-family firms" (Barnett, Pearson, Chrisman & Chua, 2008). Our second purpose is to address the problem of levels of analysis by examining the individual and group interactions that condition and constrain the family coalition's cohesion, producing unique family firm attributes such as intentions for transgenerational sustainability and non-economic goals.

Thus, following our social exchange approach to understanding family businesses, with its recognition of the importance of relational networks, better questions to ask might be: How do the interactions among individuals and within the cohesive group that comprises a family firm's dominant coalition operate to produce distinctive ethical frames of reference? How might these frames differ depending upon the particular nature of the exchanges and relationships that produce them? In this manuscript, we argue that the answers to these questions can be found by examining the processes of exchange within the dominant family coalition and by developing in greater detail some of the elements of this process. We begin in the first section by presenting a description of the likely differences in family and non-family ethical frames that can be expected to result from the concerted and purposeful reciprocal exchanges that underlie the development of group cohesion. In the second section, we discuss the development of social cohesion in family firm coalitions in terms of the norm of reciprocity as expressed through this family group's a) intentions, b) schemas, and c) interactions.

COHESION THROUGH RECIPROCITY AND EXCHANGE

Of primary importance in understanding the ethics of any social group is an appreciation of why rational actors choose to create, maintain, and remain committed to the reciprocal social and moral obligations of any particular group (see e.g., Gillmore, 1987; Turner, 2003), a situation that is especially confounding when rational analysis would seem to dictate otherwise. Working from utilitarian assumptions, Hechter (1987) argues that social group cohesion is a function of the extensiveness of the reciprocal obligations required of members and the extent to which the group can ensure compliance with those obligations. Within the group, extensiveness of obligations are the result of two factors: 1) the immanent nature of the goods produced by their joint effort, goods that directly address individual utility such as affiliation, affection, identity or, more generally, social capital (as opposed to non-immanent goods produced for profit or market exchange); and, 2) the difficulty of obtaining those immanent goods elsewhere. Similarly, Pollack (1985), in proposing that family can provide economically advantageous governance, argues that members are likely to reciprocate and cooperate when their claims on family resources depend on individual behavior and lifelong membership. Thus, we contend that family coalition members choose participation and reciprocal obligation to their group in part "because they are dependent . . . on other members for access to some desired joint good" (Hechter, 1987: 45). However, despite the desire for these jointly produced goods and their dependence on the family group for access, rational members should still prefer to obtain them without condition (i.e., free riding). The capacity of the group then, to control member behavior, to ensure compliance with the norm of reciprocity as well as other more group-specific norms, is also a necessary component of social cohesion and morality. That is, the family group must possess some form of monitoring mechanism as well as tools for sanctioning errant members. The solution to this agency problem is largely resolved through the strong interpersonal ties that are necessary for the production of immanent goods. Such high-intensity ties can act to encourage reliability and transparency because peers can more effectively observe and evaluate member behaviors (Hechter, 1987; Pollack, 1985; Uehara, 1990).

This argument implies that groups who do not produce a substantial amount of rare immanent goods for their members are likely to be less cohesive as they are also less able to enforce compliance with reciprocal obligations (e.g., Ekeh, 1974; Gillmore, 1987; Hechter, 1987; Uehara, 1990). In such instances, social exchange theory would suggest that where reciprocity behaviors exist, they are contractual in nature and not representative of any significant social cohesion or unique group morality. Thus, we argue that to the degree member behaviors revolve around different reciprocity expectations, their group's level of cohesion, exchange patterns, and ethical frames will vary.

Forms of Exchange

The norm of reciprocity, frequently referred to as the Golden Rule and a maxim in most religious traditions, can be found in the works of many who theorize about

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organizational life and business ethics (e.g., Barnett & Schubert, 2002; Becker, 1986; Deckop, Cirka, & Andersson, 2003; McClennen, 1999; Phillips, 1997, 2003; Solomon, 1994; Werhane, 1994). Gouldner has argued, "generically, the norm of reciprocity may be conceived of as a dimension to be found in all value systems and, in particular, as one among a number of 'Principal Components' universally present in moral codes" (Gouldner, 1960: 171). Thus, differences in reciprocity lead not only to variance in social cohesion, but to different moral codes as well (Durkheim, 1997; Ekeh, 1974; Gouldner, 1960; Howell, 1997; Mauss, 2000). Moreover, Mauss's work (2000) suggests that social exchange yields a morality, sui generis, in interpersonal relations as well as in society as a whole. Indeed, Fiske has stated that "morality as such is inherently derived from historically situated, culturally constituted social relationships. . . . A moral precept, formulated or implicit, is always embedded in a social relationship and presumes that relationship" (Fiske, 1990: 190). Following Mauss, Ekeh further argued that the ethos that flows from social exchange is not monolithic and "since social exchange processes are of various types, the moralities that these various types yield will also be different" (Ekeh, 1974: 59).

In the social exchange approach (e.g., Blau, 1964; Ekeh, 1974; Gillmore, 1987; Hechter, 1987), the obligation to return favorable treatment with favorable treatment is a cornerstone of attempts to explain how social groups hold together both morally and socially in the face of the narrow and specialized interests of rational actors. Despite some variance across the assorted permutations of social exchange theory, all revolve around the norm of reciprocity as it is elaborated in two analytically distinct forms of exchange, restricted and generalized. In practice, however, forms of exchange are often mixed, lying along a continuum between the two extremes.

Restricted Exchange Systems

Restricted exchange systems (RES) are based on norms of mutual or direct reciprocity and responsibility in which parties to the exchange are motivated primarily by self-interest. The exchange relationship between individuals is formed as means to specific ends and based on the notion of a contractual arrangement, either implicit or explicit, in which an immediate or short-term return is expected. That is, interactions are "based on a quid pro quo mentality" (Uehara, 1990) and are evaluated in terms of the immediate ends of the exchange. Ekeh argues that this attitude is pervasive and infused with "a belief that common investments and goods, from which individuals can gain indirectly and ultimately, are not workable" (Ekeh, 1974: 59). Thus, there is a strong instrumental element to the relationships in RES that diminishes or even eliminates cohesion among members. The resulting interaction is characterized by a high level of individualism, competition, impersonality, and contractualism. This conceptualization of RES is implicit in the agency (e.g., Jensen & Meckling, 1976) and transaction cost (e.g., Williamson, 1981, 1991) approaches and is closely related to the notions of *gesellschaft* posited by Tönnies (2002), Weber's (1978) legal authority, and Durkheim's (1997) organic solidarity.

Generalized Exchange Systems

Generalized exchange systems (GES), in contrast, are based on norms of unilateral and indirect reciprocity, in which no direct or immediate return is necessarily expected in any particular transaction between actors. In a GES, the relationship between individuals is long-term and valued as an end in itself, grounded in the ideas of obligation or covenant. While monitoring and sanctioning as well as joint production may take place one exchange at a time, obligation is not simply to a single exchange partner, but to the group as a whole. Thus, immediate and mutual reciprocity is neither always expected nor necessarily possible. Ekeh (1974) calls this "the law of extended credit" and further states,

> In a generalized exchange situation, the receipt of a benefit by any party is regarded as a credit to that party by all other parties and therefore his [*sic*] reciprocation is regarded as a credit to all of them. . . . [A] breach of exchange rules . . . is regarded not just as the sole business of the cheated individual but of the group. (Ekeh, 1974: 55)

It is this "extended credit" version of reciprocity, with its reliance on group trust, which Ekeh (1974) and others (e.g., Gillmore, 1987; Hechter, 1987; Uehara, 1990) argue make groups operating under a GES more cohesive. Thus, the bonds of a GES are flexible, stretching to accommodate variances in situations over time, while those of the RES are more rigid, emotionally laden, and brittle. The association in GES is often based on friendship, kinship or affection and the resulting interaction is characterized as more collectivist, cooperative, homogenous and cohesive. GES is implicit in the altruism (e.g., Karra, Tracey, & Phillips, 2006; Schulze, Lubatkin, & Dino, 2003; Steier, 2003) and stewardship (e.g., Davis, Schoorman, & Donaldson, 1997; Westhead & Howorth, 2006) approaches to family business research and is clearly related to Tönnies's (2002) gemeinschaft, Weber's (1978) traditional authority, and Durkheim's (1997) mechanical solidarity.

In this paper, we argue that forms of exchange provide the schemas that govern the interaction episodes in which social and economic resources are exchanged. These restricted and generalized forms of exchange are characteristic of the *interaction order* or the social organization of face-to-face interactions (Goffman, 1983) which refers to those concrete, repetitive activities and reciprocal interactions that characterize and construct the daily routine of social and economic settings. The interaction order is socially constructed (Berger & Luckman, 1967) and negotiated (Strauss, 1978, 1987) leading to patterns of relatively stable action, interaction, exchange, and moral interpretation. It is this reciprocity-based interaction order that accounts for the emergent properties of ethical structures in family and non-family firms alike.

That is, it is a family firm's dominance by a particular type of group (i.e., the family coalition) that tends to separate its ethical frame from that of a non-family firm. Such a position allows for the classification of two types of reciprocity (i.e., direct, indirect) and important constructs in family firm research (i.e., agency/stewardship, egoism/altruism) into two broad ethical frames we label the RES-type and the GES-type. We maintain that patterns of group interaction (i.e., RES, GES) are the product of an iterative meshing of intentions, schemas, and within group interactions, suggesting that over time these patterns come to form both a foundation and a defining frame for member behaviors and beliefs.

An Ethical Continuum

Real-world firms and their social components will contain elements of both interaction orders, thus falling along a continuum from pure RES to a combined RES/GES to pure GES (Figure 1). We expect that, with growing demands for flexibility and globalization (e.g., Kung, 1997) as well as increasingly powerful and diverse stakeholders, the ethical behavior of non-family firms will progressively fall into the RES-type category. Such firms most closely resemble Jensen and Meckling's (1976) nexus of contracts in which relations are of the market variety (e.g., economic agency) with an emphasis on direct/mutual reciprocity, formal/prescribed interactions, and hierarchical arrangements of the legalistic (Weber, 1978) and universalist (Carney, 2005) kind. In these settings, primary exchanges are significantly instrumental, impersonal, and time-limited, as are the underlying obligations and expectations of the contracted participants.

Direct reciprocity	Direct & indirect reciprocity	Indirect reciprocity
Self-interest	Firm-interest	Group-interest
Contractual	Transactional & relational	Covenantal
Egoistic	Utilitarian	Altruistic
Market ethic	Bureaucratic ethic	Communal ethic

Figure 1: RES-type & GES-type Ethos Continuum and Sample Characteristics

In the center of our continuum are firms characterized by a more balanced use of both RES and GES. The non-family firms in this category are similar to the classic industrial bureaucracies so well documented by Chandler (1977) and characterized by what "traditional norms of mutual obligation and moral constraint" (Hendry, 2001) are possible within the confines of pursuing the economic goals of the firm itself. The family firms in this category represent firms in which changes in size, coalition strength, number of strong coalitions, ratio of immanent to non-immanent goods produced and the like have pushed the firm to develop (intentionally or otherwise) more utilitarian and bureaucratic relationships.

It is likely however that to the extent a family firm is dominated by a coalition of family members and produces immanent goods for its members out of proportion to the non-immanent market goods received, it will be characterized by the GES-type ethos on the right of our continuum. Or rather, because it is the joint production of rare immanent goods that provides the setting for group cohesion and GES, the more influence those goods are likely to have relative to non-immanent goods that are, by definition, more easily obtained. We would argue that the process through which the dominant coalition's values and beliefs may be transferred to the larger organization is similar to that proposed by Arregle, Hitt, Sirmon and Very (2007) in

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their study of the influence of family social capital on the development of organizational social capital (see also Berger & Luckmann, 1967; Coleman, 1986, 1990). That is, it is likely that the products of small group processes and interactions such as morality, social capital, and culture will affect the larger organization through a) institutional isomorphism, b) organizational identity and rationality, c) human resource practices, and d) the overlapping of social networks through appropriable organization (Arregle et al., 2007; Nahapiet & Ghoshal, 1998; Pearson et al., 2008).

First, following Arregle et al. (2007), we argue that the family group influences the firm's ethos in its role as both a proximate institution with coercive influence over the firm (e.g., the family has the legal right to influence the firm through ownership) and a background institution with mimetic and normative influence over such things as shared values and cause-and-effect understandings. Second, as the negotiated result of interactions among top managers and powerful stakeholders over the defining values and cause-and-effect understandings of the firm, organizational identity necessarily includes a moral component whose weight should increase under an actively involved family group. Third, Leana and Van Buren (1999) suggest that human resource practices that encourage extended tenures and thus longer-term relationships as well as the selecting and rewarding of those who share decision makers' values serves to further the spread of a particular ethos. Finally, the ties, values, and beliefs of one group can be transferred and even aggregated through what Coleman (1986, 1990) terms an "appropriable organization" in which a set of network relations initially established by one social group can overlap with and be used for the purposes of another related group (see also Nahapiet & Ghoshal, 1998; Pearson et al., 2008).

Thus, we expect that the extent to which such a GES-type ethos imprints the whole of the firm will depend on both the level of family involvement (i.e., ownership control, relative number of family managers, and tenancy on boards of directors) and the willingness to use the influence derived from their involvement (Chrisman, Chua, Pearson, & Barnett, forthcoming).

Proposition 1a:

The level of family involvement and willingness to use its influence in a firm will be positively related to the presence of generalized exchange.

All things being equal, changes in firm size that serve to dilute family involvement and thus the dominant coalition's ability to influence (Chrisman et al., forthcoming) should weaken the relationship between group-level ethics and firm-level ethics. Working from institutional and stakeholder perspectives, we can also expect that to the degree the firm depends on those outside of the family for crucial resources and thereby increases the relevance of different ethical frames, the dominant coalition's significance in setting moral standards will also diminish (DiMaggio & Powell, 1983; Mitchell, Agle & Wood, 1997). Any one of these instances naturally influences relative production of immanent goods and their attendant obligations. Moreover, the presence of additional coalitions and groups within a larger firm or one split among coalitions relatively equal in power should provide individuals with alternative sources for the goods they desire.

While we believe that our arguments will be supported by empirical study, we also acknowledge that they represent generalities. Our model certainly does not capture all of the idiosyncrasies of individual and group behaviors in the firm. Therefore, these characterizations must be tempered with the realization that non-family firms are not monolithic, ranging in a cultural sense from clan to market (Cameron & Quinn, 1999) and varying in the degree to which cohesion develops and the goods provided are immanent or non-immanent. Likewise, the nature of each family firm is unique; spanning a vast range of possibilities and thus the extent to which the GES frame applies will also cover broad territory.

Unaddressed, at this point, is the question of *how* self-interested family actors can create the moral codes and reciprocally cooperative behaviors required for the development of a stable and cohesive coalition. More specifically for our purposes, how does a dominant family coalition develop and maintain the social and moral norms necessary to its cohesion and its unique ethos?

COHESION IN THE FAMILY COALITION

In this paper, we propose that a member's dependency on the family group and the group's capacity for obtaining compliance plays out and is reinforced by reciprocal exchanges within the continuous interplay of intentions, schemas, and interactions. We argue that this interplay produces cohesion in the dominant coalition and ultimately leads to a set of characteristics unique to the family firm. More specifically, we will argue in this section that transgenerational sustainability, non-economic goals, and strong interpersonal ties are the direct result of the cohesion building processes engaged in by coalition members and are particular examples of the GES-type ethos in practice.

We should point out here that our assumptions about human behavior are of the rational variety. Unlike much economic theory, however, our view assumes that individuals are only subjectively and somewhat situationally rational. To state our position more concretely, individuals have beliefs that are developed through social experience that they then employ as justification for their actions in a particular circumstance. Further, following Simon (1983), we view actors as facing limits to the quality of information they can access in a situation as well as limits to their capacities for processing that information. Finally, while we see individuals as having the power to impose their own constraints on action (e.g., by choosing what information is relevant or its level of importance), we also appreciate the influence of social factors (e.g., family reference groups) in framing the self and the situation (e.g., Lindenberg, 2006). Thus, we assume that coalition member behavior is based on limited information, limited cognitive capacity, and framed by social context (for a review of the various forms of rational action theory in the social sciences, see Goldthorpe, 1998).

Therefore, our model of this interplay is social constructionist (e.g., Berger & Luckmann, 1967) and, simultaneously, social constructivist (e.g., Piaget, 1999). It is constructionist, in that it explicitly recognizes that family group cohesion and shared schemata as well as the stable patterns of interaction called restricted or generalized exchange are the product of member interactions. Simply put, in our model, individuals and groups participate in the creation of their own social reality. Conversely, it is also constructivist in its recognition that individuals acquire knowledge and make meaning, develop their own schemas and intentions, within a particular social context. It is through our interactions with social others that we learn and construct our personal understandings and ambitions. Such a combined approach to explaining differences in ethical frames requires that our model be multi-level, that it attempt to address both the individual and group milieu. More specifically, our approach represents what Chan (1998; see also Kozlowski & Klein, 2000; Rousseau, 1985) has referred to as a "process composition model" in which behaviors at both the individual and group levels of analysis "are interrelated in a dynamic manner and do not occur in a temporal vacuum" (Chan, 1998: 242). Thus, we take into consideration individual family members' intentions, schemas, and felt obligations, while concurrently assaying the shared schemata, coalition cohesion, and systems of exchange that condition and constrain their actions. Next, we discuss how the elements that define the family coalition's relational network revolve around reciprocity among coalition members, simultaneously allowing for the production of reciprocal obligations and the enforcement of compliance as well as the creation of a unique ethos and attendant set of firm attributes.

Intentions and Sustainability

With the exception of involuntary or emergent behaviors, individuals, groups, and organizations act with a sense of intent or mental determination on some particular outcome. It is common, in a flexible and increasingly global economy, that the intentions of managers and employees are sometimes seen as being purely self-interested, their loyalty to the firm secured only by short-term compensation indexed to stock prices (e.g., Barach & Elstrott, 1988; Bowie, 1991; Hendry, 2001; cf. Maitland, 2002; Stieb, 2006). While this perception may be somewhat simplistic, to the extent such limited firm relations do exist, intentions and behaviors focus on immediate contractual reciprocation, showing little recognition of long-term group obligations.

Chrisman et al., (2005) suggest, however, that intentions or behaviors oriented toward attainment of a *distinctive* outcome are necessary before a business can be considered a family firm. Specifically, the actions taken by family members or a dominant family coalition must be undertaken with an expectation of certain desired outcomes, such as transgenerational intentions to maintain control of the family firm across multiple generations (Litz, 1995). Transgenerational sustainability then provides the basis for achievement of other family-centered goals. Chrisman, Chua, & Litz (2003b) and others (Davis & Tagiuri, 1989; Pearson et al., 2008; Sharma, Chrisman, & Chua, 1997) have suggested that, unlike non-family firms, wealth creation need not be the sole or even the most important goal of family firms (cf. Habbershon et al., 2003). Specifically, they argue that, "transgenerational value creation captures multiple goals and a purpose that transcends profitability" (Chrisman et al., 2003b:

468). The family business literature (e.g., Chrisman, Chua, Kellermanns & Chang, 2007; Eddleston & Kellermanns, 2007; Lubatkin, Durand & Ling, 2007; Miller & Le Breton-Miller, 2006), reflecting the nature of GES firms, is replete with questions of transgenerational import (e.g., altruism, stewardship, succession) all of which suggest some degree of moral reciprocity and familial intent regarding sustenance of the firm for future generations. This "spirit of generosity" (Wade-Benzoni, 2002) and stewardship, created through social exchange that extends across generations (Hernandez, 2008), reflects a common belief in a responsibility to see the business prosper (Cabrera-Suarez, De Saá-Pérez, & Garcia-Almeida, 2001) and a greater psychic ownership among members (Corbetta & Salvato, 2004) that leads to greater potency and cohesion among coalition members (Ensley & Pearson, 2005). Indeed, commitment and investment in social relations over extended periods is a necessary factor in the building of trust, shared schemas and, ultimately, group cohesion (Arregle et al., 2007; Coleman 1986, 1990; Hechter, 1987; Pearson et al., 2008). Rather than seen as means to ends, group members and the family are in a Kantian sense seen as ends in themselves. Thus, a family firm's immediate economic goals are quite likely to be intertwined with those of the family itself, characterized by pursuit of longer-term immanent goods such as group identity, transgenerational sustainability, or "preservation of family ties" (Chrisman et al., 2003b: 469) and couched in an ethics of care (Gilligan, 1982) and community (MacIntyre, 1984). Consequently, we propose that:

Proposition 2:

Intentions for transgenerational sustainability will be positively related to the presence of generalized exchange among members of the dominant coalition.

Schemas and a Shared Family Vision

If individuals and groups act in an intentional manner, expecting particular outcomes from interactions, how are choices between the many possible actions made? We argue here that these choices are based on relational schemas reflecting perceived cause-and-effect relationships between actions and outcomes (Piaget, 1999; Simmel, 1973). These schemata or cognitive maps serve to define not only cause-and-effect relationships but, by extension, frame perceptions of reality with regard to the importance assigned to various relationships, group problem solving (e.g., relevant versus irrelevant information), and determinations of right versus wrong (see e.g., Pearson et al., 2008; Rowley & Moldoveanu, 2003; Simmel, 1973). Shared schemata develop over time as we map out for ourselves how others are likely to respond in given situations. Repeated exchanges of this sort involve complex negotiations in which groups of individuals mutually define roles, situations, expectations and, ultimately, the cohesion and patterns of interaction that are seen as correct. It is through this diplomacy that members develop a sense of the psychological and moral self (Mead, 1967), particularly when interaction is frequent (Turner, 2003) and partners are members of a significant reference group such as the family coalition (e.g., Berger & Luckmann, 1967). In addition, consensuality legitimizes and reifies the family group's values and beliefs thereby giving them significant moral force in the lives of its members (e.g., Berger & Luckmann, 1967; Gouldner, 1960).

Thus, the shared schema of the family group colors members' views concerning the value of group goods, the interactions and resources required to obtain the goods, and perceptions of the ease with which those goods can be obtained outside the group. More importantly, shared schemata define and dictate reciprocity behaviors. The GES schema, we believe more likely to hold sway in a family firm, suggests a normative rationality that places value on relationships and the immanent goods (e.g., identity, social capital) produced under covenant. We expect that this focus on relations will naturally lead the family coalition to establish significant non-economic goals. Achievement of such family-centered non-economic goals are made possible by sustained control of the firm (Chrisman et al., forthcoming) and reflect the socio-emotional value family owners attach to the firm (Astrachan & Jaskiewicz, 2008; Gomez-Mejia, Hynes, Nunez-Nickel, Jacobson & Moyano-Fuentes, 2007; Zellweger & Astrachan, 2008)), the greater importance of social capital in family firms (Arregle et al., 2007; Pearson et al., 2008), and an abiding desire to protect family/firm identity (Zellweger & Nason, 2008). Thus, in the context of shared schemas, family members may address moral questions and the setting of goals in light of what they agree is a legitimate desire (even obligation) to benefit other family members (e.g., Cabrera-Suarez et al., 2001; Corbetta & Salvato, 2004; Lubatkin, Durand, & Ling, 2007) as well as to maintain relationships (e.g., Chrisman et al., 2003b) and build family value over time (i.e., indirect reciprocity). We therefore propose:

Proposition 3:

Family-centered noneconomic goals will be positively related to the presence of generalized exchange among members of the dominant coalition.

Interactions and Family Ties

The particular form of exchange that predominates in any specific interaction depends on both the history of relationships among members of the group and upon each individual member's personal history and experience. Regardless of group schemas, individuals relate differently to one another according to the context of an interaction and make initial classification of each interaction sequence based on future expectations and experience (Turner, 1988). This classification, if shared schemata exist, facilitates an individual's understanding of appropriate behaviors and responses without the need for additional signaling and interpretation.

Following the work of Collins (1975, 1981; see also Turner, 1988) interactions between group members within both restricted and generalized exchange systems operate through one of three modes: a) the formal/prescribed mode, b) the symbolic/ceremonial mode, and c) the informal/social mode. Particularly important for the analysis of cohesion in the family coalition is the social mode where particular resources, valued immanent goods, are jointly produced and shared by family members. The social mode of interaction refers to that dimension of exchange among members that has a personal, rather than formal, component (e.g., co-worker friendships, familial ties) and is most important in the genesis of group cohesion (Granovetter, 1973). Strongly influenced by its affective content such as kinship, friendship, and liking, this mode can support, inhibit, or circumvent the formal mode.

While formal interactions, contractual in nature and designed around direct reciprocity, may prevail in non-family firms, firm-employed members of the family group are certainly subject to the same formal interactions. They however also participate extensively in the production of joint immanent goods (e.g., Pearson et al., 2008) and are thus subject to the considerable indirect reciprocity demands of the covenantal relationship found in GES. As noted, immanent goods usually come in the form of directly usable but intangible benefits such as status, security, affiliation, affection, or social identity and are the product of long-term interdependent relations. Thus, family members, more than any others, are accountable for an additional layer of obligations and expectations characterizing the informal/social interaction order (e.g., Daily & Dollinger, 1992; Geeraerts, 1984). These interactions within a family group place a premium on the affect and membership behaviors found in generalized exchange (e.g., Fiske, 1990, 1992). These sorts of interactions contain both immanent goods exchange and agency behaviors (i.e., monitoring and sanctioning). Moreover, monitoring and sanctioning frequently take place during the flow of goods in this sort of exchange. Monitoring of member contributions typically occurs in company with joint production, while sanctioning (i.e., the advancing or withholding of resources) is built into the very nature of immanent goods. For example, imagine a family member, acting as agent, who observes or experiences deviant behavior (i.e., engages in monitoring) on the part of another family member, and communicates (implicitly or explicitly) "You know, as a member of this family [*affirmation of affiliation and status*], you should know better [*reiteration of obligation*]. We really love you [*confirmation of affection and security*]. But, you can't act this way [*implied future sanction*]."

The extent to which the social mode of interaction serves as a locus for the development of family group cohesion and moral form depends on the degree to which strong interpersonal ties exist among parties to the exchange. Pollack (1985) has argued that family members often have advantages when members live somewhat collectively and share frequent interactions, thereby being able to gather more intimate and complete information about individual behaviors. Granovetter (1973) defined strong interpersonal ties in terms of the expectations of indirect reciprocity as well as the intensity of temporal and emotional investments made by those in a relationship (see also Collins, 1981; Mathews, White, Long, Soper & Von Bergen, 1998; Nelson and Mathews, 1991). These necessary conditions for the development of strong interpersonal ties reflect the factors Hechter (1987) has proposed as foundations for cohesion—dependence on the coalition for rare immanent goods such as socio-emotional support and ability of the family group to ensure behavioral compliance with extended reciprocity obligations. Similar factors can be found in family business research on the development of the immanent good, family social capital (Arregle et al., 2007) as well as the proposed antecedent conditions for Habbershon and Williams's (1999) 'familiness' construct (Pearson et al., 2008). Viewing social capital as a group asset (cf. Bourdieu, 1986; Portes, 1998), these authors (Arregle et al., 2007; Pearson et al., 2008) have argued that dense family social capital is the result of long-term stable relationships characterized by frequent interactions, high interdependence, and network closure which allows for the development of shared norms, trust, and identity. That is, production of immanent value within the family coalition is associated with the presence of strong ties. We thus propose the following:

Proposition 4:

The extent to which interactions among members of the dominant coalition are governed by strong interpersonal ties will be positively related to the presence of generalized exchange.

Naturally, any weakening of interpersonal ties will diminish the relationship between generalized exchange in the dominant coalition and the distinctive family firm attributes we have discussed in this section. That is, any change that serves to mitigate the development of the shared obligations upon which the GES-type ethos is based will necessarily undermine the family's ability to maintain transgenerational control of the firm and thus pursuit of a unified family vision. For example, as a family grows larger and extends over multiple generations, the opportunities for frequent interaction and emotional intimacy that build strong ties decline and, thereby, reduce the possibility of shared intentions and schemas. Similar dangers may also arise in family coalitions touched by divorce, remarriage, or even the death of a prominent coalition member.

CONCLUSION

In proposing a theoretical definition of family business based on behavior as the fundamental feature of such enterprises, Chua et al. (1999) argue, somewhat philosophically, that,

> A complete enumeration of the parts seldom gives us the essence of the whole. Surely, the nature of a family business must transcend its components in terms of family involvement in ownership and management. . . . The components merely make the essence possible. The existence of the components may be necessary but not sufficient; they must have been used to create the essence that makes the business distinct from non-family firms. (Chua et al., 1999: 24)

Although Chua et al. (1999) were referring specifically to the shortcomings inherent in reliance on operational definitions of family firms alone, their misgivings, and the definition they develop point to an opportunity for investigating the nature of ethics in firms of both the family and non-family varieties. That is, a working theory of firm ethics must recognize not only the elements of the firm but also the mechanisms through which that distinctiveness comes into being. The specific factors delineated by Chua et al. (1999; Chrisman et al., 2003b), suggest the importance of social relationships and processes in the creation of a family firm. We maintain that these organizations and their component parts (e.g., dominant groups) are the result of historically situated and negotiated social exchanges that form the ground and boundaries of the family firm's ethos. Supporting our contention, Fiske's research on "universals underlying social relationships and moral frameworks" (Fiske, 1990: 180) claims that "in the absence of the relevant social relationship, people do not regard themselves or others as having moral obligations" (Fiske, 1990: 189). Hence, our assertion that a better understanding of family firms lies in the constructed and constructing patterns of RES and GES interactions.

In this article, we have shown how the elements of social exchange operate in concert to create the whole and influence such aspects of the family firm as its structure, its culture, and more importantly, its ethics. Specifically, we addressed how the interactions among family members and within the dominant coalition operate to produce a distinctive ethical frame of reference. We addressed social cohesion and the social organization of family coalitions in terms of a) intentions, b) schemas, and c) interactions. These components, the warp and woof of an organization's observable structure, merge into the material of its controlling form of social exchange and expressions of the norm of reciprocity. The forms of exchange, RES and GES, reflect the underlying patterns of exchange connections, the deep structure of an organization. In turn, they serve to condition and constrain future intentions, schemata, and interactions. Thus, RES and GES, with their emphasis on reciprocity in social exchange, are particularly important to understanding the development of cohesion in the family coalition and the ethical frame in which that cohesion arises. Equally important, is an appreciation of the role individual intentions and understandings play in the development of exchange systems. Consequently, our model explicitly adopts a multi-level perspective, recognizing both the meaning individuals create for themselves within reciprocities and the group structures they cultivate through those reciprocal exchanges.

Our understanding of the interplay among the component parts of a family firm suggests several avenues for future research, including those not immediately related to questions of ethics. Broadly, an investigation evaluating the relationship between an organization's primary form of exchange (i.e., its ethical frame) and any of the traditional business constructs of investment strategy, form of governance, and performance will help to confirm this approach.

First among these, of course, is the empirical testing of the group-level relationships we have proposed. For example, a comparative study of the content of decision-making processes in family and non-family businesses, undertaken with an eye toward classifying those decisions as either RES or GES in nature would be useful. Similarly, research examining the content of shared family schemata for RES versus GES characteristics would also be helpful in testing our model. We have argued that the types of interactions and resources that tend to prevail in an organization will vary depending on the nature of the dominant coalition. In particular, we have proposed that family firms, because of the nature of their dominant coalitions, will place an accent on informal/social interactions as well as affect and membership behaviors. These outcomes are especially likely when family members are actively involved and goals are not singularly geared toward short-term profit. A study investigating under what conditions these types of interactions hold sway and the impact that tendency may have for questions of both economic and social performance (e.g., Mitchell et al., 1997; Phillips, 1997: 2003) at the group or firm level would be valuable. For example, what is the impact of the dominant coalition's ethical structure on its relationships with other coalitions and stakeholders, both inside and outside the firm? Do the type of interactions and resource flows that predominate in relations between the family and other groups affect the salience of outsiders' claims? Or, in a related vein, given Suchman's definition of legitimacy as "a generalized perception . . . that the actions of an entity are . . . appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman 1995: 574), are the claims of groups whose ethical structure (i.e., its norms, values, and beliefs) more closely resembles that of the dominant coalition more likely to be perceived as legitimate?

While examining group-level constructs (e.g., cohesion, group identity, transgenerational goals) provides fruitful avenues for future research, studies should also look into the individual-level constructs that play such a significant role in social exchange processes. Along with others (e.g., Collins, 1981; Hechter, 1987), we have suggested that processes of negotiating, monitoring, and sanctioning among group members take place one interaction at a time, eventually building to a stable set of identities, situational definitions, and expectations. In arguing for the necessity of a more micro perspective in understanding the development of macro structures and processes, Collins (1981) states that individual identities and cohesion are built through chains of "conversational rituals" in which individuals must share both cultural resources and emotional tone to be successful. He further argues that individuals are motivated to engage in those interactions that provide the greatest emotional payoff for their involvement. A study examining the conversational chains among coalition members for the specific resources individuals offer and the emotional outcomes they perceive would help in understanding the influence a family coalition has on its constituents. Research designed to investigate whether the impact of immanent goods on an individual's felt obligations vary, for example, across particular goods (e.g., identity versus affection), situations (e.g., type of group goal pursued), or particular families would also be in order. Finally, a look at the differences in the responses of members and non-members to various forms of monitoring and sanctioning would be useful. For example, is the emotional response to termination different for family and non-family employees? Alternatively, as one reviewer suggested, what is the felt difference between being fired from the family firm and being disowned? Another interesting question offered is the relative presence of negative reciprocity (e.g., Bosse, Phillips, & Harrison, 2009) in which individuals seek to punish non-reciprocators even at some personal costs, in family versus non-family firms or, perhaps, in RES versus GES firms. These and other questions that begin to address what Fiske (1992) terms the "psychological models" of reciprocity that underlie individual motivation, comprehension, and coordination can help to further elucidate our approach.

From a theoretical standpoint, we have hopes that the social exchange approach can serve as a basis for drawing together some of the disparate concepts in the family firm literature. For example, it has been suggested that some of the more common ideas in family business research (e.g., altruism and stewardship) echo much of what is contained in the larger domain of forms of exchange. The advantage to subsuming these ideas into the social exchange perspective is that it provides an explanation of how these characteristics are developed and maintained across time, recognizing both the social constructionist and constructivist nature of the firm. There are other theoretical avenues as well. For instance, although we did not address the resource-based view of the firm directly, the locale of interaction and exchange is clearly the point at which competitive advantage and sustainability live or die. Closely related, is the "familiness" construct first proposed by Habbershon and Williams (1999; Habbershon et al., 2003) and defined as the resources and capabilities that arise from family involvement and interaction in the firm. Pearson et al. (2008) have taken a large step toward elucidating and anchoring the construct by delineating its dimensions and setting it within the context of social capital theory. Many of the concepts we discuss here in the social exchange program are identical to those contained in social capital theory (e.g., norms, trust, cognitions, obligations, interactions, and identity). The important difference again, as with altruism and stewardship, is that the social exchange approach provides an elaboration of the multi-level recursive mechanisms through which social capital is developed and maintained over time.

Finally, the multi-level view of the family firm provided by social exchange theory allows a more nuanced examination of the potentially negative side of cohesion in the dominant coalition. Portes (1998), in discussing the sources and consequences of social capital and group cohesion, argues that along with influence and support, cohesive groups may also restrict access to opportunity, limit individual freedom, encourage free-riding, and contribute to a reduction in performance standards among members (see also Coleman, 1986; Eddleston & Kellermanns, 2007; Hechter, 1987; Pearson et al., 2008). For example, asymmetric altruism (Schulze et al., 2003) can be seen as a consequence of a situation in which family owners seek to provide a mix of immanent and non-immanent goods to family members without having in place adequate monitoring or credible systems for sanctioning misbehavior.

Our intention in addressing the question of ethics in the family firm was twofold. First, we intended to suggest that if the analysis of the family firm is to progress, investigations must recognize that what ultimately differentiates the family firm with regard to its morality as well as other outcomes is the relationships upon which it is founded, particularly those within the dominant coalition. Second, it is our belief that the Chua et al. (1999) definition of the family firm captures the critical qualities of family involvement and influence in the firm and thus serves as a strong core around which to build a unique theory of the family firm, its structure, its culture, and its ethics. We hoped to contribute to the development of such a theory by introducing the concepts of generalized and restricted exchange.

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