Chapter 10
Socioemotional Wealth and Its Effect on Family Firm Performance

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ABSTRACT

Family firm is the oldest and the most prevalent type of business entity in the world. A unique feature that sets apart a family business from its non-family counterparts is the Socioemotional Wealth (SEW). Preservation of SEW among family firms is of paramount importance. Various strategic choices including need for innovation and internationalization are influenced by SEW. Studies also show that a family firm's SEW plays an influential role in the firm performance. This chapter outlines the different scales used to measure SEW, checks the reliability and internal consistency of the existing REI scale in Indian context, investigates the heterogeneity of family firms and understands the effect of different SEW dimensions on firm performance. The findings reveal that SEW has a significant positive effect on firm performance. Contributions of the study and scope for future research are also discussed.

INTRODUCTION

The family business is the leading and the most prevalent type of entity in the world (Saiz-Álvarez, Leitão, Palma-Ruiz, 2019; Sharma, Chrisman, & Gersick, 2012). Family firms contribute to two-thirds of all businesses across the globe, generate around 70-90 percent of annual global GDP, and create 50-80 percent of jobs in the majority of countries worldwide (Saiz-Álvarez, Leitão, & Palma-Ruiz, 2019; Saiz-Álvarez & Palma-Ruiz, 2019). In the United States, one-third of S&P 500 firms are owned/controlled and managed by the founding family, accounting for 89 percent of total tax returns, 64 percent of GDP, and employing 62 percent of the total workforce (Anderson & Reeb, 2003; Astrachan & Shanker,

DOI: 10.4018/978-1-7998-2269-1.ch010

2003). While the importance of family firms is even higher in Europe (Botero, Cruz, De Massis, & Nordqvist, 2015), they also significantly contribute to the growth of economies in South and East Asia, Latin America, and Africa. More than 60 percent of the companies in Europe and the Americas are family firms (Ernst & Young, 2013). In Southeast Asia, around 85 percent of the businesses are either founders or family-run. These statistics reveal the sheer dominance enjoyed by family firms in the world.

Family business, just like any other phenomenon in management studies, is governed by several theories. One of the most influential theories since 2007 that govern family business (Odom, Chang, Chrisman, Sharma, & Steler, 2019) is the socioemotional wealth theory (SEW). The distinguishing factor between family firms and non-family firms is the concept of socioemotional wealth. The SEW theory was conceptualized in 2007 by Gomez-Mejia, Takacs, Nunez-Nickel, and Jacobson. They defined SEW as "non-financial aspects of the firm that meet the family's affective needs, such as identity, the ability to exercise family influence, and the perpetuation of the family dynasty" (Gomez-Mejia et al., 2007, p. 2).

The concept of SEW has garnered tremendous interest from the researchers working in the area of the family business, albeit the concept is just more than a decade old. Socioemotional wealth is a construct formed by five dimensions. Berrone, Cruz, and Gomez-Mejia (2012) identified five major dimensions of SEW and proposed a set of items to measure such dimensions, which they labeled as FIBER (Martínez Romero & Rojo Ramírez, 2017). FIBER is an acronym which can be expanded as Family control and influence (F), Identification of family members with the firm (I), Binding social ties (B), Emotional attachment of family members with the firm (E), and Renewal of family bond to the firm through dynastic succession (R).

The extant literature on SEW emphasizes the significance of this non-economic factor in strategic decision making (Cennamo, Berrone, Cruz, & Gomez-Mejia 2012; Naldi, Cennamo, Corbetta, & Gomez-Mejia, 2013). The use of emotions over rationality typically characterizes the decision-making process in a family firm. Family firms tend to protect their SEW, even if the opportunity cost of preserving this wealth is high.

Some of the empirical studies have highlighted the effect of SEW on family firm performance (Anderson & Reeb, 2003; Simoes Vieira, 2014; Barontini & Caprio, 2006; Morck, Schleifer, & Vishny, 1988). Family firms represent a complex world with different models of governance and management, which affect performance differently (Gottardo & Moisello, 2015).

In this chapter, we will primarily study, from a SEW perspective, the effect of different SEW dimensions on family firm performance in the context of Indian MSMEs micro, small, and medium enterprises). Before diving into this, we will attempt to understand the concept of SEW, its five dimensions, the different scales used to measure SEW, and the role of SEW in strategic decision making.

The objectives of this chapter are:

- To outline the different scales used to measure SEW.
- To check the reliability and internal consistency of the existing REI scale in the Indian context.
- To investigate the heterogeneity of family firms.
- To understand the effect of different SEW dimensions on firm performance.

The REI scale developed by Hauck et al. (2016) is found to be reliable and internally consistent in the Indian context. Using this scale, based on the primary data collected from 91 family firms, our findings reveal that SEW has a significant positive effect on family firm performance.

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