

FAMILY FIRM PERFORMANCE IN CENTRAL KALIMANTAN: THE ROLE OF SOCIOEMOTIONAL WEALTH AND MANAGERIAL CAPABILITIES

Submission date: 06-Sep-2024 09:22PM (UTC+0700)

Submission ID: 2446581732

File name: Turnitin.pdf (223.87K)

Word count: 3419

Character count: 19129

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ABSTRACT

This research investigates the critical role of family companies in the rapid expansion of MSMEs in Central Kalimantan. This research examines the effect of socioemotional wealth on firm performance with managerial capabilities as a mediating variable. The concept of socioemotional wealth is a concept that is still rarely studied in family companies and makes family companies a unique entity. This research is classified as quantitative research using primary data. The sampling technique used purposive sampling, with 63 family company owners in Central Kalimantan, Indonesia, as the research sample. The results obtained show a positive influence of socioemotional wealth on firm performance. Socioemotional wealth has a positive effect on managerial capabilities, and there is a partial mediation effect on the role of managerial capabilities as a mediating variable. The results also show a positive influence of managerial capabilities on firm performance.

Keywords: *Socioemotional Wealth, Managerial Capabilities, and Firm Performance.*

1. INTRODUCTION

Based on a survey conducted by PricewaterhouseCoopers (PwC) 2021 survey shows that family firms have managed to overcome the Covid-19 pandemic quite well. A total of 65% of family firms in Indonesia have an optimistic view of business growth in 2021, and 93% expect new growth to be seen in 2022 (PwC, 2021). However, the firm performance of family companies in Indonesia is quite variable (PwC, 2021).

The importance of family firm performance in achieving long-term sustainability is an interesting topic to research. Research related to performance measurement in family firms is still limited, in contrast to the topic of succession, which is much more frequently researched in family firms. (Basly & Saadi, 2020). There is a research gap related to performance in family firms. Some research results show higher performance in family firms, but some show the opposite (Berrone et al., 2012; Simões Vieira, 2014; Holt et al., 2018). Family influence on the performance of family firms also has mixed impacts (Cruz et al., 2012; Ng et al., 2019).

According to Cruz et al. (2012) firm performance is the ability of the firm to control and manage existing resources effectively and efficiently to achieve firm goals. Firm performance shows how well an organization achieves its goals, which can be measured by financial and market criteria (Gharakhani & Mousakhani, 2012). Performance evaluation in family companies is necessary for many parties, such as the company itself, investors, the government, and other related parties (Rachmawati et al., 2020). The performance of family firms can be influenced by many factors, such as socioemotional wealth, governance, managerial capabilities, capital structure, innovation, long-term orientation, risk preferences, and so on (Hauck et al., 2016; Memili et al., 2018; Ng et al., 2019; Martínez-Romero et al., 2020).

Socioemotional wealth is a non-financial aspect or affective endowment of the owner's family, including the ability to maintain family influence, identify the role of family members in the company, the existence of binding social ties, the existence of emotional attachments, and the renewal of family ties through dynastic succession (Berrone et al., 2012; Wardhani, 2020). Family

firms have a different focus on *socioemotional wealth* and strategies for achieving the desired goals (Holt et al., 2018). There is often the potential for conflicts of interest in family firms because managers who act as owners tend to pursue personal desires and ignore organizational interests (Bhatt & Bhattacharya, 2017).

Based on the results of previous studies, socioemotional wealth can positively influence the performance of family firms (Razzak & Jassem, 2019; Hernández-Linares et al., 2020). Family firms that strive to preserve socioemotional wealth tend to increase entrepreneurial activities, resulting in better firm performance (Hernández-Linares et al., 2020). Family firms with high socioemotional wealth tend to have strong bonds between family members, resulting in a solid commitment to improving long-term firm performance (Memili et al., 2018; Razzak & Jassem, 2019).

Other research shows a negative effect of socioemotional wealth on the performance of family firms (Razzak & Jassem, 2019). Family firms that overemphasize socioemotional wealth can hinder the performance of family firms, such as an unwillingness to innovate, a tendency to be risk averse, and an excessive focus on the control and influence of family members, which can lead to inefficiencies (Razzak & Jassem, 2019; Hernández-Linares et al., 2020).

The role of managerial capabilities is essential for family companies to mediate the influence of socioemotional wealth on firm performance (Ng et al., 2019). Managerial capabilities are the expertise and competence of managers to manage their resources and utilize technology as competencies to gain a competitive advantage amid massive changes (Helfat & Martin, 2015; Ng et al., 2019). Family companies prioritizing socioemotional wealth will improve managerial capabilities through solid ties between family members, increasing loyalty, a high sense of belonging, and commitment to the company (Ng et al., 2019).

In addition, family companies that prioritize socioemotional wealth will increase managerial capabilities through efforts to establish good relationships with stakeholders due to efforts to maintain the long-term sustainability of the company (Ng et al., 2019). Family firms that have good managerial capabilities will be able to manage the pressure between maintaining socioemotional wealth and the goal of achieving financial performance (Daspit et al., 2017). Good managerial capabilities will help family firms make balanced decisions and focus on long-term performance (Daspit et al., 2017). Conversely, low managerial capabilities can lead to the failure of family firms (Ng et al., 2019).

Managerial capabilities allow managers to evaluate the internal and external environment to improve the performance of the family company. (Agyapong et al., 2016). This can be achieved through the establishment of solid marketing capabilities, good corporate reputation, quality products and services, satisfactory customer service, good workforce recruitment and development, and so on. (Agyapong et al., 2016). The involvement of family members can create unique capabilities that other companies do not have, thus creating better performance (Agyapong et al., 2016). The uniqueness of capabilities is also supported by the fact that family companies often not only pursue financial goals but also strive to achieve non-financial goals to increase company value (Agyapong et al., 2016). Based on the resource-based view theory, socioemotional wealth and managerial capabilities in family firms can be valuable and unique resources that can improve performance and create competitive advantage (Daspit et al., 2017; Kearney et al., 2017).

This research focuses on examining family companies located in Central Kalimantan, Indonesia. There was a significant increase in micro, small, and medium enterprises (MSMEs) in Central Kalimantan, from 40,568 units in December 2019 to 75,278 units in December 2021 (Badan Pusat Statistik Provinsi Kalimantan Tengah, 2021). The increase in the number of MSMEs

is inseparable from family companies because family companies are often also part of the MSME category and make an essential contribution to the regional economy. The novelty of this study is that it also examines the influence of socioemotional wealth, managerial capabilities, and firm performance on family companies, which are still limited in Indonesia (Ng et al., 2019). The research framework is as follows:

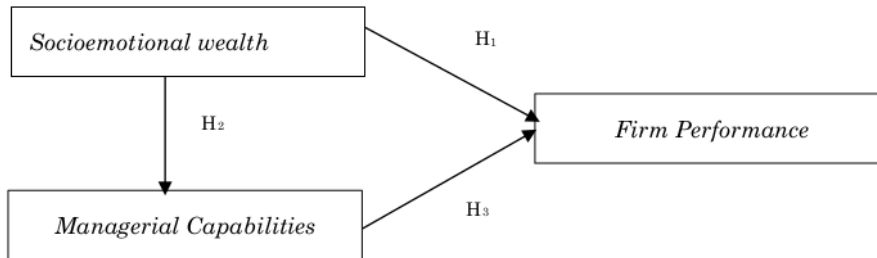


Figure 1. Research Framework

Source: data processed (2021)

This study aims to test three research hypotheses, namely:

H₁: The influence of socioemotional wealth on firm performance

H₂: The influence of socioemotional wealth on managerial capabilities

H₃: The effect of managerial capabilities on firm performance

2. RESEARCH METHODS

This research is a quantitative study using primary data. Primary data is obtained by distributing research questionnaires, which are measured using a Likert scale. The sampling technique used purposive sampling with the research population, namely family company owners/managers in Central Kalimantan.

Data analysis using Structural Equation Modeling (SEM) using SmartPLS version 3.0. Validity tests are carried out to see how much data accuracy includes convergent validity and discriminant validity. The value of convergent validity can be seen from the outer loading value of each indicator and the Average Variance Extracted (AVE) of each latent variable (Hair et al., 2021). The expected outer loading value on convergent validity is 0.7 with AVE > 0.5.

Discriminant test is carried out to see the extent to which a variable is different from other variables by looking at the measurement cross loading value with its constructs or by comparing the Average Variance Extracted (AVE) root of each construct with the correlation between constructs and other constructs in the model. The model has good enough discriminant validity if the AVE root for each construct is greater than the correlation between constructs and other constructs in the model (Hair et al., 2021). Reliability testing can be done by looking at the Cronbach's alpha value and the composite reliability value. The Cronbach's alpha or composite reliability value must be more than 0.7, although a value of 0.6 is still acceptable.

Firm performance refers to the definition of Cruz et al. (2012). Firm performance is defined as a company's ability to control and organize existing resources effectively and efficiently to achieve company goals (Cruz et al., 2012). Indicators of firm performance consist of sales growth, perceived increase in profits, and perceived increase in company image (Mahmood et al., 2020).

Socioemotional wealth refers to the definition by Berrone et al. (2012) and Wardhani (2020). Socioemotional wealth is a non-financial/affective endowment aspect of the owner's family, including the ability to maintain family influence, identify the role of family members in the company, the existence of binding social ties, emotional attachment, and renewal of family ties through dynastic succession (Berrone et al., 2012; Wardhani, 2020). The socioemotional wealth indicator uses the FIBER scale, which consists of the existence of family control and influence, identification of family members in the company, the existence of social ties with various stakeholders, emotional attachment of family members, and renewal of family ties through dynastic succession (Berrone et al., 2012; Hauck et al., 2016).

According to Helfat & Martin (2015) and Ng et al. (2019), managerial capabilities are the expertise and competence of managers in managing their resources and utilizing technology competencies to gain a competitive advantage amid massive changes. The managerial capabilities indicator consists of the manager's ability to resolve conflicting opinions, the manager's ability to develop a strategic planning system, the manager's ability to improve effective coordination and collaboration, the manager's ability to generate enthusiasm for the management unit, and the manager's ability to generate motivation for the management unit (Ng et al., 2019).

3. RESULT AND DISCUSSION

3.1 Results

A total of 63 family company owners in Central Kalimantan were sampled, spread across Buntok, Palangkaraya, Pangkalan Bun, Sampit, and Tamiang Layang. The majority of the research samples were from Palangkaraya and Sampit. The majority of family companies that became research respondents were engaged in trade, with a total of 61 respondents; the rest were engaged in services. A total of 31 respondents have established family companies for more than 15 years. Most of the respondents were male with a total of 44 people. Family company owners who became respondents were, on average, 41 to 56 years old, as many as 46 respondents. The majority of respondents' education is a bachelor's degree, as many as 36 respondents. Table 1 shows the profile of the respondents.

Table 1. Respondent Profile

Line of Business	Number of Respondents	Percentage (%)
Trade	61	97.83
Services	2	3.17
Total	63	100.0
Location	Number of Respondents	Percentage (%)
Buntok	4	6.35
Palangkaraya	20	31.75
Pangkalan Bun	9	14.29
Sampit	28	44.44
Tamiang	2	3.17
Total	63	100.0
Family Business Age	Number of Respondents	Percentage (%)
1 to 5 years	10	15.87
6 to 10 years	8	12.70
11 to 15 years	14	22.22
more than 15 years	31	49.21
Total	63	100.0
Gender	Number of Respondents	Percentage (%)
Male	44	69.84
Female	19	30.16
Total	63	100.0
Respondent Age	Number of Respondents	Percentage (%)
31 to 40 years old	17	26.98
41 to 56 years old	46	73.02
Total	63	100.0
Education	Number of Respondents	Percentage (%)
Senior High School	15	23.81
Associate Degree	2	3.17
Bachelor Degree	36	57.14
Doctoral	10	15.87
Total	63	100.0

Source: data processed, 2021

Table 2 shows the average results, outer model, and inner model of each variable. The average of firm performance, socioemotional wealth, and managerial capabilities variables is very high. The average respondent has a perception of firm performance in excellent condition. High socioemotional wealth indicates significant involvement in the family companies in the research sample. Managerial capabilities that are classified as very high indicate the existence of good managerial abilities in managing family companies.

The convergent validity test is based on the loading factor value and the Average Variance Extracted (AVE) value of more than 0.5. Based on the convergent validity test, the indicators of each variable are said to be valid. The reliability test was performed by looking at Cronbach's Alpha value and composite reliability greater than 0.7. The results of each variable have a Cronbach's Alpha and composite reliability value above 0.7, which means they can be said to be reliable.

Table 2. Mean, Outer Loading, and Inner Model

Variables	Indicators	Mean	Loading Factor	AVE	Cronbach's Alpha	Composite Reliability
Firm Performance	FP1	4.38	0.92	0.84	0.90	0.94
	FP2	4.35	0.90			
	FP3	4.43	0.94			
Firm Performance Mean		4.38				
Socioemotional Wealth	SW1	4.48	0.76	0.55	0.79	0.86
	SW2	4.35	0.85			
	SW3	3.95	0.62			
	SW4	4.49	0.83			
	SW5	4.46	0.62			
Socioemotional Wealth Mean		4.35				
Managerial Capabilities	MC1	4.57	0.90	0.71	0.90	0.92
	MC2	4.49	0.83			
	MC3	4.51	0.86			
	MC4	4.48	0.82			
	MC5	4.48	0.79			
Managerial Capabilities Mean		4.51				

Source: data processed, 2021

Table 3 shows the results of testing the inner model. The adjusted R-square value of more than 0.75 can be considered substantial. This shows that the percentage of variation in managerial capabilities can be explained by socioemotional wealth by 78.5%. The adjusted R-square value for the firm performance variable is 0.799, which means that the percentage of firm performance variables can be explained by managerial capabilities and socioemotional wealth by 79.9%. The predictive relevance value (Q^2) of 95.68% indicates that this research model has a good predictive relevance value. Other variables outside the research model explain the remaining 4.32%.

Table 3. *R-square Value Result*

Variable	Adjusted R-Square
Firm Performance	0.799
Managerial Capabilities	0.785

Source: data processed, 2021

3.2 Discussion

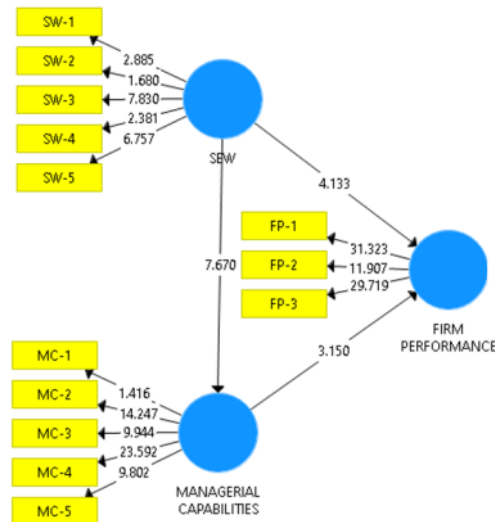


Figure 1. SmartPLS 3.0 model output results
Source: data processed (2021)

Figure 1 shows the results of the research model output obtained using SmartPLS 3.0. The results of hypothesis testing through the bootstrapping method are shown in Table 4. In the first hypothesis, the t-statistics value of 4,133 with p-values of 0.000 shows that socioemotional wealth positively affects firm performance. The t-statistics value in the second hypothesis is 7.670 with p-values of 0.000, indicating a positive effect of socioemotional wealth on managerial capabilities.

The t-statistics value in the third hypothesis is 3.150 with p-values of 0.002, indicating a positive effect of managerial capabilities on firm performance. The indirect effect of *socioemotional wealth* on *firm performance* with *managerial capabilities* as a mediating variable is 0.012; in other words, there is a *partial mediation effect*. The total effect of *socioemotional wealth* on *firm performance* is 0.890.

Table 4. Hypothesis Testing Result

Hypothesis	Path Coefficient	T-Statistics	P-Values
H ₁ .Socioemotional wealth → Firm performance	0.878	4.133	0.000
H ₂ .Socioemotional wealth → Managerial capabilities	0.896	7.670	0.000
H ₃ .Managerial capabilities → Firm performance	0.013	3.150	0.002

Source: data processed, 2021

Socioemotional wealth has a positive effect on firm performance. This study's results align with the research by Razzak & Jassem (2019) and Hernández-Linares et al. (2020). The existence of high socioemotional wealth in family firms indicates a strong bond between family members

and a significant commitment to maintaining company performance in the long term. The commitment of long-term-oriented family members creates synergies between family members and stakeholders who are not family members, such as increasing customer satisfaction, managing costs wisely, and the tendency for an innovative mindset to improve firm performance (Razzak & Jassem, 2019).

Well-managed socioemotional wealth is also a source of competitive advantage for family firms, which aligns with the resource-based view theory (Daspit et al., 2017). Research results with the majority of family company samples that have been established for more than 15 years shows that the management by family members will improve firm performance in the next generation stage (Martínez-Romero et al., 2020). Hernández-Linares et al. (2020) also found that family companies that try to preserve socioemotional wealth will tend to increase entrepreneurial activity and improve firm performance.

Socioemotional wealth has a positive effect on managerial capabilities. The same research results were found by Gómez-Mejía et al. (2011), Ng et al. (2019), and Dayan et al. (2019). For family firms, managerial decisions will depend on how the family owner views the potential gains or losses of socioemotional wealth by focusing on long-term orientation (Gómez-Mejía et al., 2011). Managerial capabilities also play a mediating role in firm performance.

Family firms that prioritize socioemotional wealth will be able to enhance managerial capabilities related to innovation and risk-taking, which play an essential role in the growth and sustainability of the company (Ng et al., 2019). In addition, family firms that strive to maintain socioemotional wealth can develop strong organizational and cultural controls, thereby enhancing managerial capabilities that have an impact on the formation of sustainable products and services (Dayan et al., 2019). Through sustainable processes and products, it can create a competitive advantage in the market and at the same time maintain affective endowment (Dayan et al., 2019).

Managerial capabilities have a positive effect on firm performance. In line with the research results Kearney et al. (2017) and Agyapong et al. (2016) also stated that there is a positive influence of managerial capabilities on firm performance. According to Daspit et al. (2017), family companies that have good managerial capabilities will be able to balance decision-making that focuses on long-term performance.

Family involvement makes managerial capabilities in family companies unique and, at the same time, a valuable resource. This follows the resource-based view theory (Kearney et al., 2017). Good managerial capabilities will also help family firms overcome challenges and take advantage of strategic opportunities to improve firm performance (Agyapong et al., 2016).

4. CONCLUSIONS

The role of socioemotional wealth in family firms makes family firms different from other firms. Family firms that prioritize socioemotional wealth tend to have a long-term orientation. Socioemotional wealth becomes a valuable resource in family firms that can create a competitive advantage that improves firm performance.

Socioemotional wealth becomes a reference point when making managerial decisions in family companies. This causes differences in managerial decisions between one family company and another. Managerial decisions in family companies will depend on how the family owner views socioemotional wealth's potential gains or losses by focusing on long-term orientation.

Managerial capabilities have a direct and indirect effect on firm performance. The direct effect is shown from the positive effect of managerial capabilities on firm performance. The

existence of good managerial capabilities helps family firms to overcome challenges, take advantage of strategic opportunities, and make balanced decisions by focusing on long-term performance.

The indirect effect of socioemotional wealth on firm performance with managerial capabilities as a mediating variable can be explained by family involvement, and efforts to maintain socioemotional wealth will form strong organizational control and culture, thus improving managerial capabilities. Family companies with good managerial capabilities will have good firm performance as well. Both socioemotional wealth and managerial capabilities can act as unique resources that create a competitive advantage.

This study has limitations, namely that it only examines the influence of socioemotional wealth, managerial capabilities, and firm performance with a research sample of family companies located in Central Kalimantan, Indonesia. The difficulty of finding respondents in research related to family companies is a challenge in itself. The small number of respondents is a limitation of the research.

Future research is expected to increase the number of respondents with a longer duration of research implementation and combine quantitative and qualitative research to obtain more comprehensive research results. Future research can also include other variables that have yet to be studied in the model, such as cost structure, capital structure, leadership style, and so on.

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