

## Chapter 77

# A Study on the Effect of Culture and Human and Social Capital on Entrepreneurial Strategies in Family Businesses in Iran

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### ABSTRACT

*Family businesses are formed and often transferred to new generations in order to achieve both financial and non-financial desired performances. Socioemotional wealth, such as a family's desire to exercise authority, and enjoyment of family influence, is an important driver of non-financial desires. Family business owners take into account socioemotional gains or losses for the family when considering the relative risks and benefits of various strategic choices. Culture, human capital, and social capital are some of the variables that influence decisions regarding socioemotional gains and losses. Entrepreneurship is also favorable for any economy and the interconnectivity of family businesses and entrepreneurship is of a great importance. To study the effect of the mentioned variables we have studied family business in Iran, a family oriented country with a strong cultural consistency which in many cases influences businesses. This study aims to analyze how culture, human capital, and social capital affect the preservation and development of socioemotional wealth in families and how they affect the firm's performance.*

### INTRODUCTION

The academic studies of family businesses and entrepreneurship and their praxes are interconnected and a high percentage of entrepreneurs found their businesses in the form of family firms. For many more, families are an important source of resources, especially human capital, (Aldrich & Cliff, 2003). Family business and entrepreneurship appear to be associated in several forms such as: entrepreneurial stages

DOI: 10.4018/978-1-5225-1923-2.ch077

of family businesses, family entrepreneurial teams, families fostering entrepreneurship, entrepreneurial orientation of different generations of family businesses, etc. The undeniable capacity of entrepreneurship as the engine of the growth of the economy, and the important role of family businesses in the economy, give rise to the significance of more studies to integrate these two fields.

Family businesses are considered to be of a great importance in business and management studies. As indicated by Craig and Moores (2015), family businesses are said to constitute more than 80% of all businesses in the world's free economies. They dominate all industry sectors, are responsible for almost 75% of total jobs generated, and create an estimated 70-90% of global GDP annually.

The family business literature is highly fragmented, yet many aspects of family businesses have been studied and tested. Thanks to numerous researchers, we now have sufficient information about different stages of family businesses and different models and theories to study them. A number of empirical studies have been carried out in different contexts in this field, which helped broaden our perspective and gave more insight to this study. Some theories will be introduced and used in this chapter based on the need to explain or classify certain structures and behaviors. These include System Theory (Moores, 2009), and the resource-based view of the firm, (Habbershon & Williams, 1999; Habbershon, Williams, & MacMillan, 2003).

There might be variations in the definitions and theories used in the academic literature but there seems to be a general agreement that family firms are those that are influenced by families; however, the extent of their influence in the firm, in order for them to be called family businesses, is a controversial topic among scholars. The intensity of the influence varies based on the measure chosen by scholars, and family firms are in fact different from non-family firms in their non-financial performances.

Family firms are especially interesting and possibly more complex than other types of firms because they are influenced by family, social, and emotional factors, as well as economic factors (Craig & Moores, 2010). Family firms have financial performances as well as nonfinancial outcomes, and sometimes it is difficult to financially rationalize decisions made in family firms that have a negative impact on the firm's monetary performances. Researchers have tried to explain this by connecting it to an emotional variable presented most dominantly in family owned businesses. The desire to practice power and influence, provide a future investment for the next generation, preserve social class, support family members, and other similar characteristics are the primary motivators that drive affective decision making which sometimes might not translate into a quantifiable financial benefit for the firm. There have been several efforts to tie these affective characteristics to emotional environments that are idiosyncratic to families, but prior to comprehensive studies by Gomez-Mejia and colleagues, there hadn't been a general theoretical framework for doing so. Gomez-Mejia, Haynes, Núñez-Nickel, Jacobson, and Moyano-Fuentes (2007) and Gomez-Mejia, Cruz, Berront, and DeCastro (2011) elaborated on these affective characteristics of family firms by introducing the construct of socioemotional wealth (SEW).

The model was introduced as an extension to behavioral agency theory and its usage in studying family businesses has been immensely helpful. This model is built on the foundations of former family business studies. As mentioned by Berrone, Cruz, and Gomez-Mejia (2012) the SEW model simply suggests that family firms are typically motivated by, and committed to, the preservation of their SEW, referring to the nonfinancial aspects or "affective endowments" of family owners. In this model, gains or losses in SEW represent the frame of reference that family-controlled firms use to make major strategic choices and policy decisions. The model provided by Gomez-Mejia et al. (2011) combines elements of agency theory, prospect theory, and behavioral theory of the firm, therefore strategic choices can be identified as a selection of alternatives that vary in potential gains or losses. "From this perspective, decision

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