To Survive a Crisis, Re-Think Your Family's Ties

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As global crises are becoming increasingly frequent and unpredictable, family ties and family relationships—or what are collectively called "family social capital"—become critical for the survivability of family businesses. Family social capital is the good will and bonds that family members have with one another and with stakeholders outside the business (Herrero, 2018; Sorenson & Bierman, 2009). In a family business, ties and relationships among family members become an important source of strength, information, and resources. Wider family ties with family members at other businesses and industries also matter, as do the ties between the family business and its suppliers, local banks, the chamber of commerce, and charitable groups the family supports. Social capital, and the good relationships it creates, can be redeemed for "survivability capital" during a crisis.

In **our most recent study (https://journals.sagepub.com/doi/abs/10.1177/08944865221113136)** , we examined how family businesses can redesign their family social capital to ignite the power of family ties to survive massive external crises. We researched how real family businesses handled the European Debt Crisis and the Covid-19 Pandemic to identify strategies that work for family business owners, managers, and advisors.

What Other Research Has Found

Global crises and their social and economic reverberations trigger acute challenges for family businesses (De Massis & Rondi, 2020). We find that family social capital helps family firms respond effectively to different external crises. Because family members influence the business, its activities, and decisions so profoundly (Hughes et al., 2018), the extent to which the family business builds up a wealth of family social capital gives it an exceptional opportunity to access new resources and ideas (Herrero & Hughes, 2019) to survive (Salvato & Melin, 2008) and recover from unforeseen events and crises (Sirmon & Hitt, 2003).

Family businesses hold family social capital (Arregle et al., 2007). Think of it as a network, or a web, of positive relationships among family members (including extended family or kin) (Herrero et al., 2022) and between owning family members and their customers, partners, and community members (Danes et al., 2009). Family social capital also builds through the connections and long-term ties of the family across generations (Herrero, 2018), allowing family members to nurture long-lasting relationships of trust and obligation between them and key external partners (Salvato & Melin, 2008). Think about the potential power of those trustful relationships when you need them the most: for financing, information and new ideas, moral support, emotional and physical labor, and preferential terms, to name but a few examples. Yet, when crises strike, we need to decide which of these relationships to emphasize or change.

Family social capital can generate survivability capital to play a critical role in enabling a family business to anticipate, avoid, and adjust to shocks in the external environment (Salvato & Melin, 2008). However, it must be realized that survivability depends on how well the family firm can redesign and change its family social capital to maintain and secure access to vital resources: which ties to strengthen and others to loosen, which to prioritize, ways to nurture and ways to reduce dependence, for instance.

While past research has found that family social capital is crucial for survival during external crises, we don't fully understand why and how family firms can change this capital to help them survive a crisis. Our research is particularly timely because it discusses how redesigning family social capital while a crisis is raging can help the family business survive.

Our Study

To examine why and how family social capital changes during external crises, we conducted 62 in-depth interviews across 23 family businesses in Cyprus, an EU island nation. We asked them about how they tapped their family social capital during the Eurozone debt crisis and the Covid-19 pandemic. The Eurozone debt crisis, an extension of the 2008 Great Recession, occurred between 2010 and 2018 and spread primarily in Greece, Portugal, Ireland, Italy, Spain, and Cyprus. The debt crisis had an "acute focused effect" on small (family) businesses, centered on longstanding economic and financial problems. The Covid-19 pandemic had an "acute wide-ranging effect" on small (family) businesses, including economic and noneconomic (e.g., health, well-being, and psychological) consequences.

The sampled companies experienced both the debt crisis and the Covid-19 pandemic and came from diverse business sectors. Our interviewees included family business owners, successors, or nonfamily members who could fully explain how they redesigned and changed family social capital during the crises. Repeat interviews were carried out to allow respondents to elaborate more about changes in family social capital across the two crises.

What We Found

Our research revealed that family social capital changes to support the family business during an external crisis. This involves changes in two dimensions: structural (the types of ties held, with whom, and how weak or strong they are) and relational (the level of trust, dependence, shared beliefs, and commonality). We also saw that specific psychological and situational mechanisms trigger family social capital change internally (i.e., among family members) and externally (between family and nonfamily members).

Psychological mechanisms involve an individual actor's (family or nonfamily) psychological state – it's about a sense of obligation. An individual's "identification" with the firm and his or her "obligation" toward the firm and its stakeholders (e.g., family, employees, and partners) emerged as key psychological mechanisms motivating the mobilization of personal ties and resources during a crisis, in part to support organizational and family goals.

Situational mechanisms are the organizational contextual conditions, such as aspects of the work environment, which people share – it's about commitment. Our findings highlight the role of "shared value commitment," a collective culture, and people's alignment with the business's values. Without these mechanisms, family social capital may not change, resulting in a loss of trust and an inability to mobilize resources during a crisis.

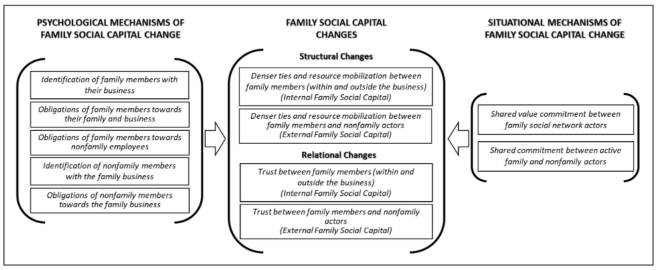

***Figure 1**. Mechanisms and content of Family Social Capital change during external crises*

We found that the (motivating) psychological and situational mechanisms driving structural and relational changes in family social capital depend upon the type of external crisis the family business faces. The debt crisis had an "acute-focused," primarily economic, effect on family businesses. In response, family members strengthened their *internal* family social capital by increasing their psychological identification with their business and feeling a heightened sense of obligation toward the firm and the family. Situationally, increasing shared value commitment among family members also changes family social capital. The results are denser family ties, better trust among family members and a greater willingness to share resources.

Conversely, the Covid-19 pandemic had an "acute, wide-ranging" impact, encompassing more than just the family business's finances. This type of crisis strengthens *external* family social capital, suggesting that a more acute crisis can actually make the firm stronger and better positioned to face the future. Activating family members' and outside stakeholders' identification with the family business is important, and both sets of stakeholders should have a sense of obligation to the business. Fostering mutual obligation among both groups is central to family social capital's redesign and firm survival. Similarly, evoking shared commitment of family members to employee-centric values and the shared commitment of nonfamily stakeholders are needed as situational mechanisms to

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redesign family social capital further. The results are denser ties between the family and outsiders, broadening resource mobilization from both cohorts (structural), and increasing trust between family and nonfamily actors within and outside the firm (relational).

Implications and Takeaways

Family business leaders must strive to develop family social capital and systems linked to its change. This may prove crucial to family business survival amid severe external shocks, where immediate, coordinated responses are needed to protect crucial business relationships and fortify access to scarce resources.

Here are practical ideas resulting from this research:

- Family business leaders must seek training and information to understand the family social capital they possess and undertake an audit to determine the vital resources that this capital can unlock during external crises.
- Family business leaders must invest in business systems that can allow both proactive and reactive changes to family social capital during crises. Doing so is vital to maintaining, securing, and fortifying access to vital (new) resources during external crises.
- Family business owners and managers should proactively cultivate commitment around shared values within the business and among family members (active and inactive) in the family business. Family owners and managers should talk to active and inactive family members to help them understand the family's core values and get behind them. Doing so can help design and instill a strong and resilient company culture.
- Family owners and managers should work harder to bring inactive and active family members into the fold and strengthen their identification with the business and their commitment to it. This collective mindset will increase the family social capital available to the business.
- Family business owners and managers should proactively manage the identification of family members with the business and cultivate a similar mindset among nonfamily members, especially under more severe crises.
- Training programs for family business owners and their successors can build awareness on how family social capital can be nurtured, changed, and expanded across generations and how family businesses can use it as a disaster response measure.
- Build a sense of family obligation and foster commitment to a set of common and shared values to create the psychological and situational conditions needed to change family social capital. These steps lie at the heart of longevity!
- Family businesses whose family social capital does not add value, or diminishes value, can turn it around by reviving or strengthening the bonds between family members within and outside the business. To nurture positive social capital, family leaders also need to invest in closer and trust-based interactions with external stakeholders such as customers, suppliers, partners, and community members.

Explore the Research

Hadjielias, E., Hughes, M., and Scholes, L. (2022). **External Crises and Family Social Capital Reconfiguration: Insights from the European Debt Crisis and the Covid-19 Pandemic (https://journals.sagepub.com/doi/abs/10.1177/08944865221113136)** . *Family Business Review*, 35(3), 275-305. DOI: 10.1177/08944865221113136.

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