Impact of socioemotional wealth on governance and management of family businesses in the Dominican Republic

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Abstract

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The purpose of the study is to analyze the heterogeneity of family businesses by evaluating socioemotional wealth and its impact on the governance of family businesses MSMEs in the Dominican Republic. Starting from the fact that heterogeneity establishes a staggered differentiation between family businesses and the measure of socioemotional wealth is a unique factor for the differentiation between companies. The lack of evidence of the inclusion of these important concepts such as heterogeneity or socioemotional wealth, to understand the management dynamics of family businesses in the Dominican Republic and the need to deepen the study of the dimension of impact and influence of the family on governance, motivate this research. This proposal considers the variables of the context and size of the family business in the emerging market of the Dominican Republic as fundamental to expand the knowledge in the study of heterogeneity of family firms, in addition with the intention of developing an empirical knowledge base that allows a better understanding of the nature of this business sector.

Keywords: emerging markets, family firm, heterogeneity, socioemotional wealth.

Introduction

This study aims to analyze the heterogeneity of family businesses through the concept of socio-emotional wealth and its influence on the governance and management of family businesses MSMEs in the Dominican Republic. Considering, initially, that family firms or businesses are commercial organizations formed by one or more family members, where decision-making is influenced by them and their own interests. Second, in the last two decades his study has focused on the difference in the behavior of family firms versus non-family firms (Chrisman, et al., 2005), innovation in family firms versus non-family firms (De Massis et al., 2012), success factors, and innovative behavior in family firms (Frank et al., 2019), tradition and innovation in family businesses (Erdogan et al., 2019), and the innovation capacity of family businesses (Rovelli et al., 2021). Finally, their study includes countless micro, small and medium-sized enterprises, and many of the world's large companies are controlled and belong to a family (Shukla et al., 2014).

However, the concept of heterogeneity in the study of family businesses, according to Stewart and Hitt (2012), establishes a staggered differentiation between family firms. Its importance is grounded in empirical evidence that family businesses differ from each other with respect to their non-economic objectives and socio-emotional wealth (Gómez-Mejía et al., 2007), values (Seaman et al., 2019), governance configurations (Hoopes & Miller, 2006; Schmid et al., 2015), family participation and generationality (Kellermanns et al., 2008; Nordqvist et al., 2014), and interpersonal exchange (Long & Mathews, 2011). On the other hand, according to De Massis et al. (2019), the study of heterogeneity in family firms has only begun to scratch the surface of the issues that need to be investigated and, in turn, is likely to be an important driver of change and change management behaviors among different family firms. In the Dominican Republic there are no references around socio-emotional wealth in family businesses and their governance style, which is why this study aims to expand the knowledge related to heterogeneity in family businesses, through the study of socio-emotional wealth and its influence on the style of governance and business management. especially in the context of an emerging market.

Background and Justification

In the second decade of the millennium, the challenge of achieving homogeneity in the definition of family firms is challenged by the proposition that theories of family firms must not only be able to distinguish between family and non-family firms, but must also be able to explain the variations between family firms (Stewart & Hitt, 2012). This approach and the empirical evidence at that time, led to the integration of the concept of heterogeneity in the study of family businesses, which according to (Chua et al., 2012), the lack of understanding of this concept in empirical research has produced inconsistent and contradictory observations about family businesses.

However, according to Gerken et al. (2022), affective need is a unique factor for the differentiation between family and non-family firms, as well as for its ability to explain the heterogeneity between firms. This phenomenon is understood through the theory of socio-emotional wealth, as family businesses are able to assume significant risk in their performance in the face of the threat of losing this type of wealth, but at the same time, they avoid risky business decisions that could aggravate that risk (Gómez-Mejía et al., 2007). In the same vein, this theoretical approach holds that socio-emotional wealth: (a) is present among the directors of the family business when there is an increasing degree of overlap of identity between the family and the company; (b) is sufficient to influence decision-making; and (c) utility is derived from both financial and socio-emotional wealth, but preference is often given to the latter (Berrone et al., 2012; Gómez-Mejía et al., 2014) as cited by (Swab et al., 2020).

In a study between family and non-family businesses, one thousand sixty-six Spanish and Portuguese SMEs were consulted, in which the perspective was assumed that each company can follow different types of strategic orientation, in which it was determined that both their orientation towards learning and their orientation to the market vary according to the context in which they operate. Likewise, the study confirms the usefulness of considering affective factors (socio-emotional wealth) as moderators of the relationship between entrepreneurship orientation and performance in family businesses, supporting the idea that socio-emotional wealth determines the strategic behavior of family businesses. In this sense, exploring entrepreneurship orientation can improve our understanding of alternative ways to contribute to the success of family businesses. Similarly, for professionals, ideas on entrepreneurship guidance can help in supporting entrepreneurial families who are concerned about the performance, growth, and continuity of the business. (Hernández, 2017).

In the same vein, in the study of socio-emotional wealth, the dimensions of control and family influence, the identification of the family with the business, social ties, emotional ties between family members and transgenerational succession, demonstrate a positive influence on organizational results. Equally, this influence varies according to the context and the size of the company, i.e., a greater relationship between socio-emotional wealth and organizational results in smaller companies. In this sense, knowing the level of socio-emotional wealth of the members of each generation, they will be able to infer the commitment to the company and the influence they will be able to have on organizational results when the generational transition is made (Zavala, 2016).

In addition, in high-risk contexts, the influence of non-financial objectives or socio-emotional wealth on financial results is fully mediated by strategic human resource management choices in family firms. Therefore, the study of socio-emotional wealth allows us to understand the contextual tensions present in family businesses (Peláez, 2018).

Family Firms according to the dimension of Ownership and governance are differentiated: (a) by the number of families or family members involved in the property (one, few, many); (b) the proportion of family ownership (full, majority, controlling); (c) dispersion of property among families or family members (equal or unequal); (d) the relationships that exist between the owners (e.g., by generation and family ties of blood, marriage, or adoption); (e) the demographic characteristics of the owners (e.g., gender, ethnicity, nationality, background, life stage); (f) the nature of owners' participation in governing bodies such as the board of directors, advisory board, family council, and family office (Daspit et al., 2018).

In the study of governance and heterogeneity in family firms, four groupings or clusters of Family Firms are proposed that favor the definition of family typology: (a) Founder-centered, young and small firms with an investor-oriented to sustain their status quo; (b) Protectors, small or medium-sized firms, and family members share ownership, although not evenly, often desiring the creation of protocols and requiring the help of outside experts for such purposes; (c) Involve or compromise, the concentration of ownership is not concentrated in one family member and tend to have a non-family CEO, usually possessing protocols in the governance structure; (d) Evolved in business, the concentration of ownership is found in a single investor, despite this, there is usually a non-family CEO, there is a clear separation between ownership and control (Arteaga et al., 2016).

Problem Statement

Whereas the influence of socio-emotional wealth on organizational results varies according to the context and size of the family business (Zavala, 2016). In the case of the unique emerging market context of the Dominican Republic, there is no empirical evidence on socio-emotional richness or the heterogeneity that characterizes this market. In fact, the study of family businesses in the Dominican Republic has been approached from an operational perspective and structured based on the region's own economic guidelines (Lockward, 2013; Medina, 2017; Roca, 1980; Ruiz, 2015). There is no evidence of the inclusion of important concepts such as heterogeneity or socio-emotional richness to understand the management dynamics of family businesses in the Dominican Republic.

Based on these approaches and the fact that family businesses are willing to take significant risks in the face of the threat of losing socio-emotional wealth or to avoid business decisions if they increase such risk. That is why this study questions whether, in Dominican family businesses, under the unique context that characterizes emerging markets, non-economic or socio-emotional factors also influence the style of governance and management, as well as is supported by this approach and, in turn, by empirical evidence in other markets (Garcés, 2015).

Among the dimensions that make up the study of socioemotional wealth, the dimension of control and family influence at the moment is not statistically confirmed (Gerken, 2022). Finding that is aligned with previous results (Hauck et al., 2016), who state that control and influence can be estimated using simpler measures than those originally proposed by Berrone et al. (2012). Therefore, this study aims to deepen this dimension by analyzing the relationship between socio-emotional wealth and governance style in MSMEs in the Dominican Republic.

This study aims to expand the knowledge related to heterogeneity in family businesses, through the study of socio-emotional wealth and its influence on governance and management style, especially in the context of an emerging market. Starting from the interest in the study of family businesses in the Dominican Republic and considering not only the context but also the size of the company, it is therefore of interest in the study of MSMEs. Likewise, with the intention of developing an empirical knowledge base that allows a better understanding of the nature of this sector and consequently better programs and standards are developed in favor of its development.

Research Question

1. What is the relationship between socio-emotional wealth, governance style, and management in family service businesses?
2. How does the size of the Dominican family business influence the degree of socio-emotional wealth?
3. How does the context in which a family business operates influence the degree of socio-emotional wealth and, in turn, impact business governance and management?

Conclusions

The study on the impact of socio-emotional wealth on the governance and management of family businesses is currently of great interest to researchers. This research is developed through the analysis of dissertations published in the last decade and scientific articles that support a scale for measuring socio-emotional wealth (Gerken et al., 2022).

Among the initial results in the literature, it is established that socio-emotional wealth impacts organizational results and that the higher the levels of socio-emotional wealth, the smaller the size of the family business tends to be (Zavala, 2016). This author highlights that socio-emotional wealth can be established as a mediator between market orientation and organizational results, but not in its relationship with entrepreneurship orientation in family businesses. However, socio-emotional wealth mediates the functional relationship between the family and innovation (Filser et al. 2018) as cited by (Gerken, 2022), as well as moderating between dynamic capabilities and the innovation business model (Weimann et al. 2020).

On the other hand, according to Hernández (2017), affective factors or socio-emotional wealth are moderators of the relationship between strategic orientation and performance in family businesses. The author corroborates Zavala's (2016) proposals on family business size and socio-emotional wealth. It also supports the idea that socio-emotional wealth determines the strategic behavior of family firms, specifically showing that socio-emotional wealth improves the relationship between risk-taking and performance, while mitigating the relationship between proclivity for innovation and performance.

In another sense, in the financial management of family businesses, in high-risk contexts, the influence of non-financial objectives (i.e., socio-emotional wealth) on financial results is completely mediated by strategic human resource management choices in family businesses. It confirms the effect of the family dimension on business performance depends on the complexity of the company and the family (Peláez, 2018).

However, from the perspective of governance in family businesses, the nature of family involvement in the management, ownership or governance of a business is an underlying source of the heterogeneity of the family business. Such participation influences the objectives pursued and has implications for performance. While maximizing economic value is often considered the primary goal of non-family businesses, this is only partially true for family businesses, as both business and family-centered goals coexist (Daspit et al., 2018).

When considering the governance and size of the family business, the companies that undergo the greatest evolution in business tend to be more complex in terms of family and organization. For example, the presence of non-family CEOs and the adoption of distinct roles of family members (control rather than management) and, in turn, the concentration of power in terms of ownership, tend to moderate the creation of explicit rules in family protocols (Arteaga et al., 2016). This author points out that the characteristics of the family (generation and participation) in the firm (size, management mechanisms or governance) interact and define the distinctive form of the family governance system. In general terms, the context and typology of the family determine the different governance mechanisms.

However, considering that socio-emotional wealth impacts the management of family businesses, that depending on the size of the company, the level of socio-emotional wealth will vary, and that the size of the company and its context also impact its governance system, it is necessary to expand the empirical evidence in emerging markets. According to Daspit et al. (2021), there is even a need to know more about how differences in environmental contexts within, between and between economies (at different levels) influence the heterogeneity of family firms. Therefore, research is needed on the heterogeneity of localized contexts and how this relates to diversity among family firms.

In the case of the Dominican Republic, in an emerging context, it has unique characteristics. According to Salazar (2021), most of the countries designated as emerging markets belong to the middle, low, and high-income categories, although on average they experience higher annual growth rates than industrialized economies, it should be noted that growth rates show significant cross-sectional and longitudinal variation. On the other hand, companies in emerging markets face unique challenges such as regulatory risk, weak law enforcement, and a lack of market intermediaries (Luo et al., 2019). These distinctive characteristics of the emerging market allow us to expand our knowledge about the concept of socio-emotional wealth and its influence on corporate governance and management.

Considering for a moment that in the Dominican Republic, 98.7% are micro, small, and medium-sized enterprises (MSMEs), of which a little more than 95% are family businesses or those called as individuals (Internal Revenue, 2021). Considering these characteristics and the empirical evidence, it could be estimated that they possess high levels of socio-emotional wealth, that is, that they are able to assume significant risk in their performance in the face of the threat of losing this type of wealth, but at the same time, they avoid risky business decisions that could aggravate that risk (Gómez-Mejía et al., 2007). Likewise, from the perspective of their governance system, they will tend to be categorized as companies focused on the founder or on the type of protectorate, which, according to Arteaga et al. (2016), require external support or consulting to develop their business management.

In conclusion, first, it is necessary to deepen the study of socio-emotional wealth, allowing to broaden the understanding of the concept of heterogeneity in family businesses in emerging markets such as the Dominican Republic. Second, the estimates presented require empirical validation. Third, existing instruments and scales need to be related to other existing instruments and scales in the study of family businesses. Fourth, deepening the study of the concept of heterogeneity in family businesses and the theoretical model of socio-emotional wealth in its relationship with governance and management, would allow a better understanding of the alternative ways to contribute to the success of this sector. Finally, it would also favor intervention and support programs for the entrepreneurial family interested in their performance, growth, and continuity over time.

Future Research Directions

This conceptual framework provides a foundation for future study by identifying numerous relevant areas of investigation within the diverse landscape of family care enterprises in the Dominican Republic. Further investigation should explore the cultural factors that influence the growth and maintenance of SEW in family service enterprises. An in-depth examination of the influence of particular cultural aspects on emotional connections, decision-making in governance, and how businesses are managed could lead to a more nuanced comprehension of the cultural subtleties that affect the dynamics of family-owned businesses.

By comparing family service firms of varying sizes and industries in the Dominican Republic and potentially in other cultural contexts, we can enhance our comprehension of the scalability and transferability of the proposed framework. Comparative studies can provide insights into how differences in size and industry dynamics affect the occurrence of SEW and its consequent effects on governance and management.

Longitudinal studies that monitor family companies over time can provide valuable insights into the development of social, environmental, and economic well-being and the structures and practices of governance and management. Analyzing how these elements evolve and adjust in reaction to internal and external influences could offer a dynamic viewpoint on the long-term viability of family-owned firms.

It is crucial to examine the policy implications of the established framework to guide government policies that affect family companies. Gaining insight into the impact of taxation, succession planning legislation, and other policy frameworks on the preservation of family service firms can aid in creating policies that cater to the specific requirements of these enterprises.

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