

THE RELATIONSHIP BETWEEN THE SOCIOEMOTIONAL WEALTH AND THE FAMILY BUSINESSES' SUSTAINABILITY

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Abstract:

The family businesses form an important segment of business environment all over the world, and as a relevant set of the SME sector at international level, they do not possess a research activity connected to these characters in Hungary. However, there is no secondary database available to precisely reveal among the Hungarian enterprises the family businesses' role and presence in the sectors, size categories; several international studies underline the family businesses' importance in national economy based on the rate of their GDP contribution and their position in employment (Astrachan & Shanker, 2003; Mandl, 2008).

The main goal of this study to explore the relationship of the socio-emotional wealth structure with corporate performance; namely the family business' growth indicators (average turnover growth and average assets growth), its profitability indicators (RoA, RoI, RoE) and innovation performance (interpretation by the Oslo Manual).

Based on the literature research in both theoretical and practical terms we intended to enrich the material available concerning family businesses, so set our goals as follows: analyzing the socio-emotional wealth structure of the family businesses in the sample, quasi empirical testing different SEW approaches, creating an own SEW model; and improving the low empirical basis concerning the relations of SEW factors and corporate performance.

Keywords: family business, socioemotional wealth, business performance, innovation performance

1. LITERATURE REVIEW - THE APPROACHES AND MEASURING SCALES OF THE FAMILY BUSINESS' SOCIOEMOTIONAL WEALTH

The socioemotional wealth (SEW) is one of the concepts in theoretical literature dealing with family businesses which has a rather short past, however, as for the general approach this means one of the promising directions of the future researches in all analyses of performance, company evaluation, diversification, social responsibility, venturing and the given concept with family business in the focus (Sciascia & Mazzola, 2014; Gómez-Mejía et al., 2007; Berrone et al., 2012, Romero & Ramírez, 2016, Zellweger & Dehlen, 2011).

The SEW's first definition in 2007 (Gómez-Mejía et al.) emphasized the family's emotional needs which can be complete in identity, the family's influence practice and commitment to the family's dynastic sustainment. The term was reinterpreted in 2008 when Zellweger & Astrachan (2008) identified that with the part of the business value which cannot be explained financially, objectively, thanks to these factors below:

- family name, family values, family control, ethical and long-term employment;
- intimate culture, deep commitment to preserving the family business' social capital;
- desire for dynastic wealth assignment;
- family lifestyle;
- due to blood relationships, family commitment, altruism of the family members making efforts for the business.

According to Cruz et al. (2012) the socioemotional wealth is a quasi-emotional ability which is an essential part of the family business due to family connections, which is capable of influencing the family business' performance. Berrone et al. (2012) see SEW in a way that this is basic factor distinguishing family businesses from nonfamily businesses, thus including the family business' behaviour specialties. The family business' attitude is based on the family businesses' specific multidimensional goal system and orientation in which according to Basco's (2016) research based on Spanish family businesses it is identified alongside short and long-term economic, non-economic, and business and family orientation. Among specific short-term goals connected to family appear satisfying the family's financial necessities, creating the family's material security, the common time while among the long-term family goals appear increasing the family name's social recognition, good reputation and customers' loyalty, or the family's trustworthiness. Family coherence, successors' training and calling the children into the business are usual.

The authors, Romero & Ramírez (2016) created the SEW's general approach and the conceptual definition who mean by socioemotional wealth the family businesses' internal, unclear capability inseparable from the family business.

The primary researches conducted so far relating to the family businesses' performance (growth, innovations and profitability) generally do not apply the SEW based approach, instead of the family's entrepreneurial attitude and approach the family owner and management participation, and the questions of generations (lifecycle segment) appear in the studies. However, during the last years this was disputed by several researchers due to its limits of which I would like to highlight the following: However, the family ownership interest and management participation are available for the researchers (Berrone et al., 2012; Chua et al., 2015) as secondary data, that does not reflect the family business' emotional abilities. Some researches handle the higher family property and management ratio as a synonym for higher emotional feeling, yet according to other authors this is wrong since the higher family ownership interest in this case can affect the emotional wealth negatively, for example if the successors feel the family's entrepreneurial state and the dependence from the company itself (Freudenberger et al., 1989) as pressure on them. The proxy variable cannot reflect the diversity and multidimensionality of the socioemotional wealth (Berrone et al., 2012; Chua et al., 2015; Miller & Le Breton-Miller, 2014; Schulze & Kellermanns, 2015; Hauck et al., 2016).

To stimulate the topic's empirical regards Berrone et al. (2012) created the system of measuring SEW putting it into 5 dimensions (FIBER scale): Family control and influence, Identification of family members with the family business, Binding social ties, Emotional attachment of family members, Renewal of family bonds to the firm through dynastic succession.

The variable set of the four five-point Likert scales (one = not at all important and five = very important) created by Goel et al. (2013) can be considered as the direct and multidimensional measurement scale of SEW containing the dimensions as follows:

- Preserving family traditions and the family character of the business,
- Creating and maintaining the workplace for the family,
- The owner's independence,
- Independence in management.

The next milestone in operationalizing can be connected to Schepers et al. (2014) who expressed the socioemotional wealth with the variable set of the following 6 items on a seven-point Likert scale (1 = completely disagree; 7 = completely agree):

- In delegating responsibility and selecting new managers family members have benefits.
- Family members have a salary different from nonfamily members.
- An important goal of the family business is to create jobs for family members.
- The successors should be selected from the family.
- To maintain the family's employment is the main goal for the business.
- To protect the management's independence is an important goal for the family business.

Debiczki et al. (2016) also contributed to enrich the concept system of the socioemotional wellbeing, in their concept SEW is the configuration of the non-financial benefits which are connected to the family members' wellbeing and their other emotional attachments originated from operating the business. Debiczki et al. (2016) made a measurement scale of nine items to measure SEW termed as the socioemotional wellbeing importance scale marked by SEWi.

The empirical validation of the FIBER scale was conducted by Hauck et al. (2016) calling in German and Austrian family businesses (n=216); referring to the difficulties of the data collection and matching the definition of SEW as a suggestion they created a shortened version of the FIBER scales termed as REI scale, and according to the authors it includes those three elements of the FIBER scale which reflect the family emotional capabilities, namely:

- maintaining the transgenerational vision and the dynastic owner's positions, the need for giving and conserving family values, traditions inside the family (R);
- emotional bonds among the family members (E); and
- the cohesion, safety representing the intertwining of the family and business, and their effect on identity (I).

In our research model, we see the original model rather than the narrowed one as the starting point to know the socioemotional wealth more comprehensively and completely, and we supplemented with certain elements of different theoretical models termed relevant by us.

2. EMPIRICAL RESEARCH

2.1. Methodology

Our empirical research focused on one of the several special characteristics of family businesses, the factors of the so-called socioemotional wealth and the business performance of the surveyed family firms. The main research question of the paper is which factors of socioemotional wealth can increase and decrease the financial performance of the family businesses. In order to analyze this topic, we designed an on-line survey. The sample was compiled by using the Bisnode HBI database. First, we selected those companies with size between 50 and 249 employees and the net income between 10 and 50 million euros and/or a balance sheet total between 10 and 43 million euros. We sent an email to 3,745 companies (the others did not have an email address) between 11 October 2016, and we closed the survey on 15 December 2016. The rate of responses was rather low (5.21%) even if we sent reminders to companies we selected into our sample. Still, we got 195 responses altogether that served the basis of our investigation. Taking into account the family or non-family firms as a dichotomy factor, we classified 65% of our respondent companies as family businesses and 35% as non-family businesses. In this article we analyzed the family firms (N=127).

There were 127 family businesses in our sample out of which 40% could be considered in the first generation phase, meaning that the company is fully managed and controlled by the founder. Apart from them, 35% of the respondent companies went through a succession, professionals coming from the same company managed 19% of the companies and a mere 6% had professional leadership coming

from outside the company in question. In order to make the analysis with the same number of companies in each categories, we made a data compression and used the following categories in our investigation:

- Companies managed by the founder (40%);
- Companies with multi-generation management (35%), and
- Family businesses with professional management (25%).

2.2. Hypotheses, methods, results

Hypotheses, the methodology of their testing, and the findings are presented in this chapter.

H1. The socioemotional wealth of the first-generation family businesses differs from the wealth represented by the multigenerational family businesses.

The socioemotional capital is one of the least worked out and revealed projections of the research directions concerning family businesses. To measure the socioemotional wealth there has been no primary research in Hungary, so involving that into my research concept hid new and novel results. To measure the family businesses' socioemotional wealth we applied 24 variables, and every one of them was metric variable (seven-point Likert scale). We reduced the number of the variables to analyze further with the help of factor analysis. The goal of applying factor analysis was to reduce the number of the variables besides minimal data loss. First, we analyzed the applicability of the data with the help of SPSS 22.0. We can sum up the results as follows: According to the correlation matrix, it can be stated that the variables are applicable for a principal component analysis since out of 576 correlation values 515 were significant. The anti-image covariance as well as the anti-image correlation matrix show that all the variables match the factor model. All MSA (measure of sampling adequacy) elements in the diagonal of the anti-image correlation matrix are over 0.5, more exactly between 0.951 and 0.726. We dropped the null hypothesis of the Bartlett test, namely the lack of correlation between the variables since the significance level of the Bartlett test is below 0.05.

The Kaiser-Meyer-Olkin (KMO) criterion also made me sure that the variables are applicable for a principal component analysis. The KMO is 0.899, which is said to be excellent based on the theory, thus the variables are very applicable since $KMO \geq 0.9$. On the whole all the four prior analyses confirmed the applicability of the method selected.

Based on the analysis of the communalities we can also say that all the variables can give explanations, so there is no variable which does not play an important role in expressing the family business' social attachment or wealth. According to the scree plot out of 24 factors the eigenvalues of the first five exceed the Kaiser criterion. The first 5 factors explain more than 71% of the variance representing all the variables which exceed the minimum criterion (60%) applied in social sciences. In selecting the factors, we applied the so-called Varimax rotation from the orthogonal rotation methods because later we would like to use these factors in a regression model; we chose this rotation process since we was also trying to maximize the variance explained by the factors.

Considering the element numbers of the sample we saw the factor loading of 0.50 statistically significant, so based on the rotated component matrix I identified the following factors:

Table 1: Rotated Component Matrix – SEW dimensions

Rotated Component Matrix	Component				
	1	2	3	4	5
Ethical values	.867				
Personal values	.862				
Emotional values	.782				
Trustful connection with clients, suppliers, employees	.645				
Workplace values	.571				
Caring "paternalist" leading style where the employees see themselves as quasi family members	.539				
Due to the family's commitment deep commitment in the employees	.515				
Local values		.834			
Relation values		.681			
Maecenas values		.675			

Powerful social awareness felt in the form of actual participation in local society and community		.661			
Community values		.625			
Education values		.561			
Increasing the family's human capital (family members' training, education)			.774	Component 3: family's emotional attachment	
Maintaining family harmony			.760		
Strengthening the family's reputation, social recognition, appreciation			.693		
Family harmony and unity are usual inside the family business.			.691		
Preparing the next generations to be successors			.638		
Ensuring the family's wellbeing			.558		
The family participates in working out the business development strategy.					.906
The family members help managing the change processes and support the strategy directions.				.796	
Long-term effects on several generations, traditions connected to the founder's personality					Component 5: Founder's values and traditions
Values, moral examples and ethical behaviour followed by the family					
					.590
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. a. Rotation converged in 7 iterations.					

Source: own research

As the result of the factor analysis, to express the SEW approach and measurement we identified five factors which show the family business' specific internal energies and make the family code measurable. Compared to the FIBER scale as the starting point, a specific and different SEW model was born with the help of the factor analysis. In the own SEW factor model the social capital was sophisticated since the connections, knowledge and trust capital with the stakeholders of the micro and the macro environment were all put in a separate factor. The family's dynastic heritage component appears in two separate factors which well reflects the success conditions of passing over inside the family, namely the tasks and obligations to prepare the successor, and on the other hand the relevance of the conscious long-term planning and strategy making.

The family harmony and the self-identity with the family business was put into one factor so that can more represent the belief that the source of harmony roots in the family business itself, and consequently becoming its very important nourishment. Hereafter my researcher's interest focused on the relations of the socioemotional wealth and the family business' generation composition, and we conducted the testing of hypothesis H1. via variance analysis. Before applying the variance analysis, we analyzed the fulfillment of the conditions of the variance analysis as follows. The requirement of normality partially fulfils for the dependent variable based on the kurtosis, skewness and normality analyses. According to Levene's test the variance homogeneity is partially valid, the test shows homoscedasticity in case of 3 out of 5 factors. However, F-test is rather robust meaning that the unfulfillment of certain conditions do not have a key impact on the validity of the conclusions made by the test (Mitev & Sajtos, 2007).

Based on the variance analysis (Table 2) the deviation of the category averages of the multigenerational family businesses and those managed by the founder is significant in case of the factors "family attachment", "family strategy" and "the founder's heritage" so calling in the successors leads to a kind of capital transformation, a metamorphosis concerning the socioemotional capital types.

Table 2: ANOVA table - generational structure and the factors of the SEW

ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
Internal social attachment	Between Groups	1,562	1	1,562	1,574	,213
	Within Groups	75,420	76	,992		
	Total	76,982	77			
External social attachment	Between Groups	1,791	1	1,791	2,201	,142
	Within Groups	61,848	76	,814		
	Total	63,639	77			
Family's emotional attachment	Between Groups	5,024	1	5,024	5,584	,021
	Within Groups	68,375	76	,900		

	Total	73,399	77			
Family strategy	Between Groups	3,837	1	3,837	3,813	,045
	Within Groups	76,476	76	1,006		
	Total	80,312	77			
Founder's values and traditions	Between Groups	4,559	1	4,559	4,976	,029
	Within Groups	69,629	76	,916		
	Total	74,188	77			

Source: own research

In case of those first-generation family businesses in founder's phase operating in the form of the so-called one-man show or mother-father or sibling alliance who filled out the survey, concerning family attachment (harmony) or social capital the survey brought higher averages meaning that concerning calling in the successors these dimensions represent the least smoothly conservable and transmittable factors.

In case of the businesses with multigenerational management among the factors of SEW identified by us the internal social attachment, the family's strategy direction and the family traditions proved to be quasi stronger.

The socioemotional wealth forms one important dimensions of the family business' long-term subsistence and its central term among others is social knowledge (Makó et al., 2016) whose transmitting from generation to generation, so via efficient communication channels (learning by doing) is of key importance. However, based on the analysis more emphasis should be put on that in the future since the multigenerational family businesses are lagging behind the first generation family businesses in this respect, so on the one hand in family business focused trainings the possible strategies and tactics of passing over the social capital should be discussed, and on the other hand economic politics should realize the family businesses' importance in national economy and undertaking the family businesses' burdens of transmitting between generations.

The other critical socioemotional factor is family harmony which, based on my research results, decreases with the family's complexity growth. The viewpoint of Sandig et al. (2006) saying that in parallel with the family's expansion the personal business goals bringing conflicts are increasing, the conflicts between generations, and consequently the family members' satisfaction is decreasing and the solidarity inside the family are all hard to analyze without direct experience analysis, so the cognitive and explicit discussion of this dilemma can take place later after performing a qualitative research.

H2. The rate of the socioemotional wealth and the family businesses' performance correlate.

Based on the factor analysis conducted in my analysis I expressed the family businesses' socioemotional wealth with the following factors and the factor scores determined by the regression method:

SEW_F1: Internal social attachment
 SEW_F2: External social attachment
 SEW_F3: Family's emotional attachment
 SEW_F4: Family strategy
 SEW_F5: Founder's values and traditions

Testing the hypothesis was done by correlation calculations using the performance indicators (profitability indicators: Return on Assets, Return on Investment and Return on Earnings; growth indicators: average growth in assets and average growth in turnover, and the innovation activity) besides the five SEW factors. To measure innovation performance we formulated the so-called Innov_activity (2012-2015) variable in the following way: we fixed the individual innovation output elements as separate variables in SPSS making them dummy. We combined the 12 variables mentioned expressing innovation performance in a new variable (SZUM_INNOV) and by standardising this variable we formulated the index Innov_activity (2012-2015). The Pearson's correlation coefficients show statistically significant correlations in the following cross sections.

Table 3: Correlation coefficients – SEW versus corporate performance

Indicators	SEW_F1	SEW_F2	SEW_F3	SEW_F4	SEW_F5
RoA		0.247**			
RoI		0.232**			

RoE					
Average growth in assets			0.261**		
Average growth in turnover					-0.292**
Innovation performance					

Source: own research

Based on the correlation analysis we can conclude that analyzing the elements of the “emotional load” (side) forming the family businesses’ specific internal energy level as opposed to the nonfamily businesses in relation to the performance indicators there is a moderately strong, positive correlation between profitability (on assets and capital) and the family business’ social attachment (social capital) concerning the external stakeholders verifying the view that one of the most important capital elements of the family business lies in its social relations (Makó et al, 2016).

Our analysis revealed connections with various directions concerning the growth indicators and certain dimensions of the socioemotional wealth. There is a moderately strong positive correlation between the family’s emotional safety, the family harmony and the growth in the business’ balance sheet total. The research result matches the international antecedent researches (Cassia et al, 2011 and Cassia et al, 2012) which stated and validated empirically that harmony between family members, open communication and commitment to common family values improve the businesses’ performance.

There is a moderately strong negative correlation between the values, traditions represented by the founder and the average revenue growth pace in case of the businesses in the sample meaning that the founder’s conservatism, respect towards traditions and the “we always did this way” attitude can be the obstacle of growth in the ripe age businesses’ life as it is in Dodero’s (2010) theoretical growth model. Calling the successors into the family businesses may be the engine of the renewal and growth. There is no statistically verified correlation between the innovation performance and the SEW factors meaning the socioemotional wealth lying in family businesses do not influence the innovation activity directly.

4. Summary, conclusion and limitation

The concept and theory of the socioemotional wealth is a relatively new area for the research of the family businesses. In my study I measured the family’s socioemotional wealth with 24 items or variables known from different SEW concepts of literature reducing them to 5 factors with factor analysis. In case of two (internal social connections and external social attachment) out of the five factors the F-test does not show significant difference among family businesses with various management structures. Analyzing the category averages the result was the family businesses in founder’s phase have surplus concerning family attachment (harmony) and external social attachment factors while in the areas of family strategy commitment, internal social attachment and family values (founder’s heritage) the multigenerational family businesses have more. Thus, the socioemotional wealth can change, growing from one generation to the other.

Familiness and F-factor seen known as the family businesses’ distinguishing competitive advantage and the socioemotional wealth which is a certain family code, an uncopyable, unique, inimitable element of the family businesses’ operation model, based on the analysis performed, besides that exists, it has an impact on the family business’ performance. The external social attachment factor has a moderate positive correlation with the profitability indicators, the family harmony and emotional attachment showed a moderate positive correlation with the average asset growth pace while the founder’s values and traditions factor was the only factor which had a negative moderate correlation with the revenue growth pace.

Of course, this present research can be judged comprehensively and objectively by not only with its novelties but also with its limits. Among the limits of this research, we should mention that as the results of the online survey are not conclusions are drawn based on a representative sample.

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