Family Firm and Social Capital: A Brief Literature Review

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Abstract

In recent years, increasing scholarly attention has been directed towards the field of family business and social capital research in which social capital refers to the resources derived from social relationships and family firm (firms in which a family possesses a significant ownership stake and in whose operations multiple family members are involved). However, while social capital has gained more acceptance in management research, it still often has the stigma of being an “exotic” area in mainstream firm research. The purpose of this paper is twofold: First, it aims to establish an understanding of past and present research concerning social capital in family firm research. Second, it identifies future directions for conceptualising and researching social capital within family firms. As such, the author makes two main contributions. While providing insights on existing research and theories dealing with the role of social capital within family firm, it also identifies current research gaps and future directions for research of social capital in family firm.

Keywords: literature review; social capital; family firm; present research; future research

1. Introduction

In many of today’s developed economies such as the United States, Germany or Spain, family firms make up a significant part of firms, by providing a substantial proportion of the GDP, tax revenues and workforce in these economies (Acquaah, 2011; Aldrich and Cliff, 2003; Anderson et al., 2005; Astrachan and Shaker, 2003; Cesinger et al., 2014; Dyer, 2003; Gomez-Mejia et al., 2007). One third of the world’s largest, publicly traded firms in the richest economies can be considered family firms (La Porta et al., 1999). Academics, occupied with family firm research are interested to explain what makes family firms succeed or fail. Why and how do some family firms achieve sustainable competitive advantages and considerably better performance results than nonfamily firms? Why is an “outdated” form of firm structure, as Berle and Means once concluded (La Porta et al., 1999), still so successful, considering that not all firm decisions seem to be directed a profit maximisation. More recently, social capital (SC) in family firms has been of interest to family firm research in order to find possible explanations for the sustainable competitive advantages of these firms (Dyer, 2006).

What makes SC such an intriguing research area within family firms is that two social systems, family and firm, interact, coexist and overlap. Both social systems build, maintain and reinforce social relationships not necessarily in a distinct, but sometimes along contradicting patterns. Family relationships are usually characterised by strong, cohesive ties, laden with values, norms and obligations (Coleman, 1988; Ensley and Pearson, 2005; Hoffman et al., 2006; Pearson et al., 2008). In contrast, relationships in the organisational setting are said to be professionalised and contract-based; defined by hierarchy and position (Rousseau et al., 1998; Sundaramurthy, 2008). Trust is calculative or knowledge based, but in the organisational setting, it seldom reaches the personal levels of trust that family members have established (Rousseau, et al., 1998). Researchers, applying a dual systems perspective, have theorised if SC in family firms is inherently different compared to nonfamily firms and how this affects the family and firm sphere respectively (Arregle et al., 2007; Hoffman et al., 2006; Pearson et al., 2008; Sorenson et al., 2009; Zahra, 2010).

The first part of this paper will introduce the major theoretical frameworks on family firm theory and SC theory. The second part will review past research especially on family firm in conjunction with SC theory. This includes general theory on SC in family firm as well as first theorising and empirical studies. The third part will have a closer look at the present extent of family firm and SC research and identify current research gaps. The paper concludes that future research needs to integrate not only the financial benefits of SC, but also the reputational, or socio-emotional benefits of SC (Cennamo et al., 2012; Zellweger et al., 2013) to family firms. Not only will this help to establish a more coherent understanding for academics and explanation for yet unexplained phenomena, but also develop theories and solutions for family firm that consider the complexity and impact of family relationships in the firm setting.
2. Theoretical Frameworks

Two major theoretical frameworks play a vital role in this paper, namely the resource-based-view of the family firm and SC. First, the theoretical framework in the family firm context will be explained, followed by a brief description of the SC framework. In the family firm context a dual-open system perspective (Chrisman et al., 2005; Habbershon and Williams, 1999) will be applied (Danes et al., 2009), arguing that family firms can derive unique resource through the overlap and interaction between the family and the firm system (Habbershon and Williams, 1999; Pearson et al., 2008). SC, for the purpose of this paper is defined as the social network of relationships, possessed by an individual or group (Nahapiet and Ghoshal, 1998).

2.1 Family Firms

In family firm research two major theoretical frameworks namely, agency theory and the resource-based-view (RBV) have been applied to explain and investigate differentials between family and nonfamily firms. Both concepts have slightly different opinions on what defines a firm as a family firm. As agency theory does not play a major role in the SC theory of family firms, it will not be further elaborated here. The RBV however, has had an impact not only on family firm theory, but also on SC theory in family firms. Following the RBV introduced by Barney, sustainable competitive advantages can be attained when a firm has a resource that is “valuable, rare, non-imitable and non-substitutable” (Carney, 2005; Chrisman, et al., 2010; Chrisman, et al., 2008; Habbershon and Williams, 1999). Transferring this idea to family firms means that some family firms need to have a unique resource that is hard to imitate or substitute by nonfamily firms. A unique resource to family firms which is definitely unattainable to nonfamily firms is “the family” as a resource base for human capital, financial capital, SC (Carney, 2005; Danes et al., 2009; Hoffman et al., 2006; Pearson et al., 2008) and cultural capital (Denison et al., 2004) based on high emotional connectedness of family members (Danes et al., 2009; Rousseau et al., 1998; Stafford et al., 1999; Sundaramurthy, 2008).

Applying a RBV however, requires a brief review of systems theory. This is important, as the system approach determines if family firm research has a legitimate position in firm research or not. Additionally, SC theory in family firm research is based on a number of underlying assumptions of how family and firm systems are related with one another. When it comes to family firms, two main paradigms can be distinguished (Stafford et al., 1999). A dual system perspective assumes that the firm and family are both separate systems. These two systems can be either closed or open. A closed systems perspective postulates that no connection exists between the firm as an economic system and the family as an emotional system, while an open system allows for overlap and interconnections (Habbershon and Williams, 1999; Stafford et al., 1999). If a dual-closed system paradigm is applied, family firm research has no merit, as family firms would not exist as a distinct entity. The dual-open systems perspective postulates that the family and firm system, though independent systems by themselves, interact and overlap in family firm. The degree of overlap may vary from case to case, thus having different implications for the firm. A single system paradigm recognises that both the family and the firm are “inextricably intertwined” (Chrisman et al., 2003; Olson et al., 2003) whose sustainability both is influenced and depends on each other. Following a RBV view however, requires to either adopt an open dual systems or single systems paradigm. Habbershon argued that the competitive advantage of family firms is attributable to their distinct Familiness, i.e. resources that stem from the overlap and interconnections of the family and the firm system (Habbershon and Williams, 1999; Hoffman et al., 2006; Pearson et al., 2008). The concept of familiness has been used to conceptualise different phenomena in family firms, including SC. With respect to system theory it postulates a dual-open system paradigm.

2.2 Social Capital

Before reviewing social capital theory in family firm research, it may be worthwhile considering the concept of SC itself and its impact on firm research. This will enhance understanding of the importance and role of SC theory in family firm research. First, there will be a brief discussion of general SC theory. The following section then deals with SC theory in firm research.

2.2.1 Theories of Social Capital

SC as a network theory and structural concept deals with social relationships. At the core of this network concept is the “[…] network of relationships, possessed by an individual or social unit […]” (Nahapiet and Ghoshal, 1998, p. 252). In
laymen terms, SC is concerned with studying with whom and how frequently individuals have social contact with other individuals and how this affects the nature of the relationship. Nahapiet and Ghoshal defined SC as a three dimensional concept consisting of the structural, relational and cognitive dimension of SC (Nahapiet and Ghoshal, 1998). The structural dimension consists of network ties and thus deals with the properties of networks. The relational dimension includes trust, norms, obligations and identification and as such describes the characteristics that can be derived from different network structures. The cognitive dimension consists of shared language and vision (Nahapiet and Ghoshal, 1998), which explains how groups achieve a common sense of belonging.

The structure of a social relationship network is the starting point for any conceptual framework and academic research. The structural configuration of a social network will inevitably impact the relational and cognitive dimension of SC (Lin et al., 2008). Social networks are characterised by network ties, i.e. relational connections between individuals. As such these ties can either be strong or weak, dense or loose, closed or open (Coleman, 1988; Granovetter, 1973; Lin et al., 2008). While strong ties are usually considered to create dense and closed networks, weak ties encourage loose and open networks (Coleman, 1988; Granovetter, 1973). Strong ties are associated with more frequent, personal contact and require time and effort to establish and maintain (Granovetter, 1973; Nahapiet and Ghoshal, 1998). Weak ties are associated with more sporadic and superficial contact and benefits arising from weak ties are related to network diversity and size (Granovetter, 1973). Individuals with large networks of weak ties may function as “bridging contacts”. They represent a node over which information flows of otherwise unrelated individuals can occur and thus have effective control over the amount and quality of information provided (Granovetter, 1973). Thus, at macro level, weak ties seem to provide more benefit as opposed to strong ties (Casanueva-Rocha et al., 2010; Granovetter, 1985; Granovetter, 1973; Lin et al., 2008). Coleman in contrast, provided some evidence on how strong network ties provide SC benefits at micro level (Coleman, 1988). In social settings, where personal trust, idea congruence and cohesion are important, strong ties facilitate common social action and consensus, as they create agreement on norms, obligations and sanctions (Coleman, 1988). While the structural dimension is often the starting point for research, there is interaction between the three dimensions and the relationship is far from being unilateral (Nahapiet and Ghoshal, 1998).

2.2.2 Social Capital in Business Research

Considering that the concept of SC has been developed in social sciences to research social action in communities, transferring the concept to firm and organisational research has led to a number of questions. First, does SC provide benefits to the individuals or only to groups? Second, what kind of benefits can be attained by SC by firms as well as individuals in the firm? Last, can social networks built in one context be transferred, or appropriated to other contexts? While some academics have claimed that SC is so strongly embedded in relationships that individuals alone cannot reap benefits, most scholars now agree that SC can be a collective as well as an individual asset (Lin et al., 2008). This is also supported by academic research (Coleman, 1988; Granovetter, 1985; Granovetter, 1973). Network closure provides a means by which individuals can extract personal benefits from social relationships which are otherwise embedded. Network closure is highest when everyone in a given network is connected with each other (Lin et al., 2008). As such, closure should lead to similar perception of norms and obligations.

In firm research, of major importance is establishing what kind of benefits can be attained by SC and how does the affect the bottom line. While research has found evidence that SC can lead to performance advantages, by enhanced knowledge sharing or social goodwill, there are also non-financial benefits associated with SC (Lin et al., 2008). Reputational benefits, or as more recently termed “socioemotional” benefits are related to a feeling of identity and pride in belonging to a social group, for example a firm (Lin et al., 2008). While these are hardly quantifiable, they nevertheless influence social action.

Lastly, the debate over whether social networks can be used in multiple contexts has received considerable attention. Appropriability, refers to the idea that relationships built for one purpose (e.g. friendship among colleagues), can easily be used for another purpose (e.g. being recommended by this colleague for promotion) (Adler and Kwon, 2002; Nahapiet and Ghoshal, 1998). Evidence positively supports the idea of appropriability and the concept has had a major impact on concepts and theories on SC theory in family firm research.

Having established common ground on concepts and theories in both research fields, the following section discusses past developments of SC theory in family firm research.

3. Family Firms and Social Capital

Since the early- mid 2000s, SC and network theory have found their way into modern theory of family firm research. What
makes SC such an intriguing research area within family firms, is that two social systems, the family and firm, interact, coexist and overlap. On one hand, there is the family system, considered as an social system based on mutual affection and altruism (Gomez-Mejia et al., 2001; Gomez-Mejia et al., 2007; Schulze et al., 2003), on the other hand the firm system, considered as a social system governed by professionalism and rationalism. In both social systems relationships are built, maintained and reinforced not only in a distinct, but sometimes along contradicting patterns. Family relationships are usually characterised by strong, cohesive ties, laden with values, norms and obligations (Coleman, 1988; Ensley and Pearson, 2005; Hoffman et al., 2006; Pearson et al., 2008). In contrast, relationships in the organisational setting are said to be professionalised and contract-based; defined by hierarchy and position (Rousseau et al., 1998; Sundaramurthy, 2008). Trust is calculative or knowledge based, but in the organisational setting, it seldom reaches the personal levels of trust that family members have established (Rousseau et al., 1998). Researchers, applying a network perspective were intrigued to establish if the family social system and the organisational social system in family firms interact and how this affects the firm and the family respectively.

3.1 Review of the Social Capital and Family Firms

SC in family firm research was first mentioned peripherally around the beginning of the new millennium and explorative research and conceptualisation started around the mid-2000s. Until the end of the decade, research aimed at validating and testing existing frameworks and refining them. The focus was placed on establishing theory on how SC in family firms is unique as to explain performance advantages and differentials in a number of areas where SC has been found to have a positive effect. More recently, the debate has shifted from solely integrating the financial performance goals to include the nonfinancial objectives of family firms. SC may also have a major explanatory power as to why family firms tend to include nonfinancial goals in their firm agenda. While such goals are mostly rejected for nonfamily firms, they are of special interest in family firm because they may in fact explain why some family firms succeed and others strive.

The following structure will be applied in organising prior research. The first section aims to introduce and discuss theories on how SC is distinct in family firms and how this leads to sustained competitive advantage. The second section discusses empirical findings on how SC is distributed differently among family firms and how family firms use SC to their advantage.

3.1.1 Review of the Theories and Frameworks

Theory on SC in family firm has been advanced for example by Hoffman et al. (2006) as well as Pearson et al. (2008). Both aimed at explaining the nature of SC in family firm based on the existence of family relationships. Thus, a focal point was to develop theory on how SC is distinct in family firms and how this may be related to superior firm performance. First, both theories will be explained, highlighting commonalities and differences and secondly, weaknesses will be discussed.

In order gain understanding of how social capital in family firms can produce sustained competitive advantage a closer look needs to be given to the distinct feature of family SC and to its potential appropriability to the organization (Ng and Roberts, 2007). The family could be considered to be the nucleus of any social structure and relationship. It is the first social collective a human is born into and the way relationships are built and maintained within the family will influence how the family system interacts with the organisational setting (Hoffman et al., 2006; Pearson et al., 2008). A distinct feature of family social capital is that it consists of “blood ties”; i.e. an unbreakable genetic connection that usually creates a deep emotional connection which other social relationships seldom achieve. This is partly due to the fact that the human socialisation process starts within the family and furthermore, that the time span of family relationships is rather long-term as opposed to other relationships (Coleman, 1988; Hoffman et al., 2006; Pearson et al., 2008).

A brief review of theory and research establishes some common ground, for both researchers Hoffman et al. as well as Pearson et al., made the family relationship network, that is to say family SC, the focal point of their theories. Hoffman, as well as Pearson argued for the uniqueness of family relationships based on their structural dimension. Family relationships are per se stronger, denser, more enduring and emotionally intensive as family members have a shared history (Ensley and Pearson, 2005; Hoffman et al., 2006; Pearson et al., 2008). Strong and dense ties directly impact the relational dimension as they create shared values, norms and obligations which build the ground for emotional attachment and inter-personal trust to arise (Arregle et al., 2007; Coleman, 1988; Hoffman et al., 2006; Pearson et al., 2008). Due to the strength and long-term perspective of family relationships, family values and traditions create a set of norms, obligations and expectation within the family that help to create a high sense of duty, care and trust among
members (Hoffman et al., 2006; Pearson et al., 2008). Interpersonal trust, as a form of identification-based trust (Sundaramurthy, 2008) is created by shared history, goals and values among family members and implies the belief that family member's actions intend not to inflict harm on other family members (Coleman, 1988). This family or family SC helps family members to interact more efficiently with each other in several ways. As such, it impacts the cognitive dimension by shared identification, goals and values which helps family members to act as one entity and exchange information more freely and privately (Hoffman et al., 2006). Additionally, it establishes as sense of altruism among family members to care for each other without expecting any immediate repayment in exchange (Schulze et al., 2003). Altogether, this helps to predict other family members' behaviour with more certainty (Sundaramurthy, 2008), whether it comes to rewards or sanctions. Certainty to predict another person's actions and behaviours is a crucial basis for interpersonal trust (Coleman, 1988; Sundaramurthy, 2008). It is this level of interpersonal trust between family members and in the early stages of family ventures that help these firms to strive and grow amidst adverse conditions (Anderson et al., 2005; Danes et al., 2009; Sundaramurthy, 2008). Having established the unique characteristics of family SC, the question remains, how family social capital can lead to competitive advantages. While Hoffman argued for family capital, as a special form of SC in family firm that is rooted in the distinct feature of family relationships (Hoffman et al., 2006), Pearson aimed at integrating SC with the familiness construct (Pearson et al., 2008).

According to Hoffman et al. (2006), competitive advantage arises to family firms through a high level of family capital, i.e. strong family ties in the firm. The stronger and more enduring family ties are, the higher the level of family capital in the firm and the resource of sustained capital advantages. As family relationships are so embedded within the family firm, there is no need to explain a possible transfer, as it implies a single system paradigm. By focussing on family relationships only, Hoffman's concept ignores the dynamics of organisational relationships and the relationships within the organisation. While his theory is able to explain why family capital can be a source of competitive advantage, as every family has unique relationships and thus unique family capital, it does not help to create a holistic concept. The relationship between family capital and firm performance seems to be linear, thus the higher the family capital the better firm performance (Hoffman et al., 2006). This indirectly implies that the higher the level of family involvement and power in the firm the better for firm performance. This however, is only the case if family goals are congruent with firm goals. In cases where family goals conflict with firm goals possible negative impacts of high levels of family capital may lead to nepotism, a false sense of altruism that creates mistrust between family and nonfamily employees (Ensley and Pearson, 2005; Schulze et al., 2003) However, research has provided evidence that strong family ties among family members may lead to family isolation. Only if family employees are able to equally establish strong ties with family and nonfamily members in the organisation will family SC create unique organisational SC and thus competitive advantage (Arregle et al., 2007; Ensley and Pearson, 2005; Pearson et al., 2008). Furthermore, research has shown that the relationship between family social and organisational SC is complex and not homogenously distributed among family firms.

While Hoffman et al. (2006) limited their theoretical concept to the family relationships only, Pearson et al. theorised how characteristics of family relationships may be transferred to organisational relationships by applying the familiness construct. The construct of familiness has been used frequently to argue for the sustained competitive advantage of certain family firms over nonfamily firms (Chua et al., 2004; Dyer, 2006; Habbershon and Williams, 1999; Hoffman et al., 2006; Le Breton-Miller and Miller, 2006; Pearson et al., 2008), arguing that competitive advantage stems from unique resources available to family firms due to the overlap of family and firm system (Habbershon and Williams, 1999). Applying Nahapiet and Ghoshal's (1998) definition of SC to the familiness construct, family capital could be defined as, "[...] the actual and potential resources embedded within and available through the network of family relationships" (p. 250). The main argument of Pearson et al. (2008) is that the overlap of the family and firm system may lead to spill-over effects of family social capital to the organisation. Arguing that SC in family firms is deeply embedded in the family relationships, make it a tacit resources hard to imitate and thus fulfills the criteria consistent with the RBV, Pearson et al. (2008) as opposed to Hoffman et al. (2006), postulates a dual-open system paradigm arguing that family members appropriate a distinct feature of family SC to the firm sphere which creates unique organisational SC (Pearson et al., 2008). By including the concept of familiness, Pearson provides a theory that can explain the differences of SC in family firms as well as potential advantages and disadvantages linked to different levels of SC in family firms. Although Pearson et al. give no direct answer on how different levels of familiness may impact the relationship between family and organisational SC it builds a solid basis for academic research that combines family firm theory with SC theory. Both theories have their respective merits, although they apply a different family firm theory.
This section turns to empirical studies on how SC is distributed differently amongst family firms and how it is employed by family firms. The idea that SC within family firms is different from that of nonfamily firms and as such contributes to family firms’ superior performance, has been brought up even before conceptualisation occurred for example by Le Breton-Miller and Miller (2006; 2009), Dyer (2006), or Sorenson et al. (2009). The concept of Hoffman et al. (2006) on family capital has been expanded and tested by Danes et al. (2009). According to their view, family capital consists not only of SC, but also of specific human and financial capita available only to family firms (Danes et al., 2009). Results showed that SC is an explanatory factor of the variance of actual financial performance as well as perceived performance of the firm (Danes et al., 2009). Stability, interaction, interdependence and closure shape the structural dimension of family relationships (Danes et al., 2009; Nahapiet and Ghoshal, 1998) which builds the ground for the relational strength that goes along with family ties based on affective relationships (Coleman, 1988; Danes et al., 2009). Danes et al. argued that SC among family members is based on a tacit and implicit set of family values and norms that create expectations of behavioural obligations on which members can impose sanctions (Coleman, 1988; Pearson et al., 2008). As such SC is a reliable and predictable resource for family firms (Danes et al., 2009).

Following Pearson et al.’s (2008) theory that SC is a “familiness resource”, Ensley and Pearson (2005) aimed to test, whether cohesion, conflict and consensus in family firms were different compared to nonfamily firms as well as distinct between parental and familial led family firms. By applying a strong ties perspective they presumed that cohesion, potency and consensus of familial top management teams (TMTs), was to be greatest when compared to familial TMTs and nonfamily TMTs. Their results confirmed the expected outcomes of a strong tie approach to family SC. Parental led top management teams, i.e. where parents and children create a new family venture, cohesion, potency and consensus was greatest. There was less relationship conflict and less idea conflict. This is in accordance with theory of strong, cohesive network ties which suggests a higher level of abidance by rules and norms and less questioning of the status quo (Coleman, 1988; Granovetter, 1985; Granovetter, 1973). However, surprisingly familial led TMTs scored lower on cohesion, conflict, potency and consensus not only compared to parental but also to nonfamily TMTs. This would suggest that benefits of strong family relationships primarily accrue to nuclear families as opposed to extended families firms where siblings or even more distant family relatives such as cousins create a firm venture together. However, this needs to be further tested. Ensley and Pearson’s results are strongly biased as their study only focussed on new ventures (firm life below 5 years). Rather, than to suggest that familial led family firm will always have lower levels of cohesion, potency and consensus, it may be deduced that in order for family SC benefits to spill-over to the organisational SC, a strong and tightly knit family circle is needed at the beginning of the firm venture. Parents, due to their power and legacy within the family, create the values, norms and traditions of the family and thus of a new firm (Arregle et al., 2007). However, when two sets of family values, norms and traditions clash, as they are expected to among cousins, who come from a different nuclear family, conflict and rivalry may lead to a dilution of the unique features of family SC (Ensley and Pearson, 2005).

Looking at how family firms employ their SC seems to imply that family firms consider SC as a valuable resource (Zahra, 2010). They actively use their family SC to achieve advantages within the company but also with external stakeholders such as customers or suppliers. Mapping family ownership and level of organisational SC against one another, Zahra tried to test whether family firms better use their organisational SC in engaging with new ventures to attain necessary skills and information for adaptation in a changing firm environment. Results show that family firms regularly use their organisational SC to get access to new ventures to access new ideas crucial for firm adaptation. They also seemed better able to utilise their organisational SC compared with nonfamily counterparts (Zahra, 2010). Apart from that, family firms use their social networks not only as means by which the firm attains performance advantages but also from which they draw moral support and advice (Birley et al., 1991; Lester and Cannella, 2006). These networks may be built of professional (Birley et al., 1991; Lester and Cannella, 2006) as well as personal relationships (Birley et al., 1991). According to Lester and Cannella (2006), family firms use interlocking directorates among a network of family firms to attain moral support and advice from other family firms (Lester and Cannella, 2006) as well as to avoid conflict. On an individual level, at the early stages of new family firm ventures, family members as well as friends not directly related in the firm are sought for moral advice (Birley et al., 1991). Past research thus has mainly tried to establish how and if SC in family firms is different and if this helps to explain performance advantages of family firms. However, there are still gaps in current research. First of all, the relationship of family involvement and SC has not been explained satisfactorily. How much family involvement in the firm is needed for family SC to be transferred to the firm, has not yet been explained coherently. Additionally, while focussing on positive performance effects, negative performance effects related to too high levels of family SC in the firm have not received equal attention. Strong family ties in the firm will have positive as well as negative effects and it will be important for successful family firm to acknowledge and manage these.
3.2 Present Research

More recently, research in family firm theory has started to acknowledge non-financial family goals as relevant to the family firms. Noting that family firms often pursue objectives that are not directly linked to profit maximisation (Chrisman et al., 2008; Gomez-Mejia et al., 2007; Le Breton-Miller and Miller, 2006), but rather to goals that serve the controlling family, two questions repeatedly came up. First, what kind of non-financial benefits arise to the family, and second, how can theory explain such behaviour. Gomez-Mejia et al. noted that family firms are willing to assume certain firm risks that may potentially endanger the firm, if it helps to preserve their family authority in the firm. As such, when offered to enter a cooperative, resulting in less firm risk, but also in loss of family control, most family firm declined and consciously chose the riskier path (Gomez-Mejia et al., 2007). Also, they seem to be willing to forgo higher performance results and thus private financial benefits in order to retain family control (Gomez-Mejia et al., 2007). The term socioemotional wealth was coined to refer to all “[…] nonfinancial aspects of the firm that meet the family affective needs […]” (Gomez-Mejia et al., 2007, p. 106). Socioemotional wealth may arise in form of high levels of SC in the family that stems from the desire to perpetuate family values and family legacy. Family members have a shared identification and intimacy that is reflected by strong network ties. As such the family derives personal and group value by positive identification of the firm with the family (Gomez-Mejia et al., 2007). The identification of the family itself is said to be linked with the firm in such a way that the firm is seen to be part of the family. This may explain why family firms may have goals that go beyond the financial perspective of providing income to the family (Chrisman et al., 2008; Le Breton-Miller and Miller, 2006; Pearson et al., 2008). Socioemotional objectives have also been used recently to explain why family firms have a more proactive way of dealing with their stakeholders (Cennamo et al., 2012). Socioemotional benefits could be classified as instrumental, i.e. related to preserving family control and the family dynasty or normative, i.e. related to binding social ties among family members, and stakeholders, who from part of the extended family (Cennamo et al., 2012). As such, socioemotional benefits could further be related to the SC of the family alone, (instrumental benefits) or also to the organisational SC (normative). Finally the degree of the need for positive identification loop of the family with the firm will determine the degree to which the socioemotional wealth matters to the family and the firm (Cennamo et al., 2012; Gomez-Mejia et al., 2007; Zellweger et al., 2013). Present research has just started to consider non-financial goals of family firms and is beginning to conceptualise these into existing family firm theory. SC seems to indicate a promising concept in building a solid theory of socioemotional wealth and stakeholder management in family firms. In order to get a more substantial theory of family firms and the unique role SC may have in these entities; nonfinancial goals need to be further considered in family firm research.

4. Future Research

Although SC has been on the research agenda of family firm research for most of the past decade, it still offers huge potential for future research. While SC has gained more acceptance in management research, it still often has the stigma of being an “exotic” area in mainstream firm research. In family firm theory it offers an exciting prospect of studying the dynamics of two social systems, the family and the firm which usually do not interact. As such, future research should aim to get a better understanding of how these dynamics work. This includes a more profound study of how the level and aspects of family involvement in the firm impact the SC of the family and the firm alike. This leads to a number of possible research questions. Is there a threshold of minimal family involvement in the firm needed in order for family SC to play a relevant role in the firm? Is a transfer of the structure of family relationships to the organisation needed to create positive SC effects for the firm? What are the possible negative effects of too much family SC and how can these be mitigated? Future research also needs to consider the role of SC in explaining nonfinancial objectives of family firms. Many of the explanations given seem to indicate a strong link to SC and its structural, relational and cognitive dimension. SC may have the potential link to explain the socioemotional objective of family firms not only per se, but also in regard to the stakeholder management of family firms.

References


