

# Just about money? CEO satisfaction and firm performance in small family firms

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**Abstract** This paper examines how family ownership and family ties influence the relative importance of economic and non-economic goals on the CEO's satisfaction with the firm. Using a sample of small high-tech family and non-family firms, we show that the influence of past firm economic performance on CEO satisfaction is weaker in the case of CEOs leading a family firm. Our results also suggest that this influence becomes weaker as the family firm transitions into subsequent generations. However, contrary to our expectations, we were not able to find a differential effect of firm performance on CEO satisfaction between CEOs who belong to the controlling family and those who do not.

**Keywords** CEO satisfaction · Economic performance · Non-economic goals · Family firms

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## 1 Introduction

Understanding CEOs' levels of satisfaction with a firm is important, since satisfaction influences the decision to continue and invest more time and resources in the firm or to exit the company (Cooper and Artz 1995; Gimeno et al. 1997). This is particularly true in the case of small firms in which CEOs play a central role in the decision-making process (Brockmann and Simmonds 1997; Jennings and Beaver 1997). Despite this, research on satisfaction is conducted primarily from the perspective of founders and entrepreneurs (Cooper and Artz 1995; Carree and Verheul 2012; Delgado-García et al. 2012), with little attention given to firm managers. While it is true that many small firms are led by their founder, others are run by a founder's relative or by external managers with no ownership and/or family ties to the business. Thus, there is a need for more research to further understand what drives CEOs' satisfaction with the business in the context of small firms.

The entrepreneurship literature states that entrepreneurs' satisfaction with their businesses will vary depending upon the performance levels being realized, as well as the entrepreneur's initial goals and expectations (Cooper and Artz 1995; Van Gelder et al. 2007; Delgado-García et al. 2012). Specifically, it states that when entrepreneurs are motivated by non-economic goals, they obtain a greater "psychic income" and thus are willing to accept lower economic returns when they

gain personal satisfaction from the business (Gimeno et al. 1997). Hence, the impact of firm economic performance on entrepreneurs' satisfaction is contingent on the balance between their economic and non-economic goals. How this balance affects satisfaction with the firm in the case of CEOs is still unknown.

Our paper represents a first step in this direction. We build on a long-standing tradition in the corporate governance literature suggesting that CEOs' strategic decisions are guided by the ownership structure of the firm (e.g., Tosi and Gomez-Mejia 1989; Hambrick and Finkelstein 1995; Baysinger et al. 1991). Ultimately, CEOs reflect the interests of owners, so their relative importance to economic and non-economic goals is likely to be influenced by who controls the organization. Based on that, we argue that in the case of CEOs, the firm ownership structure would be a main driver of their satisfaction with the firm.

Consistent with our claim, we focus on a particular type of ownership, family ownership, and investigate whether the impact of firm economic performance on CEOs' satisfaction varies in family relative to non-family firms. Our reasons for focusing on family businesses (i.e., businesses controlled by the members of a family) are twofold: firstly, family businesses are the most prevalent form of ownership (Boyd and Solarino 2016); secondly, the interplay between economic and non-economic goals is particularly relevant in the context of family businesses, given the heightened importance family owners place on the attainment of family-centered non-economic goals (Chrisman et al. 2012; Mahto et al. 2010; Gomez-Mejia et al. 2011). These goals are usually described in terms of socioemotional wealth (SEW) protection (Gomez-Mejia et al. 2007).

Based on that, we conjecture that since the majority of controlling families emphasize SEW protection goals over pure economic goals (Gomez-Mejia et al. 2011), the impact of firm economic performance on CEOs' personal satisfaction with the firm will be weaker in family firms compared to non-family firms. Furthermore, we analyze how two of the main sources of heterogeneity within family firms—namely the family or non-family membership of the CEO and the generational stage (Casillas et al. 2010; Cruz and Nordqvist 2012)—affect the relationship between firm economic performance and CEOs' personal satisfaction with the firm in the case of family firms.

We test our hypothesis using a sample of 823 small firms operating in high- and medium-technology sectors. The complexity, greater uncertainty, and stiffer competition of these sectors (Makri and Scandura 2010) augment

the relevance of the work and decisions made by the CEOs, who need to have a deep understanding of the firm's technological and scientific capabilities (Gopalakrishnan 2000). Hence, understanding what drives their satisfaction is crucial for firm owners to increase their chances of getting the best managerial talent, since CEOs in the tech sector are drawn from a highly competitive labor market. Consistent with our theoretical arguments, our findings suggest that firm economic performance has a stronger impact on the satisfaction of CEOs in non-family firms than in family ones. Furthermore, they also offer preliminary support for our claim that the influence of firm economic performance on the satisfaction of CEOs will be greater in the case of CEOs who belong to the second or later generations of the family. Yet, contrary to our expectations, we were not able to find a differential effect of firm performance on CEO satisfaction between CEOs who belong to the controlling family and those who do not.

Our work makes several contributions to the literature. Firstly, we contribute to the scarce literature on the determinants of personal satisfaction with the business for CEOs. Understanding CEOs' satisfaction in the context of small firms is critical, since given their potential lack of other resources and administrative systems, human capital plays a major role in this particular context (Lubatkin et al. 2006). Secondly, by bringing insights into the determinants of entrepreneurs' satisfaction to analyze differences in CEOs' satisfaction among ownership types, we contribute to the corporate governance literature by showing how the firm ownership structure shapes not only CEO's strategic decision-making but also their goals and aspirations.

Doing so in the particular context of a family business also adds to the growing literature on family firms that looks at how SEW preservation motives drive the perceptions of family firms. Furthermore, it contributes to enlarge research on non-family CEOs in family firms, which remains surprisingly scarce despite the importance of the inclusion of non-family managers for firm survival and growth (Block 2011; Chrisman et al. 2014; Hauswald et al. 2015). While the caveat has been offered that family owners' decisions are motivated primarily by the preservation of SEW, with few recent exceptions (e.g., Vandekerckhof et al. 2015), how this affects non-family CEOs is yet to be explored.

Exploring differences within family firms in terms of leadership and generational involvement also responds to unceasing calls to study behavioral differences among family firms (Chua et al. 2012). Lastly, our research

context offers a unique opportunity to expand existing research on the importance of non-economic goals in small family businesses. Most previous research has been conducted on large listed firms and has not addressed small firms, whose context may be significantly different.

The paper is organized as follows. The next section contains the theoretical reasoning that justifies our hypotheses. Section 3 describes the sample, the variables, and the estimation procedure. Section 4 summarizes the results of our empirical tests. The final section discusses the findings and concludes.

## 2 Theoretical background

### 2.1 The importance of understanding CEOs' satisfaction in the context of small technology-intensive firms

The entrepreneurship literature portrays entrepreneurial satisfaction as a fundamental measure of the owner's success (Delgado-García et al. 2012), as well as a crucial predictor of the entrepreneur's decision on whether to persist or exit, or whether to invest more money and time in the firm (Westhead et al. 2005). Indeed, entrepreneurial satisfaction is portrayed as "a more important predictor of business failure or survival than their new ventures economic performance" (Cooper and Artz 1995, p. 98).

Drawing on job satisfaction studies from organizational psychology (e.g., Michalos 1986; Millán et al. 2013), these studies suggest that entrepreneurs' satisfaction is (a) referent dependent, meaning that it is determined by the perceived gap between the entrepreneur's goals and actual firm performance, and (b) contingent upon the balance between entrepreneurs' economic and non-economic goals. Specifically, for a given level of economic performance, the satisfaction of those entrepreneurs placing primary emphasis upon economic goals would be strongly influenced by the financial performance of their firms. In contrast, for those entrepreneurs emphasizing non-economic goals, satisfaction would be less sensitive to financial performance, to the extent that they just need a certain performance level to achieve their non-economic goals (Cooper and Artz 1995). Thus, entrepreneurs' satisfaction is contingent upon the balance of economic and non-economic goals, the weight given to the latter reducing the importance of the former in the entrepreneurs' judgment of satisfaction.

Despite important contributions, the abovementioned research is focused on understanding small firm owners' and entrepreneurs' satisfaction, with little or no attention to firms' managers. While the influence of founders and owners in small firms may be strong (Brockmann and Simmonds 1997; Jennings and Beaver 1997), managers—and particularly CEOs—are responsible and accountable for the central strategic decisions made by firms. This influence is even greater for technological firms that call for CEOs who can manage the complexity associated with R & D investments and the uniqueness of the knowledge-intensive resources that can be swiftly lost to competitors in such a dynamic environment (Balkin et al. 2000). Thus, more research is needed to understand what determines CEOs' overall satisfaction with the firm and particularly what drives differences among CEOs in balancing economic and non-economic goals when defining their levels of satisfaction. In this paper, we take a first step in this direction and argue that the ownership structure of the firm is central to understanding this balance.

### 2.2 CEO satisfaction in small high-tech family and non-family firms

There is wide consensus among management scholars that the ownership structure of the firm influences the behavior of the management (e.g., Tosi and Gomez-Mejia 1989; Hambrick and Finkelstein 1995; Baysinger et al. 1991). Yet, owners are not a monolithic group, since they have different goals, preferences, and investment horizons (Boyd and Solarino 2016), so CEOs' behavior will be different depending on who are the controlling actors of the firm. In recent years, a growing number of studies have focused on understanding how family ownership affects CEOs' strategic decision-making, given the prevalence of family firms worldwide (Amit and Villalonga 2014) as well as the distinct nature of family owners' preferences compared to other ownership types (Gomez-Mejia et al. 2007).

A common thread among these studies is that family owners' preferences for non-economic goals weigh more heavily than their non-family counterparts (Chrisman et al. 2011; Gomez-Mejia et al. 2011). This is because, for family owners, the business is not only a source of income but also a framework for family employment, family pride, and family identity (Zellweger et al. 2013). This is particularly true in the case of small firms in which there is a strong connection between the

organization's identity and the founding family's identity (Cruz et al. 2012). Family business scholars have termed the concept of SEW an umbrella concept that accommodates all non-economic elements of a family's utility function that directly relate to the family's involvement in the firm. According to the SEW approach, preservation of the socioemotional endowment is the primary reference point for family owners (Gomez-Mejia et al. 2007), so family owners will exhibit a heightened concern for non-economic goals, ultimately seeking to protect their socioemotional endowment (Mahto et al. 2010). Ample empirical research supports SEW predictions by showing the distinct behavior of CEOs' strategic decision-making in family firms compared to non-family (see the works by Gomez-Mejia and colleagues). Drawing on these studies, our main argument is that concerns for SEW preservation would also affect CEOs' overall satisfaction with the firm. The heightened importance of non-economic goals develops a specific and distinct business culture in family firms (Denison et al. 2004), with the utility of family owners being a function of the extent to which the mix of economic and non-economic goals are valued and achieved (Gomez-Mejia et al. 2011).

To achieve the desired balance between economic and non-economic goals, family owners will need to hire executives who match this business culture and strategy (Gallo 1991; Welch 2005). Indeed, research suggests that in recruiting CEOs, family firms are more likely to look for person-organization fit (P-O fit), or compatibility between the person and the organization (Kristof-Brown et al. 2005), than their non-family counterparts (Cruz et al. 2011). If this is the case, CEOs in family firms would be more sensitive to the importance of attaining non-economic goals. In other words, they would be aware that much of owners' satisfaction with their progress in the firm would be attributable to the extent to which that progress supports the achievement of the controlling family's non-economic outcomes (i.e., whether the family SEW is maintained or improved, or if it has diminished).

Our rationale does not imply that CEOs in family firms ignore pure economic outcomes. Especially in small firms, CEOs face a constant struggle to reach the minimum performance levels that can guarantee their survival. This pressure is even greater in high-technology sectors characterized by a higher degree of uncertainty and stiff competition (Makri and Scandura 2010). Environmental uncertainty amplifies the potential

gains and losses from any strategic action, thus increasing the salience of the mixed gamble scenario (i.e., consideration of the possible economic and socioemotional gains and losses) facing family firms (Gomez-Mejia et al. 2014). Our claim is that, acknowledging the partial trade-offs between economic and socioemotional wealth considerations (Gedajlovic et al. 2011), CEOs in small firms will need to balance the two forces and seek a sustainable mix of satisfactory economic and socioemotional wealth creation. As a result of this balancing effort, we anticipate that the sensitivity to firm past economic performance of CEOs' satisfaction will be weaker for CEOs running family firms.

In addition, the patriarchal nature of many family-owned firms (especially in small firms) makes family owners show particular concern for employees' welfare and job security (Cruz et al. 2010). Accordingly, family firms are perceived as more "secure" organizations, where executives may be willing to trade off a higher salary in return for non-financial rewards (Gomez-Mejia et al. 2003). This reinforces our previous argument, making the satisfaction of CEOs in family firms less sensitive to changes in firm economic performance. Formally stated:

*Hypothesis 1* The impact of past firm economic performance on overall satisfaction with the firm of CEOs in family firms will be lower than that of CEOs in non-family firms.

### 2.3 Family versus non-family CEOs' satisfaction

The previous hypothesis focused on the influence of family ownership on CEOs' satisfaction without taking into consideration the CEO family status (i.e., whether or not s/he belongs to the controlling family). Implicit in our reasoning was the idea that family owners' balance between economic and non-economic goals permeates the organization, influencing CEOs' definition of success, regardless of the family ties (Berrone et al. 2010; Cruz et al. 2010). Despite the "familiarization" process for non-family CEOs working in family firms, a long-standing tradition in the family business field shows that they often have views and assumptions of the world that differ from those of family CEOs (e.g., Dyer 1989; Chua et al. 2003). Understanding what drives these differences and how they affect CEOs' satisfaction is important, given the need to attract external talent for family firms' survival and growth (Hauswald et al. 2015).

Family owners may opt to hire non-family CEOs to prevent managerial entrenchment (Gomez-Mejia et al. 2001), to bring more objectivity to the decision-making process (Blumentritt et al. 2007; Huybrechts et al. 2013), to get more expertise (Bennedsen et al. 2007), and/or to implement the required changes imposed by the dynamic environment in which they compete (Gomez-Mejia et al. 2013). From a labor market perspective, non-family CEOs are drawn from a much larger pool of individuals in which family and non-family firms compete with each other to get the best managerial talent. Yet, playing the “talent war” implies a potential SEW loss for the family owners, which is not present in the case of their non-family counterparts (Chrisman et al. 2014). This is because employing a non-family CEO reduces family owners’ control over firm operations, as well as their ability to act altruistically toward other family members (Gomez-Mejia et al. 2010), which are considered key aspects of the family SEW (Berrone et al. 2010). As such, non-family CEOs are hired with a set of higher economic performance expectations than family managers, since they will need to produce a net income that compensates for the SEW loss incurred in their hiring (Chrisman et al. 2014). Our claim is that these higher performance expectations (compared to those set for family CEOs) will link non-family CEOs’ job satisfaction more closely to the attainment of economic performance goals.

In addition, family owners know that the relationship of non-family CEOs with the firm is often more utilitarian, distant, and transient than in the case of family CEOs (Lubatkin et al. 2005).<sup>1</sup> Hence, they would have a special interest in leaving the firm with a successful track record and thus with strong short-term performance results (Block 2011). This is not the case for family CEOs, who have longer term horizons (James 1999) and are more strongly driven by the attainment of SEW goals (Gomez-Mejia et al. 2007). In line with these differences in motivation, ample evidence shows that the overwhelming factor that determines the sensitivity of CEO pay to performance in listed (Gomez-Mejia et al. 2001, 2003) and in private (Cruz et al. 2010; Michiels et al. 2013) family firms is family status and not past economic performance.

Based on the aforementioned arguments, we anticipate that while both family and non-family CEOs in family firms should look for a sustainable mix of satisfactory economic and socioemotional wealth creation, non-family CEOs will give greater weight to economic performance in such a balance than family CEOs. Consequently, in the case of small family firms, past financial performance will have a higher impact on non-family CEOs’ satisfaction. Formally stated:

*Hypothesis 2* The impact of past firm economic performance on overall satisfaction with the firm in a family firm will be higher for non-family CEOs than for family CEOs.

## 2.4 CEO satisfaction in family firms and generational stage

Several family firm scholars have addressed the impact of generation in control on family firm outcomes (e.g., Casillas et al. 2010; Giovannoni et al. 2011; Cruz and Nordqvist 2012). The underlying rationale is that the generational stage influences family owners’ perception of the relative value of both economic and non-economic goals (Gomez-Mejia et al. 2007; Björnberg and Nicholson 2012). This is because, as the family expands, the number of family owners usually also increases, leading to conflicts that arise from family owners’ competing values and the higher diversity of personal goals (Ward 1997). Furthermore, descendent family firms (i.e., firms controlled by descendants or relatives of the founder) also include a growing number of passive family members (Jaffe and Lane 2004) who need to ensure financial performance to sustain their private lifestyles (Le Breton-Miller and Miller 2009). These passive family members tend to be less overinvested in the family firm, so they will behave more as diversified investors, placing more emphasis on short-term performance and the payment of dividends (Schulze et al. 2003). Based on this evidence, the SEW approach is projected on a generational perspective, emphasizing that a decreased need for socioemotional wealth preservation induces family owners and family firm managers to focus more on increasing financial wealth as the firm moves from a founding family-controlled to a descendent family firm (Gomez-Mejia et al. 2011).

Our claim here is that CEOs in family firms will be aware of the diversity of owners’ interests among

<sup>1</sup> Indeed, evidence shows that family CEOs hold tenure four times longer than that of a non-family CEO in the case of family firms (McConaughy 2000; Gomez-Mejia et al., 2003).



generations. Specifically, they know that as the firm transitions into subsequent generations, owners will dedicate more attention to economic goals. Hence, we would expect that the impact of past firm economic performance on the satisfaction of family CEOs in descendant-led family firms would be higher than that in the founder generation. Formally stated:

*Hypothesis 3* The impact of past firm economic performance on family CEOs' overall satisfaction with the firm will be lower for founder-led family firms than for descendant-led family firms.

### 3 Methods

#### 3.1 Data collection

We test our hypotheses on a unique representative sample of small Spanish firms competing in high- and medium-technology manufacturing and service industries. To draw our sample, we use the SABI database, the most comprehensive dataset of incorporated firms in Spain. Similar to other well-known databases of firms (e.g., COMPUSTAT), SABI provides information on company financials, directors, and contacts or corporate structures, indicating the industry in which the firm competes and its contact information.

We first searched for firms between 10 and 50 employees whose primary or secondary activity code corresponded to high- and medium-high-technology sectors (in both manufacturing and services industries), using the classification of the Organisation for Economic Co-operation and Development (OECD) and the Instituto Nacional de Estadística (INE).<sup>2</sup> In addition, we removed the few firms that were not incorporated

businesses or limited partnerships (Wiklund et al. 2009), obtaining a total population of 10,565 firms. A sample of 1500 firms was selected to guarantee industry and legal form representativeness (sampling error was  $\pm 2.34\%$  with a confidence level of 95%). Firms were randomly selected within each industry segment by means of a phone interview using computer-assisted telephone interviewing (CATI) software. Interviews were conducted between November and December of 2010 by a firm specialized in market studies with large experience in conducting similar research-oriented interviews. Ninety-seven percent of firms in the population were contacted and asked to participate, of which 1500 agreed to participate and responded to the questionnaire, yielding a 14.20% response rate. The survey was answered by the CEO of the firm, with interviews having an average duration of 27 min. Missing values reduced our effective sample to 823 for multivariate analyses (7.79% effective response rate). We found no differences in terms of size or industry between those who participated and those who refused to do so.

Primary data was obtained from the survey questionnaire answered by the CEOs during the interviews. This was the core source of information to measure several key constructs of our model. This information was complemented with some secondary information obtained from the SABI database achieving a unique and original collection of data.

#### 3.2 Variables

##### 3.2.1 Dependent variable

Satisfaction captures the CEO's level of satisfaction with the progress of the company. Specifically, and in line with previous studies such as Cooper and Artz (1995), we asked respondents to assess their personal overall satisfaction with their business. The item was measured with a single item using a five-point Likert scale (5 = totally satisfied, 1 = not satisfied at all) (Block et al. 2005; Carree and Verheul 2012). In contrast with multi-item approaches that rate satisfaction with different facets of the business (e.g., financial performance or sales), our measure requests a single global assessment without identifying specific factors. Hence, we do not make an ex-ante assumption about the dimensions or goals that are important to define the satisfaction levels of the CEOs and therefore avoid potential mistakes caused by failing to identify relevant dimensions. In

<sup>2</sup> INE is the Spanish National Institute of Statistics. Sectors 21 (manufacturing of pharmaceutical products), 26 (manufacturing of optical and electronic devices), and 303 (manufacturing of aeronautic and aerospace machines and products) are manufacturing high-tech sectors. Sectors 20 (chemical industry), 254 (weapon and ammunition manufacturing), 27 (manufacturing of electric products), 28 (manufacturing of machines and equipment), 29 (car manufacturing), 302 (manufacturing of railway products), 304 (manufacturing of military vehicles), 309 (manufacturing of other transportation materials), and 325 (manufacturing of medical instruments and supplies) are the medium-high technology manufacturing sectors. Finally, sectors 59 (image and music recording and editing), 60 (radio and television broadcast), 61 (telecommunication), 62 (software programming and consulting), 63 (information services), and 72 (research and development) are high-technology service sectors.

doing so, our approach seems to be particularly suited to capture the influence on satisfaction of the non-economic dimensions that go beyond the economic performance-related aspects usually captured in multi-item approaches.

### 3.2.2 Independent variables

*Past firm economic performance* In line with previous research (e.g., Zahra et al. 2004; Zahra 2005), a firm's past performance is measured as the mean of the operating results (in thousands) of the last three years prior to the survey (i.e., 2007, 2008, 2009) divided by the number of employees. It is therefore a size-adjusted measure of a firm's performance that depends directly on how well the firm is managing its core activities (i.e., those directly related to the production and sale of its product and services). The information was obtained from the SABI database.

*Family firm* Consistent with former operationalizations of family firms (e.g., Gomez-Mejia et al. 2001; Barth et al. 2005; Gomez-Mejia et al. 2010) and given the small size of the companies in our sample, we considered a firm as a family firm if the family controls, directly or indirectly, more than 50% of the shares and at least one family member is present on the board of the directors. Of the firms in our sample, 45.92% met this definition of a family firm. Furthermore, in order to test hypotheses 2 and 3, we considered within the subsample of family firms first whether they were run by a member of the family (CEO<sub>F</sub>) or by an external CEO (CEO<sub>NF</sub>). Finally, we also account for generational differences and distinguish between family firms in which the founder is still the CEO of the company (founder) and family firms in which the CEO belongs to the second or later generations of the family (descendant).

### 3.2.3 Control variables

We control for the respondents' demographic characteristics, specifically age, education, and experience. This approach accounts for the view of upper echelons theorists, where a close relationship exists between a person's demographic characteristics, her cognitive bases and values, and in turn her strategic preferences and dispositions (Hambrick and Mason 1984; Wiersema and Bantel 1992): Educational level is the highest educational level that the manager has reached. It is

measured by a dummy variable that takes the value 1 if he or she has university studies or higher (master's or doctorate) and 0 otherwise. Experience is a continuous variable that captures the number of years of labor experience in the same industry sector. CEO age is a variable that measures the age of the CEO of the firm. Finally, following Cooper and Artz (1995), we control for CEOs' expectations regarding firm performance by using a dummy variable that takes the value 1 when he or she thinks that the sales will increase next year and 0 otherwise.<sup>3</sup>

Respondents from large organizations (e.g., Gomez-Mejia et al. 2003) or within growing industries (e.g., Schulze et al. 2003) are likely to have different perceptions of performance. Hence, we control for the firm characteristics and industry conditions. Firm size is approached by the number of employees of the firm. Information was gathered from responses to a question in the survey instrument. Specifically, it is measured as a dummy variable taking the value 1 when the firm has more than 20 employees and 0 when the firm has between 10 and 20 employees (Correa et al. 2007; OECD 1995). Service is a dummy variable that takes the value 1 when the firm belongs to a service sector and 0 when it belongs to an industry sector.<sup>4</sup> Firm age is also a common control variable in small-firm research as it may capture differences in behavior and performance due to culture and generation issues. Firm age is computed as the difference between 2010, the year the survey was administered, and the year the firm was founded. Network aims at capturing the net of contacts, and it is computed as the average response to a series of ten items, each one representing a different stakeholder. Respondents were asked to indicate, using a five-point Likert scale, the importance of consulting firms, lawyers, public support agencies, accountants, banks, families, clients, suppliers, employees, and political contacts. Cronbach's alpha is 0.72. Finally, under-resourced (U\_R) is a variable that measures whether or

<sup>3</sup> There may be a potential issue of simultaneity between satisfaction and expectations of firm performance (i.e., expectations influence satisfaction, but also satisfaction may influence expectations). In order to gauge whether this potential simultaneity between these two variables may confound our conclusions, we ran our models removing the variable "expectations" from the model. Results were fully consistent with those reported in the article, and therefore, its presence or absence does not alter our main conclusions.

<sup>4</sup> Our main conclusions remain unaltered when a more fine grained industry breakdown is considered.

not the availability of capital has been inadequate and a major impediment to successful business development.

We also controlled for entrepreneurial orientation (EO), as individuals in companies with strong entrepreneurial orientation are more willing to take on high-risk projects in exchange for potentially high returns and satisfaction at the individual level (Miller 1983). To approach the entrepreneurial orientation of the firm, we employed 13 items previously proposed by Covin and Slevin (1989) (risk taking, innovativeness, and proactiveness), Lumpkin and Dess (1996) (autonomy), and Lumpkin and Dess (2001) (aggressiveness). As originally proposed by Covin and Slevin (1989), all items were measured on a seven-point Likert scale in which extremes are described by two opposite sentences. An exploratory factor analysis was conducted on the responses to these items. Consistent with previous research, the factor analysis revealed the existence of one factor that explained 64.1% of total variance. Cronbach's alpha is 0.70. The single factor represents EO as the average value of the 13 items. The measure ranges between 1 and 7, with a greater value of the variable indicating greater entrepreneurial orientation of the firm.

While having collected data from different sources may reduce concerns about a potential common method bias problem, we ran, as an additional test, a single factor analysis on the survey instrument variables (Podsakoff et al. 2003). The results reject that all the variables have significant loadings on a single factor—that is, they reject the existence of a single factor capturing a significant portion of total variance. Thus, we can confirm that our estimations are free of common method bias.

### 3.3 Estimation procedure

Given the nature of our dependent variable (i.e., satisfaction with the progress of the firm), we estimate a series of ordered probit models to test our hypotheses.<sup>5</sup> In addition, we use a split sample approach to compare the impact of past performance on CEO satisfaction in family and non-family firms (hypothesis 1), family and non-family CEOs in family firms (hypothesis 2), and

founder and descendant firms (hypothesis 3). The split sample method is appropriate when theory predicts independent-dependent variable relationships by subgroups, as it is the case in our context (family vs. non-family, family CEO vs. non-family CEO, founder vs. descendant). Indeed, according to Hoetker (2007), “evidence from simulations strongly suggests that researchers should not use an interaction term to compare groups unless there are compelling theoretical reasons to believe that the unobserved variation is the same across groups” (p. 339). A test of unequal variances supports that variances are different in the two groups in our sample. More importantly, over the last two decades, the family business literature has developed sounded theoretical frameworks to account for the observed differences between family and non-family firms (e.g., Gomez-Mejia et al. 2007; Le Breton-Miller and Miller 2009). In fact, ample evidence shows that family and non-family firms differ across several dimensions, including size, leverage, risk, and performance (Anderson and Reeb 2003; Maury 2006; Villalonga and Amit 2006). This is the reason why split sample analysis has been extensively used in previous family business studies (Gomez-Mejia et al. 2003; Berrone et al. 2010; Cruz et al. 2014). In addition, split sample analysis is even more desirable in the case of logit and probit models, where the use of interactions may lead to wrong predictions about the hypothesized relationships (Hoetker 2007).

We use robust standard errors in all our multivariate estimations to avoid concerns about heteroscedasticity. Variance inflation factors indicate that our estimations are free of any multicollinearity problems (Hair et al. 2009).

## 4 Results

The descriptive statistics and correlations for the variables used in this study are reported in Table 1. Of the firms in our sample, 45.92% are family firms and the remaining 54.08% are non-family. The mean value of satisfaction is 2.96 (on a scale from 1 to 5), while the mean value of the age of the firms is 24.28 years. A closer look at the values shows that past financial performance is positively correlated with satisfaction, but none of these variables has a significant relationship with our core variable, family firm. Family firm has a

<sup>5</sup> Ordered probit is the most appropriate model to use when (a) a dependent variable has more than two categories; (b) the values of each category have a meaningful sequential order where a value is indeed “higher” than the previous one; and (c) the data follow a normal distribution.



**Table 1** Mean, standard deviation, and zero-order correlation

	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13
1. Satisfaction	2.965	0.036	1												
2. Past firm performance	1.477	0.909	0.100**	1											
3. EO	3.808	0.030	0.128***	-0.035	1										
4. Size	0.565	0.017	0.117***	0.010	-0.112***	1									
5. U_R	2.786	0.052	-0.184***	-0.036	-0.001	-0.106***	1								
6. Firm age	24.282	0.624	-0.102***	-0.009	-0.021	0.046+	0.002	1							
7. CEO age	45.650	0.362	-0.09*	-0.018	-0.010	-0.013	0.020	0.114***	1						
8. Network	2.739	0.024	0.015	-0.036	0.057*	0.027	0.067*	0.003	-0.050+	1					
9. Education level	0.689	0.016	0.032	0.020	-0.093***	0.211***	-0.053*	-0.035	-0.135***	-0.011	1				
10. Experience	19.769	0.399	-0.079**	-0.023	-0.025	-0.049+	0.013	0.144***	0.734***	-0.063*	-0.251***	1			
11. Service	0.298	0.158	0.090***	-0.017	-0.077**	0.042	-0.037	-0.291***	0.104***	0.027	0.200***	-0.138***	1		
12. Expectation	0.909	0.397	0.173***	0.011	0.060*	-0.050+	-0.026	-0.037	-0.051+	0.028	0.069**	-0.065*	0.034	1	
13. Family firm	0.459	0.017	-0.010	-0.018	0.0033	0.089***	0.029	0.164***	0.030	0.046+	-0.008	0.036	-0.19***	-0.051	1

Significance levels are based on a two-tailed test: + $p < 0.1$ ; \* $p < 0.05$ ; \*\* $p < 0.01$ ; \*\*\* $p < 0.001$ 

significant relationship with the size and the age of the firm and with the industrial sector.

Table 2 examines results for hypothesis 1. Probit estimates show a positive and significant impact of past financial performance on CEOs' satisfaction in non-family firms. However, this relationship is not significant in the sample of family firms. Hence, these results offer preliminary support to our argument that, because of the relevance that non-economic goals have in family firms, CEOs' satisfaction levels in these companies will be less influenced by past financial performance.

As per the effect of control variables, results in Table 2 suggest that entrepreneurial orientation and CEOs' expectations of performance have a positive and significant impact on CEOs' satisfaction. In contrast, firm age, firm size, and firm difficulties in accessing resources have a negative and significant impact. This seems to indicate, consistent with Miller's (1983) view, that in firms that rate high on EO, CEOs will feel more satisfied. However, managing an older firm, a bigger firm, or a firm with difficulties accessing resources will lead CEOs to experience lower satisfaction levels. Interestingly, although we would expect that CEOs with higher initial performance expectations will be less satisfied (because they will have a greater expectation-performance gap), the opposite was found; those with higher expectations report higher satisfaction levels, even when controlling for performance. This result is consistent with the findings reported by Cooper and Artz (1995).

Importantly, we ran a preliminary  $t$  test analysis in order to analyze whether there are differences in the mean levels of satisfaction experienced by CEOs in family and non-family firms regardless of performance outcomes. Results reveal that no mean differences exist. Thus, on average, CEOs in family firms are not more or less satisfied than their counterparts in non-family firms.

Table 3 summarizes the results of ordered probit estimated to test hypotheses 2 and 3. These hypotheses advance differences in the effect of past economic performance on CEO satisfaction levels within family firms. In particular, the first and second columns of Table 3 show that the impact of past financial performance on satisfaction in family and non-family CEOs is not significant. Thus, hypothesis 2 is not supported.

Given that this preliminary result may be at odds with previous evidence relating the presence of non-family CEOs with a mitigation of families' emotional considerations (Poza et al. 1997; Bhattacharya and Ravikumar

**Table 2** Ordered probit for CEO satisfaction in family and non-family firms

	H1: Satisfaction					
	Family firm			Non-family firm		
	$\beta$	Standard error	<i>p</i> value	$\beta$	Standard error	<i>p</i> value
Past performance	3.753	(2.41)	0.119	3.403	(1.69)	0.045
EO	0.129	(0.07)	0.065	0.115	(0.06)	0.047
Size	-0.340	(0.12)	0.003	-0.191	(0.11)	0.073
U_R	-0.188	(0.04)	0.000	-0.125	(0.04)	0.000
Firm age	-0.365	(0.11)	0.001	-0.258	(0.11)	0.02
CEO age	0.001	(0.01)	0.949	0.008	(0.01)	0.278
Network	-0.044	(0.09)	0.618	0.049	(0.07)	0.502
Education level	-0.154	(0.13)	0.222	-0.128	(0.12)	0.297
Experience	-0.004	(0.01)	0.612	-0.009	(0.01)	0.143
Service	-0.084	(0.16)	0.593	0.197	(0.12)	0.087
Expectation	0.661	(0.21)	0.002	0.736	(0.21)	0.000
Log	-543.657		0.000	-616.274		0.000
P-R2	0.069			0.045		
Number of observations	377			445		

**Table 3** Ordered probit for family and non-family CEO satisfaction and generational stage

	H2: Satisfaction						H3: Satisfaction					
	CEOF			CEONF			Founder			Descendant		
	$\beta$	Standard error	<i>p</i> value	$\beta$	Standard error	<i>p</i> value	$\beta$	Standard error	<i>p</i> value	$\beta$	Standard error	<i>p</i> value
Past perf.	6.825	(9.21)	0.458	2.768	(2.18)	0.204	-28.587	(19.89)	0.151	23.318	(9.44)	0.013
EO	0.175	(0.08)	0.036	0.062	(0.13)	0.627	0.056	(0.12)	0.653	0.301	(0.14)	0.032
Size	-0.340	(0.15)	0.028	-0.251	(0.19)	0.185	-0.272	(0.23)	0.228	-0.361	(0.27)	0.185
U_R	-0.178	(0.05)	0.001	-0.218	(0.06)	0.001	-0.264	(0.08)	0.001	-0.155	(0.08)	0.046
Firm age	-0.222	(0.14)	0.126	-0.632	(0.17)	0.000	-0.015	(0.25)	0.952	-0.498	(0.25)	0.049
CEO age	0.001	(0.01)	0.893	0.006	(0.02)	0.714	0.006	(0.01)	0.693	0.002	(0.02)	0.93
Network	0.006	(0.11)	0.959	-0.094	(0.14)	0.513	-0.001	(0.14)	0.996	0.063	(0.19)	0.736
Education level	-0.191	(0.15)	0.206	-0.066	(0.22)	0.76	-0.256	(0.21)	0.221	-0.058	(0.26)	0.825
Experience	-0.008	(0.01)	0.383	0.007	(0.01)	0.598	-0.022	(0.01)	0.063	0.002	(0.02)	0.903
Service	0.163	(0.22)	0.468	-0.401	(0.22)	0.074	-0.006	(0.28)	0.985	0.655	(0.46)	0.152
Expectation	0.684	(0.26)	0.008	0.583	(0.38)	0.122	0.820	(0.37)	0.027	0.663	(0.39)	0.09
Log	-323.867		0.001	-217.02		0.000	-171.165		0.001	-149.368		0.005
P-R2	0.070			0.085			0.078			0.107		
Number of observations	223			154			117			106		

2004; Gómez-Betancourt 2004), we ran a post hoc analysis in which we divided the sample into negative and positive past performance. Results (available upon request) show that differences between family and non-family CEOs in family firms exist only when firm performance is negative—that is, when the family firm is facing negative performance, the impact of past financial performance on satisfaction is significant, but only for the case of non-family CEOs. This evidence adds an interesting twist as it suggests that under positive performance, non-family CEOs may play attention similar to that of family CEOs to the non-economic facets of the firm.

Columns three and four in Table 3 summarize the results of the estimations run to explore the differences in the effect of past financial performance on CEO satisfaction with the firm for family CEOs in founder-led and descendant-led family firms (as hypothesized in hypothesis 3). As shown in the table, the impact of past financial performance is not significant in the former (founder-led firms), while it has a positive and significant effect on the latter (descendent-led firms). This offers preliminary support to our claim that the effect of financial performance on family CEOs' satisfaction in the family firm is contingent upon the generational stage of the company.

We are aware of the fact that the non-linear nature of the model makes the interpretation of the probit coefficients less obvious, as in the case of ordinary least squares (OLS) (Hoetker 2007; Zelner 2009). Hence, to interpret our results further, we performed an additional analysis to estimate the marginal effects. The marginal effects in probit models (which approach the derivative of the dependent variable relative to an independent one) change with the point at which that marginal effect is evaluated. Accordingly, we set up all the control variables at their mean values and computed the marginal effects at the average satisfaction level (i.e., when CEO satisfaction equals 3 on the satisfaction with the firm scale). Specifically, we use STATA post package to estimate the change in predicted probabilities when CEO satisfaction is set at the average. In line with our initial findings, we observe that when past firm economic performance improves by one unit, CEOs in family firms are 12% more likely to report an average satisfaction level. The percentage is higher (16%) in the case of CEOs in non-family firms. These results offer further support to our argument in favor of the higher sensitivity of CEO satisfaction to changes in past performance in

non-family firms, as predicted in hypothesis 1. We performed the same exercise for the significant result found in hypothesis 3. Doing so, we observe that when past firm economic performance improves by one unit, the probability that CEOs in founder-led family firms report average satisfaction (i.e., satisfaction = 3) is reduced, whereas that probability is increased for CEOs in descendant-led family firms. Hence, marginal effects also suggest a differential effect of financial performance on CEOs' satisfaction depending on the generational stage of the family firm.

## 5 Conclusion and discussion

In this study, we have looked at the impact of the balance of economic and non-economic goals on the (largely unstudied) satisfaction levels of CEOs in small firms. The central contribution of this article stems from the effort to bring together ideas from the entrepreneurship satisfaction literature (Cooper and Artz 1995), corporate governance studies on owner-CEO relationships (Tosi and Gomez-Mejia 1989; Hambrick and Finkelstein 1995), and the SEW approach (Gomez-Mejia et al. 2007) to examine how family ownership and the presence of family ties influence the sensitivity to past performance on CEOs' overall satisfaction with the firm.

Our results suggest that ownership matters, in the sense that the impact of past economic performance on CEO satisfaction is largely determined by who controls the organization. Specifically, our results suggest that regardless of their family ties, CEOs' satisfaction in small family firms will be less driven by financial performance than in non-family firms. Although we do not provide a direct measure of the importance of non-economic goals, our research design controls for the pure economic performance of the firms, so we interpret this result as indirect (although preliminary) evidence of the heightened importance of non-economic goals in the case of family owners. Hence, in line with a major stream of the family firm literature (Gomez-Mejia et al. 2011), our theoretical and empirical analyses provide new ways of understanding the role played by the interplay between economic and non-economic factors on CEOs' satisfaction in small family firms.

Given the impact of decision makers' satisfaction on firm survival and growth (Cooper and Artz 1995) and the resilience of family firms (Chrisman et al. 2011), this finding opens up pathways for new research to

investigate how non-economic goals impact the survival and performance of small family firms. If performance outcomes are not the major drivers of CEO satisfaction in small family firms, this may explain why many small firms live in a state of “permanent failure,” which Meyer and Zucker (1989) define as “a condition characterized by sustained low performance and high persistence” (p. 68). The importance of non-economic goals leads owners and managers to continue operations and not give up in the face of low economic performance. This issue deserves more attention in future research.

The lack of empirical results for our hypothesis concerning the differential effect of past performance on satisfaction depending on the CEO family status also opens an interesting avenue for future research. It may indicate the high influence of family owners in imposing the pursuit of their non-economic goals. It may also be interpreted as consistent with a vision of non-family CEOs behaving as stewards for the controlling family (Davis et al. 1997). Socialization mechanisms may be playing a role here, especially in the context of small firms in which owners and firm culture are difficult to separate. Through interactions with family members, non-family CEOs in family firms learn the company’s culture over time, internalizing its values and goals as if they were her own (Inkeles 1964).

Nonetheless, efforts to socialize non-family CEOs in family firms may be worthless in economically difficult times where, as suggested by our post hoc analyses, pressures over employment and firm survival may turn non-family CEOs’ attention toward the more utilitarian aspects of the employment relationship. The study of these rather complex dynamics in the case of non-family CEOs in family firms is certainly an interesting avenue for future research, given the rising importance of professionalization processes in family companies.

The study also makes important contributions to our understanding of how the balance between economic and non-economic factors changes as the firm transitions from one generation to the next by showing how, over generations, pure economic goals gain relevance as determinants of family CEOs’ satisfaction. This also represents an important addition to the SEW literature, which calls for “more research explaining the factors behind the various sources and degrees of SEW” (Berrone et al. 2012, p. 270).

Our research also has some practical implications. One important request from family owners seems to be the reduction of the average failure rate of non-family

executives, which is often caused by dissatisfaction (Klein 2007). Our findings suggest that to increase the chance of a satisfying and successful employment relationship, family owners and non-family managers need to appreciate that there will be some differences in their goals, which should be communicated in a proper manner. Furthermore, findings point out that non-economic goals, which have to do with the SEW, are key determinants for non-family CEOs’ satisfaction in family firms. This dependence of satisfaction of non-purely economic elements may help explain why some managers stay with marginal businesses or keep on going with a business when the financial performance is even negative. Reinforcement of such elements may sustain high levels of commitment of non-family CEOs in family firms. Yet, family owners need to be careful not to limit the growing ambitions of non-family managers, avoiding problems related to executive entrenchment, which are often found in family firms (Gomez-Mejia et al. 2001).

### 5.1 Limitations and concluding remarks

Our work is not free of limitations. At least five aspects should be highlighted. Firstly, we use a single-item measure to capture CEOs’ satisfaction. Despite its limitations, the use of a single-item measure of satisfaction is very common in the large literature on employee job satisfaction (e.g., Bender et al. 2005). Moreover, in considering the psychometric properties of single-item job satisfaction measures, several psychologists have found that they show high reliability, significant validity, and considerable predictability (Wanous et al. 1997; Dolbier et al. 2005) compared with alternative multi-item measures. Secondly, the data are cross-sectional. Cross-sectional studies can suggest correlations but do not allow researchers to infer causal relationships or effects over time. We have been particularly cautious in the language used to avoid mentioning causal inferences. However, it is worth noting that our objective measure of performance refers to the period preceding the survey, and therefore, time causation is not violated. Thirdly, our sample consists entirely of Spanish firms; thus, any inference to other countries must be made with caution. Country-specific cultural and traditional influences may reduce the generalizability of our findings. Fourthly, data collection also captured a unique environmental context of economic and financial crisis. This added further difficulty to the already complex environment of firms in the high-tech and medium-high-tech

industries, which is characterized by high degrees of dynamicity and stiff competition. This particularly harsh context may have reduced the latitude of action of firms, as well as influencing the impact of their decisions on subsequent firm performance. We extend a call to other researchers to explore the issues analyzed here in relation to multiple cultural contexts, as well as to time periods free of global economic crisis. Finally, due to the nature of our hypotheses, we have intentionally focused on small high-technology firms. Hence, the generalization of our results to other industries or firm sizes should be made with caution.

In conclusion, the impact of past financial performance on CEOs' satisfaction with the firm in family firms is lower due, at least in part, to the greater relevance of non-economic goals in the subjective evaluation of satisfaction in these companies. The satisfaction of family and non-family CEOs in family firms is, at least in positive contexts, independent of past economic performance. However, while firm economic performance does not influence the satisfaction of founder CEOs of family firms, it does influence the satisfaction of CEOs who belong to the second or later generations of the family. Different preferences for economic and non-economic goals of owners may explain the existence of differences in the determinants of CEOs' satisfaction in these firms.

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