

# Emotional implications in decision making in the Family Business: importance of the analysis of succession in the company's leadership

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Decision making processes in Family firms cannot be understood only attending rational processes and maturity models. Socio-emotional factors influence the DMP of all kind of enterprises, but in the case of family business they play a crucial role. Socioemotional wealth of family members and agents that surround them must be taken into account. This is specially truth in the moments of leadership change in the family companies. Aspects such as family values, control of the company, employment of family members, need of belonging, preservation of social capital, family heritage conservation, family lifestyle, among others are the basis that serve to make decisions. In this work we want to see how the Socio-emotional approach to DMP in family firms can complement the rational approach to DMP based in maturity models.

## 1. Importance of family history, family businesses and property systems

In family businesses wealth can be and is measured in two areas: family and business. The first is emotional; The second labour or economic. That is why when family businesses have to make decisions, not only the economic-financial aspects of business base, but also socio-emotional aspects that depend on the network of relationships that exist in the family come into play, whether it is all within

of the company or outside of it. Also of the relationships of family members with other people outside the same but with interests in the company. Therefore, when analysing the decisions of the family business, it is not enough to take economic theory into account, but also behavioural theory must be taken into account (Astrachan, & Jaskiewicz, 2008).

When we want to address socio-emotional wealth in the family business, it is important to take into account the family's background,

the analysis of the family business itself and the existing property systems in it. It should be possible to describe the character and development of the family business, seeing the role and participation of family members in the company. The key question is: How does your family get involved in the administration and ownership of the business?

To do this, it is necessary to clearly determine when the family business was founded, or acquired, and by whom it was founded / acquired. Also investigating the why and for what the family business was undertaken is important. Research the business nature and the main industry is important, in order to understand the changes that have occurred over the years and be able to glimpse the relationship of the family business with the family itself.

Seeing who (or who) exercises family leadership and how it is perceived in the family, in the company and outside it by stakeholders is essential. Also know who acts as an informant to the family and what their role is and how the family leader is selected. All this is decisive to analyse the socio-emotional wealth in a family business and see how its leadership is passed from one generation to another.

In the same way aspects such as property status. That is, specifically study the number and networks of family shareholders. See what family branches they are from. Examine if there has been any change in the shareholding over time, and see if the family uses any structure (for example, trusts and foundations) to maintain actions and see why it is done. It must also be taken into account if any shareholder of the company is a "nonfamily" and see why.

When examining family participation in the

business, it is necessary to see how many family members are working in the company, viewing their level of participation (senior management or executive positions); seeing also which generation (or generations) they represent, because they can easily coexist from three to five generations in the family business and seeing the socio-emotional relationships that are generated between them is essential to understand the decision-making of this type of company. In the end, see who are the family members and non-family actors that are most influential in the family business and determine what roles they play and why it is one of the most significant pieces to understand decision making in the family business.

## 2. Definition of socio-emotional wealth in the family business and its measurement

From the work of Gómez Mejía, Haynes, Núñez Nickel, Jacobson, & Moyano Fuentes (2007), there are numerous researchers and scholars who have focused their attention on this socio-emotional wealth of the family business. Some, such as Pascual Berrone, Cruz, & Gómez Mejía, (2012) consider that Socio-Emotional Wealth (SEW onwards) is an exclusive aspect of family businesses, and find in this component the distinctive behaviour of this type of companies, which could help to understand the opportunistic behaviour that is sometimes observed among family members.

Perhaps the most important thing is to observe how the SEW tends to be considered a unique characteristic of family businesses because, although non-family shareholders and managers may experience some kind of feeling towards the companies in which they carry out their activity, the value of the socio-

emotional wealth of the business family is more intrinsic, its preservation begins and ends in itself, and is anchored at a deep psychological level among family owners, whose identity is inexorably linked to the organization (Berrone , Cruz, Gómez Mejia, & Larraza Kintana, 2010). We understand therefore by socio-emotional wealth as the emotional endowment that every family business has, manifested by the set of feelings, emotions, relationships and binding ties between members of the business family (Gómez Mejia et there, 2007).

A new approach such as this one presents important challenges before becoming a true theory for the differentiated study of family businesses. Fundamentally there are two main challenges that should be addressed:

- 1) The quantification of socio-emotional wealth. Analyse how it can be measured at different times of the company, especially when there is a transition of leadership from one generation to another.
- 2) Treat heterogeneity between family businesses. That is, see how to consider the socio-emotional characteristics of each family-business, taking into account the diversity of sectors, sizes and characteristics of the family business.

Thus, in the first place and as in the case of any intangible component, one of the most important challenges presented by this approach is the measurement of such social wealth. Measuring the SEW is not easy. Research in this field is using the percentage of participation in the ownership of the company of family members as the most common parameter. This is, the higher the shareholding percentage in the hands of the family, the greater influence of the business family in the business decisions and, consequently, the

greater SEW. However, it has been stressed that, although this percentage of participation is important, the peculiarities inherent to each company, as well as its economic, financial and fiscal situation, and the family structure itself can make this Percentage is a poor element of measurement.

On the other hand, the other great challenge we referred to refers to heterogeneity among companies, and also among their owners (Melin & Nordqvist, 2007). Indeed, as is often a common expression among professionals, we can say that there are no two equal family businesses. Each family business has its own behaviour and organizational characteristics, which is due both to its business system and its family system. Thus, even if they may have similar characteristics related to profitability, indebtedness, market and / or objective clients and management, two family companies will be completely different due to their family component.

This implies that the results related to the socio-emotional wealth of a family business cannot be generalized to another company, in the sense that they would not be equivalent, which could greatly hinder the creation of a standard model. that allowed analysing the socio-emotional endowment of family businesses. If this is so, it seems clear that the SEW must be studied from individualized studies of companies, since the results obtained for one business cannot be extrapolated to another.

### 3. Heterogeneity of the family business and its socio-emotional wealth

A growing body of literature has emphasized the heterogeneity among family businesses and highlighted its diversity in various fields (Muñoz-Bullon et al. 2018), including family participation in ownership, control and management (Berrone et al., 2012, Chua et al., 1999, Ribero-Soriano et al., 2018). The heterogeneity among family businesses also derives from their unique and potentially varied set of family goals. Recognizing that family businesses are a heterogeneous group of companies makes it important to understand the factors that can increase or reduce SEW's aspirations (or change the relative importance of their different dimensions) and, therefore, affect their diversification decisions.

The authors Baixauli, Belda and Sánchez (2018) in their article Socioemotional wealth and dividend policy in private family businesses, consider that socio-emotional wealth refers to non-economic aspects that meet the diverse emotional needs of the owner family, and that includes, among others, the desire to maintain control of the business and extend it to future generations, maintaining social ties around the family business, or improving the reputation and well-being of the family.

In his study, from a sample composed of 508 medium-sized Spanish family businesses, he shows that the desire to preserve the socio-emotional wealth in the company by the owner family significantly influences both the decision to distribute or not dividends and the amount of them. In particular, in those companies in which there is a greater concern to preserve these non-economic objectives, the probability of distributing dividends is lower and, in the

case of distributing them, the amount is also lower. A dividend policy in this regard implies the availability of internal financing in the form of retained benefits, which allows to maintain control of the company while preserving socio-emotional wealth against the option of resorting to external financing that may jeopardize said wealth. Likewise, the study shows that the negative effect of socio-emotional wealth on dividend policy is strongly present when the CEO or CEO of the company is a member of the owner family, when the owner family occupies a significant number of management positions in the company and when the company is in first generation.

The authors thus show that socio-emotional wealth is one of the key distinguishing characteristics, which determines a different family business behaviour and decision making regarding other forms of organization. In its specific case, it is clear that the dividend policy of the family business does not always respond to strictly economic financial motivations, so managers and professionals in charge of these businesses must consider the need to balance financial objectives with socio-emotional ones, so important for the family business.



#### 4. Analysis of succession and differences in generational perspectives

Given the theme par excellence in the family business that is the leadership and succession of said leadership, seeing the different visions that different generations have, the planning of family succession must be described, justifying what is behind such planning and if this can help increase business performance. The key question is: How does the age of the current leader and that of the (potential) next CEO affect the decision and the leadership transition process? To perform this succession analysis, you can see how many succession or transition events the family has experienced. Seeing if there is any written succession plan, or such a transition is simply understood by tradition, it is important, as well as the assessment of whether there are differences

in the practice of succession between generations. The analysis of what processes or systems the family has to identify, evaluate and confirm possible successors is essential, while seeing the internal communication of the succession: how does the family communicate the process of succession and decisions ?; How does the family involve external advisors in succession planning? And how does the entrepreneurial spirit of your family relate to the promotion / brake of succession planning?

Analysing if the succession plan is designed for the family business of today or taking into account the growth potential of the family business is important to see if it is possible to maintain an entrepreneurial spirit throughout the generations. Seeing also the different point of view of the generations that live in the family business is important to assess the socio-emotional relationships that are generated in

them and that can affect both the succession and the performance of the companies and the decisionmaking process. The same in general. Leaders of 'Silent Generation' (1922-1945), 'Baby Boomers' (1946-1964), 'Generation X' (1965-1980), 'Generation Y / Millennials' (1981-early 2000s) and 'Generation Z' (2000 and onwards) may have different attitudes towards work and family. Given the life cycle they are in, they may also have different levels of commitment to the family business. The key question is: What are the key generational differences in the way of seeing succession and decision making in the operation of the business?

Again we will be interested in analyzing if there are more shared or different perspectives on the ordinary operation of the company and the succession in its leadership. How is a succession plan constructed incorporating these different perspectives? See if it is shared or there is any difference in the definition of the vision, mission and objectives of the company and the family from generation to generation, is enlightening. How can strategies of alignment of interests in the family be sought? The metrics and analysis of socio-emotional relationships in the company is a fundamental instrument to understand the decision-making processes in the family business.

How to embrace age diversity in the family business? And see if such diversity of ages is an element that presents advantages or limitations for business performance and company growth, is essential. See also how different generations of family leaders perceive entrepreneurship and risk and see how they respond to changes in the market from different generations of CEOs, it will be essential to analyse business decision making taking into account socio-emotional aspects.

Before an unexpected succession, describe how the family business prepares for critical events such as unexpected and prolonged illnesses, serious accidents or sudden death of the family business leader. It should be explored how preparation, or planning, for all these contingencies can affect the performance of the company in its ordinary decision making. The key question is: How would your family manage contingencies such as the sudden death of the family business leader?

It is convenient to see if the family business leaders have developed a response strategy to manage all these contingencies and ensure that the business will continue when this occurs. How is this strategy decided? It is also important to assess how it ensures that the network or relationships (especially with political leaders, creditors and banks) that the current leader has, can be transferred to the next CEO in case of an unexpected succession.

If this generational change in the leadership of the family business is not sudden, but is expected, due to age, and therefore do the retirement planning of the current leader should be described. In this retirement, the socio-emotional aspects are present throughout the process, since the succession can affect the government and the performance of the family business, and the relationships between all the family members that surround the family business. The key question is: How do you decide familiarly when the family leader should retire? That is, it must be determined what can trigger the retirement of the CEO. See if age is a critical factor, and if there is an age limit for a retirement from family management. Also see if there is a "final" task that is contemplated for the business and see the plans of the family CEO for after retirement. understand how the

personal retirement plan relates to corporate and / or family governance systems; and see what potential impacts, positive or negative, are seen to retain the transfer of the CEO title to the next generation leader.

As we can see, the analysis of the succession and the differences in the generational perspectives is a fact in the life of family businesses where one of the most important decision making of the same takes place, since they will be the framework of all the rest of their Decision-making processes, and socio-emotional aspects, are the main source of influence in the DMPs.

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