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Influence of Social and Economic Factors on the Business Performance of Family-Owned Firms: A Multilevel Review

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ABSTRACT

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It is evident from the facts that family-owned businesses (FOBs) are extensive in the global economy as they play massive roles in economic development. However, their operations are given to a set of social economic factors that determine the performance and viability of the companies. The design used in this study is a systematic review and meta-analysis based on the PRISMA model. The following is a multilevel review of empirical papers to identify how family dynamics, succession, capital, and economic environment affect the family business's performance. A deep examination of these factors is important to enable family firms to be sustainable and competitive (Viilo, 2021). This study also sheds light on how intergenerational relationships influence strategic decision-making in family firms. Cultural values and governance structures are considered as mediating variables in the observed outcomes. Special attention is given to gender roles and generational shifts in leadership transitions. Overall, the findings underscore the complexity and uniqueness of family enterprises within different socio-economic contexts. Analysing these factors at the individual, group, and organizational levels, this paper summarizes the issues relating to the management of family businesses. The results are presented in five major themes, and the discussion provides specific recommendations stemming from the analysis and directions for further investigation.

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1.0 Introduction

Family-owned businesses (FOBs) remain a crucial player in the global economy in the agriculture sector and manufacturing and retailing industries, which benefit from family influence that delivers lasting business strategies (Alrubaishi, 2015). FBOS in contrast to non-family businesses are founded on the distinct mutually reinforcing interplay between social and economic related factors (Jaiyeola, 2021). Most of these businesses operate based on the twin goals of succession and business performance. However, the alignment of family interests and business goals will also pose both opportunities and threats (Porfírio, Felício, & Carrilho, 2020).

FOBs depend on various social drivers such as; family influence, structures of governance, and succession. These internal dynamics are not easily separated from external economic conditions like, for example, financing operations, competition, and fluctuations in the macroeconomy. A deep examination of these factors is important to enable family firms to be sustainable and competitive (Viilo, 2021). Therefore, this paper aims to present a synthesis of the literature on individual, group, and organizational antecedents of family business performance while adopting a multilevel research perspective.

2.0 Literature Review

Family owned businesses (FOB) are hybrids; the amalgamation of emotional family dynamics with rational business strategy, they increasingly are the subject of nuanced inquiry within business schools. Recent literature acknowledges FOB's as neither homogenous nor universally resilient; performance outcomes of FOBs depend upon the interaction of social and economic factors at various levels of analysis. These complex multilevel effects capture the ways in which FOBs respond to internal and external challenges given the intersection of individual leadership traits, intra family group dynamics, and organizational strategic positioning (Capolupo *et al.,* 2023). All this is a complicated course of how contextual dependencies, preserved values, and changing market forces decide the strategic conduct and functionality of family firms.

Recent literature has been dominated by a thread of inquiry around socioemotional wealth (SEW), a view that focuses on the non-financial goals pursued by FOBs, like identity preservation, family legacy and the emotional attachment (Bohorquez-Lopez, *et al.,* 2024). These goals lead to conflicts with rational economic decision making, especially in the periods of innovation, external financing or transition of leadership. Additionally, the compromise between SEW and adopting the pace of aggressive growth strategies labeled as the family business paradox, which is said to summarize the essence of family business strategy (De Massis, Rondi, & Appleton, 2022). This uncertainty leads organizational innovation levels to decrease and the risk attitude to increase in both cases. For instance, younger generations will propose digitalization and market diversification while the elder members will put pressure on continuity and control.

Additionally, much new literature now portrays an increasing acknowledgement of intra family heterogeneity (Erdogan, Rondi & De Massis, 2020), that is, that not all family members share the same goals, values, or risk appetites. This causes challenges to the earlier assumption that FOBs act as coherent whole, with a common agenda. In reality, conflict in terms of generational visions, varying level of involvement, and divergent management philosophies generate internal frictions which come to play in delayed decision making or non – accepting change (Ng, Dayan, & Makri, 2022). These findings imply the development of more differentiated and role specific governance models capable of conflict resolution, succession preparation and innovation stewardship.

The latest FOB research centers around the theme of governance. Integrating both strategic agility and emotional legitimacy, Arteaga & Escribá-Esteve (2021) suggest that the traditional governance framework (as embodied by the family charter, a council, or an advisory board) must be transformed. Ahlberg *et al*., (2024) also highlight how board effectiveness in FOBs is influenced not only by structural arrangements but also relational dynamics that occur among board members, some of whom are kin. Instead, these findings call attention to the shift from static governance templates to a more dynamic, contextually sensitive view of governance that runs to increasingly emotional loyalty and increasingly professional accountability. By enabling such hybrid governance systems, it creates much better pathways for oversight, long term strategic vision and clearer succession planning.

A second large area of exploration is about the economic compactness of FOBs in volatile situations. Despite the virtue of family firms' resilience and long term orientation, recent empirical work indicates that things are not so automatic. In times of economic crisis, FOBs may outperform non family firms in the long run on the basis of conservative financial policy and tight internal controls, however, in times of recovery, FOBs are less efficient than nonfamily firms as they show slow decision-making in the midst of a crisis, limited external financing, and an inertia of innovation (Porfírio, Felício, & Carrilho, 2020). As Kano, Ciravegna, & Rattalino (2021) put it, globalization is a double-edged sword that will allow the exploitation of new markets of which existing ones will also open even more and increases competition from the resource-rich multinationals. It means a new calibration of FOB strategies that rely on data driven market research, agile innovation ecosystems, and partnership that are not sacrificing control.

As financing decisions in family firms are a contentious area of study, the model is tested in comparison with nonfamily firms without vertical and horizontal integration constraints. Even though diversified capital structures enhance strategic flexibility, a large number of FOBs are highly reliant on internal funding sources for maintaining control (Kayid *et al.,* 2022). This means that the firm is undercapitalized and the growth potential here is limited in industries where speed is critical and execution velocity is high. According to Camisón-Zornoza *et al.,* (2020), family firms will be able to overcome these limitations with the development on their dynamic capabilities, i.e. absorptive capacity, ambidexterity and knowledge reconfiguration. Nevertheless, the gap in cross-national comparative studies regarding the practical implementation of such capabilities across different cultural and economic contexts should be noted.

Succession planning is still considered a crucial and undeveloped strategic focus. Previous literature often sees succession as a naming of a successor in a linear fashion, but newer studies conceptualize succession as a multigen, iterative, power dynamic negotiation process involving skill development and legitimacy building (Amanquah, 2021; Ritchie, 2020). In order for succession planning to be effective, ones have to identify and groom the next generation leaders early on, establish transparent criteria for leadership selection, and align individual competencies to long term business goals. Yet, ambiguity, favoritism, and ultimately poor performance are the fate of succession in patriarchal or collectivist cultures because of emotional complexity (Tang & Hussin, 2020). Future studies would stand to derive improved understanding of successor readiness and incumbent reluctance by incorporating psychological theories of identity and motivation.

The FOB literature has increasingly taken up the theme of innovation, particularly in a digital transformational and post pandemic business restructuring context. Although it values tradition, it is too rigid, which hinders technological adoption, market responsiveness and sensitivity towards market feedback. De Massis, Rondi & Appleton (2022) warn to avoid the 'trap of heritages entrenchment'—or reverence to the past will lead to stagnate in the model of the novel, rather than evolving with the honour and reverence of the past holding to a certain rhythm. This calls for firms to balance between tradition and a progressive change. It is emerging as a critical performance differentiator for the ability to manage this duality. By following structured innovation routines embedded in family firm's cultural DNA, the culture of family firm should embrace structured experimentation, at the same time respecting its core values as Erdogan *et al.,* (2020) suggested.

From a theoretical perspective, the literature has more slowly been becoming more integrative. It has been suggested that models integrating the SEW perspective along with resource based, institutional and dynamic capability theories should be created by scholars. This kind of pluralistic framework can be more apt in responding to the ongoing nature of FOBs (Takahashi, & Sander, 2017). In addition, by applying multilevel analysis, the application brings great value in allowing the discovery of how factors at the individual (with risk tolerance as an example), group (generational conflict, for example), and organization (market adaptation, for example) level interact to be driving forces in outcomes. This involves the systems thinking perspective, and emphasizes on the recursive interdependencies within family firms.

In short, the field of FOBs has moved from descriptive stories of legacy and stewardship, to critical reading of internalural tensions, strategic dilemmas, and environmental adaptation. Recent research highlights that family firms are not a flat entity but a complex system with overlapping economic logics and emotional imperatives. The most successful FOBs are those which strategical manage paradoxes, tradition against innovation, control instead of grow, and the emotional bonds instead of professional management across operation levels. Future research should attend to future longitudinal studies, cross cultural analyses and theory building that bridges the psychology, strategy and economics in order to better understand the different paths that family owned enterprises employ to achieve or fail to achieve sustainable performance.

3.0 Methodology

3.1 Search Strategy

The present study's systematic literature review process was applied with the help of a four-step approach similar to the one described in Sauer, & Seuring, (2023). The first step was the transition of the initial search to the Scopus and Google Scholar databases with keywords like "family, business, social factors, economic factors, business performance." We restricted access to literature in the domains of business, management, and economics only and used the Chartered Association of Business Schools' (ABS) ranking system where only ABS 3+ journals were considered for analysis. This gave 840 the initial five databases search yielded an article pool and because some of these articles in turn listed other articles of interest and relevance to the research, additional databases were consulted.

According to this, the used research design is the systematic review, simply because of its highly structured and systematic approach to incorporate research into factors influencing business performance. Systematic reviews are more useful because the systematic process needs to reconcile the strong empirical findings, capitalize on the literature search to spot gaps, and make a strong evidence-based recommendation (Hammersley 2020).

Hence, the design used in this study is a systematic review and meta-analysis based on the PRISMA model. This method has been used as it's systematic, thus making the process of identifying and selecting literature and analyzing them exhaustive and replicative. Therefore, using the PRISMA model lets the research adhere to the systematic approach to the proper choice and evaluation of the existing studies, which constitute the methodological foundation for viewing the link between external factors and business performance.

For this reason, there was a sequential process of identifying the sources of the review that began with the identification of related studies from the databases and followed by the practice of excluding the unsuitable studies. The PRISMA framework is an evidence-based tool that can be applied often in systematic review with meta-analysis. This paper provides a concise and systematic understanding of the literature review where the systematic approach to the formulation of the source list and the list of articles used can be aligned mechanically and therefore iteratively (Page, *et al.,* 2021). It can be generalized that PRISMA consists of four steps. The gathered data will be utilized to coordinate the introduced literature and figure out the most typical patterns, tendencies, and frequent as well as less common practices in the relevant studies. Using the PRISMA approach, a preliminary search produced 840 relevant articles. Once the articles were assessed for quality and relevancy, 32 were included as shown in Figure 3.1.

Finally, in the second stage of journal quality filters applied the sample was reduced to 63 articles only. The third one was a title and abstract review to make sure that all studies covered only family business and included empirical data in some way. The data source was then systematically reviewed by eliminating studies, reviews, and articles that were not backed by empirical evidence; the final total of the number of articles was therefore 32. The process is illustrated in Figure 1, and the selection criteria are described.

After selecting the articles systematically, the researchers established coding by which relevant information from the studies could be obtained. In the case of each article, the research objectives were analyzed, theoretical assumptions, methods, and conclusions. Given the scope of the study, a panel of research assistants was trained and when coding, an inductive analysis was employed, this was to develop the themes from the data collected. Our analysis identified five key themes: such factors as family management, money, business culture, customer environment, and

CEO selection. These themes were then categorized across three levels of analysis: individual, group, and organizational.

PRISMA 2009 Flow Diagram

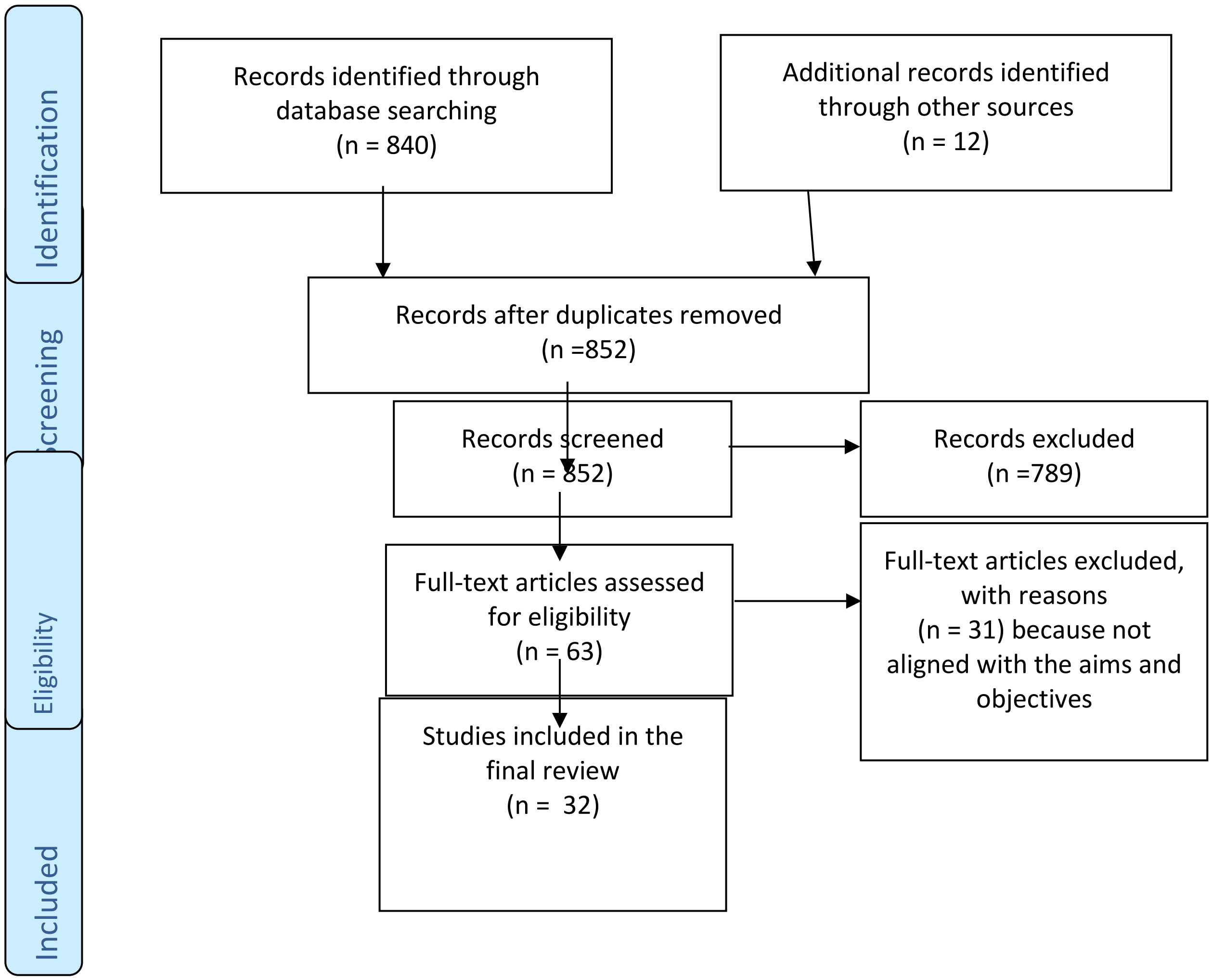

Figure 3.2: PRISMA Flow Diagram

4.0 Findings and Results

In this section, the author discusses the five focal areas that emerged from the literature in detail. The themes are explored at individual, group, and organizational levels to give a conceptual view of the social and economic issues affecting FOB performance.

4.1 Theme 1: Family Business Dynamics and Firm Performance

4.1.1 Individual Level

Typically, family factors are critical at the individual level, where the relations that exist between members of the family determine their decisions regarding leadership in the firm.

Enduring employment relations leads to strategic planning along the lines that put the longevity of the business and its family ownership above any short-term financial gain (Ramírez, Dieguez-Soto, & Manzaneque, 2021). Employees with a Stake in the firm's operation due to family member involvement may make decisions that are influenced by personal and family-related feelings rather than in the financial interest of the firm. This dynamic is quite apparent in the following ways, for instance, family members will not make a decision that is oppressive to the business for the sake of the family members as this is elaborated by Reck, Fischer, & Brettel, (2022). The study found that where disputes are within the family then this would be significantly detrimental to the performance of the business where there exist no structures to deal with such cases (Calabrò, *et al.,* 2021).

4.1.2 Group Level

On the group level, the family governance frameworks that include the family councils and board directors are crucial to the maintenance of harmony between the family and business goals. When family members have conflicts, proper governance also reduces and negates the damaging impacts they may have on the business decisions since it operates for the benefit of the business (Arteaga, & Escribá-Esteve, 2021). Literature proves that proper governance structures developed in family businesses have higher chances of longevity since they act as a tool for decision-making and marital ties in situations of conflict. The family also uses governance structures to provide the necessary order for qualifications and specialization among the family members operating in the firm (Rüsen, Kleve, & Von Schlippe, 2021).

4.1.3 Organizational Level

Concerning the organization level, how family values are incorporated into the business environment may lead to the development of the business. These assets in FOBs stem from the clear identity that exists in such firms, assuring customer and supplier loyalty and employees' comprehension of their roles (Waheed, Kausar, & Ali, 2023). This "family" may be a competitive strength because the firm can use its particular social capital to its advantage. However, dysfunctionalities realized in families have negative effects on the firm's reputation and its operational performance. Various findings have highlighted that organizations that do not do well in handling conflicts among family business owners greatly stand a high chance of suffering poor performance mainly where family business owners have diverse objectives (Ferrari, 2023.).

4.2 Theme 2: Enabling Factors; Capital or money resources and who has access to it.

4.2.1 Individual Level

At the individual level reality, the decided financial strategies of family business owners are influenced by their attitude toward risk and the need to retain control over the enterprise. The majority of family business owners want to use funds from within the family, for instance, their own and family savings than looking for funds in the market (Kayid, *et al.,* 2022). This overemphasis on financial measures reduces the amount of leverage on the firm's balance sheet but it also constrains the firm's ability to access and acquire resources needed for growth and adaptation within the market environment. For instance, firms that find their resources from within the family cannot compete with other firms that source their finance from external sources like venture capital or public float (Biegajło, 2022).

4.2.2 Group Level

At the group level, it is largely social and involves the entire family's endurance to risk and the family's long-term goals and aspirations. Families who value control of business enterprises may decline external funding where such funding could help realize capital for expansion (Kleve *et al.,* 2022). Hence this reluctance to let go can hinder the firm from exploring new growth paths, or from investing in new technologies that it does not fully understand. Nonetheless, many family businesses have been able to complies both objectives in achieving financing for its business growth from outside sources while still holding a controlling share of the family business.

4.2.3 Organizational Level

At this second level, therefore, it is widely believed that capital is the primary success factor of an organization. Of particular relevance, firms that deploy multiple layers of funding including external borrowing, equity, and venture capital are likely to better adapt to family firms by competing in rapidly evolving markets (Camisón-Zornoza, *et al.,* 2022). Family funds allow the firms to fund research and new product development, expand to other markets, and cope with external economic forces. Yet, the problem for many family firms is to reconcile the maintenance of power and control on one hand with the requirement of funds on the other. From this, they found that those managers who maintain the right balance on strategic decisions outcompete rivals in terms of growth and profitability (Leppäaho, & Ritala, 2022).

4.3 Theme 3: Organizational culture and tradition as a disadvantage of an organization versus innovation for an organization.

4.3.1 Individual Level

The third internal factor is the cultural relations where the family members can restrain enterprise innovation, especially when the senior family members do not support innovation and prefer stability in the business. Risk aversion becomes apparent from the need to protect the family assets across generations: the family members are likely to avoid implementing new technologies or expanding into new markets (Ng, Dayan, & Makri, 2022). It can hinder the firm from modifying its strategic framework based on prevailing market trends or seizing other opportunities that may arise in the market. Children of the family employees who may be daring and willing to embrace change end up struggling to convince the elderly workers to change, and this leads to conflict.

4.3.2 Group Level

At the group level, it is expected that decisions involving tradition and innovation are met with difficulties especially in family businesses due to conflicts of interest between the younger and older generation. This conflict can be addressed by the transgenerational entrepreneurial knowledge, under which all the family members have to consider innovation as the tool that will continue the family business. The literature reveals that when the next generation is actively involved in the operations of the family businesses, these establishments are more likely to innovate without compromising on important family values. When relatives share information and work together, families can avoid that impasse where they are stuck between old systems and new opportunities (Erdogan, Rondi, & De Massis, 2020).

It can include using structures that are formed by representatives of different generations of family members where they can decide on the further development of the enterprise and search for potential. Such success factors include the increased adoption of technological innovation in the business models established by family firms together with relevant family values. It also means that young family members are involved in major decision-making mechanisms to ensure that the firm setup remains competitive and fresh in its ideas but distinct (Capolupo, *et al.,* 2023).

4.3.3 Organizational Level

Preserving and constantly developing traditions is one of the most significant fundamental factors at the organizational level. This connotes that where the family firm lacks innovation, it will decline in competition with other firms, especially in industries that are experiencing radical changes from technological developments. A study conducted by Arteaga, & Escribá-Esteve, (2021) reveals that family-owned business organizations where the professional management and the family-oriented business culture are blended perform better compared to the others which rely mostly on family control business models.

The level of openness of a family firm to innovation is well influenced by the organizational culture of the firm. Organizations that support idea generation and innovation will be more suited in today's rapidly evolving markets. However, this culture should not eliminate tradition since this will demoralize organizational stakeholders who have embraced the firm's historical culture. Successful family businesses are those that manage to innovate without losing sight of their origins, blending the old with the new in a way that supports both continuity and growth (De Massis, Rondi, & Appleton, 2022).

4.4 Theme 4: Economic conditions and trends in the market.

4.4.1 Individual Level

It means that the changes in economic circumstances like fluctuations in the market stock market, inflation, and changes in the buying behavior of consumers influence the family business owners' decisions directly (Lekhakul, Apisakkul, & Sirisereewan, 2024). One key reason is the long-term orientation of most family business owners, and hence they are more cautious during turbulent times. Implementation of this strategy can help family business organizations avoid the fluctuations of the market because they give more consideration to longevity and steady growth rather than growth in the short term as pointed out by Giner, & Ruiz, (2023). However, in situations of economic growth, this prudential nature hinders family firms from grasping growth opportunities. Family members' financial position also determines how the economic factors affecting the business are dealt with. For instance, the financially strong family firms may risk it during the recessions than the relatively financially weak firms to take conservative risk positions.

4.4.2 Group Level

At the group level, the process of decision-making finds that the decision style in family firms plays a vital role in actually overcoming economic conditions. Salvato, *et al.,* (2022) have found that family firms that are, for instance, active in diverse markets or produce a rather wide range of products are less vulnerable to economic shocks. This current development enables the firm to diversify risk across industries or regions by reducing the vulnerability resulting from fluctuations in the specific industry. Another interesting observation is that family businesses in which decision-making involves multiple family members are once again more likely to embrace strategies that prove resistant to economic influences (Ramadani, *et al.,* 2020). For instance, companies where juniors play the role of strategists may be willing to embrace new technologies or sell products in new markets, whereas senior members may be interested in consolidating material resources.

4.4.3 Organizational Level

On this level, factors like globalization, technology, and competition all from the outside environment affect the performance of family firms. In particular, the opportunities and threats arising from globalization are visible in family businesses. On one hand, it enables family firms to capture new customers and penetrate new markets. At the same time, it enhances competition with the accent on the multinationals, which possess more substantial means and bolstered the economy of scale (Kano, Ciravegna, & Rattalino, 2021).

Recent changes in the business environment imply that players who embrace market research and innovate will be in a good position to compete with other players, especially family firms. Business organizations that do not do this are likely to lose their market share to other competitors who have embraced the forces of external economic pressures. Therefore, family businesses must develop strategies that balance their traditional values with the need to innovate and respond to external economic conditions (Diaz-Moriana, *et al.,* 2020).

4.5 Theme 5: Strategic Growth Succession Planning

4.5.1 Individual Level

In this context, succession planning may be considered one of the most important and difficult issues for any family business and its impact on the sustainable development of the firm. At the individual level, the process of succession a generation is full of emissions and practical challenges. The lack of succession management leaves organizations open to being taken over by unforeseen circumstances on leadership succession since no one has been groomed adequately if the leadership role becomes vacant at some point in time. This can lead to operational gaps and a loss of sight of strategic goals and objectives (Tang, & Hussin, 2020).

When several generations engage in leadership succession planning and begin the overall succession planning process early enough then the family business is bound to be successful in the future (Amanquah, 2021).

4.5.2 Group Level

At the group level, succession is a process in which different family members gather to plan how they will execute their leadership duties. Hence the more involved generations of the family are involved in the planning process the more likely the family firm will achieve strategic development and sustain business continuity (Basly, & Saunier, 2020). This arrangement makes it easier for the younger generation to ascend the leadership ladder to assume organizational responsibilities from the older generation in a phased manner.

This shows that when there are set rules in developing the leadership succession in the family business then conflicts and disruptions will be less likely to occur. For instance, some family firms draw up family charters or contracts to lay down the duties of members of the family concerning the business, and the yardstick for choosing a successor. Though it provides a legal avenue for the matters, it provides for the formalization of succession importance and meritocracy of succession rather than favoritism.

4.5.3 Organizational Level

Strategic growth and succession planning are not only interrelated; they are also organizational strategies. The study showed that family firms that link their business vision with family values are likely to experience higher growth. Variance studies suggest that better visions of long-term and better kinds of succession plans lead to a better competitive position in the long run. Succession planning is not simply done focusing on the identification of a successor but also focusing on business opportunities after a leadership change. The family firms that will likely perform well during the transition are those that take active steps to develop leaders and shape governance and design strategies (Ritchie, 2020). Leadership succession should also consider external economic factors since the timing of leadership change is likely to affect companies' performance. For instance, switching between leadership teams during an economic period of stability could prove more harmless than during an era of recession.

5.0 Discussion and Conclusion

This review also identifies a few critical issues that require research in subsequent studies. First, further research is required to outline how the concept of innovation can be imprinted into the traditional family business context. Even though it's common to see family firms as rigid and not inclined to change, studies have demonstrated that those who keep innovating alongside with preserving the fundamental values of the company are bound to be more effective in the long run (Bohorquez-Lopez *et al.,* 2024). Further studies should address the factors that facilitate the absorptive capacity of family firms in terms of tradition and innovations, and the shift by younger generations within the organization.

Second, there is additional research needed to understand the relationship between governance structures and the prevention as well as resolution of family conflicts and resolution of critical decisions. Some family businesses resolve such issues through legal structures like a family council or board of directors, businesses with these forums are better placed to manage conflicts and balance between the family and business (Ahlberg, *et al.,* 2024). However much remains to be learned about the nature of specific governance mechanisms that work well in various cultural and economic environments.

Last of all, it is necessary to define the effect of macro environment factors on family business performance. Family businesses are generally considered less vulnerable than non-family businesses, but crises, new economic conditions, globalization, and innovations remain under-researched. Social science scholars need to understand how family firms can manage these external forces while continuing to cling to the family DNA.

It is true to conclude that social factors have a significant impact on the economic performance of family businesses in their country. This paper finds that family factors including governance, succession, access to capital, and other aspects of the external environment are critical drivers of family firm performance and sustainability. Thus, by having used the approach that explores levels of analysis, this paper has aimed and achieved at giving a clear understanding of how all these factors will interrelate at the individual level, group, as well as organizational levels.

Therefore, those family firms that manage these factors well will overcome the probability of suffering losses in the fast-changing global economy and record higher growth. The limitations derived from this review reflect four main areas for future research: a more fluid integration between tradition and innovation, the growing necessity of legalizing corporate governance, and access to heterogeneous sources of capital. If such challenges are addressed, the competitiveness of family businesses and their sustainability in future competitive environments can be resolved.

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Muhammad Shaukat Malik: Data Analysis, Supervision and Drafting
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