

Preserving Socioemotional Wealth in Family Firms: Asset or Liability? The Moderating Role of Business Context

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Family firms are known to make strategic choices that are aimed at non-financial objectives like ensuring the family's control over the firm or sustaining family reputation. Such affect-related factors are collectively termed as the owner family's socioemotional wealth (SEW). Extant literature suggests that family managements sacrifice monetary gains to preserve SEW. However, in this research, based on data from 1008 Italian firms for the period from 2000 to 2008, the authors suggest that SEW preservation choice can either be a liability or an asset depending on the business context of the firm. This summary encapsulates the crux of the study, its key findings and implications.

Environmental Contingency Approach to SEW

Preservation of SEW is considered to be a main reference point of a family firm. This entails three strategic objectives and related behaviours:

- (1) Keeping *family influence and control* over firm operations
- (2) *Handing down* the business *across generations*, and
- (3) Sustaining *family reputation*

The authors premise that by having a *family member as CEO*, the family firm attains all the three objectives and thus preserve (or even enhance) SEW. However, some of the SEW objectives like, retaining control might

adversely affect the firm's financial performance while others like sustaining reputation, may contribute positively. Therefore, drawing from the contingency theory, the authors suggest that the performance implications of the SEW preservation choice (that is the family member CEO) cannot be viewed in isolation but is likely to vary depending on the business environment in which the firm operates.

The study focused on two business environment contexts: (1) Family firms based in *Industrial Districts* and (2) Family firms with *Stock Exchange Affiliation*.

Industrial District Context

Industrial districts are localized economies with specialization that are driven more by informal rules, traditions and networking. The firms operating in these districts operate on common understanding, shared logic, code of conduct and economic practices in the district. In these circumstances, SEW preservation, manifested by having a *family CEO is an asset* for the family firm. This is because of the following reasons:

- (1) The family CEOs *share* the family's (and by extension, the district's) *common traditions, values and logic*.
- (2) They ensure *continuity* in firm socialization and follow the district's rules.

(3) They are concerned about the family's *reputation* and hence do not infringe on the norms followed by the district

(4) They pass on the firm's control to another *family successor* who maintains continuity in established relationships in the district.

The above factors contribute to *strengthen* the family firm's *financial performance*.

Stock Exchange Affiliation Context

Firms that have their stocks listed on a stock exchange are subject to *formal constraints* of market *regulations and scrutiny*. They are expected to have a transparent governance system. The listed family firm's governance system is oriented more towards its financial performance. Family CEOs are perceived negatively by markets because of *fear of diversion of business resources* to the family and possibility of *opportunistic behaviour*.

Listed family firms with family CEOs pursuing SEW objectives are required to pay additional *risk premium* ("discount factor") to providers of capital. Thus, for listed family firms preserving SEW (appointing a family CEO) is likely to *negatively affect firm profitability* and hence will be a *liability*.

Key Findings

The data analysis confirmed both the arguments that the authors made.

(1) The *family firms* that were *located in industrial districts* and had *family CEOs* registered *improved financial performance* during the period from 2000 to 2008.

(2) The *listed family firms* with *family CEOs* registered a *decline in financial performance* during the same period.

Thus, the performance implications of family firm's SEW preservation choice (i.e., appointment of family CEO) varied according to the formal and informal constraints in different business contexts.

Practical Implications

The paper underlines the heterogeneity among family firms with regard to SEW preservation and its impact on financial performance. The firm's environmental context was the key determinant of whether SEW preservation was an asset or a liability for the firm. The major implication for family businesses is that they need to make SEW preservation choices appropriate to their business context.

Family firms that are located in industrial districts are likely to gain if they appoint a family member as its CEO. The listed family firms that appoint a family member as a CEO need to ensure that the family's SEW preservation efforts do not pose a threat to the firm's financial growth, which may be viewed adversely by the stock market.

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