Destructive leadership in family businesses: Modelling social exchange between generations

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Destructive Leadership in Family Businesses: Modeling Social Exchange between Generations

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Abstract

This article is to address an important aspect of family businesses that has a direct impact on their future success, namely the effects of social exchange between the leader of a family business and prospective future leaders. A model has been formulated that examines the probable effects of destructive leadership on the respective welfares of each generation and examines the resultant willingness of the next generation to contribute to the firm.

How the actions of the family business leader are perceived by the family members as being of a negative or conflict-inducing nature, i.e. his/her interactions with the successor, are seen to be of utmost importance. Consequently, the use of a ‘communication compass’ is proposed as a way of ensuring that communication patterns between generations is perceived as appropriate, to enable both leader and follower to benefit in the long run.

Key Words: Destructive leadership, dysfunctional outcomes of destructive family leaders, social exchange theory, model of destructive family leaders, communication compass
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Destructive Leadership in Family Businesses: Modeling Social Exchange between Generations

“The sins of the father are frequently found in the son”
*(Jewish Proverb)*

**Introduction**

Succession, that is the passing on of leadership from the owner (founder or incumbent) to the successor (Beckhard and Dyer, 1983), is an important aspect of family businesses as it has a direct impact on the future success of a family business. According to Le Breton-Miller, Miller and Steier (2003), succession planning and the nurturing of a successor from within the family, is one of the most critical decisions ever taken by the patriarch or current family business leader. In comparing the success of family businesses across generations, there is overwhelming evidence that a successful handing-over of a family business to the next generation is crucial to its continued existence and to its brand equity (Le Breton-Miller, Miller and Steier, 2003).

Recent research draws attention to the distinction between businesses that are not only family-owned, but also family-managed and those which are family-owned but professionally managed (Chittoor and Das, 2007). In particular, and all the more so since succession has come to be regarded as a process rather than an event (Morris, Williams, Allen and Avila, 1997), the relationship between predecessor and successor is a pertinent variable of succession planning and consequent performance (Barach and Ganitsky, 1995; Cabrera-Suarez, de Saa-Perez and Garcia-Almeida, 2001; Dyer, 1988, handler, 1990; Lansberg, 1988).

More frequently than was once imagined, a family business leader’s personal goals can overshadow the leader’s commitment to the goals of the
organization, and, as such, there are can be negative consequences for the employees, the next generation of family members as well as for the organization as a whole. This subjugation of goals between the leader and the organization can be viewed as a political issue as well, where leaders seek leadership positions to further their own personal ambitions from which frequently they have significant material gains. The destructive leader (i.e., striving for personal gains over collective organizational interests and/or focusing on short-term gains over long-term organizational goals) has become a concern of the academic community, and would appear to be a fertile area of in-depth investigation by family business researchers (Illies, 2001).

The issues associated with destructive leaders become even more vexing when cast in the context of family businesses. In this case of the family business, the leader is frequently the originator of the organization and therefore, one could expect the individual to have more leadership latitude than in a more conventional organization (e.g., a non-family business setting). But, the resulting conflict with other family members working in the business is replete in the literature (Harvey and Evans, 1994). Therefore, the potential impact may even be greater in the family business context than in other business settings.

Seven personal characteristics have been identified that could contribute to the emergence of destructive family business leaders and that could lead to the occurrence of destructive, counter-productive behaviors by the family patriarch/matriarch leader. These characteristics are: 1.) narcissism; 2.) fear; 3.) outcome uncertainty; 4.) power motives; 5.) object beliefs; 6.) negative life themes; and 7.) lack of self-regulation (Mumford, Costanza, Connelly and
Johnson, 1993; Mumford, Connelly, Helton, Strange & Osburn, 2001). While all of these personal characteristics may not be observed in each family leader that has a negative impact on the family business, it is likely that a large percentage of these characteristics will be present.

At the same time, researchers have identified a number of situational and/or environmental conditions that support the emergence of the propensity to be a destructive family leader, which in turn, may result in counter-productive acts by the founder of the family business. The situational variables that have been identified are: 1.) alienation; 2.) non-supportive family; 3.) negative role models; 4.) life stressors; 5.) competitive pressures; 6.) exposure to negative superiors or peer groups; and 7.) financial need of the individual (Gessner, O’Connor, Mumford, Clifton & Smith, 1995; Mumford et al, 2001). It is not difficult to envision the situational context in a family business environment to have the founder have experienced the cumulative impact of business/family stressors which support counter productive destructive family business leadership.

The destructive family business leader can have a direct/indirect impact on others and in particular, have negative consequences for individuals (and in particular, other family members working in the business). Therefore, to gain insight into the dysfunctional repercussions of destructive leaders, a multilevel analysis of destructive family leaders is appropriate. Cross-level assessment of a founding leader’s impact requires examining the leader’s characteristics and behavior as well as other family members that are ‘victims’ of such patriarchs must be taken into consideration to effectively address family leaders’ dysfunctional outcomes on the family business. It would appear a model of
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destructive family leaders could provide valuable insights into how to resolve the resulting conflict created by the dominant family leader. A theoretical perspective based upon social exchange theory is view as the underpinnings for the development of a model of destructive family business leadership.

Theoretical Foundation for Development of Model

A theory, social exchange theory (SET) has its origins in anthropology (Firth, 1951), sociology (Homans, 1958, 1961; Gouldner, 1960; Blau, 1964; Emerson, 1976), social psychology (Thibaut and Kelley, 1959; Thibaut and Walker, 1978), behavioral psychology (Skinner, 1950; Bandura, 1986), philosophy (Rawls, 1971) and economics (Smith, 1776; Ricardo, 1817), examines individuals’ interactions with others based upon receiving rewards or with the expectation of getting a reward from their interaction with others (Homans, 1958; Thibaut and Kelley, 1959; Emerson 1976). SET is based in the motivation for social interaction is the rewarding of ‘acceptable’ behavior in a situational context and the avoidance of punishments during interaction with others (Emerson, 1976; Bandura, 1986). As such, SET examines attitudes and resulting behaviors linked to the rewards of interaction minus the cost of that interaction.

The resulting remainder is the value of the interaction and the likelihood of the leader/member interaction being continued or being extinguished. These interaction ‘equations’ are difficult to calculate in a family business context given the overlap of business and family interactions and expectations. For example, in the context of leader/member exchange (LMX), a family leader makes a contribution to a family member in the organization that has value. In contributing to this family/organizational member, the leader expects to receive a reward (e.g., support or compliance) or an implicit return at a later time. The family member
receiving a valued contribution develops a sense of obligation and reciprocates with appropriate attitudinal and behavioral responses to the family leader.

SET is composed of a series of propositions outlining the system of social exchange among leaders and members in an organization. A fundamental proposition of SET is that for all actions taken, the more often a particular action is rewarded the more likely a member to an exchange is to perform that action again (i.e., success proposition). In addition, the more valuable to a member of an exchange is the result of the member's action (i.e., reward proposition), the more likely the member of the exchange is to perform the action again (i.e., value proposition) (Blau, 1964). When an exchange between family leader and members action does not receive the expected reward, or receives unexpected punishment, the exchange member will proactively avoid this interaction in the future or at the bare minimum protest this type of interaction (i.e., aggression proposition) (Homans, 1961). Further, in choosing between actions, a family member to an exchange will choose the one for which the value of the reward multiplied by the probability of receiving the reward is greater (i.e., rationality proposition).

The calculation of rewards derived from interactions among family leaders and organizational members consists of short-term and long-term as well as explicit and implicit dimensions (Lind and Tyler, 1988). Social exchange rewards do not have an exact price in terms of a single interaction or quantitative medium of exchange. As such, social obligations are difficult to evaluate on a transaction-by-transaction basis (Masterson et al., 2000). To complicate SET analysis, there may be inadequate short-term explicit rewards that are off-set, to a degree, by long-term implicit rewards (e.g., on-going support for a leader due to rewards received by the member on an on-going basis). As such, basic principles of
reinforcement psychology and microeconomics are directly relevant to social exchange, bringing a quasi-economic mode of analysis into understanding family members’ behavior (Emerson, 1976). Given this theoretical foundation, it is no wonder “that the two most prominent research topics in social exchange theory are power and justice” (Emerson, 1976, p. 339). Both issues will be addressed in this paper.

An analysis of power can be carried over to family leaders and followers (e.g., family members in an organization). The same should hold for a family leader who may have hierarchical power that compels the lower ranking family members to follow the patriarch of the family but only to a degree. But more frequently, family leaders have other bases of power (i.e., referent, expertise, sanction/reward power and the like) that ‘compel’ family members/followers to follow as well as comply with the expectations of the patriarch. The family business leader’s power defines the ongoing power in an interaction dyad or network, defining the explicit roles/norms of individual family member behavior. Power becomes an important issue when one examines the impact of destructive leadership in a family business context.

Exchange is viewed as a tool where the more powerful member in the family business builds-up social credit that creates social indebtedness allowing the senior family member to extract compliance from others in the family business setting (Grienberger, Rutte and van Knippenberg, 1997). Leaders frequently have organizational rewards they can distribute to family members (e.g., followers) in the organization. While the reward may be tangible and immediate, the return to the family leader may be implicit and longer term. The assessment of ‘account’s between the leader in a family business and others/followers provides the basis for conflict and negative interactions between leader/follower. This is particularly true in family operated businesses where the
leader (e.g., family matriarch/patriarch) holds the future rewards and punishments for the entire family. Given this setting, family leader takes the lead in establishing policies relating to the relationship’s administration and distribution of rewards in the family business. However, the future orientation of social exchange requires not only the restraint of the use of power (e.g., Molm, 1997), but also the stimulation of relational attitudes and behaviors in the family business (Masterson et al., 2000).

Here, applying SET, it can be argued that relational attitudes and behaviors are stimulated via the perceived justice demonstrated by the more powerful family members in the on-going exchange relationships and that the enactment of such policies allows the senior family member to retain and protect their real and perceived power in the family. Researchers discuss two justice elements that can occur in family businesses: procedural and distributive justice. Procedural justice (PJ) refers to the process, and the perceived fairness of that process, associated with the distribution and/or allocation of rewards in limited supply relative to demand by family members for such rewards (Lind and Tyler, 1988; Konovsky, 2000). PJ focuses on perceived fairness of decision-making procedures itself and on the attitudes of those directly involved in or affected by those decisions (Korsgaard, Schweiger and Sapienza, 1995) and as such can be viewed as a social policy in the family owned/operated business.

Closely tied to PJ is distributive justice (DJ). DJ refers to the perceived fairness with the decision outcome by followers in the family-operated business (Sheppard, Lewicki, and Minton, 1992; Konovsky, 2000) and as such can be viewed as an explicit economic policy in the family business. The on-going nature of family relationships and exchange within the family business as well as the family units provides the willingness to accept short-term imbalances in outcomes
given that over the length of the relationship outcomes should accurately reflect inputs. When outcome distributions over time are acceptable family member (e.g., exchange partners) can view the relationship as beneficial and reciprocate via additional inputs. If rewards are not forthcoming, the social exchange ceases to exist (cf., aggression proposition). This theoretical base should provide a solid foundation to examine resolving conflict in family owned/operated business in a model format.

Modeling Destructive Family Business Leadership

A model has been developed to simulate the probable effects of each proposition. The model has similarities to the Kreps-Wilson-Milgrom-Roberts reputational effect model (Tirole, 1988: 439) and those of Hindriks, Keen and Muthoo (1999) and also Marjit, Mukherjee and Mukherjee (2000), examining corruption and harassment in tax auditing. These models were used to explain predatory practices and their future effects on participants (Campbell, 2007).

Suppose a family firm that has a parent (leader) and an offspring (follower-successor). The welfare of both individuals can be modeled in a two-period form as:

Welfare of the parent
\[ W_p = V_1 + \sqrt{\mathcal{A}_1} + V_2 \]

Welfare of the offspring
\[ W_s = g \times V_1 + g \times V_2 - (k \mathcal{A}_1 + I)^2 \]

Where:
- \( V_1 \) is the value of the firm today;
- \( V_2 \) is the present-value of the firm in a future period;
- \( \mathcal{A}_1 \) is the parent’s choice of destructive leadership;
- \( I \) is the offspring’s level of personal investment into the firm;
- \( g \) is the offspring’s relative value of the business;
- \( k \) is the measure of relative effect of destructive leadership on the offspring’s welfare.
The parent’s welfare equation, \( W_p = V_1 + \sqrt{A_i} + V_2 \), suggests that the parent’s welfare is a function of his choice of level of destructive leadership (\( A_i \)). Moreover, it is assumed that \( A_i \geq 0 \). When \( A_i = 0 \), then the parent does not exhibit destructive leadership tendencies.

Likewise, the offspring’s welfare equation, \( W_o = g \times V_1 + g \times V_2 - (kA_i + I)^2 \), suggests that the offspring’s welfare is a function of his relative value to the business, \( g \), and the combination between his personal investment in the firm and his sensitivity to his parent’s destructive leadership, \((kA_i + I)\). Further, we assume that \( g \geq 0 \) since if \( g = 0 \), then the offspring would obtain no value from the firm and would have an incentive to leave. Moreover, it is assumed that \( k \geq 0 \), and if \( k = 0 \), then the offspring is indifferent to his parent’s level of destructive leadership.

Assuming that the firm’s value in the future, \( V_2 \), is a function of the offspring’s level of personal investment in the firm (ie. the offspring’s contribution to the firm such as time, effort, specialized skill, among others). Then we can say that:

\[ V_2 = V_2^* + I \]

Where:
\( V_2^* \) is the present-value of the firm in a future period excluding any value that arises from the offspring’s involvement in the firm.

Therefore, the welfare functions can be re-written as:

**Welfare of the parent**
\[ W_p = V_1 + \sqrt{A_i} + V_2^* + I \], and;

**Welfare of the offspring**
\[ W_o = g \times V_1 + g \times (V_2^* + I) - (kA_i + I)^2 \], or;
\[ W_o = g \times V_1 + g \times V_2^* + g \times I - (kA_i + I)^2 \].
To understand how the parent’s destructive leadership affects the offspring’s level of personal investment in the firm, the above equations are evaluated under conditions of *ceteris paribus*. Specifically, our objective is to solve for the optimized level of $I$ (the offspring’s personal investment in the firm) given the presence of $A_i$ (the parent’s choice of level of destructive leadership) as a constraint.

Initially, we optimize the offspring’s welfare function, relative to his/her choice variable $I$:

$$ W_i = g \times V_i + g \times V_2 * + g \times I - (kA_i + I)^2 ; $$

This is done by taking the first partial derivative and setting it to zero:

$$ \frac{\partial W_i}{\partial I} = g - 2(kA_i + I) = 0 ; $$

From this we find how the offspring’s optimal investment decision varies with the level of destructive leadership, $A_1$ chosen by his parent:

$$ I = \frac{g}{2} - kA_i . \quad \text{(Equation 1.1)} $$

Clearly, from Equation 1.1., we see that as the parent exhibit more destructive leadership tendencies, as reflected in an increase in $A_1$, the offspring reduces his level of investment in the firm.

Consequently, we optimize the parent’s welfare function, relative to his/her level of destructive leadership, $A_i$:

$$ W_f = V_i + \sqrt{A_i} + V_2 * + I ; $$

Since the parent takes the offspring’s investment decision $I$ into account, we substitute Equation 1.1. into the parent’s welfare function to find that the parent’s welfare becomes:

$$ W_f = V_i + \sqrt{A_i} + V_2 * + \frac{g}{2} - kA_i ; $$

Taking the first partial derivative and setting it to zero:

$$ \frac{\partial W_f}{\partial A_i} = \frac{1}{2\sqrt{A_i}} - k = 0 ; $$
From this we find that the level of destructive leadership wherein the parent experiences optimal utility:

\[
\frac{1}{\sqrt{A_i}} = 2k;
\]

and likewise:

\[A_i = \frac{1}{4k^2};\]  
(Equation 1.2)

Therefore, from Equation 1.1 and Equation 1.2, it can be surmised that the offspring’s optimal level of investment:

\[I = \frac{g}{2} - kA_i;\]

Hence:

\[I = \frac{g}{2} - \frac{k}{4k^2};\]

Thus, finally:

\[I = \frac{g}{2} - \frac{1}{4k}.\]

Several inferences can be made from this model. First, the offspring’s willingness to contribute in the firm (\(I\)) has a direct and positive relationship with the firm’s relative value to the offspring (\(g\)). This makes intuitive sense, since the greater the offspring attaches an expected value to the firm (for instance, he/she is expecting to inherit a percentage or all of the business in the future), the more likely and willing he/she is to exert effort and contribute to the business. Figure 1 illustrates this relationship.

***** Place Figure 1 here*****

Second, the offspring’s willingness to contribute in the firm (\(I\)) has a diminishing and negative relationship with his/her parent’s chosen level of destructive leadership (\(A_i\)). Therefore, this illustrates how destructive leadership has a causal and detrimental effect on the future value of the firm (\(V_2\)). Figure 2 illustrates this relationship.
Finally, the offspring’s willingness to contribute in the firm (I) has a diminishing and positive relationship with his/her personal sensitivity to the parent’s level of destructive leadership (k). Figure 3 illustrates this relationship.

Implications of the Destructive Leadership Model for the Family Business

The model discussed above portrays three pertinent aspects of destructive leadership in a family business. Firstly, the higher the future value of the firm to the family members, the more willing they will be to contribute to the business. Secondly, destructive leadership has a causal and detrimental effect on the future value of the firm. Thirdly, a family member’s willingness to contribute in the firm diminishes along with their personal sensitivity to their perceived level of destructive leadership. Here it is important to note that it is not so much the family business leader’s acts as it is how those acts are perceived by the family members as being of a negative or conflict-inducing nature. In the general sense, this third effect implies that the successor’s actions are a response to how they experience those of the leader. That being the case, it is of utmost importance that the leader approaches communication with the successor, and indeed all family members, appropriately in order to fulfill his responsibility of handing over the reigns of the family business successfully.

Figure 4 illustrates how destructive leadership impacts performance at the individual, group and organizational level in the family business. When destructive leaders interact with others in the organization, the result of these interactions will most likely have a negative impact on firm performance. It is also important to note that the negative repercussions of destructive leaders also carries over into the family units associated with the family business. It is therefore of utmost
importance that all leaders and potential family business leaders understand the need to communicate with all staff and family members in constructive manner. The authors contend that the potential for destructive leadership is a function of the degree of excess control and the level of potential built-up hostility, as perceived by the employees and as most importantly by family members in the organization.

The Communication Compass, shown in Figure 5, allows both the degree of control and the amount of hostility to be considered, in combination, thereby providing a convenient framework within which to describe the family business leader’s pattern of communication. Figure 5 illustrates four quadrants, formed by the intersection of the two main axes. The top left quadrant represents hostile control, top right is friendly control, the bottom right is friendly empowerment, and the bottom left is hostile empowerment. It is assumed that leaders, by definition, possess sufficient emotional intelligence to discern which style is most appropriate to achieve the expedient result they need. Sustainable results, and more pertinently, assured succession within the family firm, demands that they also ensure that they communicate in a non-destructive manner.

According to the Communication Compass, the top left quadrant (also shown as North-West) is the area to be most avoided. Destructive leadership behavior in this quadrant is characterized by forcing, manipulating and punishing. The leader operating out of this quadrant is known as ‘the tyrant’. The dividing line between that quadrant and a more acceptable top right quadrant (also known as North-East) is the line representing due North. A leader operating from due North adopts a rigid approach of instruction, checking and controlling. Whereas this approach may be normal, the problem associated with it is that the follower is
likely to perceive it as shifting into a negative orientation, should the leader remain in an instructional or controlling mode for extended periods of time. This perception on the part of the follower is known as the ‘hostile shift’. To negate this, the family business leader needs to be adept at communicating in such a way that he/she retains control yet simultaneously empowers the next generation. To do so, he/she needs to ensure that his/her leadership approach at all times is friendly and diplomatic, rather than hostile. This can only be achieved by operating out of the right hand side (also known as the East side) of the compass, i.e. top right and bottom right.

*****Place Figure 5: Communication Compass here*****

It has been shown that followers’ behavior patterns have a tendency to mirror those of the leader, to the extent that destructive leadership activities ultimately become embodied in an organization’s culture (Harvey, Treadway and Heames, 2007). This principle is implicit in the Communication Compass, as follows:

- Leadership communication from the North of the compass (i.e. controlling, evokes follower behavior from the North... compliance).
- South leadership gives rise to empowered followers. As the leader is the initiator of communications, he/she sets the tone of the relationship, which may be diplomatic or hostile.
- Leadership from the top right quadrant (North East) evokes like-orientated ‘followership’, as does leadership from the bottom right quadrant (South-East).

With reference to Figure 5, it can now be seen how the top right type family business leader is a Delegator (see North-East of the compass), who typically leads by setting targets, monitoring results and rewarding achievement. The bottom right (South-East) type family business leader is seen as a Mentor, who
typically encourages self-development, provides coaching and builds self-esteem.
It is incumbent on the family business leader to master both of these quadrants, so that he/she is able to consciously choose which style of leadership communication to invoke to give the optimal outcome.

**Conclusion**

Family business leaders are bestowed with the dual responsibility of not only managing the business successfully but concurrently preparing the next generation to succeed them. This duality can be hazardous, as the way they are perceived by the family impacts upon the attitude and consequent level of involvement of the next generation toward the business. In the case where the family business leader is perceived as too aggressive by the offspring who could become the successor, they might become discouraged to the extent that they decide to forsake the business completely. On the other hand, the family business leader is justifiably reluctant to hand over the reigns to a successor who’s business acumen may be found wanting.

Herein lays the dilemma for the family business leader. The leadership approach that makes the family business leader an astute businessperson may, unfortunately, be unsuited to the mentoring that is needed to ensure a successful hand over to the successor. The interaction of the two essential variables in this complex mix, the extent of destructive leadership and the successor’s level of future involvement, have been modeled using game theory. The results of the modeling infer that the offspring’s willingness to contribute in the firm has a direct and positive relationship with the firm’s relative value to the offspring and such value reduces in proportion to the extent of destructive leadership they experience or perceive. With this in mind it is incumbent upon the family business leader to safeguard his/her relationship with the successor.
The Communication Compass is proposed as one way for the leader to monitor his/her communication patterns. As the successor’s behaviour tends to mirror that of the family business leader, the communication compass provides a useful framework for the leader to assess, on an ongoing basis, how effectively his/her communication is being experienced or perceived. Where necessary, he/she can take the necessary steps to correct destructive leadership tendencies and replace them with more appropriate behaviours. As a general rule, the family business leader should avoid straying into the hostile communication patterns represented to the left (West) side of the vertical (North-South) divide. Appropriate family business leadership is associated with the right hand (East) side of the Communication Compass, varying between the top right (North-East) and bottom right (South-East), depending on the level of control (North) or empowerment (South) intended.

Ultimately no leader is perfect, and many family businesses must continue on after the founder relinquishes control, so the next issue is how to ‘clean-up’ after a destructive family business leader.
References


Figure 1
Investment vs. Worth

Investment (I) vs Worth (g)
Figure 2
Investment vs. Destructive Leadership
Figure 3
Investment vs. Sensitivity
Figure 4
Constructive/Destructive Leadership in Family Businesses
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