Spotlight
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Can emotional ties to the family business unlock entrepreneurship?

Psychological ownership drives innovation through knowledge sharing—but dampens risk-taking in family firms

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Family firms face a persistent tension: innovation is essential for long-term survival, but the emotional fabric of these businesses pulls toward stability rather than change. This study examines how that tension can be resolved through a psychological mechanism that does not appear on any organizational chart.

The concept at the center is **psychological ownership**—the deep emotional attachment that leads family members to experience the business as an extension of themselves. Using survey data from **93 Spanish family firms**, the authors examine how psychological ownership shapes entrepreneurial orientation through knowledge sharing, and how governance structures amplify or suppress the effect.

WHAT WE STUDIED

The theoretical framework draws on **stewardship theory**, which argues that individuals who identify deeply with an organization become intrinsically motivated to act in its long-term interest. Psychological ownership operationalizes this identification: it captures the felt sense of belonging, responsibility, and identity that comes with seeing the firm as "mine." The study measures three variables: psychological ownership (identification, belonging, responsibility toward the firm), entrepreneurial orientation (proactiveness, innovativeness, and risk-taking), and knowledge sharing (the willingness to exchange information and ideas across the organization).

The analysis tests whether psychological ownership produces entrepreneurial behavior directly or through knowledge sharing as a mediator, and whether governance context—generation in control, number of active generations, and family share of the top management team—moderates the effect.

KEY INSIGHTS

Psychological ownership drives innovation and proactivity—but not risk-taking

Family members with a strong sense of psychological ownership were significantly more likely to promote innovation and take proactive strategic initiatives. Their emotional investment produces a stewardship mindset that favors forward-looking behavior. But the same attachment dampens the third component of entrepreneurial orientation: risk-taking. The logic is straightforward. When you see the business as part of your identity, you protect it. Bold bets that might pay off in the long run compete with the instinct to preserve what you have built. The study shows that family firms high in psychological ownership are entrepreneurial in the sense of building and adapting, not in the sense of gambling.

Knowledge sharing is the essential channel

Psychological ownership does not automatically produce entrepreneurial outcomes—it has to flow through knowledge sharing. When family members openly exchange insights and information, the firm develops the collective intelligence that innovation requires. Without active knowledge sharing, psychological ownership becomes a private feeling rather than an organizational capability.

Governance structure shapes how strongly the effect operates

When later generations take over, governance typically becomes more formalized—procedures and explicit reporting lines replace the informal trust of founder-

led firms. This formalization dilutes the effect of psychological ownership by reducing the informal channels through which emotional commitment flows. When the top management team includes many family members, the opposite happens: shared values and informal ties amplify the effect.

Multiple generations in management does not help

Contrary to intuition, simultaneous involvement of multiple generations does not strengthen the psychological ownership–knowledge sharing link. Generational tensions and competing strategic visions offset the benefits of shared engagement. Generational diversity is valuable only when actively managed.

TAKEAWAYS

Cultivate psychological ownership deliberately

Legal ownership is a matter of equity stakes. Psychological ownership is a matter of how family members relate to the business. Programs that deepen emotional connection—involving younger generations in storytelling, mentoring, legacy-building projects, and strategic dialogue—build the stewardship mindset that drives innovation.

Design knowledge-sharing infrastructure

Psychological ownership needs channels to flow through. Open communication forums, informal mentoring, cross-generational projects, and collaborative decision-making all create the conditions under which emotional commitment becomes organizational capability.

Resist over-formalization as the firm matures

As family firms pass to later generations, the pressure to professionalize governance is real and often justified. But excessive formalization risks cutting off the informal relational channels through which psychological ownership operates. The best governance structures balance formal accountability with preserved space for trust-based, informal influence.

Accept the risk-taking trade-off

Family firms that rely on psychological ownership for their entrepreneurial energy will be systematically more conservative on risk. This is not a flaw to be corrected. It is a structural feature that families should recognize and plan around—compensating through external partnerships, targeted risk-taking ventures, or non-family executives with higher risk tolerance when bolder bets are strategically necessary.

IMPACT

This study clarifies the psychological mechanism through which family firms generate entrepreneurial behavior. By identifying knowledge sharing as the mediator and governance as the moderator, it provides a practical map for leaders who want to strengthen innovation without abandoning the emotional foundations of family enterprise. The message for practitioners: emotional commitment is a resource, but its value depends on whether the firm has built the infrastructure to convert it into action.

RECOMMENDATIONS

1. **Build emotional ownership alongside legal ownership.** Create structured opportunities for family members—especially younger generations—to develop a felt sense of identification with the firm through participation in strategic dialogue, storytelling, and mentoring.
2. **Invest in knowledge-sharing infrastructure.** Open communication forums, cross-functional projects, and informal collaboration channels are the mechanisms that convert psychological ownership into innovation capacity.
3. **Balance formalization with informal space.** Later-generation firms need professional governance, but retaining room for informal influence prevents the psychological ownership effect from being diluted.
4. **Plan around the risk-taking trade-off.** Acknowledge that deep emotional attachment produces conservatism on risk, and design external partnerships or dedicated ventures to capture bolder innovation opportunities when needed.

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