

Definitions and typologies of the family business

[Business](#), [Management](#)



Definitions and Typologies of the Family Business The Concept of Socioemotional Wealth The concept of socioemotional wealth attempts to explain the role played by family emotions in managing and controlling their businesses. It asserts that emotional construct plays a key role in family business (Davis, 2001). Family businesses have strong emotional insinuation because they are a social group with long history and enduring memories. Socioemotional emotional concept implies that families have a number of emotions including warmth, intimacy, hatred, and anger that play an important role in their business relationship since the family member's identity are closely linked to the business. People's perception of the family business greatly affects the image and reputation of the family members since the personal pride and self-concept of family members are closely linked with the business. It is also worth noting that there is an emotional satisfaction experienced amongst family members due to their ability to execute authority and control over their business and these emotions tend to flow back and forth. Gomez-Mejia et al. (2011) explain that there are several other emotional constructs including emotional capital, emotional ownership, emotional value, commitment entrapment and possession attachment that have been studied and linked with family business recently. Most of the managerial decisions in the family businesses are driven by the desire to preserve and enhance the family's socioemotional wealth. Pursuit of socioemotional wealth acts as the family business' uniqueness and explains many of the managerial decisions made by the family members. Issues such as choosing a potential successor and other non-economic factors are considered more significant compared to the economic factors (Davis, 2001).

Family successor, for instance, are closely identified with the family business and reinforces family power and influence in the firm. Professionalism is also never an issue because recruitment and promotional practices in the family firms are always rely on social network and seniority instead of using clear criteria to screen applicants and applicant's qualifications respectively. This kind of criteria in human resource is consistent with socio-emotional wealth because they are intended to focus on the small pool of individuals sharing family values and culture. It is worth noting that all the family principles are always integrated into the family firms and form part of the strategic decisions they make.

2. Socioemotional wealth is evident in several other managerial and strategic decisions such as business venturing, R &D, and technological diversification, risk taking, professionalization, and succession.

Succession Family business highly regards the significance of transferring business control from one generation to the next, which acts as amongst the most critical made in the family firms. According to Gomez-Mejia et al. (2011), family businesses normally prefer a successor from within the family as a way of retaining family control and satisfy family ambition that may eventually preserve the socioemotional wealth. Family firms usually ensure existence of personal relationship between the business leaders and their successors to promote better transfer of idiosyncratic knowledge across generations and foster the identification of the successor with the firm as well as enhancing their emotional attachment to the business (Davis, 2001).

Professionalization Gomez-Mejia et al. (2011) assert that most family businesses are known for not considering incorporation of experts and managers from outside the firm as well as institution of formal management

frameworks due to consideration of socioemotional wealth explanation. This is because employing external managers enhances information asymmetries that may limit family control over strategic decisions, lead to behavioral uncertainty and increases disputes about goals. Family business relies more heavily on social networks during the recruitment process and place more emphasis on informal training. According to Gomez-Mejia et al. (2011), mentoring relationships and informal training are put more emphasis on instead of focusing on formal training. All these practices are consistent with socioemotional wealth since they tend to indoctrinate new employees with norms and values of the business that enhances identification with the firm.

Risk Taking Family members normally concentrate all their wealth in a particular business making their risks and returns tied to a single asset thus increasing the vulnerability. This normally turn them to be more risk averse since the cost of negative result outweighs paybacks that may be accumulated through the pursuit of a high risk venture. According to Gomez-Mejia et al. (2011), this kind of characteristic enables the family principals to accept greater risks to the firm's financial health if taking risks may deter losses as potential losses may increase subjective risk bearing. Financial goals are never considered as important as the socioemotional wealth that triggers the family business principals to maintain a good reputation and project a positive family image while avoiding the possible loss of reputation.

R&D Investment and Technological Diversification Gomez-Mejia et al. (2011) posit that R& D investment and technological diversification represents risk due to greater complexity, uncertainty, and rapid technological changes experienced in various industries. For socioemotional wealth purposes

preservation purposes, family principles are less likely to support technological diversification despite the fact that it reduces business risk since they may lessen the socioemotional wealth. It is therefore apparent that family businesses normally invest less in R & D as a way of reducing firm risk. Business Venturing According to Gomez-Mejia et al. (2011), family members usually invest the family resources in business, which is normally characterized with substantial family involvement. At the initial stages of a family business, family member play an integral role in mobilizing capital, which is usually difficult due to low legitimacy and high uncertainty of attracting external resources. However, socioemotional wealth always limits new ventures in family businesses to the other related activities until the business matures and build portfolios of related businesses as members of extended family fill key positions. References Davis, John A. (2001). "Definitions and Typologies of the Family Business". Harvard Business School Background. Gomez-Mejia et al. (2011, July 26). The Bind that Ties: Socioemotional Wealth Preservation in Family Firms. The Academy of Management Annals, 5 (1), 653-707.