

# THE INTERNATIONALIZATION OF FAMILY BUSINESS: A CONCEPTUAL PROPOSAL

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## **Abstract:**

Internationalization means, for most firms, one of the main challenges that organizations must face in order to assure their survival in a global and complex environment. When looking at the family firms, this challenge presents another added aspect to be taken into account. As for any firm, entering in international markets means facing uncertain environments that require a certain restructuration (manufacturing process, new distribution channels, new financial sources, etc.). Besides, the family firms do not want to loose the control that the family exerts on the firm. Therefore, family firms must deal with two opposite forces: one force that favours their need to grow and enter in new markets, and other that seeks the stability and the development of low-risk projects in their traditional market. It is necessary to seek the underpinnings of the internationalization of these firms. Are they different from the rest of firms? What made them achieve their actual status? Can the existing theoretical models explain the internationalization process of these firms? How can we adapt these models to the family firms' reality?

In this work, we expose some of these questions and we propose a global model oriented to the understanding of the international strategy selection within the family firms. This model is aimed at orienting the internationalization phenomenon for those researchers interested in the international business and in the family firms, but also to the owners worried about their international expansion and the promotion agencies and consulting firms, public and private, related to the internationalization.

**Key words:** *Internationalization, Family business.*

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## Introduction

Internationalization means, for most firms, one of the main challenges that organizations must face in order to assure their survival in a global and complex environment. When looking at the family firms, this challenge presents another added aspect to be taken into account.

As for any firm, entering in international markets means facing uncertain environments that require a certain restructuring (manufacturing process, new distribution channels, new financial sources, etc.). Besides, the family firms do not want to lose the control that the family exerts on the firm. Therefore, family firms must deal with two opposite forces: one force that favours their need to grow and enter in new markets, and other that seeks the stability and the development of low-risk projects in their traditional market.

The scarce number of works analysing the internationalization of family firms may be a result of the dominance of the second force over the first one, being the family firms less oriented to starting international activities (Okorafo, 1999). However, there is a number of family businesses that has succeeded in becoming multinational family firms. Some examples of these firms are: Freixenet, Chupa-Chups, Planeta, etc in Spain or Ford, Samsung, Michelin, etc from other countries. Table 1 represents the biggest top 10 multinational family firms in the world, also denominated family multinational companies (FMNCs).

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**Tabla 1: Biggest top 10 family firms in the world**

Nr	Firm	Family	Country	Sales (millions \$)
1	Wal-Mart Stores	Walton	EE.UU	244.500
2	Ford Motor Co.	Ford	EE.UU	163.400
3	Samsung	Lee	Corea del Sur	98.700
4	LG Group	Koo	Corea del Sur	81.000
5	Carrefour Group	Defforet	Francia	72.035
6	Fiat Group	Agnelli	Italia	61.014
7	PSA Peugeot Citroen S.A	Peugeot	Francia	57.054
8	Cargill Inc.	Cargill	EE.UU.	50.800
9	BMW, A.G.	Quandt	Alemania	44.315
10	Hyundai Motor	Chung	Corea del Sur	40.111

### **Internationalization and family firms**

Despite being the internationalization process of firms one of the most studied topics within the international management, the influence of the ownership and governance of firms has been almost ignored by the traditional sequential approaches (Johanson and Valhne, 1990; Andersen, 1993) and by the new perspectives related to the international entrepreneurship (Oviatt and McDougall, 1994).

However, there is a growing interest in understanding how can the family business overcome this challenge to its growth and the internationalization without losing the family control (Gallo y Sveen 1991; Fernández y Nieto, 2002; Acedo y Casillas, 2005).

The importance of this field of study is reflected in the fact that family firms represent two thirds of the total of business in most of the developed countries. In this sense, it can be understood the economic and social importance of these firms for facing the challenge of the global economy. But, what is a family business?

The literature define the family firm as that which presents the following three characteristics (Gallo, 1995; Astrachan et al., 2002) (1) the ownership is controlled by the members of the same family; (2) the family has a significant influence on the strategic decisions of the firms; and (3) there is a will of continuity of the family control, that can be observed in a generational succession process.

Recently, there is a growing tendency in the literature to identify the factors that may help in describing the internationalization process of the family firms. In this sense, Gallo and Sveen (1991) assume that the internationalization is always a positive change in the long term that may be influenced or constrained by several factors.

Different authors suggest that the family firms are slower in this process than non-family firms, identifying a certain number of underpinning factors that characterize the family firms, such as:

- the strategy and the objectives of the firm
- the structure and the organizational systems
- the organizational culture
- the stage of the life cycle
- the international orientation of the family

Swinth and Vintor (1993) analyze the advantage that may derive from the establishment of international alliances and joint-ventures between family firms. They pose that the probabilities of succeeding of the international joint ventures (IJV) increase when the involved firms in such alliance are family firms. The advantages derived from the family ownership in the IJV are due to the sharing of the same values, related to the trust, the loyalty and the long term family involvement in the firm.

Gallo and García-Pont (1996) study the influence of some factors related to the internationalization process where specific factors affecting the family firms are included. From a sample of 97 Spanish firms they deduce that the family firms are less likely to become international than the rest of firms, and that they become more international as new generations get involved in the firm. The authors defend that the managerial attitudes are a decisive factor when explaining the internationalization level of firms. Besides, the inclusion of foreign relatives decreases the perceived uncertainty.

Analysing a sample of 187 North-American firms, Okoroafo (1999) identifies some characteristics related to the international behaviour (mainly exporter) of the family firm. Being precise, his results highlight that most of the family firms do not have international activities and he points out the possibility that those firms that do not become international in the two firsts generations, hardly become international after. Only a few firms were exporters and the interest to ask for support to promotion agencies was very reduced.

Davis and Harveston (2000), study the internationalization of family firms from the perspective of the international entrepreneurship. In that work, variables such as founder's age or educational level, as well as the role of the technology in the international behaviour of the family firm. Studying information from 1078 North-American firms, the results identify the existence of a positive relationship between the educational level of the founder and the internationalization level of the firm. However, the influence of the age appears as non-significant when

studying the internationalization but it is significant in respect to the growth of the firm. The use of technology exerts a positive effect on both aspects.

Tsang (2001) analyse diverse aspects related to the internationalization of firms in Singapore on the premise of the knowledge based view through case studies. The results of this work reinforce the classical ideas that identify the intuitive character of the early stages of the internationalization process, especially in family firms. The author supports the idea that the internationalization follows a sequential process of knowledge acquisition. Besides, the cultural environment of the country of origin appears as a relevant aspect to be taken into account when locating internationally.

A recent work by Graves and Thomas (2004), using a sample of 871 Australian firms links the managerial capabilities with the level of internationalization of family firms. The data reflects how family firms present smaller management teams and a lower professionalization than the rest of firms. Finally, the works reflects a certain aversion of family firms to ask for external advice (consultancy, promotion agencies, associations ...).

Fernandez and Nieto (2005) develop a research adopting the resource based view in order to relate the existence of resources available, the degree of implication of the family, the generational change and their relationships with other firms. Their results show a negative relationship between the family ownership and their level of internationalization. Furthermore, the second or latter generations are more active in developing international activities. Finally, the use of alliances appear positively related in their study to the internationalization strategy.

Casillas and Acedo (2005), develop a model in which the degree of family implication is analysed regarding the international level of the firm jointly with a series of internal and external factors, such as the perceived risk, the use of promotion agencies, demographical aspects of the manager, the firm's age.... The empirical investigation was conducted on a sample of 222 Spanish SMEs and highlights the effect of the ownership on the international activity influenced

by the size of the firms. Thus, the family firms appear as smaller and they tend to perceive a lower risk from the international market.

All these researches remark the importance of the generational situation of the firm. Because of this, the analysis is going to be divided, differentiating between firms in the first generation (founder) and those in second or latter generations.

The internationalization in the first generation: the cognitive aspects of the founder

The keys for the development of the family firms through the different decades appear, implicitly, in the cognition of their founder. Those aspects are already present in the conception of the venture. Using a biological comparison, the evolution of many family firms are, in part, determined in the conception that the founder has about the business. The founder settles the genes that contain the growth path of the firm. This path will be developed or not depending of the environmental conditions.

Many of the biggest multinational family firms have reached such status under the leadership of their founder. Some empirical studies reveals that a greater percentage of the international family firms acquire such condition during the first generation (Okoroafo, 1999).

The last works developed have tried to identify the reasons that explain why and how do those firms become international, analysing form the international entrepreneurship approach the velocity of such transformation. From our point of view, analysing the founder reveals as one of the main fields of development because of several reasons.

During the first generation, the founder use to exert a strong and individual dominance in the firm and in the family. Usually, the firm is developed from the founder's personal vision, and it can be identified with an extension of his/her cognition. Besides, the founder tries to transmit his/her beliefs to the rest of the



family, trying to generate organization routines and maybe obstacles for future generations when trying to adopt a drastic strategic change.

From the international entrepreneurship, several authors posit that one of the main characteristics of the born-global firms is that the manager/founder/owner from the firm's inception perceives the business as a big firm although the initial size may be small (Oviatt and McDougall, 1994). Because of this, the international orientation of the founder is an essential dimension for the firm's growth (Ditchl et al., 1990).

But, what kind of factors influence the founder's model of firm? And what kind of factors are present in the international orientation of the founder? Regarding to these questions, the role of the individual director/decision-maker has been analysed from a diverse range of perspectives (Reid, 1981; Aaby y Slater, 1989). In this sense, three approaches can be used regarding three different level of analysis.

From the Hambrick y Mason's (1984) "*upper echelons*", some socio-demographic characteristics of the individual may help in understanding the strategic behaviour of the firm in the long term. Some variables such as the education, the experience or the international experience appear as some of these factors (Gordon et al., 2000; Lant et al., 2000).

A second approach focuses on the individual cognitive traits. From this perspective, the demographic variables are only proxies of the individual cognition (Markoczy, 1997). The challenge for this trend is understanding what cognitive styles or traits present some kind of relationship with the international orientation of the individual.

Finally, the institutional theory remarks the influence of the environment on the decision-maker, providing useful insights that permit the combination of the aforementioned two approaches. Thus, some networks appear as the cause of the individual cognitive configuration (DiMaggio y Powell, 1983). Thus, those individuals that share the same educational background, tend to assume a certain schemata in common.

## La internacionalización más allá de la primera generación: un modelo de cambio estratégico

El caso de las empresas familiares que no han iniciado su proceso de expansión exterior bajo las directrices de su fundador es mucho más complejo. Se trata de organizaciones que ya gozan de una historia, una cultura heredada en el que el plano internacional no ha ocupado una posición relevante. La apuesta por la internacionalización supone un cambio estratégico en la evolución de la empresa. Este cambio suele desarrollarse influido tanto por factores impulsores como inhibidores, algunos de los cuales se resumen en la tabla 2.

**Tabla 2: Factores motivadores e inhibidores de la internacionalización de las empresas familiares en segunda o posterior generaciones**

Facilitating factors	Barriers
<ul style="list-style-type: none"><li>• Internacional experience (travelling, languages spoken, education, etc.).</li><li>• Tradition linked to the product/service rather than market</li><li>• Internationalization as a contribution of the new generation</li><li>• Changes in the competitive environment. Acknowledgment of the need to internationalize.</li></ul>	<ul style="list-style-type: none"><li>• Scarce managerial capabilities (professionalization) linked to the internationalization.</li><li>• Non internationally oriented firm's culture. Reluctance from elder managers.</li><li>• Financial barriers linked to firm's growth.</li><li>• High risk aversion (passive relatives). Identification of the survival with stability.</li></ul>

Attending to the facilitating factors for the internationalization of firms in the second or later generations, some of them can be highlighted. First, the sons and daughters of the founder use to present a greater international experience than their predecessors. The parents appear as the main motivators for their child to receive this kind of education, as they are aware of this weakness. Thus, many managers use to provide their children with education and holidays

abroad in order to acquire knowledge and capabilities internationally oriented, and creating this habit within their firms (DiMaggio y Powell, 1983).

Second, the existing culture within the family business is transformed, as time passes, into a tradition. This tradition tends to concentrate in the kind of activity (product or service), rather than a geographic market. In this sense, it is harder to implement a radical strategic change in order to modify the original activity. The access to new markets arises as a great opportunity for firm's growth, following the strategies proposed by Ansoff (1965).

Third, after a generational change, the successors feel the will and need of adding value to the firm, while they keep the tradition already implemented. This case is normally that of the sons and daughters of charismatic leaders, and that has been elected for the succession in competence to other relatives. They seek to achieve something that their predecessors have not been able to, and that they can improve the family firm. Considering some of the aforementioned propositions, the internationalization appears as a very interesting alternative.

But, we must consider not only the factors related to the family. The competitive environment cannot be considered as a minor influence. Being precise, it is particularly important as the top management team (family and non-family) and the family (active and passive) assume the growing globalization of the markets. This fact may take the firm, and the family, to understand the internationalization of the firm as a need for its future existence.

Against those motivating factors, there are others that inhibit the internationalization of the family firm in second or latter generations. The first one is related directly with the lack of managerial capabilities oriented to the international expansion. It is well known that the scarce professionalization is one of the main barriers to the growth and even the future of the family firms (Gallo y Amat, 2003). In this case, the absence of a high formation of the managers in international commerce and business arises as an important barrier.

Secondly, the will of the managers is also an important factor. If during the earlier generations the firm is not aware of the importance of the international

markets, the development of a culture internationally oriented is hardly possible to implement in the short term. It is therefore necessary a radical cultural change that may collide with the elder managers, employees, shareholders, etc. In third place, it is well known that the internationalization, apart from being a long process filled with uncertainty, requires a lot of financial resources. However, the family firms are not likely to adopt financial decisions that may carry a decrement in the control of the family within the firm. Due to this reason, the family business use to be averse to new investors, IPOs, etc.

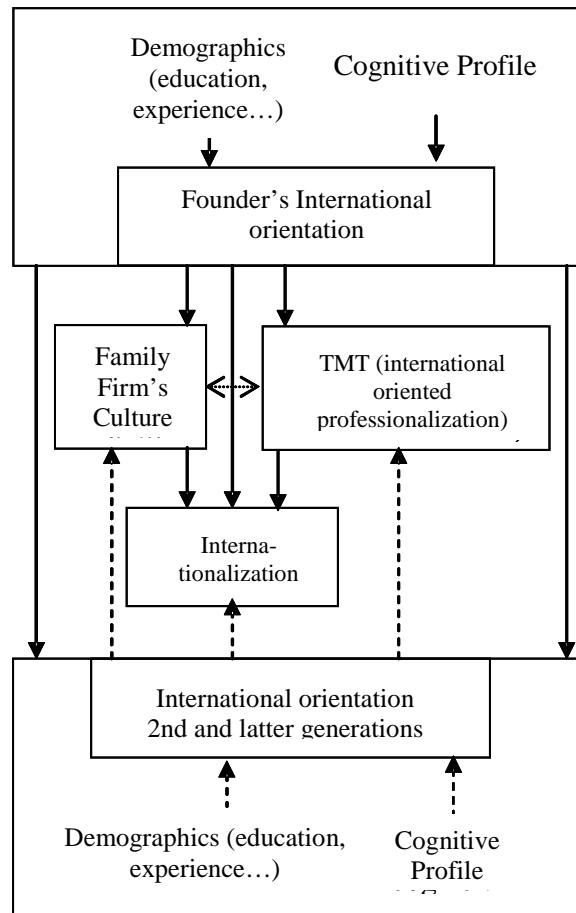
Finally, the existing difference in the objectives and perceptions about the firm from active and passive shareholders can also inhibit the internationalization of the firm. While the formers seek the growth and investment as the way to survive, the latter are keener on the stability in order to maximize the returns in the short term that leads to personal incomes. If this second visions dominates the firm, the internationalization will hardly occur.

### **Proposal of a model**

From the former propositions, the figure 1 represents a possible model that help to understand the internationalization of the family firm. This model incorporates the two alternatives aforementioned, this is the internationalization in the first and in a latter generation. However, this model must be understod as a sand clock, as the influence of the first generation exerted over the second, will be transformed in another influence of the second over the third and so on.

In the first generation, the founder, as individual, is the impulse of the international expansion. This behaviour may be associated with the international entrepreneurship phenomenon. Such behaviour is spread all over the firm, involving employees and the own family, creating a culture in which the international expansion is an essential aspect for the future growth of the firm, and that will survive to the founder. Besides, the development of such strategies will need of a management team with knowledge and capabilities coherent with them. Following this path, the international orientation of the founder will become an international entrepreneur culture for the organization.

**Figure1: The internationalization of the family firm**



The second case is that of the internationalization in a second or latter generation. Here, the internationalization reflects a change with the strategies developed by former generations. This change has sense when the previous generation has been the real motivators for this to happen (with international education, travels, etc.).

However, for the internationalization process to occur, the new generation must overcome some cultural obstacles existing within the firm and the family, at the same time that they acquire and provide the firm with enough resources (financial and knowledge) and capabilities in order to face such a complex process filled with uncertainty.

Nevertheless, and despite the generation that is now managing the firm, the influence of the family members are, at this memento, a factor scarcely studied by the researchers, although being acknowledge as a crucial role of the family firms in our economies. The consideration of this new dimension opens a

number of questions that demand a deep study in order to increase the competitiveness of our firms in this new global economy.

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