Faculty Research in Practice

A SOCIOEMOTIONAL WEALTH PERSPECTIVE ON FAMILY BUSINESS IN THE UAE: THE IMPACT ON PERFORMANCE

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Introduction

Family businesses account for more than 90% of commercial activities in the Gulf region (Rettab & Azzam 2011; Majumdar & Varadarajan 2013), compared to rates ranging from 65% to 80% in other parts of the world. Moreover, they also contribute 60% to GDP and employ over 80% of the workforce, according to a recent survey (PWC 2016). Farzanegan (2014) comments that countries with high oil reserves usually have fewer entrepreneurial activities. However, effective policies and governance can moderate the entrepreneurship–oil rents nexus. The Middle East and North Africa (MENA) region has the highest rate of youth unemployment in the world at 27.2%, according to the World Economic Forum (2015). It seems that there is a great need to increase business activities and the establishment of firms in the region to combat this challenge. Since family businesses are the largest form of business, they should play a critical role in encouraging entrepreneurial activities to provide more job opportunities. Gulf families generally pass ownership to members of the next generation and strive to protect the benefits of family members. This indicates a solid influence of 'familiness' in the business system, although there is a lack of research in this region. As observed by De Massis, Sharma, Chua and Chrisman (2012), current knowledge about family businesses has a strong Western slant; thus, it is essential to test and generalize current theories in other parts of the world.

Resources-based theory is one of the popular theories gathered from the strategic management domain that have been examined in the family business context (Tokarczyk, Hansen, Green & Down 2007; Habbershon & Williams 1999). Many studies found that family firms are significantly different from nonfamily firms regardless of national context (Reid & Adams 2001; Chrisman, Chua & Litz 2004; Rettab & Azzam 2011; De Massis, Frattini, Pizzurno & Cassia 2015). Behavioral theory has been used as the differentiator between family and nonfamily businesses because this theory support the willingness to pursue the emotional value of ownership, and emphasises the creation and conservation of the socioemotional wealth of the family and altruism towards family members (Lubatkin, Schulze, Ling & Dino 2005). As a result, this may influence the performance of a family business, especially in that there could be a lack of competent family managers or inefficient uses of firm resources from the resource-based perspective. Extending the behavioural agency model, there emerges a 'home-grown' theory of family business studies: socioemotional wealth (SEW) (Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson & Moyano-Fuentes 2007; Berrone et al. 2012). This has started to be adopted as the main theoretical framework in empirical studies of the family business (Schepers, Voordeckers, Steijvers & Laveren 2014; Gómez-Mejía et al. 2007; Naldi, Cennamo, Corbetta & Gómez-Mejía 2013; Hauck & Prügl 2015) This home-grown theoretical framework provides legitimacy and positions the area of family business studies as rigorous, unique and solid field (Berrone et al. 2012). SEW comprises the stock of affect-related value that a family derives from its controlling position in a particular firm (Schulze & Kellermanns 2015). The core of SEW is that decision-making in family businesses is not only driven by economic aspects but also in particular by non-economic aspects that meets the family's affective needs (Hauck & Prügl 2015). Firms' choices depend on the reference point of key decision makers, who aim to preserve their accumulated endowment in the firm. Gómez-Mejía et al. (2007) comment that preserving socioemotional endowment is critical for the family and it becomes the primary reference point for guiding managerial choices. Guided by resource-based theory and socioemotional wealth (SEW) theory, this paper aims to confirm the link between managerial capabilities and performance among family-controlled firms. In addition, it also examines the moderating impact of each of the SEW dimension proposed by Berrone et al. (2012) on the link of managerial capabilities-performance.

Brief Literature Review

Chrisman, Chua and Sharma (2005) provide support that the resource-based theory approach could help to identify capabilities that allow family firms to develop family-based competitive advantage. As a family business generally has a stronger intention to pass the business to subsequent generations, it focuses on reputation building and long-term relationships with external providers of resources. The long-term investment in core competencies produces resources and capabilities that are sustainable. This visionary and purposeful investment approach builds on path dependencies that keep a firm's capabilities growing cumulatively therefor it is difficult for rivals to imitate (Miller 2003). In order to generate high value and achieve both goals, family firms will endeavour to build up managerial capabilities to manage its various types of resources.

The investigation of how family involvement influence firm performance (Chrisman et al. 2004; Miller, Le Breton-Miller, Lester & Cannella 2007) shows inconsistent results. The reasons could be due to the heterogeneous characteristics of family firms, different measures used in the relationships and the way family firms are defined. The heterogeneity of the family firm and the complexity of measuring family involvement propel a need to examine SEW from a multidimensional perspective. Thus, Berrone et al. (2012) propose five dimensions of the SEW construct to capture the affective endowment of family owners which are: 1) Family control and influence; 2) Identification of family members with the firm; 3) Building social ties; 4) Emotional attachment and 5) Renewal of family bonds through dynastic succession (FIBER). Each of these dimensions could have a different impact on the family business. Each dimension portrays a different aspect of SEW influences. By using the measurable items derived from FIBER, we can gain deeper insight on why, when or how the pursuit of SEW endowment can lead to better financial outcome as well as achieve noneconomic objectives, fulfilling the research gap called by Schulze and Kellermanns (2015) and Naldi et al. (2013). In the first hypothesis of this paper, we assume a positive relationship between managerial capabilities and performance in family business. The higher the capabilities possessed by managers, the firm achieves better performance even it is a family-owned firm. However, we argue that this assumption will be disrupted when the family firm aims to preserve SEW endowment. We believe that under some conditions SEW enhances the transmission of managerial capabilities to firm performance while some conditions may hamper the process.

Major Findings

The results provide evidence that resource-based theory is applicable in the context of family business. Regardless of the different set of objectives and motivations hold by the business forms (Tagiuri & Davis 1996), the availability of superior managerial team generates higher rent and capabilities for better performance. On the other hand, the results from moderation effects attest that SEW is a double-edged sword for the family business. Managerial capabilities have more influence on performance when the emotional attachment (E) is higher. This moderation effect showed opposite interaction. While many studies noted the negative roles of emotions in the family business, findings from this research exhibit the positive outcomes of emotional attachment. Managerial capabilities were found to have a more influence on performance when the emotional attachment is higher. The emotional attachment found in this context, the Arab family business, appears to neutralize possibly conflictive relationships and emotions. The strong culture of religion and collectivism embedded in this group depicts another heterogeneous aspect of the family business. This is in line with what has been suggested by Berrone et al. (2012) that when emotional attachment is high, conflictive relationships are preserved in the hope that they will eventually return to a harmonious condition. A prior study by Davis, Elye, Pitts and Cormier (2000) also commented that family firms in the Gulf region have a fear of family conflicts. In order to protect the family's wealth and foster a sense of legacy, Arab family businesses seem to be able to overcome emotional tensions arising from relationship and role conflicts. They are willing to prioritize the family's benefits above personal emotions. Thus, the emotional attachment found in this study produces a more favorable effect on the capabilities–performance relationship. On the other hand, managerial capabilities were found to have less influence on performance when the renewal of family bonds through dynastic succession (R) is higher. The strong desire of a family community to strengthen the family sense of legacy and power leads to more noneconomically driven decisions, therefore affecting the firm's capability to generate good performance. The findings provide support to the claim by Bennedsen et al. (2007) and Cucculelli and Micucci (2008) that dynastic succession leads to poorer performance. The other three SEW dimensions proposed by Berrone et al. (2012) did not have moderating effect on the capabilities-performance relationship. In a recent study conducted by Hauck, Suess-Reyes, Beck, Prügl and Frank (2016), they validated the five dimensions with a six-step procedure. They concluded that only three dimensions are required to fit into SEW definition, can provide unambiguous and discriminant conceptualization and fit of operationalization to conceptualization. The dimensions are R, E and I. They found the way family control and influence (F) is conceptualised lacks an affective non-economic implication and its preservation actually belongs to the R dimension. In addition, the operationalisation of binding social ties (B) items does not reflect the conceptualized content of this dimension. The arguments provided by Hauck et al. (2016) could be the reason why these two dimensions are not supported in this study.

Practical Implications

The protection of affective endowment differentiated family businesses from nonfamily businesses. SEW should not be viewed as a liability for business performance and growth (Gomez-Mejia et al. 2007); it could be used as a catalyst that generates better performance. This study denotes a leap towards a greater understanding of the family business. It recognizes the moderating influence of SEW on the relationship between managerial capabilities and performance, which had not been examined before. Our paper also offers a greater understanding of family business research in the Arab region, fulfilling the call of Nordqvist and Melin (2010) by broadening the geographical and cultural base. Current research on the family business is predominantly from the US and Western Europe, which may not provide a full picture of the heterogeneity of family businesses (De Massis et al. 2012). One of the results exhibits the influence of culture in SEW dimensions. Besides the theoretical implications, family owner-managers should be aware of the two sides of SEW preservation. They should make rational decisions that can leverage family values to achieve competitive advantage.

Though it is crucial to preserve the affective endowment in their business, they should set the right priorities and ensure a balance between SEW preservation and economic motivation. The results show that the renewal of family bonds through dynastic succession could be a stumbling block to business performance. Thus, family owner-managers should allow more professionalization in their business and be open in their succession planning (Dekker, Lybaert, Steijvers & Depaire 2015; Johannisson & Huse 2000; Gilding, Gregory & Cosson 2015).

Conclusions

The findings enrich the current strategic management literatures as well as family business literatures, by offering new insights (Sharma, Chrisman & Chua 1997; Miller & Le Breton-Miller 2006). It also provides empirical support that SEW is a multidimensional construct with two sides: a bright side and a dark side (Kellermanns, Eddleston & Zellweger 2012; Berrone et al. 2012; Cruz, Justo & De Castro 2012; Naldi et al. 2013). In conclusion, the study of SEW is still under-represented in the family business domain. The consideration and influence of family endowment on the business system should not be overlooked. With this research, we hope to instigate more efforts to examine the perspective of SEW as a multidimensional construct that offers bright/dark sides to business outcomes. The family business is the most common type of business in most countries. It is also one of the key engines in venture creation, job opportunities and national development. Its association with SEW preservation is often linked negatively to entrepreneurial outcomes. We strongly believe that more research is needed to advance our understanding of the dual effect of SEW and its impact on entrepreneurial and strategic behaviors.

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