Diversification of the family business in emerging countries from the perspective of socio-emotional wealth. Literature Review

Abstract

The objective of this paper is to identify the relevant aspects studied in connection to the diversification of the family business that develops its activity in a business environment with unstable characteristics, considering those socio-emotional aspects that are particularly important for the family owner, and that could impact this election. The review reflects that research on the topic is in an incipient state. Studies conducted in the context of Taiwan predominate - where it is customary to establish business groups supported by strong links generated from a dominant family - and the strategic option of diversifying has been strongly associated with the purpose of securing family ownership and continuity in the business through generational transfer, dimensions that make up socio-emotional wealth. This paper contributes to reflect on the influence that family objectives exert on business decision-making and highlights the need for further research on the reasons behind the strategic choices of these organizations in different emerging markets.

Keywords: Family business, Diversification, Emerging market.
Diversification may result from the environment in which the firm operates, whether it has competitive conditions or instability and risk, although there are factors within the organization that also encourage the adoption of this strategy. Since the pioneering work of Ansoff (1958), researchers have promoted the interest in studying the different reasons that would lead an organization to opt for this business strategy. Nevertheless, in the context of family businesses, the analysis shows a certain degree of additional complexity since the influence of their owners - evidenced in the importance attached to the achievement of non-economic or affective nature objectives - has proved to be decisive in the behavior of these organizations (Gómez-Mejía, Haynes, Nuñez, Jacobson, and Moyano, 2007; Gómez Mejía, Makri, and Larraza Kintana, 2010; Kellermanns, Eddleston, and Zellweger, 2012; De Tienne and Chirico, 2013; Cabrera-Suárez, Déniz-Déniz, and Martín-Santana, 2014). In addition, it is noted that the prevailing reasons for family business diversification are an aspect not yet sufficiently explored in the context of emerging economies (Astrachan, 2010; Chung, 2013; Chang, Kao, and Kuo, 2014). From the perspective of this issue, the objective of this paper is to elaborate and integrate a review of the studies carried out around the strategic decision to diversify a family business in an unstable business environment, in which the impact of socio-emotional factors by researchers has been addressed. For this purpose, publications in journals were reviewed in the field of Management between 2007 and 2018. The exploration reflects the prevalence of studies in Asian countries, those of recent years, and that the socio-emotional wealth approach contributes greatly to understanding how particular family objectives influence diversification decisions.

2. Theoretical framework

The methodology used consisted in selecting those empirical-nature papers published in scientific journals from 2007 and until May 2018 - the date when the exploration was undertaken - for which the ABInform, Econlit and Scopus databases were used as search engines. The selection of the base year to initiate the identification of publications was intentional, given that the concept of "socio-emotional wealth" was unveiled in a seminal paper published by Gómez-Mejía et al. (2007), in which they assert that the behavior of family companies is influenced by the emotional commitment of their members with the business.

The descriptors chosen to inaugurate the
exploration were “socio-emotional wealth” - “emerging market” - “diversification”, and only those papers that contained them in the title, abstract, or keywords were picked. By the same criteria, the search was completed with the terms “socio-emotional wealth” - “diversification” and the combinations “family firms/family enterprises” - “diversification” - “emerging market/country”.

Then, to consider it in this review, firstly, the exploration was oriented and delimited towards those works in which the diversification of the family business - either geographical or by product - was addressed as a research topic considering the context in which the fieldwork was carried out. In this sense, the selection of papers took into account the country in which the study took place, based on the classification of developed, emerging and frontier markets, prepared by Morgan Stanley Capital International (MSCI). The search returned a total of 38 (thirty-eight) papers. First off, research conducted in countries categorized as developed by Morgan Stanley Capital International were dismissed: Germany (Kraus, Mensching, Calabró, Cheng, and Filser, 2016; Cesinger, Hughes, Mensching, Bouncken, Fredrich, and Kraus, 2016; Schmid, Ampenberger, Kaserer, and Achleitner, 2015); United States (Essen, Carney, Gedajlovic, and Heugens, 2015; Memili, Fang, and Welsh, 2015; Campbell, Eden, and Miller, 2012); Austria (Wąsowska, 2017); United Kingdom (Wang, 2016); Australia (Ratten, Ramadani, Leo-Paul, Hoy, and Ferreira, 2017); Spain (Hernández-Trasobares and Galve-Górriz, 2015, 2016, 2017; Muñoz Bullon and Sánchez Bueno, 2012); Italy (Pongelli, Caroli, and Cucculelli, 2016; Delbufalo, Poggesi, and Borra, 2016; Laffranchini and Braun, 2014; Majocchi and Strange, 2012); sample of Western European countries (Banalieva, Eddleston, and Zellweger, 2015); Singapore (Scholes, Mustafa and Chen, 2016). In the end, only 18 (eighteen) studies were identified within the established conditions, reflecting the embryonic state of the research within the framework of the three axes proposed in this work: diversification of the family business - unstable business environment - socio-emotional perspective. The publications chosen were then analyzed based on the indicator given by the CiMago Journal Rank (SJR), set up according to the importance of the journal they come from and with a direct impact on the value of the published papers. It should be noted that there was no cap on this indicator, given the low number of findings. These are detailed in Table 1.

<table>
<thead>
<tr>
<th>Journal</th>
<th>JSR 2017 Index</th>
<th>Number of publications</th>
<th>Research Context</th>
</tr>
</thead>
<tbody>
<tr>
<td>Journal of Management</td>
<td>6.46</td>
<td>1</td>
<td>Taiwan</td>
</tr>
<tr>
<td>Organization Science</td>
<td>5.5</td>
<td>1</td>
<td>Taiwan</td>
</tr>
<tr>
<td>Small Business Economics</td>
<td>1.94</td>
<td>1</td>
<td>Taiwan</td>
</tr>
<tr>
<td>Industrial Marketing Management</td>
<td>1.66</td>
<td>1</td>
<td>Taiwan</td>
</tr>
<tr>
<td>European Management Journal</td>
<td>1.26</td>
<td>1</td>
<td>Taiwan</td>
</tr>
<tr>
<td>Journal of Business Research</td>
<td>1.26</td>
<td>1</td>
<td>Taiwan</td>
</tr>
<tr>
<td>Asia Pacific Journal of Management</td>
<td>1.185</td>
<td>1</td>
<td>Thailand</td>
</tr>
<tr>
<td>Asia Pacific Journal of Management</td>
<td>1.185</td>
<td>1</td>
<td>Malaysia</td>
</tr>
<tr>
<td>Asia Pacific Journal of Management</td>
<td>1.185</td>
<td>1</td>
<td>Taiwan</td>
</tr>
<tr>
<td>International Business Review</td>
<td>1.01</td>
<td>2</td>
<td>Taiwan</td>
</tr>
<tr>
<td>North American Journal of Economics and Finance</td>
<td>0.63</td>
<td>1</td>
<td>Chile</td>
</tr>
<tr>
<td>Journal of Management and Organization</td>
<td>0.54</td>
<td>2</td>
<td>Taiwan</td>
</tr>
<tr>
<td>Journal of Small Business Strategy</td>
<td>0.23</td>
<td>1</td>
<td>Taiwan</td>
</tr>
<tr>
<td>International Journal of Economics and Finance</td>
<td>0.17</td>
<td>1</td>
<td>Taiwan</td>
</tr>
<tr>
<td>International Journal of Business and Economics</td>
<td>0.19</td>
<td>1</td>
<td>Taiwan</td>
</tr>
<tr>
<td>International Review of Management and Business Research</td>
<td>0.11</td>
<td>1</td>
<td>Taiwan</td>
</tr>
<tr>
<td>Total articles analyzed</td>
<td></td>
<td>18</td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors’ own elaboration
3. Theoretical development

When picking the papers that met the fixed limit conditions a classification of their contents was made. To this end, two questions were raised to which we sought to answer: 1) what theoretical approaches allow us to explain the impact of family influence on the business? and 2) from the perspective of socio-emotional wealth: how does this influence manifest itself in diversification decisions made in contexts with emergent characteristics? The following two sections will present the findings as follows: in the first (3.1), the concept of “socio-emotional wealth” is defined and reviews the theoretical approaches used by the researchers when approaching the study of the influence of the family on the company. The second section (3.2), presents in greater detail the research within the specific topic that this study proposes to analyze. Lastly, the authors’ discussions or proposals for future research are included.

3.1. The study of socio-emotional wealth: different approaches

Socio-emotional wealth has received growing interest in recent years as it contributes to explaining the influence of the family in the business and behavior of these companies in relation to their strategic decisions and risk-taking; in this sense, this is framed within the Theory of Agency Behavior (Gómez-Mejía et al., 2007; Berrone, Cruz, and Gómez Mejía, 2012; Ding, Qu and Wu, 2016). The term has been conceived by Gómez-Mejía et al. (2007) to refer to certain aspects that the family decides to preserve in order to satisfy its non-economic needs, even to the detriment of greater profits for the company (Gómez-Mejía et al., 2007; Gómez Mejía, Cruz, Berrone, and De Castro, 2011). These aspects include maintaining control of the firm in the hands of the family, having family members identify with the company, safeguarding family ties and values, fostering commitment and handing the business over to future generations, dimensions that reflect the long-term orientation of these companies (Berrone et al., 2012). Debicki, Kellermanns, Chrisman, Pearson, and Spencer (2016) have recently defined it as the benefits associated with the welfare and affective needs of family members, reflecting the influence of the family in the business as well as the heterogeneity in the strategic behavior of these organizations (Berrone, Cruz, Gómez-Mejía, and Larraza-Kintana, 2010; Berrone et al., 2012; Cennamo, Berrone, Cruz, and Gómez - Mejía, 2012; Chrisman and Patel, 2012; De Tienne and Chirico, 2013; Kotlar, De Massis, Fang and Frattini, 2014).

The predominant theoretical approach in the analysis of the impact of family influence on the company has been the Agency Theory. Emphasizing on ownership, this framework assumes that owners and managers, or the agents of an organization, are driven by the opportunity to obtain personal benefits; in this way, they lead to the emergence of agency conflicts based on different interests and risk preferences (Jensen and Meckling, 1976). Notwithstanding, in the particular case of family businesses, the concentration of ownership has a positive impact on the reduction of tensions by enabling the alignment of family interests among its members (Schulze, Lubatkin, Dino, and Buchholtz, 2001; Miller, Le Breton-Miller and Lester, 2010; Hernández Trasobares and Galve-Górriz, 2015), so that possible resistance would be mainly tied to the different modes of family participation (Schulze et al., 2001; Songini and Gnan, 2015). Regarding the subject of this review, this theory has allowed us to explain: a) that a closed-family ownership structure becomes a restriction for business diversification, so these companies diversify less than non-family ones (Gómez-Mejía et al., 2007; 2010; Miller et al., 2010; Schmid et al., 2015; Delbufalo et al. 2016; Hernández Trasobares and Galve Górriz, 2015; 2017); b) a positive relationship between family ownership and non-economic objectives, even greater in the case of those firms in the hands of their founders (Berrone et al., 2012; Zellweger, Kellermanns, Chrisman, and Chua, 2012; Kotlar et al., 2014; Miller and Le Breton Miller, 2014; Memili et al., 2015; Kavadis and Castaner, 2015; Schulze, 2016). In addition, ownership patterns have been shown to influence the priorities given to the different dimensions that make up socio-emotional wealth (Le Breton Miller and Miller, 2013; Sciascia, Mazzola, and Kellermanns 2014; Minichilli, Brogi, and Calabro, 2016). As observed by Berrone et al. (2012), the Behavior Agency Theory does
not contradict the core postulate of Agency Theory, since when the priority of the family owner is to protect socio-emotional wealth, he is expected to engage in opportunistic behaviors.

The influence of the family in the business has also sought to be explained through the Theory of Resources and Capabilities, as it argues that companies possess unique resources through which they can attain a competitive advantage, and explains that firms will choose to diversify when they have excess resources (Barney, 1991; Montgomery, 1994). In the particular case of family businesses, Habbershon and Williams (1999) coined the concept “familiarity” to refer to a unique and idiosyncratic set of tangible and intangible resources (such as networks of links, knowledge and a shared vision and purpose by family members). According to Astrachan, Klein, and Symrnios (2002), the source of the same is: 1) family ownership and participation; 2) the experience with which its members contribute to the business, which is activated in the process of generational transfer; 3) values rooted and shared in the company, which favor the commitment of the members of the family. Zellweger, Eddleston, and Kellermanns (2010) argue that the identity of its members, based on the perception of the company as a family business, is a fundamental pillar to these resources. When analyzed under the “familiarity” approach, business diversification may require additional material resources, as well as different skills and knowledge. This demand will then result in the need to recruit non-family staff and managers with these required skills. In this sense, the inflow of human resources from outside the family could be seen as an obstacle to preserving family independence and the resources already developed (Gómez-Mejía et al., 2010; Hernández Trasobares and Galve-Górriz, 2015, 2017). Scholes et al. (2016) demonstrate that the desire to maintain harmony and family ties has a negative impact on networking and development of new resources, and impacts internationalization activities beyond export.

Both concepts, “familiarity” and “socio-emotional wealth”, in addition to appearing as clear differentiators between family companies and non-family ones and collectively impacting strategic choices, business outcomes and survival (Chrisman, Sharma, Steier, and Chua, 2013; Chrisman and Patel, 2012; Sharma, Salvato, and Reay, 2014), are closely connected and are the result of the identification of their members in the business (Cabrera-Suárez et al., 2014). In connection thereto, given the objective of preserving socio-emotional wealth, and even though the company’s resources are used inefficiently, it becomes difficult to transmit entrepreneurial orientation to the new generations (Schepers, Voordecker, Steijvers, and Laveren, 2014) as well as the practice of innovation activities (Chrisman and Patel, 2012; Kraiczy, Hack, and Kellermanns, 2015; Li and Daspit, 2016). Similarly, with regard to human resources, interest in increasing and maintaining their affectional endowment would lead owners to preserve the employment of family members in the company (Cruz, Justo, and De Castro, 2012; Cennamo et al., 2012; Memili, Misra, Chang, and Chrisman, 2013; Vandekerkhof, Steijvers, Hendriks, and Voordecker, 2014).

Finally, it could be deduced that the approach of socio-emotional wealth largely captures that of Agency Theory and Resource and Capabilities Theory. In fact, retaining ownership control and transferring it to subsequent generations is one of their clearest objectives, as well as identifying family members in the business and protecting their own culture, which are sources of “familiarity” (Figure 1).

3.2. Diversification of the family business in unstable markets, from the perspective of socio-emotional wealth

Business diversification refers to a particular mode of strategy that requires changes in the market-product composition of a company that seeks to exit its current product line and market structure to enter new markets with new products, either within the limits of the industry in which it currently operates or outside of them (Ansoff, 1958). As already explained in the introduction, the purpose of this work is to conduct a review of the research that has deepened the approach of “socio-emotional wealth” in order to examine what has been written, specifically, regarding the decision to diversify a family
business in an environment characterized by economic unstable conditions, the lack of intermediaries, and underdeveloped institutions, which hinder trade (Khanna and Palepu, 2000). In the context of non-family businesses, the research conducted in contexts with these particularities has focused mainly on the relationship between the diversification strategy and business performance, showing that the so-called emerging countries face very different contingencies and need to evaluate factors such as government, political, economic and labor conditions, product life cycle and the characteristics of the competence (Sajid, Shujahat, and Mehmood, 2016). Overall, the results show that the benefits associated with diversification could be greater than the costs to the extent that companies can internally mimic market functions (Khanna and Palepu, 2000; Hoskisson, Johnson, Tihanyi, and White, 2005; Akben Selçuk, 2015), although a high degree of diversification could lead to diseconomies of scale since the inefficiency of markets leads to higher costs - such as coordination and information asymmetries - which add up to those resulting from managing new businesses in new segments (Yigit and Beharam, 2013; Akben Selçuk, 2015; Sajid et al., 2016).

Thus, if for family entrepreneurs the preservation of their non-economic objectives is a strategic priority, while environmental heterogeneity faces them with new challenges, it would be interesting to find out what has been studied regarding the reasons that drive family business owners to diversify when environmental conditions anticipate a certain level of insecurity.

The literature review reflects different research conducted in this field, as shown in Table 2.

The review reflects that the study of the decision to diversify a family business, considering the emergence of the contexts in which these companies operate, has been emerging in recent years and predominantly in Asian countries, where it is traditional to incorporate business groups based on economic and social ties, generally set up from a dominant family, with a critical role in economic activities. These groups act as an internal capital market and as a platform that allows them to share resources to affiliated companies, which are managed by the descendants of the main or other members of the family (Hsieh, Yeh, and Chen 2010; Chung, 2013; Wang, Chu, and Chen, 2013). In

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**Figure 1. Family influence: theoretical approaches**

<table>
<thead>
<tr>
<th>Influence of family ownership:</th>
<th>Diversification</th>
</tr>
</thead>
<tbody>
<tr>
<td>- alignment of interests founder-owner/ successor owners;</td>
<td></td>
</tr>
<tr>
<td>- incidence of different patterns;</td>
<td></td>
</tr>
<tr>
<td>- influence on the generation of tangible/intangible resources;</td>
<td></td>
</tr>
<tr>
<td>- sources: family ownership, shared experience and knowledge, own culture, identification of members with the company;</td>
<td></td>
</tr>
<tr>
<td>Influence of non-economic or affectional objectives: maintaining family ownership; members identifying with the company; ensuring generational succession; protecting family ties and values (family culture);</td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors’ own elaboration.
<table>
<thead>
<tr>
<th>Author/year</th>
<th>Publication</th>
<th>Methodology</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kuo, Kao, Chang, and Chiu</td>
<td>European Management Journal</td>
<td>Quantitative/Sample: 1550 Taiwan companies with business in China. Focus: Resources and Capabilities. Dependent variable: diversification (mode of entry into the foreign market).</td>
</tr>
<tr>
<td>Chang et al. (2014)</td>
<td>International Business Review</td>
<td>Quantitative/sample: investments by Taiwan companies in 13 countries. Focus: quality of government of the country to invest in. Variable to explain: diversification (input mode)</td>
</tr>
</tbody>
</table>
addition, it can be said that these companies bear broader levels of diversification in emerging markets to satisfy personal and family interests (Chen and Yu, 2011; Kuo, Kao, Chang, and Chiu, 2012; Lien and Li, 2013; Chung, 2013; Kao, Kuo, and Chang, 2013; Huei, 2014; Chang et al., 2014; Yabushita and Suehiro, 2014; Lin, Wang, and Pan, 2016; Gu, Lu, and Chung, 2016; Lo and Hsu, 2016; Tsao, Wang, Lu, Chen, and Wang, 2018), as this business strategy would provide the possibility of new units where descendants could operate (Lien and Li, 2013; Gu et al., 2016).

Strong family ties have positive effects on business innovation (Hsieh et al., 2010) and, while Luo and Chung (2013) argue that in these countries the control of the family would bring about better business performance, for the same reason it could be affected in different contexts, with similar characteristics (Wang et al., 2013; Espinosa-Méndez, Jara-Bertín, and Maquieira, 2018). Chen and Jaw (2013) found that successors would be more willing to have fewer family members in the company, thus taking on the risks of diversification. In connection thereto, it is demonstrated that the preservation of the affectional endowment of the family as a framework for such decisions depends on the generation of owners in charge, which becomes stronger when the founding generation is in charge (Gu et al., 2016; Tsao et al., 2018). Chang et al. (2014), with regards to geographical diversification, add that these organizations are more aggressive when the quality of the government of the country in which they invest is higher, a behavior that relates to the concern of preserving a socio-emotional wealth that is their own.

4. Discussions

Although the state of development of the research does not permit a more complete theoretical integration, the papers analyzed emphasize that the predominant focus to study this topic has been Agency Theory, and emphasize that in emerging countries diversifying a family business has been strongly associated with particular drivers of their owners, such as ensuring the continuity of the family in the business via ownership control, and handing the business over to the new generations. These reasons define two constituent dimensions of socio-emotional wealth and, in this sense, it can be said that the analysis supports the position of Berrone et al. (2012), when stating that these theoretical approaches are not invalidated.

The study admits as its major weaknesses the limited number of findings and, in addition, that they are concentrated in the context of Taiwan. However, it is expected to contribute to reflect on the impact of family objectives on business -even when the context poses conditions of instability and risk- and to assess the need for further research to be framed in different business environments with emergent characteristics, from the perspective of socio-emotional wealth and with a qualitative approach in order to gain: 1) a greater understanding of the strategic decision to diversify the family business in emerging countries and in which a different conformation of family organizations is present; and 2) to corroborate the importance acquired by socio-emotional aspects in these choices, and even identify which ones are identified as priorities under conditions of uncertainty.

5. References


Cuadernos de Gestión


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