

A THEORETICAL SYNTHESIS OF THE CONCEPT OF FAMILY SOCIAL CAPITAL WITHIN THE FRAMEWORK OF RESEARCH INTO BUSINESS SUSTAINABILITY IN A TRANSITIONAL ECONOMY

DOI: <https://doi.org/10.53486/dri2026.25>

UDC: 334.722.24(478)

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Abstract: *This paper offers a theoretical synthesis explaining why family firms in institutionally fragile environments often prove resilient - a pattern that contradicts standard economic theory, where the family is typically treated as a source of inefficiency. The objective is to build an integrative model of strategic decision-making that brings together the concept of Family Social Capital (FSC), insights from behavioural economics, and the new institutionalist framework. From this, a "socio-cognitive filter" model is proposed, showing that FSC is inherently ambivalent. In settings where formal institutions are weak - as the case of Moldova illustrates - FSC can act as a substitute for missing market mechanisms and reduce transaction costs. At the same time, it can lock inefficient practices in place, driven by loss aversion and the tendency toward system closure. The novelty lies in shifting away from a linear reading of FSC as purely a positive resource toward understanding it as a structural filter.*

Key words: *family social capital (FSC), socio-cognitive filter, new institutionalism, family business resilience, institutional ambivalence*

JEL: L26, D91, B52, P30

Introduction

Family business is the most common form of economic activity worldwide and play a crucial role in economic development. According to the EY/University of St. Gallen Global Family Business Index (2023), family firms generate more than half of global GDP, provide over 65% of jobs, and the combined revenue of the 500 largest family companies is comparable to the GDP of developing countries [1]. In the Republic of Moldova, small and medium-sized enterprises account for 99.2% of all enterprises, the majority of which are family businesses but lack official legal status [2].

However, standard economic theory, which assumes the rationality of economic agents and views the family as the sole decision-making mechanism, predicts an "outdated" and inefficient form based on kinship rather than professionalism [3]. Empirical data, in contrast, show high adaptability and stability of family businesses during crises [4]. This paradox requires a theoretical explanation that differs radically from the standard model.

The aim of this study is to build a model explaining how family social capital (FSC) influences strategic decisions and business sustainability. The model integrates FSC theory [5], behavioral economics [6], and the new institutional approach [7].

The proposed socio-cognitive filter model differs fundamentally from the dominant resource-based approach to family firms, particularly from the concept of "familiness" [8], by emphasising not simply the presence of family capital, but its reflexive use to overcome cognitive biases in weak institutional environments. It also complements the widely recognised socioemotional wealth (SEW) theory [9]. Whereas SEW focuses on the motivation of families - protecting non-financial assets (control, legacy) - our model explains the procedural mechanism: how exactly families make decisions under uncertainty, which cognitive filters they use, and under which institutional conditions family capital becomes productive

Theoretical analysis of family social capital

Social capital theory [10, 11] describes resources arising from social ties. For family business, the foundational framework is the Tagiuri-Davis "three-circle" model [12], showing the intersection of family, ownership, and business (Figure 1). Arregle et al. [5] define FSC through four characteristics: stability, intensity of interaction, interdependence, and system closure.

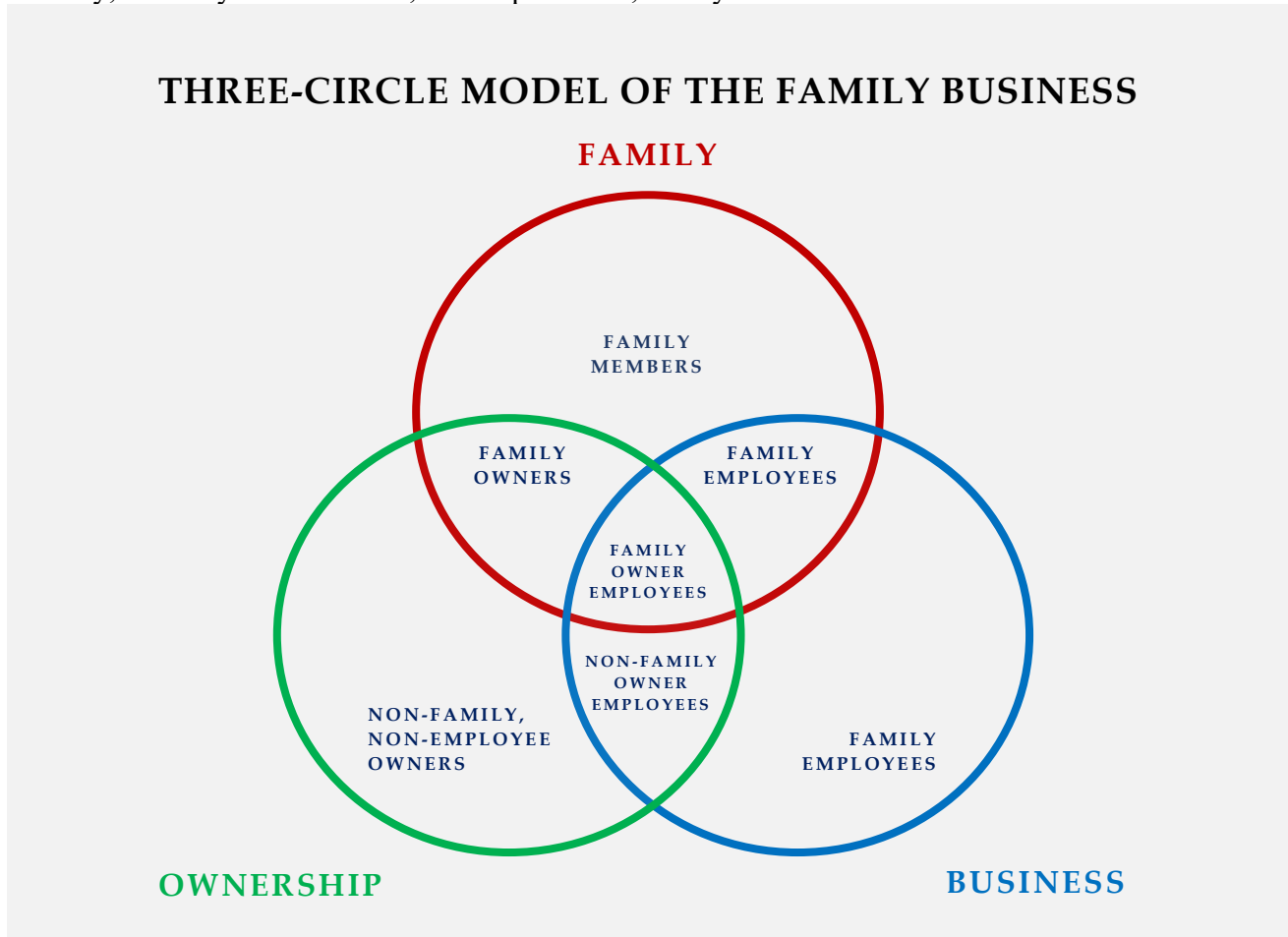


Figure 1. The Tagiuri-Davis "Three Circles" model

Source: <https://johndavis.com/> [12]

Unlike the model of rational choice, Simon [13] demonstrated that people have significantly limited cognitive resources and rely on heuristics. In the family business context, FSC does not eliminate biases but amplifies and collectivizes them. Table 1 summarizes three key biases.

According to North [7], formal institutions in transition economies are weak, which increases the value of informal (family) mechanisms. Moldova lacks a family business law [14], despite SMEs dominating the economy [2].

Table 1. Cognitive biases in family business decision-making

Cognitive bias	Mechanism	Typical institutional trap
Loss aversion	"Don't risk the inheritance"	Refusal of external financing, keeping firm small
Status quo bias	"We've always done it this way"	Retention of inefficient suppliers, technological backwardness
In-group favoritism	"Blood is thicker than water"	Appointment of relatives regardless of competence

Source: developed by the author based on Kahneman & Tversky [6] and institutional analysis of transition economies.

We define institutional reflexivity as the family's capacity for (a) cognitive awareness (recognising biases), (b) institutional monitoring (assessing how informal family norms interact with formal constraints), and (c) strategic flexibility (adjusting governance structures when tradition conflicts with business imperatives). Table 2 shows how FSC compensates for institutional weaknesses while also creating "traps".

Empirical indicators of high reflexivity include: higher education of family members, work experience outside the family firm, formal governance mechanisms (family council, independent directors), and documented succession planning based on competence.

Table 2. Institutional complementarity in Moldova

Institution	Role of FSC	Positive effect	Trap
Judicial system	Replaces contracts with trust	Lower transaction costs	No protection in large conflicts
Banking system	Informal lending	Fast access to capital	Credit ceiling blocking growth
Absence of family business law	Self-organization	Governance flexibility	No access to state support or tax benefits
Corruption	Closure as protection	Reduced administrative pressure	Voluntary refusal to scale

Sources: National Bureau of Statistics [2], Stamov [14], and author's analysis.

For future empirical testing, reflexivity R may be measured as a simple additive scale: $R = \text{sum of indicators (0-4)}$, where each indicator is coded as 1 (present) or 0 (absent). A value of $R \geq 3$ may be considered high reflexivity (threshold R^*). In this conceptual work, we use a qualitative distinction: high R - presence of most of the four indicators.

Institutional quality I is measured using the World Bank's Worldwide Governance Indicators (WGI) [15]. The aggregate index is constructed as the average of six components (Voice and Accountability, Political Stability, Government Effectiveness, Regulatory Quality, Rule of Law, Control of Corruption), then normalized to the [0, 1] range. Higher I value correspond to better institutional quality. A more concrete example of an institutional mechanism affecting family business is the Protected Geographical Indication (IGP) system in winemaking. IGP sets formal production protocols and quality control requirements, thereby increasing institutional pressure I. As shown in another study [17], such external requirements can force small family enterprises to formalize their tacit knowledge - a key component of reflexivity R. On the other hand, the high costs and bureaucratic complexity of IGP can act as entry barriers, displacing less reflexive family firms. This example illustrates that institutions can both stimulate and suppress the development of family business.

The model is multi-level: FSC - family level, R - governance level, I - country level. An adaptive decision (adaptive or non-adaptive) depends on the combination of these three factors.

The functional relationship can be expressed in qualitative form:

$$\text{Adaptive decision} = f(\text{FSC}, \text{R}, \text{I}, \text{FSC} \times \text{R}, \text{FSC} \times \text{I})$$

where:

- FSC - level of family social capital (high / low),
- R - level of reflexivity (high / low),
- I - quality of formal institutions (high / low),
- $\text{FSC} \times \text{R}$ - interaction of FSC and reflexivity,
- $\text{FSC} \times \text{I}$ - interaction of FSC and institutional quality.

Logic of the model (what the interaction terms show):

The interaction term $\text{FSC} \times \text{R}$ captures the effect of FSC under high reflexivity. This effect is expected to be positive (complementarity): the higher the reflexivity, the more strongly FSC contributes to

adaptive decisions. In other words, family capital becomes a productive resource only when the family is capable of critical self-assessment and flexible use of its norms.

The interaction term $FSC \times I$ capture the effect of FSC under weak formal institutions. This effect is expected to be negative (substitution): the weaker the institutions, the more firms rely on FSC as a substitute for missing market mechanisms. In a strong institutional environment, the importance of family capital diminishes.

Propositions emerging from the model:

- P1 (reflexivity threshold). Family social capital (FSC) contributes to adaptive strategic decisions only in families that demonstrate a high level of institutional reflexivity R.
- P2 (institutional substitution). The contribution of FSC to adaptive decisions is stronger when the quality of formal institutions I is weaker.
- P3 (complementarity). The effect of FSC is amplified when reflexivity is high: the synergy of family capital and the ability to use it flexibly yields the greatest positive outcome.

Combining the three approaches yields the "socio cognitive filter" model (Figure 2). Business sustainability is defined as the firm's ability to maintain viability (profitability, employment, control) in the face of external shocks without destroying the family governance structure.

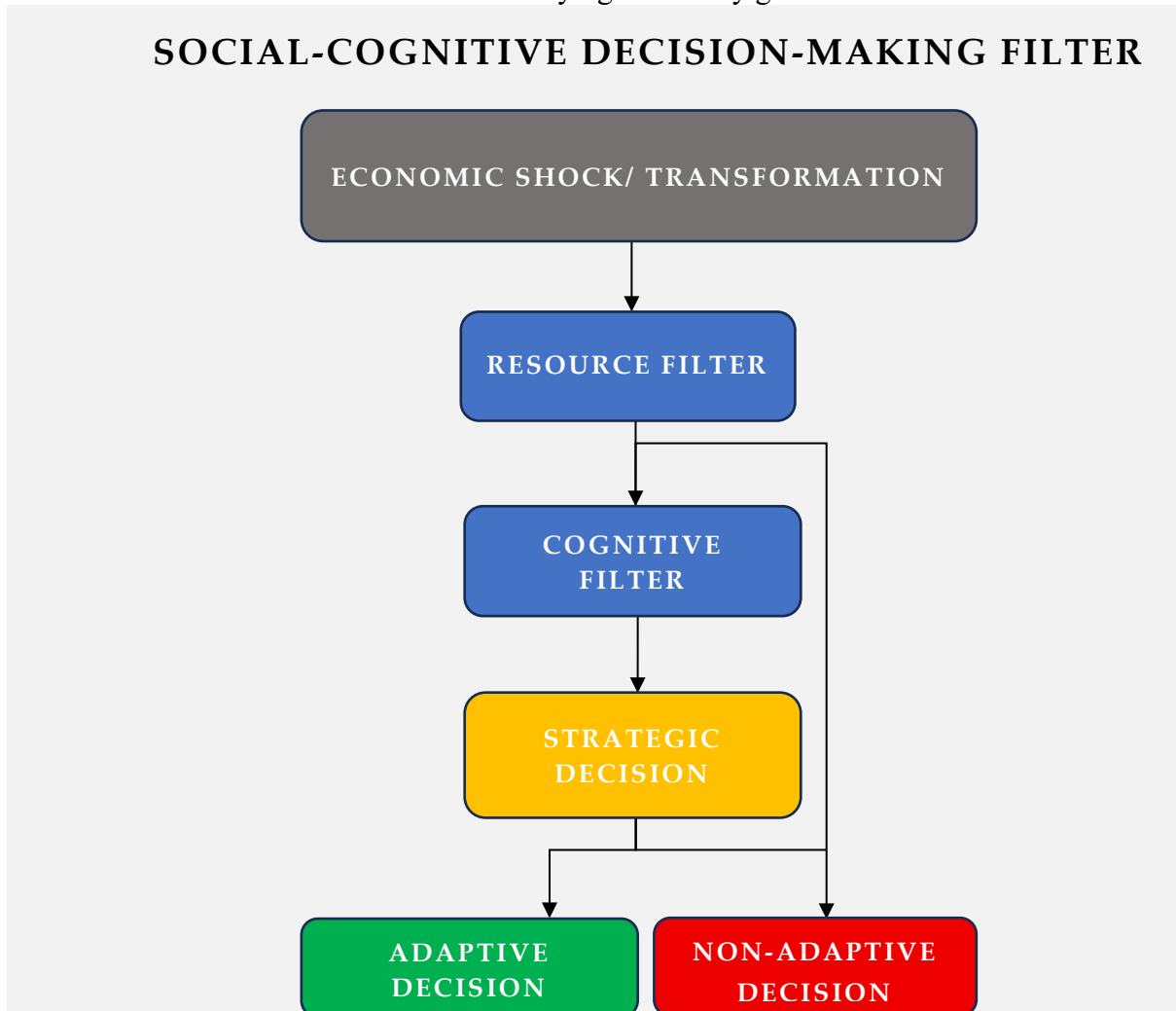


Figure 2. Theoretical model of the social-cognitive decision-making filter

Source: developed by the author

A striking example demonstrating the critical importance of flexibility in intra family norms is the real-life experience of the enterprise at the center of this study [4]. In an interview, one of the company's founders' states:

„My husband had foreseen this situation in advance and, upon retiring, proposed at a family council meeting that our younger son, Ivan, be appointed director of the company, since he had a degree in economics and sufficient work experience at the enterprise” [4, p. 62].

This quotation operationalizes the concept of reflexivity R in action: (a) cognitive awareness - the husband "had foreseen" the succession problem; (b) institutional monitoring - the family council served as a formal governance mechanism (one of the indicators); (c) strategic flexibility - appointment of the younger son over the elder, overriding seniority in favor of competence.

Thus, even in the absence of formal legal requirements, the family demonstrated high reflexivity, allowing it to avoid the "institutional trap" of nepotism. However, the success of this illustrative case may also be explained by alternative factors: low industry competition in the 1990s, the founder's personal informal networks (rather than FSC alone), favorable timing, and endogeneity (successful families accumulate FSC because of their success - selection bias). Recognizing these alternatives does not weaken the model - it reflects the methodological honesty required for scientific rigor.

Conclusion

The sustainability of a family business is not an automatic consequence of the family's existence. The socio-cognitive filter model reveals the ambivalent nature of FSC. In weak institutional environments, it reduces costs but can also create "rigidity traps". The key moderating variable is reflexivity R - the family's ability to critically evaluate its own norms and cognitive biases.

This work is exclusively theoretical. The proposed model requires empirical validation. The empirical illustration is a single case study, which does not permit statistical generalizations. Future research should: test the framework using qualitative comparative analysis (QCA) on a sample of family firms, operationalize reflexivity through surveys, and compare Moldova with other post-Soviet countries. Supporting family businesses in transition economies requires more than legal recognition. It requires programs that foster reflexivity: professional management training, subsidies for introducing independent directors, and requiring documented succession planning for access to public funding.

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