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HOW COVID 19 AFFECT SOCIOEMOTIONAL WEALTH DIMENSIONS?

Agustiono

¹Universitas Ciputra Surabaya, agustiono@ciputra.ac.id

ABSTRACT:

This research aim at assessing the impact of Covid 19 crisis toward family business' Socioemotional Wealth's (SEW) dimensions. SEW framework differentiate the unique entity of family business to non family business. It identifies why family business decision making do not merely based on financial consideration but also family's welfare and emotional attachment. Five SEW dimensions that will be explore are known as FIBER (Family control, Identification, Binding social Ties, Emotional attachment and Renewal of the family bond). As Indonesia enter a recession as shown by a decrease in GDP quarterly data 2020, it will put a strain on the family business decision as most business now fall into surviving mode. The question will be weather the pressure of survivability reduce the intensity of SEW in family business or, on the contrary, the pressure will change the degree of SEW dimensions? The method used to answer this will be an explanatory single case study. The exploitative study showed that other than financial preparedness, respectable approach to family members, shareholders and stakeholders prior crisis are an important factors in determining changes of SEW degree during crisis.

Keywords: Family business, Socioemotional Wealth, Crisis

Introduction

Family business has been at the center of many discussions. There are arguments as to why it generate such big interest, such as Family business are responsible for a big chunk of countries economy, family business is also creating the highest employment in a country and also the most common form of enterprise. Bernard (2013) mention that family business across the globe dominate number of companies both in developed countries and developing countries. For Indonesia, PWC (2019) state that the turnover for Indonesian family business ranging from 10 million to more than 1 billion USD. Despite the dominant contribution of family business, Indonesia can not escape from the effect of global covid 19 pandemic.

The central statistical bureau (BPS), predict that economic growth will slow down. In the first quarter of 2020, the growth was recorded at only 2.97 % while at the second quarter it dip into -5.32% (see figure 1). An analysis by CSIS (2020), estimate that Indonesia's economic growth ranging 0-1.99. The COVID-19 pandemic also had a serious impact on Micro, Small, and Medium Enterprises. MSMEs to be at the forefront of economic shocks.

More than 50% of SMEs indicated that they could go out of business by bankruptcy in the next few months (Thaha, 2020). Datas from Indonesia’s Ministry of Cooperatives and Small and Medium Enterprises, around 37,000 SMEs reported that they are seriously affected by this covid-19 pandemic, marked by 56% decrease of sales, 22% problems in the aspect of financing, 15% problems of goods distribution, and 4% difficulties in raw materials procurement (www.depkop.go.id). This shows that family business (which mostly falls under MSME) face a tough challenge ahead.

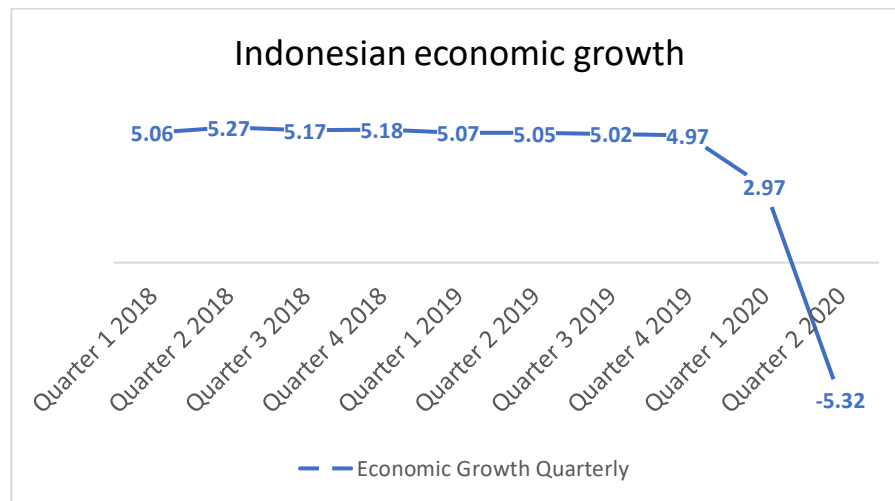


Figure 1.1 Indonesian Economic Growth
Source: www.bps.go.id

Research on the survivability of family business already receive much interest. Glover and Reay (2015) mention that there are studies to investigate the survivability of family business although receiving limited financial return. Some also studies the decision making to cease operation or continue to fight for their survival (DeTienne & Chirico, 2013). Under Socioemotional Wealth (SEW) perspective, family business will be driven into taking any necessary action to support it survival. (Gomez-Mejia, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007). The focus of family business may evolve through time according to its context (Kotlar et al.2018; Alonso-Dos-Santos and Llanos-Contreras 2018). Gomez-Mejia (2007) also state that with the introduction of SEW, Family business will be willing to take actions to preserve it

Gomez-Mejia, et al., (2007) conclude that family business is highly committed to the sustainability, and for that, it will take necessary risk to remain in control over their businesses when face with shock. Family business will be willing to take risk in it is needed to preserve the SEW (Chrisman & Patel, 2012). It is expected that shocks would influence the relative importance of SEW dimensions. However, it is not yet clear how shocks to the family business will influences SEW dimensions. This research will explore family business changes in SEW due to threatening external shock. It will also indicate how firm adapt the policy in order to respond to external threat

Literature Review

A family business is an institution where family matter and business matter overlap which makes it distinct. Family business is also the most common form of business

organization around the world. As with other business organization, family business cannot escape any financial problem. What differentiate family business to others is that there are sets of dimensions of non financial trait that affect the strategic management (Hernández-Perlines et al, 2019). Those dimension can be more important or less important in influencing decision making in family business

There are 5 (five) dimensions of Socioemotional Wealth according to (Berrone et al, 2012):

1. Family control and influence. It refers to the influence due to family member in family business. It might affect any strategic decision made by the business. Some elements of this dimensions include control over strategic decision, professional in management or board of director and preservation of control
2. Family members' identification with the firm. It refers to willingness of family members to identify themselves as close relation along with the identity/trait of the family. Some elements of this dimensions include strong sense of belonging, association of family business success with personal success and proud to tell others that they are part of the family business.
3. Binding social ties. It refers to the social relation of family business members with their stakeholder. Some elements of this dimensions include treatment of non-family employee as part of own family, trust/norm reciprocity and long term contract with suppliers.
4. Emotional attachment: It refers to emotional side of the family that affect business decision. How are those emotion influence decision made in the business Some elements of this dimensions include emotions in decision making, emotional bonds among family members and affective considerations as important as economics consideration.
5. Renewal of family bonds to the firm through dynastic. It refers to decision relate to family legacy, investment and succession. Some elements of this dimensions include continuing family legacy, unlikely to consider selling the family business, and succession.

Family business, just like other business organization, cannot avoid a cycle where at one point, it might be on the low point of its life (serra et all., 2013). Trahams et all (2013) identified that the organizational decline can be cause by industry decline, internal business weaknesses or external shock. However, the impact of business decline toward Socioemotional wealth is not yet well known. Most research discussed on how SEW will affect firm strategy when facing a crisis instead of vice versa. SEW it selves is dynamic, meaning it can adapt / change depending on the circumstances. Those changes of SEW dimensions need to be observed as family business will do anything to keep their business afloat.

Research Method

This research will explore single case based on the impact of covid 19 crisis toward SEW. PT. Gading Murni was selected because it is a third generation family business and face business presure due to covid 19 pandemic. The CEO/owner (Mr Aruwan Soenardi) is willing to be interviewed to gain insight on how covid19 crisis affect his family business SEW. Thus, the interview will investigate how SEW respond to pressure in business performance

Results and Discussion

Brief company profile

PT. Gading Murni (next will be address as GM) is a stationary trading and manufacture

in Indonesia. It started in 1948 when established by Soen Kie Soei, Sandhi Soenardi and Djoni Soenardi. The original name was Leeven Trading but in 1960, it changed into PT. Gading Murni. Currently, it has around 2000 employees and has 120,000 products in its portfolio. GM is also the sole distributor for many international brands, such as TRODAT, ARTLINE, KURETAKE, etc. Now GM's CEO is Mr. Aruwan Soenardi (will be addressed as Mr. AS), who is the third generation in the family business. His oldest child, Ms. Oktavia, acts as the Commercial and Administrative Director of the company. Mr. AS's second and third children are now also joint owners of the company.

The issue of family business survivability has been discussed in many researches. However, the impact of crisis is still under spot light. Most research would place SEW as the independent variable that causes changes or place SEW as mediator. SEW itself actually also may adjust its degree (higher/lower) due to business pressure as family business puts emphasis on its survivability. For GM, the changes of SEW are as follows:

1. The change in Family control and influence.

Control in family firm is a very sensitive matter. Prior a crisis, the cost of equity is unrelated to family control but following the crisis, both are related. So crisis made the family business aware of the risk of less family control should it engage in high financing. For GM case, the family business control falls under the CEO and General Manager, who are team of father and daughter. For strategic decision involving a large sum of investment, the decision still falls under CEO authority but for daily operation, the general manager may make decision. As pressure mounts during or after crisis, families' interest to preserve their control also increases. For GM case, the pressure of crisis did not make them consider hiring additional professionals to support the existing management which might mean loosening the family control. There was also no pressure from the other shareholder to bring more professionals as they are still trusting the father-daughter team to weather the COVID-19 crisis. As the company did not require additional equity funding, it also means the family business was not under pressure to reduce family control to VCs or banks or other financing institution. Although COVID-19 crisis situation did raise some apprehension of shareholders but Mr. AS as the CEO has built a culture of openness and transparency in the family business. He did update the situation as transparent as possible and this gesture brought trust to him. So far, there was no slight hint about changes in family control of GM.

2. Family members' identification with the firm

Organizational commitment is positively associated with family identification (Matherne et al., 2017). A strong organization identification will trigger active involvement (Valackiene, 2009). At one point in the past, Mr. AS once gave his second child (a son) a chance to explore business outside GM. He understood that forcing a family member to join the family business will not be beneficial in the long run as he wanted to win his son's heart. A positive family identification means stronger commitment and citizenship behavior of family members. Several months later, the son decided to return to the family business and currently has managerial level responsibility in the family business. Mr. AS considers that family member has a high attachment with the family business. It is shown by the initiative to safeguard the family business from threat (both internal and external). Actions like willingness to do

extra mile (ie, sudden overtime; work during weekend; etc.) show how family member has high attachment and a high sense of citizenship behavior. The covid 19 crisis bring them together even stronger. Initiative in finding opportunities and ideas for “new” business (during covid 19) flourish. One of the result is shown by the setup of new division in GM to cater Health and Sanitary business. Although initially GM is a stationary and office equipment trading / manufacturing company, an opportunities to manufacture hands free handwashing station quickly become an alternative source of income by the company. The family member support it by actively promoting them to various stakeholder (government institution, education institution, prayer house, etc). So in GM, the pressure of survivability brings family identification with the firm even stronger.

3. Binding social ties: refers to the family members’ social relationship ability with their social networks and relations.

One of family business characteristic the present of close relationship amongst its family member and also to their employee (Cruz et al., 2012). This “close relationship” means members of family business (family and employee) are to willing to share information, resources and support. This ties can also go beyond members of family business but also include relationship with outside stakeholder or even the one who has power over them (Hawkins, R. L., & Maurer, K., 2010). In GM case, they consider their employee part of families as some of them already work for tenth of years. GM also give opportunities for employee families to join the company as long as they are not in the position that might cause conflict of interest. GM is more on person - organization fit rather than person – job fit, which mean the compatibility with the company culture is highly value. In this dimension, Mr. AS mention things start to change as his daughter as GM start to do a professional assessment for the new employee as GM needs pool of talents that are able to grow with the business. Mr. AS understandably agree as different generation of stakeholder also require different approach to handle them. So consideration on person – job match is getting more attention recently. Nevertheless Mr. AS maintain the long culture in his family business that the care for the employees is not strictly limited to the signed employment contract. GM also went extra mile to earn trust and loyalty from employees. Mr AS mention that the company “secretly” hold extra saving for each employee for a “rainy day”. This pool of cash may provide extra financial assistant to employee such as when employees need extra cash for children education, family health emergency, etc. The disbursement of the emergency fund can only be done with the knowledge of employees’ spouse to make sure that it is not being misused by employee. This gesture won employees heart, trust and loyalty not just to Mr AS but also to the family member. This trust can be seen when GM also affected by the covid 19 crisis. Upon openly discuss the business slowing down situation, some efficiency options are unavoidable. Efficiency programs such as work from home and reducing work hour, although have consequences in lowering employee income, are understood by the employee and they stand ready to support the company. GM so far do not lay off any employee and do the best to support them. This decision, although hard for employees, did not cause any discontent from the employee. They understand what happen with the company and willing to support the company. The employee are ready and do not hesitate to support the company when a sudden company’s operational require them to come and work extra. The binding with the stakeholder is

not only with this employee but also the supplier and customer. The long relationship with the supplier help GM in negotiating term of trade during covid 19. On the other side, GM also banking on the good relationship to work on the term of their payment. So having a good relation, reputation and respect worked both way (supplier and customer). It also shows the important of binding social ties to the survivability of GM as it reap the good seed they sowed long time before covid 19 arise. With a strong and mutual respect, covid 19 crisis will not change GM social network

4. Emotional attachment

It is a commonly known that dysfunction family (distance relation, conflict) have negative impact on family business performance (Masuo 2001). Family climate is the key to strong support in family business (Habbershon, 1999). This is also shown by harmonious relation among Mr. AS families. In GM, Mr. AS has always been building a harmonious relation among shareholder. Prior to his ascent as CEO, the family business experienced a conflict as the business was headed by two dominant family member (Mr AS father and uncle). The conflict is more due to the different character between them. On one side was a marketing type person who were more aggressive in doing the business while on the other side was a conservative finance person. Mr. AS understand that both characters are needed in the company. Mr. AS as a junior member has a high respect to both of them, he acted by toning down their opinion by presenting other party intention in a subtle way. He was able to make each party to see another person point of view without hurting their ego. Mr. AS able to act as a middle man that bridge the differences and hence later he was appointed as CEO. During current covid 19 crisis, he showed strong leadership, open and fair to shareholder and stakeholder so it bring harmony to the family and business. All (three) of his children now work in the family business and each has their own responsibility according to their current capacity. To strengthen the bond and emotional attachment, Mr. AS regularly held a family vacation for all family member. During this covid 19, the bonding are done by having family assembly regularly. This seems simple act, hold the key of his leadership in business and family. The family business grew without any meaningful friction in family business. This result in positive family attachment which reflect in positive behavior and supporting contribution. So with continues meeting (formal and informal) keep the family emotional attachment strong during covid 19 crisis.

5. Renewal of family bonds to the firm through dynastic succession:

On short term investment, Mr AS stated that there is no plan on making any major (big) investment in the business. They will also very selective in short term investment, due to business slow down. GM optimistic that they are able to weather the storm of this covid 19 pandemic because they have electronic division (computer) that sees an increase in revenue although it cannot completely offset a decrease from other division. The conservative approach of mr AS in company's finance has also been a blessing in this situation as the business need cash reserve to weather this crisis. This preparedness also evade the pressure to sell family business in near future.

On the issues of succession, female entrepreneur has some benefit due to stronger linkage with family business as they are push to focus on work-families synergies whilst the male, due to abundance resources, tend to explore various options that

compete with working in family business (Powell & Eddleston, 2013). Although first borne is more likely to be a successor but family principal should open for other candidates. Mr AS has the courage to break primogeniture rule to find suitable candidate. Currently he and his first borne (daughter) run the family business but this is due to experience. The sons are still in the learning process to climb the family business ladder. As for succession plan, the covid 19, crisis do not change any plan as mr. Aruwan is yet to plan for a succession.

Conclusion and Implications

Family business' consideration the influence of SEW in every decision they make. Sacrificing external interest might be consider unimportant as everything are doing fine and everybody happy with the business progress. As the pressure to business mounted due to crisis, shareholder and stakeholder might demand that family business make adjustment and not only focusing on their SEW but on the survivability of the business. They might be under pressure to surrender some degree of SEW to weather the crisis. From GM case, we can conclude that although economic crisis do put pressure on the business, the conservative management style by the CEO enable GM to weather the crisis. The financial preparedness or conservative approach in GM finance and investment also play important role in lessen the pressure. Pre covid business policy to family, shareholder and stakeholder that make them have high sense of belonging to the company and make them round up support to GM. For future research, building a case for changes of SEW in a company under severe business pressure will give us more

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