

# THE INFLUENCE OF SOCIOEMOTIONAL WEALTH ON ENTREPRENEURIAL ORIENTATION AND BUSINESS PERFORMANCE IN FAMILY BUSINESS

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**Abstract-** This research aims to analyze the influence of Socioemotional Wealth and Entrepreneurial Orientation towards Business Performance of Family Business. The background of this research is the decline of family businesses, especially when passing over to the second generation, due to the lack of attention of succession in the family businesses' long-term orientation. Thus, Socioemotional Wealth and Entrepreneurial Orientation are suggested to provide significant influence on the family businesses' Business Performance, especially in helping to maintain and passing the succession to the next generation. This research is a quantitative research analyzed using SEM-PLS., questionnaire The data is gathered from 60 respondents, who are members of UC Family Business Community, using online questionnaire with likert scale, and is calculated using sampling method called "Rule of Thumb". The independent variables of this research are Socioemotional Wealth and Entrepreneurial Orientation, and the dependent variables of this research are Entrepreneurial Orientation and Business Performance. The result indicates Socioemotional Wealth has positive and significant influence towards Entrepreneurial Orientation and Business Performance, and Entrepreneurial Orientation has positive and significant influence towards Business Performance.

**Keywords:** Socioemotional Wealth, Entrepreneurial Orientation, Business Performance, Family Business

## 1. Introduction

In the rapid development and priority of family companies globally, not a few family companies have regressed, especially after passing the second generation. 88% of national private companies in Indonesia are family companies, but only 5% can survive to the third generation because succession in family companies, which is one of the dimensions that make up Socioemotional Wealth, is still not part of the long-term orientation of family companies. Long-term orientation in family companies is a critical thing as a supporter of Entrepreneurial Orientation and Business Performance of family companies. According to Pricewaterhouse Coopers (2014) as many as 95% of businesses in Indonesia are family companies, but family companies in Indonesia predominantly survive in the second generation, decline in the third generation, and disappear in the fourth generation. In response to this, researchers intend to examine how Socioemotional Wealth influences Entrepreneurial Orientation and Business Performance in family companies in Indonesia, which have a variety of different cultures and ethnicities. Reflecting on the phenomena of family companies mentioned above, where the researcher is also the second

generation of the Family Company "Lotus Tirta Seminyak" located in Bali, the researcher intends to examine the Influence of Socioemotional Wealth and Entrepreneurial Orientation on the Company's Business Performance.

## 2. Literature Review

### 2.1 Previous Research

Razzak & Jassem (2019), which aims to suggest that the mediation of family commitment to the relationship between SEW and corporate performance based on a stakeholder approach shows that family commitment mediates in part on Family Control and Influence, Family Identification, Emotional Attachment, and Renewal of Family Bonds through dynastic successions with corporate performance, and no significant relationship occurs between Binding Social Ties and company performance. Furthermore, Family Identification, Emotional Attachment, and Renewal of Family Bonds have a significant positive influence on the company's performance which in the future will ensure the commitment of future successors in leading the company.

Kurniawan (2020) emphasized that entrepreneurial orientation affects company growth. Proactive is proven to have a positive impact in influencing companies to find new market opportunities, increase sales growth, and further plan strong strategies to overcome market challenges. Innovation also allows companies to diversify their products and qualities, providing support to develop and adapt new technologies, techniques, and strategies in the face of competitors, where risk-taking is useful for companies to obtain better resources, improve employee skills, and explore activities new that can become new opportunities in the future.

Hernández-Perlines et al. (2019) which aims to analyze the influence of socioemotional wealth (SEW) on the entrepreneurial orientation of family companies, which is due to the need for a deeper understanding of the influence of emotions, especially socioemotional wealth on family business performance, affirms that the 5 (five) dimensions of FIBER by Berrone et al. (2012) have a significant and positive influence on the entrepreneurial orientation of family companies, and the findings then provide empirical support for the principles of entrepreneurial orientation theory .

### 2.2 Theoretical Review

#### 2.2.1 Socioemotional Wealth

Socioemotional Wealth (SEW) is a set of important dimensions in family firms in determining strategic management decisions, as well as determining non-financial decisions that distinguish family companies from other ventures (Gomez-Mejia et al, 2011; Hernández-Perlines et al, 2019).

#### 2.2.2 Entrepreneurial Orientation

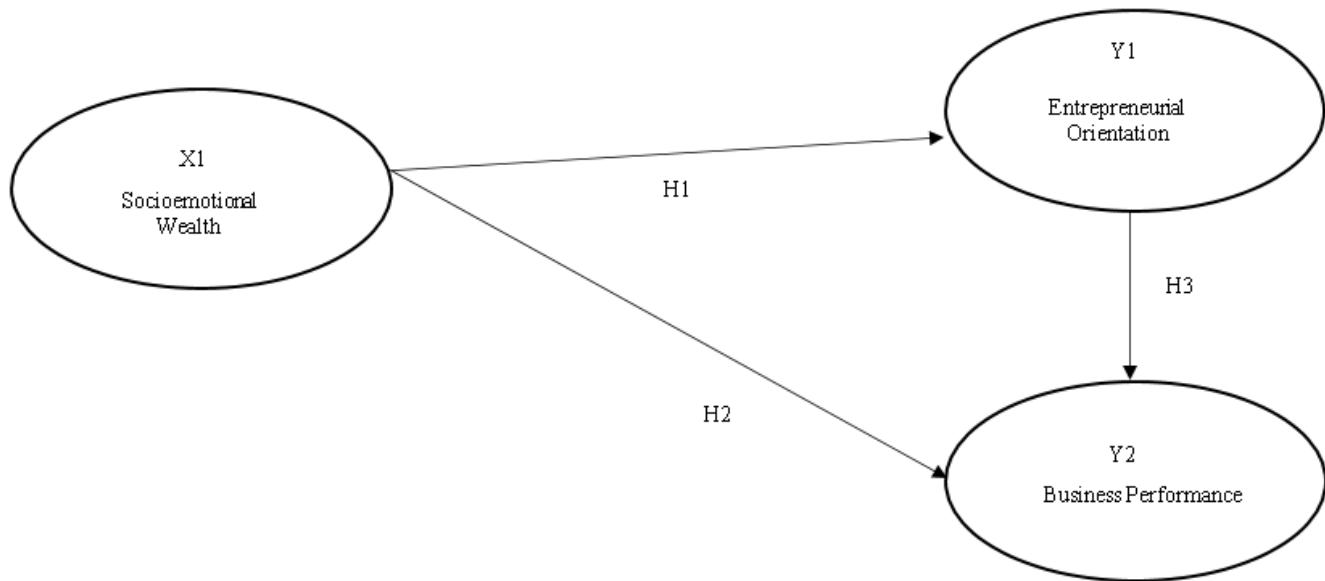
Entrepreneurial Orientation is defined as the entrepreneurial ability of organizations to accelerate and implement plans and activities, including processes, structures, and organizational behavior (Hooi et al, 2016). Furthermore, Entrepreneurial Orientation helps companies to maximize and emphasize new technologies, and market trends, and develop new potential for the company (Lumpkin et al, 2009; Hooi et al, 2016).

#### 2.2.3 Business Performance

Taylor and Fayol's scientific management perspective became the predecessor theory of business performance, which influenced the understanding of management theory for the understanding of business performance that must be assessed in terms of efficiency and the concept of effectiveness. Business performance measurement uses a quantification process in which performance processes that correlate with actions such as efficiency and effectiveness are converted into numbers (Neely, Gregory, & Platt, 1995). Business performance measurement usually contains three principles of science, namely: economics, management, and accounting.

### 3. Research Framework

#### 3.1 Analysis Model



**Figure 3.2 Analysis Model**

**Source: Data Processed (2021)**

#### 3.2 Hypothesis

**H1:** Socioemotional Wealth Influences the Significance of Entrepreneurial Orientation in Family Business

**H2:** Socioemotional Wealth has a significant influence on Business Performance in Family Business

**H3:** Entrepreneurial Orientation has a significant influence on Business Performance in Family Business

#### 4. Research Methods

##### 4.1 Types of Research

The type of research used in this study is an explanatory quantitative method. The population of this study is members of the Family Business Community of Ciputra University Batch 1-10 so the minimum number of samples in this study is 60 samples. The survey of this study was conducted using a Likert scale of 1-5.

##### 4.2 Variable Operational Definition

**Table 4.1 Operational Definitions of Variables**

VARIABLE	SOURCE	INDICATORS
<b>Socioemotional Wealth</b>	Berrone et al. (2012)	<b>Family Control and Influence</b> <b>(F1)</b> Family members have control over the company's strategic decisions <b>(F2)</b> The position of supervisor and above can be filled by professionals, based on decisions made by family members . <b>(F3)</b> Most executive positions are filled by family members <b>(F4)</b> The company's board of directors is mostly made up of family members. <b>(F5)</b> The majority of shares in my family company are owned by family members. <b>(F6)</b> Maintaining family control is an important goal in my family's company
		<b>Family Identification with the Firm</b> <b>(I1)</b> Family members have a strong sense of belonging to the family company <b>(I2)</b> Family members feel that the success of a family company is synonymous with the success of family members. <b>(I3)</b> My family's company has a personal meaning (valuable, important) to family members. <b>(I4)</b> Being a member of a family company reflects the identity of family members. <b>(I5)</b> Family members are proud to be part of the family company in the presence of others <b>(I6)</b> Customers often associate surnames with family business products and services.
	Berrone et al. (2012)	<b>Binding social ties</b> <b>(B1)</b> My family company is very active in promoting social activities at the community level. <b>(B2)</b> In my family company, professional employees are treated as part of the family <b>(B3)</b> In my family's company, there is a contractual relationship based on mutual trust and norms. <b>(B4)</b> Building strong relationships with other institutions (e.g. other companies, professional associations, governments, agencies, etc.) is important to my family company. <b>(B5)</b> Contracts with suppliers are based on long-term relationships .
		<b>Emotional Attachment</b> <b>(E1)</b> Emotions and sentiments often influence the decision-making process within my family's company. <b>(E2)</b> Maintaining the well-being of family members is very important to us, aside from personal contributions to the business <b>(E3)</b> In my family's company, the emotional bond between family members is very strong <b>(E4)</b> In my family's company, often affective considerations (emotions, motivations, etc.) are just as important as economic considerations <b>(E5)</b> Strong emotional bonds among family members help family members maintain a positive self-concept <b>(E6)</b> In my family business , family members feel warmth and closeness to each other

VARIABLE	SOURCE	INDICATORS
	Berrone et al. (2012)	<p><b>Renewal of family bonds to the firm through dynastic</b></p> <p><b>(R1)</b> Continuing the family heritage and traditions is important as the goal of my family company  <b>(R2)</b> Family company owners have a tendency to invest in the long run  <b>(R3)</b> Less likely for family members to sell the family company</p> <p><b>(R4)</b> Regenerating a successful company to the next generation is an important goal for family members</p>
Entrepreneurial Orientation	Covin and Slevin(1990)	<p><b>Proactiveness</b></p> <p><b>(EO1)</b> My family company is being proactive in its efforts to grow its business  <b>(EO2)</b> My family company is proactive in finding new opportunities  <b>(EO3)</b> My family company is proactive in creating new market trends</p> <p><b>Innovativeness</b></p> <p><b>(EO4)</b> Family company support in conducting product research and development can help the innovation process  <b>(EO5)</b> My family company's ability to have a tendency to evolve and be unique (different from others) helped the innovation process  <b>(EO6)</b> My family company provides support to execute new innovative and creative ideas  <b>(EO7)</b> My family company has the ability to allocate resources to new ideas</p> <p><b>Risk-taking</b></p> <p><b>(EO8)</b> My family company has the ability to maximize the use of available capital loans  <b>(EO9)</b> My family's company explores new activities that have never been done before  <b>(EO10)</b> My family company tends to be aggressive in the decision-making process</p>
Business Performance	Hogan dan Coote,2014; Kafetzopoulos, D. (2019)	<p><b>Market Performance</b></p> <p><b>(BP1)</b> Market share has improved <b>(BP2)</b> Sales growth has increased  <b>(BP3)</b> The company's ability to penetrate new markets is high <b>(BP4)</b> The company's image in the market is better than its competitors</p> <p><b>Financial performance</b></p> <p><b>(BP5)</b> The company's profit ratio increases  <b>(BP6)</b> Increased gross margin  <b>(BP7)</b> There is an increase in company profits  <b>(BP8)</b> Productivity has increased  <b>(BP9)</b> Return on investment has increased</p> <p><b>Non-financial performance</b></p> <p><b>(BP10)</b> Increased customer satisfaction <b>(BP11)</b> Product quality has improved  <b>(BP12)</b> Knowledge of how to efficiently manage operations has increased  <b>(BP13)</b> Business relationships with partners, distributors, and suppliers have improved  <b>(BP14)</b> Employee retention has increased</p>

Source: Data Processed (2021)

#### 4.3 Data Analysis Methods

The analysis method that will be used in this study is partial least square (PLS), using Smart PLS software.

## 5. Result and Discussion

### 5.1 Descriptive Characteristics of Respondents

The age of all respondents from this study was under 30 years old or equal to 30 years. Most of the respondents, namely 78.33% are Owners / Family Members of owners/commissioners in family companies. As many as 83.33% of respondents are 2nd generation family companies. Most of the domiciles of respondents' family companies are located on the island of Java. As many as 46.67% of respondents' family companies were aged 11-20 years. As many as 25% of respondents' family companies are micro-scale family companies, which already have professional employees at the managerial level. As many as 45% of respondents' family companies have local marketing reach. Most of the respondents, 58.3%, were from Chinese families. 60% of respondents stated having professional employees at the managerial level of their family company (100%).

### 5.2 Descriptive Research Variables

The highest mean value is found in the indicator (R4) that the regeneration of a successful company to the next generation is an important goal for family members who show an average value of 4.47, so it can be said that respondents strongly agree. The highest mean value is found in the indicator (EO2) My family company is proactive in looking for new opportunities which shows an average value of 4.48, so it can be said that respondents strongly agree. The highest mean value is found in the indicator (BP7) The company's profit has increased which shows an average value of 4.40, so it can be said that respondents strongly agree.

### 5.3 Data Analysis

#### 5.3.1 AVE towards R Square Test

Table 5.1 AVE towards R Square Result Test

Variabel	Nilai AVE	Nilai Akar AVE	R Square
SEW	0,74	0,86	
EO	0,73	0,86	0,13
BP	0,75	0,87	0,49

Source: Data Processed (2021)

Based on Table 5.1 it can be concluded that the AVE root value of each variable and indicator is acceptable and declared to have excellent validity because the AVE root value is greater than the *R Square* value.

#### 5.3.2 Reliability Test

Table 5.2 Reliability Test Result

Variabel	Cronbach's Alpha	Composite Reliability	Description
BP	0,97	0,98	RELIABEL
EO	0,96	0,97	RELIABEL
SEW	0,99	0,99	RELIABEL

Source: Data Processed (2021)

Based on Table 5.2 it can be concluded that the value of Cronbach's Alpha of each variable is more than 0.6 and the Composite Reliability value of each variable is more than 0.7 so that all variables are acceptable and declared reliable.

### 5.3.3 Inner Model Analysis Test

**Table 5.3 Structural Method Test**

Type	R Square	R Square Adjusted
Y1 (EO)	0,13	0,12
Y2 (BP)	0,49	0,48

Source: Data Processed (2021)

The R Square value reaches 0.13 or 13.4% for Entrepreneurial Orientation and 0.49 or 49.3% for Business Performance which means that the diversity of research data that has been obtained can be explained by 13.4% with Entrepreneurial Orientation, 49.3% with Business Performance, and 37% explained by other factors outside the structural model of this study.

**Table 5.4 T-statistical Test**

Variable	T-statistics	Path Coefficients	Information
Socioemotional Wealth -> Entrepreneurial Orientation	3,48	0,37	Accepted
Socioemotional Wealth -> Business Performance	2,45	0,29	Accepted
Entrepreneurial Orientation -> Business Performance	3,63	0,54	Accepted

Source: Data Processed (2021)

The significance test between variables tested with t-statistics values shows that the relationship between variables is significant because the t-statistic value of the variable relationship is more than 1.96. The highest t-statistic value is the relationship between Entrepreneurial Orientation and Business Performance of 3.63. A positive path coefficient value means that the relationship between variables is positive.

## 5.4 Discussion

### 5.4.1 The Effect of Socioemotional Wealth on Entrepreneurial Orientation

Socioemotional Wealth has a significant positive influence on Entrepreneurial Orientation in Family Business, which means that if Socioemotional Wealth in family companies increases, then Entrepreneurial Orientation in family companies will also increase.

### 5.4.2 The Effect of Socioemotional Wealth on Business Performance

Socioemotional Wealth has a significant positive influence on Business performance in Family Business which means that if Socioemotional Wealth in family companies increases, then the Business Performance of family companies will also increase.

### 5.4.3 The Influence of Entrepreneurial Orientation on Business Performance

Entrepreneurial Orientation has a significant positive influence on Business Performance in Family Business which means that if Entrepreneurial Orientation in family companies increases, then the Business Performance of family companies will also increase.

## 6. Conclusion and Suggestion

### 6.1 Conclusion

- A. Socioemotional Wealth has a significant positive effect on Entrepreneurial Orientation in Family Business. This means that the higher the Socioemotional Wealth in the family company, the more Entrepreneurial Orientation in the family company also increases.
- B. Socioemotional Wealth has a significant positive effect on Business Performance in Family Business. This means that the higher the Socioemotional Wealth in the family company, the Business Performance in the family company also increases.
- C. Entrepreneurial Orientation has a significant positive effect on Business Performance in Family Business. This means that the higher the Entrepreneurial Orientation in the family company, the Business Performance in the family company also increases.

### 6.2 Suggestion

#### 1. For further research

To find a deeper understanding and analysis of the influence of Socioemotional Wealth on Entrepreneurial Orientation and Business Performance, researchers suggest for future studies add family company image variables to help maintain business market sensitivity (Arzubiaga et al., 2018), willingness to change family members as it may be an effective method of discovering, exploiting, and actualizing new opportunities in anticipation of unstable environments (Arzubiaga et al., 2018) and also added other analytical factors such as corporate culture, leadership style and strategies applied by family companies.

#### 2. For Family Companies

To increase Socioemotional Wealth in family companies that will help improve the Entrepreneurial Orientation and Business Performance of family companies, researchers advise actors and/or successors of family companies to increase bonding with family members involved in the company, to balance the control of family members in the family company, increase the sense of belonging and family members' warmth towards the company by opening discussions or forums with family members related to performance, company strategy, and job desk distribution.

#### 3. For UC Family Business Community

Based on the results of this study, the researchers suggest to:

- A. Create a curriculum that covers the role of Socioemotional Wealth within family companies.
- B. Hold events that can improve the relationship between parents and children or potential successors of family companies.
- C. Hold events or platforms that provide opportunities for family companies to collaborate and discuss new opportunities that are useful for family companies.

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