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Determinants of family business internationalization. Review of existing research

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Abstract

The article analyses the influence of several factors relevant to internationalization processes of family firms and differentiates between those factors that aid internationalization and those that hinder such process based on literature review. There are many reasons behind the international expansion of family businesses, as well as economic theories that attempt to explain them. This paper investigates how key features of family firms, such as long-term vision, entrepreneurial culture, undertaking risk-adverse strategies, fear of losing control, efficient decision-making process, family commitment influence the internationalization process of family firms.

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Keywords: *Internationalization; Family Business; Literature Review; Strategic Management.*

Affiliations and acknowledgements

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1 Introduction

Nature of today's economic, social and political environment has become increasingly globally oriented. Nowadays almost no company can escape the further internationalization process and every company will need to cope with internationalization sooner or later. Internationalization is the most complex strategy that any firm can undertake. Although the global economy provides opportunities for growth, it also means increased competitive challenges and requirement for distinctive set of capabilities for companies to successfully internationalize. Among family businesses, the most frequent form of organization in the world, internationalization has also become a growth strategy. Many researches confirmed that the internationalization process of family firms may differ from internationalization of firms with different ownership structure. Familiness can affect internationalization positively and negatively, due to the tendency of family entrepreneurs to have a long-term vision, risk-averse strategies, a fear of losing control when hiring a person from outside the firm or ability to undertake quick decisions, etc. The internationalization of family businesses, which have traditionally operated in domestic markets, is developing into an important research area. Family firms are perceived to be less inclined to grow internationally. The most commonly accepted explanation for family business stagnation is limited capital to finance both family needs and international expansion, the inflexibility and resistance to organizational structures change.[1] The study analyses the influence of several factors relevant to any internationalization processes and differentiates between those factors that support internationalization and those that hinder such process. In this article following research questions shall be addressed: What is the current state of knowledge concerning the internationalization of family firms? How do the characteristics of family businesses influence the internationalization process?

2 Internationalization of family businesses: facilitating factors

Sirmon and Hitt (2003) distinguished five unique characteristics that differentiate family firms from non-family firms, namely human capital, social capital, survivability capital, patient capital and characteristic governance structures. Those five unique resources may contribute to family business activities aimed at international expansion in positive or negative way. The positive attributes of human capital consisting of acquired knowledge, skills and capabilities include high commitment of family members. Basing on strong social capital, family firms have developed shared language, norms and a high level of trust which enables building effective relationships with suppliers, customers, etc. Along with network model, often used in case of family business researches, the internationalization is related to the development of network ties with other firms belonging to a network in a foreign markets what facilitate foreign market entry.[2]

The patient financial capital of family firms is stemming from their long-term orientation when making decisions regarding any capital intensive investments. Because of the critical importance of a long-term commitment, family firms with patient capital were found to be more likely to successfully internationalize in the long term even though they indicated poor

[1] Ward (1998).
[2] Ruzzier *et al.* (2006).

short term results from their international activities. Survivability capital regards the family members personal resources they are eager to share for the benefit of the firm. When it comes to governance structures, it is assumed that family firms experience lower governance costs unless owner does not motivate himself by altruism when running the business.[3]

Multinational organization need to cope with different cultures and long-distance communications, efficiency may be improved through informal communications, without complicated procedures and difficult forms. Family businesses are known for stable exchange of knowledge and experiences among family members, due to the family involvement in the business. This permanent exchange of information among family members in combination with intensive communication could be viewed as a feature enhancing chances of internationalization. It is found by Zahra and Sharma (2004) that sharing knowledge and experiences typical for family businesses creates trust that supports risk taking strategies. Another important facilitating factor in the internationalization of family businesses is the ability to make quick decisions.

Succession is a factor unique to family businesses which has an impact on internationalization process. The founders of a company are usually reluctant to any changes in the organizational structures and professional management systems that support decentralization of the decision-making process. It was found by Fernandez and Nieto (2006) in their research conducted on more than 10,000 Spanish manufacturing companies that family firms with subsequent generations demonstrate higher export propensity and intensity than family firms being in their first-generation. Generally speaking, the entry on the scene of new generations is perceived to have a positive influence on internationalization. It is mostly explained by the acquired abilities and knowledge by the subsequent generations and the impatience of those generations to demonstrate those capabilities by looking for strategic changes, such as internationalization.[4] Graves and Thomas (2008) suggest that the commitment to internationalization is dependent on the vision and qualities of the successor. Family member successors come often to the business with understanding the importance of internationalization for achieving firm's main objectives.

It is important that family firms possess the required managerial capabilities to manage international growth. There are some methods to minimize the strain placed on both the family and domestic operations, namely appointing additional managers, appropriate management education, adopting modern management practices or releasing family members to represent the firm overseas at trade fairs.[5]

The internationalization of firms has been studied from the perspective of various theories. Most popular is the Uppsala model created by Vahlne and Johanson (2003) and developed in the 1970s to explain the slow internationalization process of multinational firms. Based on existing researches on family firms internationalization, it seems that the internationalization of family firms follows a stepwise internationalization process. Family firms are more likely to choose geographically close countries when expanding globally and locate their operations close to the residence of family members.[6] However, there are some family firms which internationalizes rapidly to several different countries, which are called "born global" firms. Example of such firms is Intidex group (owner of fashion brands - Zara, Stradivarious).

[3] Sirmon and Hitt (2003).
[4] Fernandez and Nieto (2006).
[5] Graves and Thomas (2008).
[6] Harris *et al.* (1994).

3 Internationalization of family businesses. Constraining factors

Many researchers have found that family firms are less likely to internationalize than non-family firms. This has been explained by their limited growth objective, avoidance of risk and restricted financial capital.[7]

The traditional family business is perceived to be committed to their domestic region. It is found by Gallo and Pont (1996) that strategies in family firms are focused on local markets, therefore they hardly internationalize their activities and search for relevant information about international customers and competitors which can result in better international strategies recognition. In research conducted by Graves and Thomas (2008), family business also demonstrated concentration on local business activities, one reason for that is the desire of the owning family's to protect local jobs and the aspiration to remain wholly family owned and managed. This finding can explain why family businesses may not pursue internationalization as aggressively as their non-family counterparts. Insufficient market orientation of family firms and employing managers without international experience are without any doubt a limiting factor in terms of internationalization.

According to the the OLI paradigm[8], financial resources enhance the ability to reach foreign markets. It is found that the commitment of a company to internationalization process is determined by access to financial resources and willingness to commit financial resources to internationalization-related activities. As far as family businesses are concerned, risk-averse nature and desire to maintain total control over the business lead to reluctance among the family firms owners to raise financial capital through loans.[9] There are possibilities to avoid taking a loan in case of lack of internal funds, the family firm can obtain them from other companies through establishing stable relationships. These relationships can take the form of shareholdings (another company holding capital) or cooperation through strategic alliances with other national or foreign firms. Another company, except for providing family firm with required resources, allows to enhance its internationalization process and obtain deeper foreign market knowledge.[10]

In foreign markets a company have to settle ties with different types of subjects such as customers, distributors, suppliers, competitors, not to mention public administration. When it comes to networking, family businesses are less likely to form networks with other businesses. It has been argued that this is due to the strong internal ties of family firms, based on trustful relationships among family members.[11] The internal ties between family members are very strong and they affect decisions on the firm's strategy, operations, and administrative structure. They can become a liability, hindering the flow of information and blocking links to new contacts which are required in every internationalization process.

It has been recognized by Kontinen and Ojala (2010) that the extent of an entrepreneur's social network is positively related to opportunity recognition. According to Hunt and Lambe (2000), excellent market orientation provides businesses with required information about (international) customers and competitors results in undertaking better prepared international

[7] Gallo and Pont (1996).
[8] Dunning (1979).
[9] Graves and Thomas (2008).
[10] Fernandez and Nieto (2006).
[11] Roessl (2005).

strategies. International opportunity recognition can only occur if the right information, widespread information distribution, open-minded inquiry of information and trustful data for all employees are accessible. Social relationships among family members do not lead to increased ability to recognize new opportunities due to the lower industry-specific knowledge and experience of family members.[12] Okoroafo (1999) observed in his researches that most family firms proceed internationalization process as a result of unsolicited orders, rarely monitor the international marketplace and have a low awareness of government-sponsored export assistance programs.

Undertaking internationalization strategy requires in most of the cases hiring experienced managers from outside the family. According to Zahra and Sharma (2004), if family firm is reluctant towards hiring external managers and keeps the decision-making control within the family, company will experience lack of competent, open-minded and experienced managers, what can be a strong limitation for internationalization. Hall states that reason for this resistance to accept people from outside the family is the fear of non-family members changing the organizational culture of the firm.[13] The culture of family businesses is very much influenced by the family and family firms and the desire to maintain this cultural identity over time.

A summary prepared by Kontinen and Ojala (2010) demonstrates which factors influence family firms internationalization process in positive or negative taking into account most important researches conducted in this area (Table 1).

4 Summary

The presented literature review confirmed that it is difficult to determine unambiguously the either facilitating or constraining influence of family business characteristics on internationalization. On one hand, family businesses with their entrepreneurial culture supporting frequent risk-taking promotes the decision to follow the internationalization strategy. On the other hand, lack of adequate resources within the company, lack of involvement of family members as well as high uncertainty and complexity of the internationalization process, usually refrain family-owned companies from undertaking such strategy. Moreover, international expansion is seen as an uncertain decision due to the lack of information about foreign markets and the international process. Altogether, it seems that the ownership structure and the degree of the stewardship orientation strongly influence the way in which family business undertake internationalization process in terms of international opportunities recognition, psychic distance experience and business networks establishment.

[12] Kontinen and Ojala (2010).
[13] Hall *et al.* (2001).

Table 1: *Credit and the irregular sector. Estimated coefficients from two-way fixed effects, IV and 3SLS regressions.*

Author(s)(Year)/Journal	Main findings
Gallo and Sveen (1991)/Family Business Review	The restricting factors in FB internationalization are mainly organizational; they include unwillingness to accept outside expertise, difficulties in hiring new managers with international responsibility, a fear of losing control and poorly developed information and control systems.
Gallo and Pont (1996)/Family Business Review	Restricting factors in FB internationalization include: product orientation to the domestic customer, a lack of financial resources or family members prepared for internationalization, resistance of the management team towards internationalization, an unwillingness to form alliances, intra-firm power struggles. Facilitating factors include: the possibility for work opportunities for other family members through internationalization, members of the family residing in various countries, a general long-term orientation, speed in decision-making, and the possibility of alliances with other FBs.
Okoroafo (1999)/Family Business Review	FBs monitor the international environment irregularly, and do not integrate global developments within their domestic decisions. If a family firm does not get involved in international business in the first or second generation, it is unlikely to do so in the third generation.
Davis and Harveston (2000)/ Family Business Review	Internet usage and investments in information technology have a positive influence on the internationalization and organizational growth of FBs.
Casillas and Acedo (2005) / International Journal of Globalisation and Small Business	The higher the perception of risks, the lower the firm's internationalization level. The older the firm, the larger its size, and the higher its internationalization level.
Fernandez and Nieto (2006)/ Family Business Review	The arrival of new generations has a positive influence on the internationalization of family firms; FBs are less likely to internationalize than non-FBs.
George *et al.* (2005)/ Journal of Management	Institutional and join ownership increase the scale of internationalization, indicating the important role these investors play in firms of this kind. On the other hand, CEO and top management team management increase managerial risk aversion, and also the scope and scale of internationalization.
Graves and Thomas (2008)/Family Business Review	Most family SMEs internationalize according to the Uppsala model, but some of them internationalize rapidly, regarded as born-again global firms, for instance in the context of succession. The three key determinants for the internationalization of FBs were the level of commitment towards internationalization, the financial resources available, and the ability to commit and use those financial resources to develop the required capabilities.

Source: Kontinen and Ojala (2010).

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Fattori determinanti dell'internazionalizzazione delle imprese familiari. Rassegna della letteratura esistente.

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Sommario

L'articolo esamina la rilevanza dei vari fattori che influenzano i processi di internazionalizzazione delle imprese familiari e opera una distinzione tra quei fattori che favoriscono l'internazionalizzazione e quelli che la rallentano, attraverso una rassegna della letteratura esistente. Molte sono le ragioni alla base dell'espansione internazionale delle imprese familiari, così come molte sono le teorie economiche che cercano di analizzarla. Il presente articolo esamina in che modo le caratteristiche delle imprese familiari, quali la *vision* di lungo periodo, la cultura imprenditoriale, l'adozione di strategie prudenti, la paura della perdita del controllo, l'esistenza di un efficiente processo decisionale, l'impegno della famiglia, influenzino il relativo processo di internazionalizzazione.

Classificazione JEL: *F23; F29*

Parole Chiave: *Internazionalizzazione; Impresa Familiare; Rassegna della Letteratura; Gestione Strategica.*