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Development of a socioemotional wealth importance (SEWi) scale for family firm research

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ABSTRACT

The importance attached to socioemotional wealth is thought to distinguish family firms from non-family firms. Yet, measurement of socioemotional wealth is difficult owing to an absence of psychometrically sound measures. In this paper, we describe the development of the socioemotional wealth importance scale (SEWi)—an instrument allowing direct measurement of the importance of socioemotional wealth to family owners and managers of family firms. We explain the processes used to generate items, pre-test the developed scale and validate it. The final construct is composed of three distinct dimensions: Family Prominence; Family Continuity; and Family Enrichment. Contributions and future research directions are discussed.

1. Introduction

In family firms, ownership and management are often concentrated in the hands of a small group of family members who are in a position to derive both financial and non-financial benefits from the business (Chrisman, Chua, Kellermanns, & Chang, 2007). The non-financial benefits can take many forms depending on the family's vision for the business and how such benefits are expected to contribute to the well-being of the family (Chua, Chrisman, & Sharma, 1999). The non-financial value accruing to a family through its association with a firm has been labeled by Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes (2007) as "socioemotional wealth" (SEW).

According to Berrone, Cruz, and Gómez-Mejía, (2012), SEW is the key factor distinguishing family firms from other types of businesses. They contend that it operates at a deep psychological level among family members whose identity is integrally connected to their membership in the family firm (Berrone, Cruz, Gómez-Mejía, & Larraza Kintana, 2010). From this perspective, family members are hypothesized to manage the firm in ways that will allow them to create and preserve SEW even at the expense of financial gains (Gómez-Mejía et al., 2007; Gómez-Mejía, Makri, & Larraza-Kintana, 2010). In other words, aversion to the loss of SEW is viewed as a primary driver of a family firm's strategic behavior (Chrisman & Patel, 2012).

Recent studies have drawn on this premise to explain many aspects of family firm behavior. For instance, the desire to avoid the loss of SEW has been used to explain why family firms are less likely to invest in R&D (Chen & Hsu, 2009), less likely to diversify (Gómez-Mejía et al., 2010) and less likely to pollute (Berrone et al., 2010) than non-family firms (Berrone et al., 2012; Gómez-Mejía et al., 2010). Yet, though they draw upon SEW to explain these differences, none of these studies has attempted to directly measure SEW. As Miller and Breton-Miller (2014) point out, without additional evidence, it is impossible to say what motivates family firm behaviors.

In this paper we describe the process used to develop an instrument to measure SEW. Because SEW is intangible and psychological, its influence on firm behavior is largely a function of its importance to family members in terms of its preservation and acquisition. Thus, we focus on measuring its *importance* rather than *level* by developing a SEW importance scale (SEWi). Such a scale will make it possible to test how the importance of SEW influences the strategic behaviors of family firms in comparison to

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non-family firms and how variations in the importance of SEW lead to heterogeneous strategic behaviors among family firms. As Chrisman and Patel (2012) point out, different families potentially vary greatly in their goals and aspirations, with some focused on short term issues, such as jobs for family members, and others emphasizing long term considerations such as preparing the business for the next generation. Consequently, there should be observable differences among owning families in terms of the amount of importance they place on SEW, and the subsequent strategic behaviors of their firms.

This paper contributes to the family firm literature in multiple ways. First, we discuss the conceptualization of SEW and the reasons for developing an instrument that measures the importance of the SEW dimensions to family business leaders, rather than the degree or level of SEW in a family firm. Second, we further explain the necessity for a measurement instrument allowing for direct assessment of the importance of SEW-related goals, with consideration of existing scales developed for potentially related constructs, such as organizational reputation. Third, we develop the SEWi scale and explain in detail the theoretical and statistical procedures utilized in the process, resulting in a scale consisting of three rather than five (Berrone et al., 2012) specific dimensions of SEW. Finally, we suggest additional areas of future research that this new measurement affords the field, as well as areas beyond family firm research.

2. Socioemotional wealth: endowment vs. preference

Socioemotional wealth has been described as an affective endowment (Berrone et al., 2012) that family members derive from the business. According to the behavioral agency model (BAM) developed by Wiseman and Gómez-Mejía (1998), this stock of affective value is a key reference point for family business leaders and any potential decline in SEW will be viewed as an important loss. As part of this model, the concept of loss aversion from prospect theory (Kahneman & Tversky, 1979) tells us that decision makers will weigh losses more heavily than gains. As a result, BAM predicts that family business leaders will exhibit risk-averse behaviors when facing possible gains to SEW, and risk-seeking behaviors when facing SEW losses. Thus, when facing decisions that may result in SEW losses, family firms will tend to tolerate threats to their financial welfare in order to protect their SEW (Gómez-Mejía et al., 2007).

Yet, what does it really mean to say that SEW is comprised of a stock of affective value and can the value or level of this stock be measured? We contend that the stock of SEW differs from a stock of economic wealth in that its value is determined more by subjective importance than objective amount. Furthermore, as Miller and Breton-Miller (2014) have suggested, the value of SEW is a function of how it is used and, as is the case of social capital, SEW is not dissipated through its use. In fact, Berrone et al. (2012) suggest social ties represent a dimension of SEW. Thus, attempts to measure the level of SEW in the same way as one might measure the level of economic wealth may be problematic. On the other hand, measuring the level of SEW may not be necessary since it appears to be the importance family members attach to particular socioemotional benefits (Miller & Breton-Miller, 2014) that drive behavior.

In keeping with these ideas, and in an effort to operationalize this construct more clearly, we define SEW as *the array of non-financial benefits specifically associated with the well-being and affective needs of family members that are derived from operating a business enterprise* and argue that the importance attached to these benefits drives decision making and firm behavior. The above is not to imply that SEW is not a stock or an endowment. Rather, this view suggests that this endowment is best represented by the importance of the potential benefits it offers to family business owners and that owners' preferences for specific benefits are likely to vary.

Gómez-Mejía et al. (2007, 2010) and Jones, Makri and Gómez-Mejía (2008), among others, have described many of the benefits that family members derive from operating a business enterprise beyond its financial returns. A list of SEW benefits from operating a family firm is provided in Table 1.

With so many diverse benefits available to family business owners, Berrone et al. (2012) described SEW as a multi-dimensional construct and took a first step toward identifying these dimensions with their FIBER model which includes the following five categories, or dimensions: (1) F—Family control and influence; (2) I—Family members' identification with the firm; (3) B—Building social ties; (4) E—Emotional attachment; and (5) R—Renewal of family bonds to the firm through dynastic succession. Although no empirical research on their model has been published, they assembled 30 items from a variety of pre-existing scales on related concepts, such as employee identification (O'Reilly & Chatman, 1996) and organizational commitment (Allen & Meyer, 1990) that could be useful in measuring each of these dimensions. Although this list is thought provoking and warrants further research, we took a slightly different approach by focusing on respondents' preferences toward an array of non-financial benefits frequently associated with SEW. Specifically, we asked respondents to rate the importance of each benefit within their family firm.

Based on the behavioral theory of the firm, the evolving consensus in the family business literature is that different families may attach very different levels of importance to these diverse non-economic benefits based on their own unique interests

Table 1
Examples of socioemotional wealth benefits of operating a family firm.

- the ability to exercise authority and make unorthodox decisions (such as selecting family members for positions in the firm)
- the preservation of the sentimental value of the firm for the family members
- the satisfaction of needs for belonging, affect, and intimacy
- the perpetuation of family values through the business
- the preservation of the family dynasty
- the accumulation and conservation of the family firm's social capital
- the fulfillment of family obligations based on blood ties rather than on strict criteria of competence
- the opportunity to be altruistic to family members
- providing a sense of self and identity
- enhancing family reputation
- enhancing family image
- enhancing family harmony
- recognition from society/community for generous actions
- social support from friends and community

Sources: (Gómez-Mejía et al., 2007; Gómez-Mejía et al., 2010; Jones et al., 2008).