

Covid-19 and the Future of Family Business Research

Alfredo De Massis^{a,b,c} and Emanuela Rondi^a

^aFree University of Bozen-Bolzano; ^bLancaster University; ^cZhejiang University

Keywords: covid-19, coronavirus, generations, family business, family firms, family Office, resilience, succession

The world is witnessing dramatic changes brought about by Covid-19 and its aftermath, with significant implications for the management of organizations, and hence, management studies. We argue that the pandemic and its social and economic reverberations are triggering particularly salient challenges for family businesses (FBs) – the most ubiquitous form of business organization in any world economy – that call into question some fundamental assumptions at the core of FB research. We identify five assumptions in the field that are challenged by Covid-19 and its aftermath, articulate a scholarly agenda and propose urgent research questions that contribute to redirecting and advancing the study of FBs.

First, FB scholars have mostly assumed leadership succession as an intra-family process to be methodically planned and executed to ensure a smooth and beneficial transition to the next generation (e.g., Cabrera-Suárez et al., 2001). However, as a result of the Covid-19 health and economic ramifications, a vast cohort of senior FB leaders have suddenly passed away or will leave the business earlier than expected, either deliberately or inadvertently, owing to a souring environment that will require new perspectives and stamina. Current demographic challenges are heightening awareness of mortality among FB actors, with considerable implications on the management of succession that is more likely to occur in an unexpected, rapid, and unplanned way. Such disruption also requires families in businesses to consider alternatives to intra-family succession, such as external succession, business sale, or business closure. Therefore, we argue that FB research

Address for reprints: Alfredo De Massis, Faculty of Economics and Management, Centre for Family Business Management, Free University of Bozen-Bolzano, Piazza Università 1, 39100 Bozen/Bolzano, Italy (alfredo.demassis@unibz.it).

This is an open access article under the terms of the Creative Commons Attribution License, which permits use, distribution and reproduction in any medium, provided the original work is properly cited.

should complement the perspective of succession as a planned process by delving into the mechanisms and implications of a sudden generational transition, also considering more heterogeneous types of succession. This raises the following research questions: How does unplanned succession unfold in FBs? Under what circumstances is succession planning beneficial? What other options than intra-family succession are more viable in case of a sudden succession? How does the sale or the closure of the family business in the 'new normal' differ from its failure? How can FBs accelerate succession in times of disruption? Moreover, an intensified sense of mortality is likely to alter the motivations and goals that drive FB succession, and we urge scholars to examine the following set of issues: How do the goals and motivations of FB succession change during and in the aftermath of Covid-19? What constitutes successful succession in the 'new normal' in terms of outcomes for the family and the business system?

Second, the presence of a family in the business is assumed to ensure stable and trusting long-lasting relationships with external and internal actors, accruing distinctive social capital (Arregle et al., 2007). Such relationships are based on propinquity, kinship, frequent interactions and highly intensive communications leading to shared values and norms, a 'familial' atmosphere, and strong identification with the organization. From an external perspective, before Covid-19, the distinctive relational 'locality' of FBs, by preventing the exploitation of more efficient global value chains, was assumed to be detrimental for business performance. However, under current circumstances, managing shorter and more localized value chains can become an advantage in terms of higher reliability and lower disruption risks, stimulating the following research question: Does FBs' reliance on local value chains constitute a more sustainable model to be mirrored by non-FBs in the 'new normal'? From an internal perspective, the social restrictions in response to Covid-19 have induced changes in work routines, forcing organizational actors to ensure social distancing, virtual interactions, and the adoption of remote work habits. While digital solutions allow FBs to continue operating during and post-lockdown, they also foster the dehumanization of interactions that might undermine trusting relationships and related family and organizational social capital, for instance, by decreasing the sense of 'family' belonging of non-family employees. Scholars are, therefore, urged to investigate the impact of virtual interactions on the trust and goodwill within the family and the organization, by researching the following questions: Can FBs preserve and develop their distinctive external and internal social capital with digitalized work routines? Do remote work routines increase bifurcation bias (i.e., asymmetric treatment of family vs. non-family employees)? How can FBs leverage digital tools to facilitate relationships within and between the family and the business system? Moreover, FBs are typically conceived as relying on centralized authority structures, adopting informal monitoring and coordination mechanisms based on intra-organizational social relationships (De Massis et al., 2020). However, the new circumstances challenge this traditional organizational design, thus: What monitoring and incentive mechanisms can FBs implement to ensure goal alignment among their actors in the aftermath of Covid-19?

Third, research has assumed that family-centred non-economic goals and the ensuing preservation of socioemotional wealth (SEW) are primary drivers of decision-making in FBs, and that five SEW dimensions – family control and influence, family members' identification with the firm, binding social ties, emotional attachment, and renewal of

family bonds through dynastic succession – coherently capture aspects guiding FB decision-making (Gómez-Mejía et al., 2007). Covid-19 and its aftermath have put considerable strain on the physical and emotional wellbeing of family and non-family members, bringing tensions to the surface, engendering negative emotions (such as grief, frustration, anxiety, and fear), leading to the oscillation between positive and negative emotions, and the risk of undermining the clarity of thought of key decision-makers in the FB. Under these circumstances, the SEW dimensions may become incoherent. For instance, keeping family control of the firm may now require owners to make part of their workforce redundant, thereby undermining binding social ties and emotional attachment. Similarly, the intention to hand the business to the next generation may conflict with the family's need to involve outsiders in the ownership and/or leadership team to keep the business alive. Thus, we see the need to challenge SEW as an umbrella construct by considering how its different dimensions affect each other, and the potential trade-offs among them as well as between SEW dimensions and economic considerations: How do FBs deal with the distinctive trade-offs that shape decision-making in the aftermath of the pandemic and related response (e.g., health vs. wealth, life vs. livelihood, family utility vs. business utility)? How can FB actors manage possible trade-offs between the different SEW dimensions in the 'new normal'? Furthermore, the SEW construct relies on family utility as the decision-making reference point, yet, the disruptions caused by Covid-19 may lead FBs to adopt different reference points, for instance, aiming to achieve society-centred non-economic goals like contributing to a country's education system and cultural renaissance. Thus, we encourage scholars to explore additional reference points beyond family utility that are likely to influence FB behaviours during and in the aftermath of Covid-19, addressing the following research questions: How do FB decision-makers define society vs. family utility as reference points? How do they frame decisions when considering utilities at the society level? When and under what conditions do society-centred goals prevail over family-centred ones in driving FB behaviour in the 'new normal'?

Fourth, research has assumed that FBs are forward-looking and oriented to grow over generations (Miroshnychenko et al., 2020). However, in current challenging times, FBs are more likely to feel nostalgic for the golden age of the past (backward-looking), leverage their family history and tradition, and focus on keeping their business alive by navigating uncertainty rather than pursuing growth. Thus, research needs to reconsider the assumptions regarding FBs' temporality and relentless intention to grow through an in-depth analysis of how the social and economic reverberations of the pandemic may affect their purpose (i.e., the reason why a FB is created and exists, its meaning and direction), and the role of their history in shaping their behaviours. This raises important research questions: How do the social and economic shocks caused by Covid-19 affect FBs' purpose? Do such shocks have a different effect on the family vs. the business purpose? Will survival have higher priority than growth during and in the aftermath of Covid-19? Long-established FBs may be better equipped than non-FBs to absorb and react to the crisis and its aftermath by vigorously leveraging their dynastically-transferred core family values as a compass to orient their actions during times of uncertainty, or by searching their bequeathed history to learn how they survived past family and/or business crises. Therefore, delving into the accrued capabilities of facing disruptions, FBs may unveil

paramount lessons for organizational resilience. For instance, FBs may seek to overcome the crisis by rediscovering or perpetuating their past and consolidating their tradition through innovation (Erdogan et al., 2020). Thus, we see the need to address the following: What role does tradition play for FBs in times of crisis? How do family values and prior crises in the history of the family and/or the business affect FBs resilience?

Finally, scholars have assumed that family capitalism is based on patient capital (Sirmon and Hitt, 2003) invested in the business without the threat of liquidation in the short term. As a consequence, the FB field has been focused on ensuring the best possible management and/or governance of these organizations while overlooking asset and liquidity issues. Nevertheless, the current crisis is triggering financial upheavals, cash challenges, and new risks that are likely to threaten the patrimony of families in business. We thus encourage scholars to adopt a patrimonial perspective and examine the distinctive challenges that families in business face when administering and preserving their estate and wealth, addressing the following research questions: How do theories currently used to predict FB behaviour change when considering the administration of a family's estate and wealth? Are the new challenges associated with Covid-19 and its aftermath changing the way families in business administer their wealth, for example, through impact investing and/or firm philanthropy? Will Covid-19 and its aftermath spur families in business to shift from entrepreneurs to rent-seekers? Family offices and family foundations are entities that increasingly take responsibility for administering the assets of families in business; however, current FB theories may not hold for these types of organizations. Pursuing this research direction would also allow scholars to switch their focus from FBs to business families, and to understand what differs in the logics, behavioural mechanisms, and outcomes of families owning a portfolio of businesses and assets. Thus: How should family offices be created and operated in the 'new normal'? What are the differences between family offices and family foundations? What portfolio logics are applied to administer multiple businesses and assets when a FB becomes a business family? Do portfolio logics downplay the role of family-centred noneconomic goals in driving the behaviour of business families? Are business families long term-oriented when making business decisions?

In conclusion, Covid-19 and its aftermath are triggering challenges that, although potentially affecting any business, are particularly salient for FBs and require rethinking the underlying assumptions of current FB research. With the intention of guiding this urgent endeavour, we have identified potential research questions that if addressed will contribute to fundamentally advancing our understanding of businesses whose fate and vision rest on families in this new and uncertain future.

REFERENCES

- Arregle, J. L., Hitt, M. A., Sirmon, D. G. and Very, P. (2007). 'The development of organizational social capital: Attributes of family firms'. *Journal of Management Studies*, **44**, 73–95.
- Cabrera-Suárez, K., De Saá-Pérez, P. and García-Almeida, D. (2001). 'The succession process from a resource-and knowledge-based view of the family firm'. *Family Business Review*, **14**, 37–48.
- De Massis, A., Eddleston, K. A. and Rovelli, P. (2020). 'Entrepreneurial by design: How organizational design affects family and non-family firms' opportunity exploitation'. *Journal of Management Studies*, 1–36. <https://doi.org/10.1111/joms.12568>

- Erdogan, I., Rondi, E. and De Massis, A. (2020). 'Managing the tradition and innovation paradox in family firms: A family imprinting perspective'. *Entrepreneurship Theory and Practice*, **44**, 20–54.
- Gómez-Mejía, L. R., Haynes, K. T., Núñez-Nickel, M., Jacobson, K. J. and Moyano-Fuentes, J. (2007). 'Socioemotional wealth and business risks in family-controlled firms: Evidence from Spanish olive oil mills'. *Administrative Science Quarterly*, **52**, 106–37.
- Miroshnychenko, I., De Massis, A., Miller, D. and Barontini, R. (2020). 'Family business growth around the world'. *Entrepreneurship Theory and Practice*, 1–27. <https://doi.org/10.1177/1042258720>
- Sirmon, D. G. and Hitt, M. A. (2003). 'Managing resources: Linking unique resources, management, and wealth creation in family firms'. *Entrepreneurship Theory and Practice*, **27**, 339–58.