Internationalisation of Family Business: The Effect of Ownership and Generation Involvement

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ABSTRACT Family enterprises internationalise their businesses after consolidating their influence within their domestic market because once family businesses built up resources and capabilities for growth in domestic market, they are able to leverage it later for further expansion abroad. The paper seeks to examine factors that explain internationalisation of family businesses and their relationship between ownership and governance of the business enterprise. Research shows businesses have been interested in understanding the influence of internationalisation on firm performance; nevertheless, internationalisation diversification offer both advantages and problems. However, the study applies key constructs within the entrepreneurship field and entrepreneurial orientation in family firms.

INTRODUCTION

Family firms have established a unique area in research that witnessed exponential growth in the past few years because family firms represent many businesses worldwide (Tsao and Lien 2013; Holt 2012; Piva et al. 2013; Arregle et al. 2012). In organisational research, corporate governance is a common topic in the field (Fernández and Nieto 2006; Arregle et al. 2012; Colli et al. 2013). However, many corporate governance researches focus on board of directors but in recent past governance research expanded to cover other areas such as ownership and generation involvement. In publicly held firms, ownership and management are distinctly separated (Chin et al. 2009; Desender et al. 2013; Wang et al. 2012; Chung 2013). However, family businesses are closely held because ownership and board within family businesses overlap because people from the same family are involved at various levels in the business (Chung and Chan 2012; Sciascia et al. 2012; Zahra 2012; Segaro 2012; Michiels et al. 2013). Prior research indicated that industry conditions and competitive forces are crucial for family business international expansion (Kontinen and Ojala 2012; Hu and Shieh 2013). Nevertheless, recent studies emphasise the need to evaluate ownership and governance, which resulted in the necessity to identify and examine unique resources and capabilities attributed to family ownership that lead to competitive advantage in international family businesses (Lin 2012; Segaro 2012; Cerrato and Piva 2012; Liu et al. 2011; Zahra 2003; Fernández and Nieto 2005). The study builds on a stream of research by considering how ownership and governance are associated with internationalisation of family owned businesses. Therefore, the aim of the study is to establish theoretically and conceptually the determinant factors that explain internationalisation of family businesses. The study specifically examines the relationship between governance,
ownership and internationalisation of family enterprises; hence, the study explores the roles of stewardship and integration. Moreover, the study explores potential mediating roles of social capital, strategic participative process and strategic flexibility in internationalisation of family businesses; however, the determinant factors in internationalisation of family enterprises rely on the form of business.

Family firms are common in many countries across the globe and are characterised by the founding family’s intense ownership and founding family’s active participation in the firm’s management (Chung 2013; Barbera and Moores 2013). Family firms face little severe non-family agency problems because family owners have strong incentive to oversee managers, access to information and have a long investment horizon compared to other shareholders (Calabrò and Mussolino 2013; Zhou et al. 2013; Bouzgarrou and Navatte 2013; Zahra 2012; Miller et al. 2010). Hence, the study argues that these characteristics enable family owned businesses to accentuate performance influence of internationalisation. The study contributes to family business as well as international entrepreneurship literature because it offers explanations on the way family ownership influences internationalisation. The remainder of the study is structured into literature review on international role of family that introduces stewardship and develops the hypothesis regarding the relationship between family ownership and international entrepreneurship and later a conclusion on the topic.

Literature Review and Proposition Development

Family Firms and Internationalisation

Family businesses are run and managed with the purpose of shaping and pursuing the idea of business owned and managed by family members in a way that is sustainable across various generations of the family (Chung 2013; Au et al. 2013). Family businesses are not homogenous but rather differ in many ways including but not limited by ownership concentration, intergenerational involvement and stage of business development. Family business scholars identify two significant sets of factors that distinguish family firms from nonfamily firms the first being rooted resource-based view of the firm (Tokarczyk et al. 2007; Kraus et al. 2011) and second the involve-
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acional theory shows that the form of ownership influences a firm’s internationalisation because different owners have different values, incentives and preference (Arregle et al. 2012; Chin et al. 2009; Fernández and Nieto, 2006). The various features that influence family business imply alignment of interests between the firm and the family; hence family firms often have long time horizons in order to enhance business growth to create opportunities for future generations (Liu et al. 2011; Lin 2012). Internationalisation present opportunities for value creation by offering access to new resources, institutions, and foreign stakeholders which increase the potential of generating high returns to family firms that have the unique resources. Many family enterprises establish strategic alliances to make up for lack of financial and non-financial resources to reap the benefits of reduced fluctuation in revenue because internationalisation allows distribution of risk over various countries (Lin 2012; Holt 2012; Marchisio et al. 2010).

Family businesses are of all sizes ranging from small stores to global corporations; although, most of the businesses fall into the category of Small and Medium-size enterprises (SMEs) with evidence showing that family businesses are significant propellers of both national and global economies (Arregle et al. 2012; Blodgett et al. 2011; Kontine and Ojala 2012). As well, family businesses vary with regard to their levels of involvement in global market because some become global enterprises faster while others expand internationally at a slow pace. There are various push factors that influence family businesses to expand beyond their domestic national market these factors include strategic drivers, competitive forces as well as family demands (Cerrato and Piva 2012; Chen 2011; Claver et al. 2007). Although, non-family firms are also influenced by strategic drivers and competitive forces to expand globally, family demands uniquely apply to family firms (Lin 2012). Strategic drivers include access to crucial resources at low costs, identification and deployment of new products through synergies with offshore partners and matching supply chain requirement. Competitive forces include developing presence in overseas markets to pre-empt competition, taking defensive move against offshore competition and making use of global supply chain for cost-effective sourcing in relation to competition (Mazzola et al. 2008; Graves and Thomas 2005). In internationisation, family demands include financial needs like deciding to go beyond the national borders in order to increase dividends that support financial development of family members. Family demands also include employment needs like expanding to offer job and employment opportunity to the growing group of family members because the large the family, the more jobs the business needs to offer its members; hence global expansion offer solution to this challenge (Molly et al. 2011; Mazzola et al. 2008). Moreover, family demands include educational opportunities because business firms may establish international operations to offer educational opportunities to the next-generation members (Welsh et al. 2013; Björnberg and Nicholson 2012). The next generation members are better prepared to assume international responsibilities because of their education and experiences (Björnberg and Nicholson 2012; Mazzola et al. 2008). The pull factors for family businesses to venture to markets beyond the domestic one include opportunities that act as incentives for the firms (Schjoedt et al. 2013; Marchisio et al. 2010). The pull factors include desirable locations, alliances and networks as well as pre-emptive positions; besides, desirable locations apply in both business and family levels (Schjoedt et al. 2013; Marchisio et al. 2010). The business level enables family firms to establish development niche positions and gain regional dominance in products or even service. At the family level, desirable locations refer to attractive places where family members prefer to live or travel too constantly. Network alliances allow family firms to venture into foreign markets through the prevailing international contacts; for instance, family members may have relatives in foreign nations, which avails family business to immediate networks that provide investment or even cooperation opportunities. Moreover, the notion of extended family within many international cultures enable an extended array of connection through friends of extended family members because in some nations, the people a person knows are crucial in marketplace access. Preemptive position motivate family firms to expand globally because they need to be the initial movers in the international market place in order to obtain advantage over prospective competitors evaluating to enter the same market place. Push factors for family businesses represent pressures
while pull factors represent opportunities for family firms considering international expansion. Therefore, these factors have varying degrees of significance in a particular family business given its characteristics that may affect the firm’s expansion across the globe (Patel et al. 2012).

**Generational Involvement and Ownership in Family Firms**

Employment and succession of family members in a family owned business are unique considering that family businesses are unique bound networks, which restrict membership to family members. Prior research suggests that membership to entrepreneurial teams in family owned businesses is associated with resources and human capital of individuals as well as their affinity to others (Discua Cruz et al. 2012; Sciascia et al. 2013). Team members from same family are considered to offer overlapping and redundant resources and networks; hence, selection of team members is believed to be influenced by entrepreneurs’ network and employees within the existing business. Family members initiate confidence, stewardship, shared values and common understanding that offer advantage for the team (Schjoedt et al. 2012; Discua Cruz et al. 2012). There has been growing recognition that families often have portfolios of interconnected businesses that range from the formal family business groups to members of family helping each other to establish individual businesses (Cala-brò and Mussolino 2013). Therefore, families create teams in a family with the responsibility of initialising and developing various businesses with time. Although it is unclear regarding the extent to which family entrepreneurial teams, it is however clear that they represent a significant part of family business entrepreneurial activity (Nordqvist and Melin 2010; Casillas and Moreno 2010). In family businesses, family employees are not always selected with regard to the resources or capital they bring, but rather nepotism may influence decisions (Marchisio et al. 2010). Entrepreneurial teams often differ from other forms of business teams in that they form voluntarily as opposed to being imposed by others, which, shows that the entrepreneurial teams form naturally and are task oriented (Casillas and Moreno 2010; Chu 2011; Kellermanns and Eddleston 2006). For instance, entrepreneurial teams are engaged in identifying, evaluating and exploiting opportunities, which remain to be fundamental in existence of the teams within businesses. An individual who then seeks to pursue the opportunity by two or more individuals motivated to work together in seeking the opportunity can form entrepreneurial team because of a recognised opportunity. As well, entrepreneurial teams can be formed because of a triggering event that encourages them to pursue and identify opportunities (Discua Cruz et al. 2012).

Pursuit of opportunities in family owned businesses is assumed to be concentrated in existing family businesses and propelled by family occurrences like the development of opportunities for the wide family members (Welsh 2013; Mazzola et al. 2008; Chung 2013; Basco 2013). Existing family businesses are divided to allow succession of various siblings or in case the business faces unfavourable market conditions, the family searches for different income opportunities. The transfer of the owner’s vision to other members of the family helps sustain innovativeness in the business, intergenerational strategic thinking and affects the family’s values as well as priorities regarding the nature of the business (Björnberg and Nicholson 2012; Eddleston and Kidwell 2010; Marchisio et al. 2010). Therefore, intra-family entrepreneurship captures entrepreneurial deeds within families as shown by entrepreneurship in existing family businesses in the way entrepreneurship changes focus from family business to family in business. According to Discua Cruz et al. (2012), stewardship theory involves protection of assets in family businesses, which imply caretaker mentality that never captures dynamism innate in entrepreneurship. However, family members who value the interests of the family form entrepreneurial teams that aim at increasing wealth, assets and opportunities for the general family; hence, stewardship in this case stewardship is entrepreneurial. According to Kellermanns and Eddleston (2006), despite the significance of cooperative entrepreneurship to success as well as endurance of family firms in generations, few studies examine how families affect their businesses’ entrepreneurial activities. However, decisions to invest in corporate entrepreneurship are unique in businesses owned by families because family interests and values are integral to goals and strategies in family businesses. While some family firms appear to pose a culture that supports innovation and change, other family businesses have little corporate en-
entrepreneurship because the family desire to maintain the status quo or when there are no perceived opportunities in the environment (Kellermanns and Eddleston 2006; Tsao and Lien 2013). One feature that influences entrepreneurial efforts in a family firm is the time horizon for decision-making and action; besides, senior managers in family owned business tend to have long tenures and great interest in the firm’s performance (Lumpkin et al. 2010). One characteristic that distinguishes family firms from non-family firms involves the desire by family firms to maintain continuity of businesses across generations. Therefore, as shown earlier management or custodianship within family business is apparent especially when considering aspects such as over stability, employees and customers. Stewardship over continuity derives from owning family objective to pass the business establishment to subsequent generations because the owners view businesses as assets to pass onto the descendants instead of wealth to consume (Segaro 2012).

In family businesses, succession involves the process of ensuring competent family leadership across generations and includes changes in management and ownership (Björnberg and Nicholson 2012; Lungeanu and Ward 2012; Mazzola et al. 2008). Succession begins long before even the heirs enter the firm and continues through formal nomination of successor, transition and eventually the actual takeover. Before the “next generation” takes over, they often undergo phases of carer development where knowledge as well as functional leadership skills is imparted. Therefore, before the next generation takes over the family businesses, they have to have acquired critical characteristics among them business and industry knowledge. Moreover for effective succession, the next generation has to develop appropriate relations with the firms past; hence, to build the right characteristics, relevant training may occur even beyond before the family business. When the next generation enters the family firm, then it becomes aware of the culture, values as well as employees; the new generation also develops capabilities necessary for the firm through relations and credibility through successful performance (Mazzola et al. 2008; Graves and Thomas 2006). Family succession in recent studies indicates that continued family control has the potential of being efficient since families are capable of positively influencing resource inventory and usage in their firms (Zellweger et al. 2012). Family ownership leads to longevity in business activity and ultimately value creation across generations through trans-generational entrepreneurship used by families to develop entrepreneurial mindset and family influenced resources and capacities financial and social value across generations. On the basis of the above discussion, it is hypothesised that:

**Proposition 1: Generational Involvement is Related to the Structure of Ownership in Family Firms**

**Family Ownership and Internationalisation of Family Firms**

Family owned businesses consider businesses as assets and such an orientation induces family businesses to spot entrepreneurship opportunities abroad (Graves and Thomas 2006; Cerrato and Piva 2012; Molly et al. 2011). When internationalisation is relevant to a business’s long-term survival, then owners may decide to exploit international entrepreneurship opportunities even when perceived risks are relatively high. Family ownership increases a manager’s investment level and extends their payoff horizon thus supporting their assumption of risks. Owning family members is an incentive for spotting international entrepreneurship opportunities in order to create employment for themselves and their offspring (Patel et al. 2012; Segaro 2012; Sciascia et al. 2013; Tsao and Lien 2013). In various forms of family businesses, different factors seem to contribute both positively and negatively on their decision regarding internationalisation. According to Segaro (2012), family businesses have different degrees of internationalisation due to the discrepancy emanating from differences in level of involvement of the family in ownership and management. Internationalisation is considered complex activity that requires high level of commitment. In family businesses, there are families that have high level of internationalisation compared to others; therefore, family ownership is one resource that can offer some family businesses with the needed resource like foreign contacts and international market information. Other forms of family businesses accept minority private equity investment in their businesses, which enable the family enterprise to gain access to international marketing information as
well as extra financial resource base of the investors. Therefore, family business can become international immediately or later upon consolidating their position within the domestic market (Segaro 2012).

Family ownership supports the welfare of family firms and their managers and promotes exclusive readiness to pursue risky activities like international expansion. The availability of owner-manager whose interests are associated with those of the enterprise is key asset for family firms. Moreover, altruism and presence of multiple generations in family members within the firm’s operations create organisational culture that encourages risk taking by exploring international growth opportunities. Family businesses are characterised by intense communication and enduring exchanges in members, which enables sharing of experiences and knowledge that develop trust in long-term investment and value creation activities (Zahra 2003). According to Zahra (2003), international business literature highlight the role of external business environment, firm characteristics and tangible as well as intangible firm resources as potential antecedents of international expansion. Moreover, a firm’s ownership and governance influence its level of influence in international expansion; hence, organisational culture affects the way a family business defines addresses and coordinates business and family related objectives (Huang et al. 2012; Short et al. 2009). While family businesses are vulnerable to self-serving behaviours and opportunism, directors frequently use self-sacrifice to increase support for the firm’s long-term goals. Altruism as well as the availability of multiple generations in a family generates an organisational tradition that encourages exploration of international prospects of growth (Dess et al. 2011). Internationalisation is a risky move that can trigger conflict within family owned business because owner managers may need to internationalise their operations to meet the desire to achieve at the expense of wealth in the family. Moreover, internationalisation can take years to make profits, hence, depriving the family short-term wealth; in addition, it requires different capabilities from individuals within the firm (Lungeanu and Ward 2012; Puig and Perez 2009).

Moreover, according to Zahra (2003), ownership significantly affects a firm’s strategic choice particularly in family owned business organisations whereby proprietors often own substantial equity stake at these firms. Owner appointed administrators are anticipated to act as custodians of the organisation’s assets and evaluate paybacks as well as drawbacks of internationalisation. Philanthropic behaviours of household members indicate that if internationalisation is essential to a firm’s long-term success and increase the employment of family members, then owner-managers may follow the strategy even when the risks are high. Owner-managers employ internationalisation to expand the firm’s market base, create momentum for development and prospects for involving the family. Consistent with this logic, it is hypothesised that:

**Proposition 2: Family Ownership is Related to Internationalisation of Family Firms**

**Family Involvement in Management and Internationalisation of Family Firms**

Family businesses are considered unique in the context of entrepreneurship due to specific bundles of resources and capabilities of family firms that may restrain and facilitate entrepreneurial activities. Family businesses have various features that influence relations between property and management, which influence all dimensions such as innovativeness and competitive aggressiveness and their relation to performance (Gunasekaran et al. 2011). Family involvement as a level in which family members control the business involves strategic and operational management of the family firm and reflects differently to the various relations. Involvement of family members who belong to the owner’s family aids in strengthening the results of the firm’s innovation strategy to a point where it helps in implementation. Although all family firms are not homogenous, the unique context of the forms is related to various issues among them high emotional orientation at the founder stage and decreases with further generation. Another issue involves the resources and capabilities of family firms as well as their relation with entrepreneurial behaviour. The last issue involves the interactions between family firm, ownership as well as the governance because they have relevant influence in decision-making process within the firms associated with time orientation, risk orientation and culture (Casillas and Moreno 2010).
The relationship between family involvement and performance is one of the controversial issues in literature about family businesses because of the many factors influencing performance in any business. Different authors believe that family businesses have high ability to develop entrepreneurial behaviour patterns in a sense that their survival relied on the capability to venture into new markets where they can provide innovative products and services (Casillas and Moreno 2010). According to Chung (2013), family business consists of diversified affiliate firms associated by multiple links like the ownership structure and family relations through which firms coordinate to attain shared objectives (Molly et al. 2012). Family businesses choose to internalise activities in under developed institutional environments in order to gain scale or scope advantages from internationalisation through diversification. Like other public or private family businesses, family business group employs family ownership structures as well as family management, which results in benefits for family members owing to the growth and wealth generated by the enterprise. Therefore, family management and family ownership structures affect expansion decisions pertaining enlargement of family business. Assigning family members key strategic positions and harnessing ownership structures are strategies that strengthen family control and growth in its business enterprises. Previous research address diversification issues regarding influences that family management and ownership structures have on family businesses. Generally, family owned businesses maintain their socio-emotional wealth and control in strategic decision making by diversifying less compared to non-family businesses. Internationalisations of diversified business group, results in financial or management advantages that are normally offered by the market in well-developed institutional environments (Chung 2013; Kontinen and Ojala 2012). However, the key distinctive features of family businesses involve the role of family members in managing strategic decision-making because family owners usually occupy key-decision making position. Assigning family members key decision-making positions offers the potential ensuring stability in family-owned businesses and facilitates achievement of family goals. Hence, family management is capable of reducing the costs involved in monitoring professional managers within non-family businesses; moreover, family management reduces agency costs with regard to relations between professional managers and family owners. Although some studies argue that the implicit trust in family members is a distinctive resource in family enterprises that generates social capital, other studies argue family altruism as well as family management can cause management problems that trigger agency problems. According to Chung (2013), indicate that emerging economies, institutional voids and imperfect markets offer excellent external environment for large family businesses to gain scale and scope through diversification. Nevertheless, not all family businesses can achieve advantage through seizing opportunities in imperfect institutional environments (Chung 2013).

Studies that rely on agency theory in decision-making offer various understandings of implications of family ownership in management of performance in family enterprises (De Massis et al. 2013). However, agency theory also suggest that direct involvement of family members in top management can result in benefit in quality of decision making due to the alignment of interests between owners and managers. Therefore, family managers are assumed to share long-term goals of the family, which in return minimises information asymmetric with regard to long-term opportunities in growth. Internationalisation of family businesses has developed into a significant are of research owing to the migration of family businesses from domestic markets in an attempt to survive in a globally competitive market. Family ownership generates a number of unique governance characteristics one of them being the pyramidial ownership in controlling various domestic and international firms (Edleston and Kidwell 2012).

Family involvement in business comes in various forms like family members being members of the firm’s top management team while others occupy positions of authority in the hierarchy (Liu et al. 2011). Family involvement offers a sense of psychological ownership and encourages appreciation of the challenges that face the business and the company’s strengths and weaknesses, resources and capabilities that shape the firm’s internationalisation decisions. Altruism indicates that founders and owner-managers work intimately together in defining a firm’s mission, create strategy as well as effective ways of attaining their objectives (Claver et al. 2007). The
process allows managers to recognize limits in their activities and the way internationalisation may overcome their challenges (Colli et al. 2013). Therefore, altruism prompts owners to pursue internationalisation as a strategy in order to preserve the organisation, enhance its legitimacy and ensure its profitability for future generations. Moreover, family involvement in businesses reduces owner-manager perceptions on risks associated with complex investment decisions that come with internationalisation (Zahra 2003). Ownership offers managers the authority to internationalise business firms while involvement offers them the understanding essential in selecting their firm’s internationalisation strategy. Involvement of family stakeholders imbues the enterprise with family features like compassionate ties in players and extends time-horizon on firm-level behaviour (Cruz et al. 2010). Family involvement increases alignment or unification between a firm’s ownership and control, which reduces the traditional agency costs and increasing stewardship behaviour (Sirmon et al. 2008). The variables enhance the degree of internationalisation of a firm’s operations; moreover, when family ownership equity in a business is small the business may lack the power to pursue internationalisation compared to businesses that have high family ownership stakes (Graves and Thomas 2008; Zellweger and Sieger 2012). Consistent with this logic, it is hypothesised that:

**Proposition 3: The Level of Family Involvement in Management is Related to the Internationalisation of Family Firms**

**CONCLUSION**

Family firms represent as essential engine in development of economies across the globe; however, the understanding of the way family businesses value and create wealth is limited. However, investigating family firm internationalisation, generational involvement and the family involvement in management of international firms provide a way of understanding the way family businesses contribute to economic growth. Furthermore, generational involvement in family businesses acts as a substitute for knowledge multiplicity and entrepreneurial orientation is affected in case there is excess of or little generational participation. However, the paper is devoted in attaining a better understanding on the various dynamics involved in family businesses and their ventures. The study suggests that relations among family members are essential for success of the team that seem to apply in diverse locations across the world. When members of the next generation begin working in the family business, the succession process is perceived as imminent and long-term intentions of continuity and survival are brought into focus. The predecessor has great responsibility and less discretion in decision-making compared to the entrepreneurial stage of the family business. In the process of generational succession, there is transfer of knowledge from the incumbent to the potential successor and members of the new generation learn values, rules and culture from the incumbent who is considered a mentor. Entrepreneurial families face certain challenges in staying competitive and maintaining emotional orientation in their firms as they transition from one generation to another. The paper argues several aspects involved in family business internationalisation like generational involvement, family involvement in management of businesses. To assess these features, the study adopted an inductive approach of various case studies to understand the formation and membership of entrepreneurial teams within family businesses. Moreover, the study incorporation of studies regarding family succession that aim at deciphering the best way family businesses can survive. Family businesses are unique in that they aim at creating a legacy for the heirs upon which the heirs eventually control in the firm and inherit the family wealth. Family businesses represent a substantial part in the global economy with many families controlling a broad range of industries. The high level of family involvement in management results in high cohesion and shared strategic vision in management and consequently few conflicts compared to non-family businesses. The organisational culture in family business is stable compared to non-family businesses; moreover, family businesses tend to pursue defensive strategies that promote efficiency and conservative behaviour. Family businesses initiate internationalisation process later on because they mainly focus on local culture that propels them to operate locally. Nevertheless, family businesses are highly entrepreneurial organisations where family ownership supports risk taking. Various studies indicate that when internationalisation is perceived to be essential in long term
development of the business, owner-managers pursue the strategy regardless of the perceived high risks. Moreover, it has been clear that involvement of family members in management aids in decreasing opportunistic behaviour and offer great appreciation of the benefits as well as risks associated with internationalisation.

REFERENCES


