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

La diversificación del negocio familiar en países emergentes, desde la perspectiva de la riqueza socioemocional. Revisión de la literatura

Diversification de l'entreprise familiale dans les pays émergents du point de vue de la richesse socio-affective. Revue de la documentation

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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.

Resumen

El objetivo de este trabajo es identificar los aspectos relevantes estudiados en relación a la diversificación de la em-

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presa familiar que desarrolla su actividad en un ambiente de negocios con características inestables, considerando aquellos aspectos socioemocionales que revisten particular importancia para la familia propietaria, y que podrían impactar en esta elección. La revisión realizada refleja que la investigación sobre el tópico se encuentra en estado incipiente. Predominan los estudios realizados en el contexto de Taiwán - donde es usual la constitución de grupos empresariales respaldados por los fuertes vínculos generados desde una familia dominante - y la opción estratégica de diversificar ha sido asociada fuertemente al propósito de asegurar la propiedad y continuidad de la familia en el negocio a través del traspaso generacional, dimensiones que componen la riqueza socioemocional. El artículo contribuye a reflexionar sobre la influencia que ejercen los objetivos familiares en la toma de decisiones empresariales y destaca la necesidad de una mayor investigación sobre las razones que impulsan las elecciones estratégicas de estas organizaciones, en diferentes mercados emergentes.

Palabras clave: Empresa familiar, Diversificación, Mercado emergente.

Résumé

L'objectif de ce travail est d'identifier les aspects étudiés pertinents à la diversification de l'entreprise familiale qui développe son activité dans un environnement d'affaires aux caractéristiques instables, en considérant les aspects socio-émotionnels qui revêtent une importance particulière pour le propriétaire familial, et qui pourraient avoir un impact sur ce choix. L'examen montre que la recherche sur des sujets d'actualité n'en est qu'à ses débuts. Les études sont prédominantes dans le contexte taïwanais - où il est habituel de former des groupes d'affaires soutenus par des liens solides générés par une famille dominante - et l'option stratégique de diversification a été fortement associée à l'objectif d'assurer la propriété et la continuité de la famille dans l'entreprise par le transfert générationnel, dimensions qui constituent la richesse socio-affective. L'article contribue à une réflexion sur l'influence des objectifs familiaux sur la prise de décision des entreprises et souligne la nécessité d'approfondir les recherches sur les raisons des choix stratégiques de ces organisations dans différents marchés émergents.

Mots-clés: Entreprise familiale, Diversification, Marché émergent.

1. Introduction

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 1. Works identified per journal

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

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.

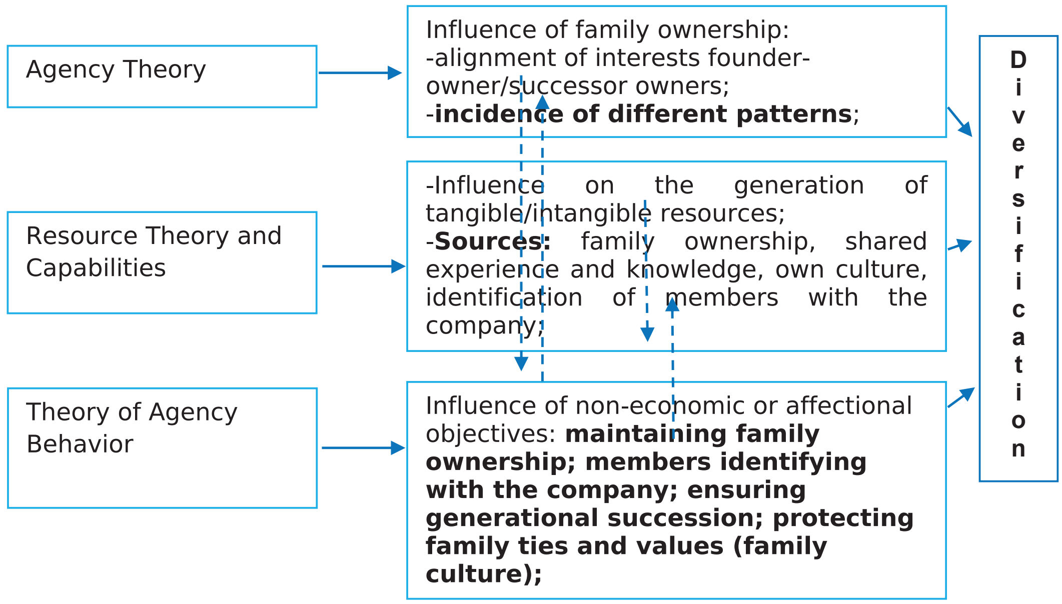
Both concepts, "familiarity" and "socio-emotional wealth", in addition to appearing as clear differentiators between family companies and non-family ones and collectively impacting strategic choices, business outcomes and survival (Chrisman, Sharma, Steier, and Chua, 2013; Chrisman and Patel, 2012; Sharma, 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, Voordeckers, 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 Voordeckers, 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

Figure 1. Family influence: theoretical approaches



Source: Authors' own elaboration.

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

Table 2. Studies identified by author and year of publication

Author/year	Publication	Methodology
Tsai, Kuo, and Hung (2009)	Small Business Economics	Quantitative/sample: Taiwan family businesses (Taiwan Economic Journal Database). Focus: Agency. Dependent variable: diversification.
Hsieh, Yeh, and Chen (2010)	Industrial Marketing Management	Quantitative/Sample: Taiwan Business Groups. Approaches: Agency/Resources and Capabilities. Diversification: independent variable; variable to explain: business innovation.
Chen and Yu (2011)	International Business Review	Quantitative/Sample: 98 Taiwan companies. Focus: Agency. Diversification: independent variable (explains performance).
Kuo, Kao, Chang, and Chiu (2012)	European Management Journal	Quantitative/Sample: 1550 Taiwan companies with business in China. Focus: Resources and Capabilities. Dependent variable: diversification (mode of entry into the foreign market).
Chen and Jaw (2013)	International Review of Management and Business Research	Quantitative/sample: 78 business groups in Taiwan Focus: Resources and Capabilities (combined with Network Focus). Dependent variable: diversification.
Wang, Chu and Chen (2013)	Journal of Management & Organization	Quantitative/sample: groups of companies in Taiwan. Focus: Resources and Capabilities. Diversification: independent variable (explains performance).
Kao, Kuo, and Chang (2013)	Journal of Management and Organization	Quantitative/sample: group of 505 companies in Taiwan. Focus: Agency Variable to explain: diversification (input mode).
Chung (2013)	Asia Pacific Journal of Management	Quantitative/sample: Taiwan family business groups. Focus: Agency. Diversification: dependent variable.
Lien and Li (2013)	Journal of Business Research	Quantitative/sample: 205 companies in Taiwan. Focus: Agency Diversification: variable to explain.
Luo and Chung (2013)	Organization Science	Quantitative/sample: groups of companies in Taiwan. Focus: Agency (combined with Institutional Economy) Diversification: control variable (dependent: yield)
Yabushita and Suehiro (2014)	Asia Pacific Journal of Management	Qualitative/sample: 215 family business groups in Thailand. Focus: Resources and Capabilities. Review history/proposal of a model.
Huei (2014)	Asia Pacific Journal of Management	Quantitative/sample: Malaysian business groups. Focus: Agency. Diversification: variable to explain
Chang *et al.* (2014)	International Business Review	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)
Gu, Lu, and Chung (2016)	Journal of Management	Quantitative/sample: business groups Taiwan. Focus: Socio-emotional wealth. Variable to explain: diversification.
Lin, Wang, and Pan (2016)	International Journal of Economics and Finance	Quantitative/sample: 364 companies listed on the stock exchange.Taiwan. Focus: Agency Diversification: variable to explain.
Lo and Hsu (2016)	International Journal of Business and Economics	Quantitative/sample: 300 groups from Taiwan. Focus: Resources and Capabilities. Diversification: variable to explain

Espinosa-Méndez, Jara-Bertín, and Maquieira (2018)	North American Journal of Economics and Finance	Quantitative/sample: 104 Chilean companies. Focus: Agency. Diversification: variable to explain.
Tsao, Wang, W., Lu, Chen, and Wang, J. (2018)	Journal of Small Business Strategy	Quantitative/sample: Taiwan companies. Focus: Socio-emotional wealth. Diversification: independent variable (to be explained: incidence of family ownership)
Source: Authors' own elaboration.		

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.

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