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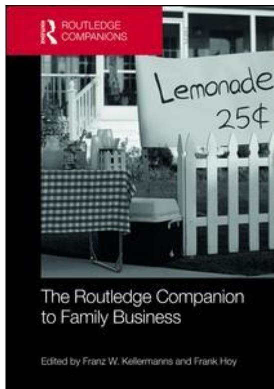

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Familiness, Socioemotional Wealth, and Internationalization of Family Firms

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6

FAMILINESS, SOCIOEMOTIONAL WEALTH, AND INTERNATIONALIZATION OF FAMILY FIRMS

A Review of Capabilities and Motivations in Different Modes of Internationalization

Anne Sluhan

Introduction

Family-owned firms have unique advantages for internationalization including reduced agency costs for speedy and flexible decision-making, patient and survivability capital for long-term investment, social capital for easier and lower cost access to external finance, and resources including, but not limited to, formal and informal networks. Despite these advantages, scholars suggest that the aforementioned advantages are undermined by family owners' conservative attitudes toward investment diversification, a lack of professional experience on international markets, less willingness to hire outside professional managers, less willingness to utilize professional training, and a reluctance to secure external financial resources for fear of losing family control of the firm (Banalieva & Eddleston, 2011).

Due to the prevalence of family-controlled companies around the world, it is relevant to focus on the ways in which they internationalize. Indeed, the global phenomenon of family firm internationalization offers researchers a rich field of inquiry not only due to the dominance of family firms on a global scale but also since they have been deemed to behave differently than non-family businesses.

Thus far, empirical studies have found that family ownership is generally unrelated to the degree of internationalization (see meta-analysis by Arregle, Duran, Hitt, & van Essen, 2014; and reviews by Kontinen & Ojala, 2010; and Pukall & Calabrò, 2013). While these studies provide valuable insights on the relationship between family ownership and the degree of internationalization, the varied capabilities and motivations for family firms to engage in internationalization are not specifically mentioned. Since the decision to internationalize is a critical, complex, and risk-creating strategic decision for any firm, it is a relevant topic for the literature to better understand the ways in which family firms internationalize compared with other types of firms, not least because of the prevalence of the family firm's dominant ownership and governance structure around the world (Arregle, Naldi, Nordqvist, & Hitt, 2012). Yet in current discussions in the international business literature related to the impact of family ownership attributes and their influence on internationalization, results seem to be inconsistent.

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Internationalization requires a firm to engage in a risk-heavy and uncertainty-rich strategic decision-making process, and since scholarly work up to this point suggests that family firm internationalization is undermined by a tendency of this type of firm to act conservatively, this chapter intends to reconcile these seemingly contrary notions of family firm internationalization by reviewing the extant literature. This chapter: 1) presents the relevance of family firms in organizational studies, 2) describes how the literature considers family firms to be differentiated from non-family firms, 3) investigates how this differentiation affects family firm behavior – in particular with regard to family firm motivations and capabilities in the process of internationalization, 4) reviews the extant literature on family firm motivations and capabilities vis à vis internationalization, and 5) structures a literature review within a frame of varying entry modes. This chapter contributes to the family firm literature in that it presents the extant empirical work on family firm internationalization by focusing on the various motivations and capabilities of family firms when choosing entry mode. Finally, as its main contribution to the literature, this chapter highlights some unresolved issues in the field of family firm internationalization. Before specifying motivations and capabilities for internationalization, the next section presents the relevance of family firms to the field of organizational studies.

Family Firms as a Dominant Organizational Form

Family firms are defined as an organizational form in which a family (or group of families) exerts power over the firm and its strategic direction by leveraging control via ownership, management, or board involvement (Pieper, Klein, & Jaskiewicz, 2008). Family-owned and family-controlled firms account for approximately 90 percent of all companies worldwide (Aldrich & Cliff, 2003) and are the most common organizational form in both advanced and developing economies. Families are involved in establishing, organizing, and operating approximately 70–85 percent of firms in the United States (Chirico, Sirmon, Sciascia, & Mazzola, 2011; Neubauer & Lank, 1998 and South European countries Gómez-Mejía, 2012), respectively, and as many as 95 percent of all firms around the world (Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007; La Porta, Lopez-de-silanes, Shleifer, & Vishny, 2002; Lumpkin, Steier, & Wright, 2011). In the United States alone, family businesses account for more than half of GDP—including at least one-third of the Fortune 500 firms (e.g. Cargill, Motorola, Ford, Microsoft) and employ over 80 percent of the total US workforce (Chirico et al., 2011). Founding families are present in one-third of the S&P 500 (Anderson & Reeb, 2003) and the Fortune 500 companies (Shleifer & Vishny, 1986). In Asia, over two-thirds of the firms are controlled by founding families or individuals (Claessens, Djankov, Fan, & Lang, 2002). In Western Europe, approximately 44 percent of publicly-listed firms are family controlled (Faccio & Lang, 2002).

Despite the continuing significant global economic impact of family firms, the field of family business research remains relatively young. Since family firms are a prevalent form of business around the world (Anderson & Reeb, 2003; Chrisman, Chua, & Litz, 2004), it is not surprising that interest in family business as an academic research field has grown in recent years (Dyer & Sanchez, 1998; Zahra & Sharma, 2004). Growing interest has resulted in a significant increase in family business studies conducted as well as the accumulation of new knowledge about family business as a phenomenon (Sharma, 2004). Challenges to studying family entrepreneurship abound, however, since family businesses exist within complex relationships with their business families. This means the field of family business studies endeavors to minimize complexity and to reach consensus about a definition for the family business. Varying definitions include elements such as ownership (Barnes & Hershon, 1976; Bernard, 1975; Gallo & Sveen, 1991; Lansberg, 1988), management participation (Handler, 1989), employment, governance structure

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(Dreux, 1990), intention and vision (Chua, Chrisman, & Sharma, 1999), and family involvement based on power, experience, and culture (Klein, Astrachan, & Smyrnios, 2005). It is widely acknowledged that family businesses involve complex relationships and dependencies between the business, the family, and the environment (Donckels & Fröhlich, 1991). These complex interrelationships create a challenge for research, as highlighted in Bird, Welsch, Astrachan, and Pistrui's (2002) review noting the challenges faced by family business researchers to establish clear definitive boundaries for family firms due to the complexity of interrelationships between the domains of the family and the business (Moores, 2009). These domains have been combined and studied to better understand what it means to be a family business thanks to recent contributions of researchers from the fields of corporate governance, finance, management, strategy, entrepreneurship, psychology, and sociology. Thus the theory and study of family business have evolved significantly over the last 20 years. But while the field has undergone significant transformations, and while scholars generally agree that family businesses do differ from non-family businesses, they have yet to reach consensus about what exactly distinguishes family firms from non-family firms.

Thus, at this stage of study we can review and assess what work our scholarly colleagues have produced to move the field towards a better understanding of the distinguishing characteristics that affect family firm behavior. If we better understand whether and how family firms differentiate themselves from other types of organizations, we may be better able to understand their decisions regarding internationalization.

Family Firms as a Differentiated Organizational Form

An enduring discussion within the family business literature concerns how family firms can be distinguished from non-family firms (Chrisman, Chua, & Sharma, 2005; Chrisman, Steier, & Chua, 2008). Unlike non-family firms, family businesses are a synthesis of four significant organizational characteristics: family ownership/control, strategic influence of a family in day-to-day management of the firm, the intention/possibility for trans-generational continuity, and a concern for family relationships, all of which determine outcomes specific to family firms. These organizational characteristics are embedded in overlapping systems of a family business entity: management, ownership, and family (Lansberg, 1988; Tagiuri & Davis, 1996).

In particular, the differentiating factor of family has now been shown to be a variable that affects behavior at different levels of analysis (individual, group, and firm) and which impacts how the firm is managed (Dyer, 2003). Reasons for a distinction between family and non-family

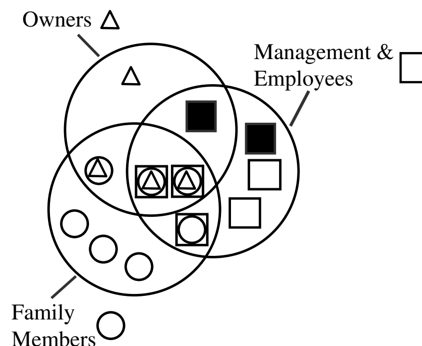

Figure 6.1 Overlap of Family, Ownership, and Management

firms can be found in two family characteristics that illustrate relationships and drive behavior in family firms: family goals and values (Dyer, 1986; Fukuyama, 1995; Tagiuri & Davis, 1992).

Family goals are by and large to develop, support, and care for family members. Unlike family goals, business goals are generally based on profits, efficiency, and financial measures. Ultimately, research shows that the qualities and intrinsic nature of family firms determine their distinctive character and behavior (Dawson & Mussolino, 2014), much of which is a combination of the aforementioned family goals mixed with business goals. Such distinctive behavior has been labeled particularism (Carney, 2005), meaning that owners of family firms view the firms as theirs and they, therefore, intervene in business decisions using non-financial qualifiers that may be with/without rational-calculative criteria (Dawson & Mussolino, 2014). This type of behavior is driven by nonfinancial motivations.

Consequently, scholars have sought ways to understand these behavioral complexities by defining family firms based on nonfinancial characteristics such as family involvement (Astrachan, Klein, & Smyrnios, 2002); familiness (Habbershon & Williams, 1999; Hitt & Sirmon, 2003); the so-called 'essence' of the family firm, which highlights the vision and the trans-generational intention of the controlling family (Chrisman et al., 2005); and socioemotional wealth, which refers to the stock of affect-related value that family principals have invested in the firm (Berrone, Cruz, Gómez-Mejía, & Larraza-Kintana, 2010).

The literature has supported the notion that family involvement differentiates a family firm from a non-family firm due to its inimitable idiosyncratic bundle of resources and capabilities – referred to as "familiness" – that result from the interacting and overlapping systems of the family, the business entity, the ownership structure, as well as the individual family members (Habbershon, Williams, & MacMillan, 2003). This bundle of resources and capabilities motivates strategic behavior that differs from non-family firm behavior (Arregle, Hitt, Sirmon, & Very, 2007; Carney, 2005; Verbeke & Kano, 2012).

To better understand the potential range of behavioral complexities in family businesses, one must study the three systems governing the firm. Each of the three systems – management, ownership, and family – sustains a spectrum of goals that impacts firm behavior. This spectrum of goals incorporates a range of perceived wealth in the family firm: from financial wealth on the one side to non-financial wealth on the other. Whereas financial wealth relies on a traditional measurement of return on investment, non-financial wealth captures a more emotion-based value that a family derives from its controlling position in a firm (Gómez-Mejía & Cruz, 2011). Within its range of both financial and non-financial variables, family-specific resources are bundled and help to determine firm identity and ultimately vision and strategic goals.

Derived from both the resource-based view of the firm and from systems theory, the above-mentioned notion of familiness refers to this unique bundle of resources resulting from the interaction of the family and business systems (Habbershon & Williams, 1999; Habbershon et al., 2003). According to Zellweger, Eddleston, and Kellermanns (2010), familiness is a multidimensional construct that describes a "rare and inimitable family-based resource" that is central to family firm identity. Firm identity can then be intentionally projected to external stakeholders via the firm's image (Zellweger, Kellermanns, Eddleston, & Memili, 2012). Dimensions of familiness include human resources (reputation and experience), organizational resources (decision making and learning), and process resources (relationships and networks) (Irava & Moores, 2010). Familiness is also comprised of structural dimensions (social interactions and networks), cognitive dimensions (shared vision and purpose, as well as unique language, stories, and culture), and relational dimensions (trust, norms, obligations, and identity) (Pearson, Carr, & Shaw, 2008). Finally, familiness includes the dimension of family involvement, essence, and organizational identity (Zellweger et al., 2010). Outcomes of familiness include nonfinancial performance

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results, such as the preservation of family ties or transgenerational value creation (Chrisman, Steier, & Chua, 2003); a strong sense of commitment to the business (Carmon, Miller, Raile, & Roers, 2010); organizational identity (Carmon et al., 2010); social capital (Ensley & Pearson, 2005); strategic flexibility (Zahra, Hayton, Neubaum, Dibrell, & Craig, 2008), market orientation (Cabrera-Suárez, de la Cruz Déniz-Déniz, & Martín-Santana, 2011); shared understanding and shared values in top management teams which lead to increased leadership team cohesion (Ensley & Pearson, 2005); revenue, capital structure, growth, and perceived performance (Rutherford & Holt, 2008); and superior levels of financial performance and competitive advantage over time (Zahra et al., 2008; Zellweger & Nason, 2008). The characteristics of familiness also produce unique motivations and capabilities of family firms when they consider building international strategies, which will be reviewed in the next section of this paper.

Like the notion of familiness, but derived from the behavioral agency model (Wiseman & Gómez-Mejía, 1998), another theoretical framework that helps to explain affect-related behavioral complexities within family firms is socioemotional wealth (SEW). SEW, an overarching construct that captures family firm idiosyncrasy and heterogeneity, brings intangible and non-financial factors into the analysis of family firms. The behavioral agency model (Wiseman & Gómez-Mejía, 1998), upon which SEW is based, assumes that firms make decisions depending upon the perspective of the firm's dominant principal. In the case of a family firm, dominant principals are family owners, directors, managers, and employees (Berrone et al., 2010), and thus SEW argues that one major concern for these family principals involves the potential loss of their asset(s). Family principals tend to frame strategic issues in terms of how a threat might affect not only their financial investment but also their non-financial investment (SEW). Within SEW, five non-financial elements affect in firm behavior. According to the model, if one or more of these individual non-financial elements are threatened, family principals will first consider these elements and how they might expose their overall socioemotional endowment at risk before making a decision for the business.

SEW reconciles previous approaches to understanding distinct family firm behaviors, in that it allows for differential risk preferences, it accounts for non-financial aspects of involvement (ownership, employment), and it considers both positive and negative consequences of non-economic aspects of doing business. SEW is characterized by emotional needs for identity and family influence and the preservation of the family dynasty (Gómez-Mejía et al., 2007). The non-financial elements within SEW include *F*amily control and influence, *I*dentification of family members with the firm, *B*inding social ties, *E*motional attachment of family members, and *R*enewal of family bonds to the firm through dynastic succession (FIBER) (Berrone, Cruz, & Gómez-Mejía, 2012). According to the FIBER model, when one or more of these non-financial elements are threatened, family principals will first consider the socioemotional endowment when making decisions for the business. The main point of SEW is that when family involvement is high, firms are more likely to be driven by a belief that risks are counterbalanced by nonfinancial benefits rather than exclusively by potential financial gains (Berrone et al., 2012). Preserving the family's SEW represents a key goal for a controlling family (Gómez-Mejía et al., 2007) and it is this attribute that helps to explain why family firms behave in distinctly different strategic ways from non-family firms (Berrone et al., 2012).

Thus, Berrone, Cruz, and Gómez-Mejía (2012) maintain that perceived threats to SEW may drive the family to make decisions that are not driven by an economic logic, and they may even be willing to put the firm at risk to preserve their non-financial endowment. Indeed, Pukall and Calabrò (2013) suggest that family principals tend not to be risk averse or risk prone, but rather they tend to be generally loss averse. Fernández and Nieto (2014) highlight that family firms are loss averse when the SEW is threatened due to the potential risk for reduction of family

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control, and that they exhibit a preference for lower levels of internationalization that will, thus, ensure family control over the firm. Ultimately, depending upon the situation, principals would be willing to take risks with the main reference point of SEW. This implies that in an extreme situation—for example, a possibility to internationalize or under a threat of bankruptcy—family owners could be more willing to take a risk than their nonfamily business peers due to their commitment to the firm (Chrisman & Patel, 2012; Fernández & Nieto, 2014). This approach to managing and leveraging the business seems to offer insight into one more way in which family firms differ from their non-family counterparts. Ultimately, SEW helps to explain how stakeholders' goals of protecting their non-financial investments in the firm influence business decisions and processes.

An ever-growing body of literature has begun to address how this set of preservation goals can potentially conflict with financial objectives of the firm. Since the literature outlines how family firms behave distinctively differently from non-family firms thanks to, amongst other reasons, the involvement of non-financial characteristics of ownership, employment, governance, and strategy building, it would follow that when considering risk and return, family firms could approach the process of internationalization differently than non-family firms. Considerable scholarly attention has been given to the process of internationalization, which can be a primary way for firms to achieve financial growth. A number of studies have, however, demonstrated that family principals often view internationalization/diversification as a potential threat to SEW (Gómez-Mejía et al., 2007). The following section outlines how preservation goals affect firm behavior: in particular with regard to family firm motivations and capabilities vis à vis internationalization.

Family Firm Motivations and Capabilities for Internationalization

The decision to internationalize is a critical, complex, and risk-creating strategic decision for any firm. Since family firms dominate the global business environment in terms of ownership and governance models, it would follow that the study of family firm internationalization offers international business scholars a rich topic for exploration. Family influence creates patterns of goals and strategies that are often articulated, structured, and implemented in ways that can be radically different from non-family firms (Salvato & Corbetta, 2014). Among other things, the inimitable bundle of resources embedded in family firms create an opportunity to investigate the various ways in which family businesses make the decision to go abroad when compared with other types of firms.

The current debate amongst international business and management scholars about the impact of family ownership attributes on internationalization has created inconsistent results. Prior empirical studies have presented both positive (Carr & Bateman, 2009; Zahra, 2003) and negative effects (Fernández & Nieto, 2006; Graves & Thomas, 2006; Hautz, Mayer, & Stadler, 2013) of family ownership on firm internationalization. Other studies find no statistically significant impact (Cerrato & Piva, 2010; Pinho, 2007). In their recent meta-analysis, Arregle, Duran, Hitt, & van Essen (2014) generally find that family firms are not statistically significantly different from non-family firms in their international activities. For other helpful recent reviews, also see Kontinen & Ojala (2010) and Pukall & Calabro (2014).

This review of empirical studies on family firm internationalization uncovers great variance and inconclusive results about the motivations and capabilities of family firms in the internationalization process. Previous studies considered family controlled SMEs and their internationalization strategies, yet these studies primarily focused on export behavior (Fernández & Nieto, 2006). More recent empirical literature has begun to investigate other modes of internationalization,

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in particular outward foreign direct investment (FDI), but these studies are few and far between. While FDI is considered to be a riskier mode of entry than export, FDI is a significant internationalization strategy that can meet company demands that would not be met via export. For example, gaining access to lower-cost production in target countries and overcoming trade barriers. It might be that empirical results in the extant literature create a less-than-precise picture of family firm motivations and capabilities vis à vis internationalization due to their primary focus on export modes.

Therefore, in an attempt to more clearly outline family firm motivations and capabilities for internationalization, this chapter pays particular attention to classifying internationalization into two broad categories of entry modes: non-equity based and equity-based. Within the non-equity based modes of internationalization, two forms of internationalization are referred to in the literature: export and international sales. Equity-based modes of internationalization – also referred to as outward foreign direct investment – in this review include Greenfield ventures, mergers, acquisitions, and joint ventures.

In terms of structure, first, this chapter outlines family-related factors that have been found in the reviewed empirical analyses regardless of internationalization mode. Thereafter, family firm motivations and capabilities are divided into non-equity and equity modes of internationalization as represented in extant literature, since empirical studies tend to specify these classifications.

Family Firm Motivations and Capabilities in (Non-Specific Modes of) Internationalization

On the motivation side of family firm behavior, a key differentiator in family firms is SEW. As previously outlined, the dimensions of FIBER are *F*amily control and influence, *I*dentification of family members with the firm, *B*inding social ties, *E*motional attachment of family members, and *R*enewal of family bonds to the firm through dynastic—or trans-generational—succession (Berrone et al., 2012).

Specifically, the *F* dimension results in a fear of loss of control and influence in the process of internationalization. Internationalization implies a change to strategy and organizational structure. In order to maximize the family's own utilities—as suggested by agency theory—fewer international entrepreneurship activities are expected, as this means taking risks with their own assets as well as losing control. Family owners show suspicion of this organizational redesign because they fear changes in ownership and management that might negatively influence their decision- making power. Consequently, the fear of losing control makes family firms rather forgo international activities in order to maintain their decision-making power (Bhaumik, Driffield, & Pal, 2010; Gallo & Sveen, 1991) and thus discourages sizable global expansions (Chen, Hsu, & Chang, 2014; Sanchez-Bueno & Usero, 2014).

The *I* dimension implies that family owners tend to impose family-derived common values, goals, and organizational culture, which may cause conflicts with foreign values and practices (Muñoz-Bullón & Sánchez-Bueno, 2012). The *B* dimension implies that family firms value kinship and reciprocal social connections in foreign operations (Sciascia, Mazzola, Astrachan, & Pieper, 2012), which may restrict their location choices abroad. The *E* dimension suggests that family owners attach emotional benefits to the firm, which may result in weak management of investment funds (Graves & Thomas, 2006). Lastly, the *R* dimension outlines an intention to ensure continuity and firm survival over the long run. This suggests that family owners value long-term projects for trans-generational succession (Jess H Chua, Chrisman, Kellermanns, & Wu, 2011), which leads to both fear of the higher inherent risk associated with foreign assets and ventures (Dyer, 2006; Gómez-Mejía, Makri, & Kintana, 2010).

According to Claver, Rienda, & Quer (2009), the family-related factor of long-term vision (Daily & Dollinger, 1992; Gersick, Davis, Hampton, & Lansberg, 1997; Harris, Martinez, & Ward, 1994; Tagiuri & Davis, 1992) is a necessary motivation/capability of a family firm when considering international expansion. If family owner-managers consider internationalization to be essential for long-term business development, the family would want to pursue the strategy despite risks and damage to short-term returns (Zahra, 2003). A long-term perspective, combined with the presence of outside management and directors, may lead these companies to choose entry modes that involve greater resource commitment over the long-term (Claver, Rienda, & Quer, 2009b).

Ultimately, the desire to preserve SEW reduces the incentive towards internationalization particularly if investing abroad may potentially reduce SEW. Thus, the dimensions of SEW generally imply that family firms are relatively less motivated to invest abroad.

Regarding capabilities, in some studies family firms have been shown to have less access to capital, a lack of knowledge and access to qualified personnel (Fernández & Nieto, 2006), and have been shown to have less developed information and control systems (Tsang, 2002a). In their study about the effect of family involvement in new venture debt financing, Chua, Chrisman, Kellermanns, and Wu (2011) show family firms have the capability to mobilize their social capital through family involvement in the firm so as to improve the firm's access to debt financing of new ventures. Family firms, thanks to fewer agency problems, are also capable of making speedy and flexible decisions (Gallo & Pont, 1996) which allow the firm to swiftly decide to internationalize once they are ready to commit. The long-term orientation of family firms encourages internationalization, since it leads to a capability to commit more strongly to fulfill strategies – including internationalization – and therefore allows family firms to dedicate higher levels of resources to overcome potential drawbacks.

Family Firm Motivations and Capabilities in Non-equity Modes of Internationalization

In terms of non-equity modes of internationalization – e.g., export, international sales, contractual agreements, and franchising – the empirical literature shows exports and international sales might imply different motivations and capabilities than in equity-based modes of market entry.

In their study of 10,579 family-owned Spanish manufacturing firms from 1991–96 concerning influential factors for SME internationalization strategies, Fernández and Nieto (2005) confirm a negative relationship between family ownership and export orientation and show that family firms are less likely to internationalize than non-family firms due to their motivation to maintain control of the firm. Arrival of new generations in the family firm, however, positively influence export orientation, as does corporate ownership. In terms of export orientation, Fernández and Nieto find therefore that as time progresses and generations changeover, SMEs gain resources necessary to further internationalize as the family firms maintain stable relationships with other firms through shareholding or agreements aimed to promote international expansion.

Okoroafo and Perryy (2010) support this result. They show in a study of 196 manufacturing firms in Ohio, USA that the likelihood of a firm to participate in export activities increases as subsequent generations to the founder/owner arrive on the scene. On the capabilities side, Fernández and Nieto (2006) show that family SMEs face difficulties in building a portfolio of strategic capabilities and resources thus making international success through the mode of export more challenging. In the same study, they also show corporate ownership to be a positive indicator for the scale of family SME internationalization.

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According to Calabrò & Mussolino (2013) it is a critical factor within family SMEs that they face two opposing forces within the firms: the possibility to exploit opportunities across borders drives them to grow and seek expansion beyond their traditional markets, while the wish to maintain family control encourages stability and more risk-averse behavior by developing lower-risk projects by engaging in low-equity investments as they internationalize. This study shows that both formal and informal governance mechanisms – in particular at the board level – can coexist in a complementary way that positively influences SME export intensity.

Gallo and Pont (1996) find both facilitating factors as well as restricting factors to internationalization in their study of 450 Spanish manufacturing firms that conduct export activities. The facilitating factors they find in this study are issues of family control: for example, the possibility to create work opportunities for other family members in various countries thus ensuring they maintain family control of the business. As well, the motivation to ensure patient returns confirms a long-term orientation in their sample. On the capabilities side, Gallo and Pont find that agent alignment in their sample of firms facilitates speedy decision-making and a possibility of alliances with other family firms abroad. Restricting factors to internationalization – or anti-capabilities if you will – found in their sample firms include product orientation to the domestic consumer, a lack of preparedness of family members to internationalize, resistance of management towards internationalization, an unwillingness to form alliances with other firms, as well as intra-firm power struggles.

Zahra (2003) outlines in her study of 2379 US manufacturing firms based in southern states[1] that the percentage share of family ownership in the business is positively related to its level of internationalization when referring to international sales. She argues that the positive effect of family ownership is reinforced when family members also participate in management of the firm and concludes that if family members actively participate in management, their motivation will be more cautious toward internationalization, since to make an overseas investment usually involves a long return on investment and therefore implies a reduction in family wealth in the short run. On the capabilities side of non-equity modes of internationalization, Zahra notes that in the family firms engaged in international sales that were studied, they had a strong capability characterized by intense communication among their members. This capability can lower the risks associated with strategic moves that require a longer return on investment and altruism, which means owners are expected to devote resources necessary to protect their investments.

In their study of 902 Chinese privately held SMEs, Liang, Wang, and Cui (2014) distinguish between two forms of family control: family ownership and family management. They predict that family involvement in management will have a negative relationship with export propensity because owners fear potential financial and SEW losses. Yet contrary to their prediction, their study finds that when family members are more actively involved in management, export propensity increases. The positive relationship between export propensity and family management involvement in this study suggests that exports – especially if carried out through distributors/agents – might require fewer managerial capabilities than the skill set required to do direct exports. This study also assesses family control vis à vis outward FDI, as outlined in a later section.

According to Graves and Thomas' study of 890 Australian exporters (2006), the managerial capabilities of family SMEs lag behind those of their non-family counterparts. In terms of capability lag, family firms were significantly less likely to employ an outside manager or to utilize professional training at the domestic level and at moderate levels of internationalization when compared to their nonfamily counterparts. Family firms were significantly less likely to develop strategic plans or utilize quality assurance at the domestic level of internationalization when compared to their non-family counterparts. Graves and Thomas contribute to the RBV theory

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of internationalization by providing empirical support for the positive association between a firm's managerial capabilities and the extent of internationalization.

In the vein of managerial and operational capabilities for internationalization, Merino, Monreal-Pérez, and Sánchez-Marín (2014) study 500 Spanish manufacturing firms that export, and consider whether family SMEs are able to overcome their lack of resources necessary for internationalization (e.g. financial, human, marketing) through focused family-specific resources (e.g. trust, altruism, social capital, and network ties). This study provides evidence that the expertise and capabilities of different generations of family owners and employees, combined with the family business culture, positively affect the export activities of family SMEs. Conversely, factors related to family ownership and management does not show significant influence on internationalization, experience, and culture.

Family Firm Motivations and Capabilities in Equity Modes of Internationalization

The literature on family firm internationalization via equity modes of entry contain similar themes regarding motives and skills as those found in non-equity modes of entry. As previously mentioned, the empirical studies available on family firm motivations and capabilities in equity modes—specifically mergers, acquisitions, joint ventures, and greenfield investments—are few and results are inconsistent. For example, Bhaumik, Driffield, and Pal (2010) find that while family control and concentrated ownership in the Indian pharmaceutical and automotive industries could be optimal in their home institutional environments, family ownership and management has a detrimental impact on outward investments. In striking contrast, Kuo, Kau, Chang, & Chiu (2012) find that family firms are likely to choose joint ventures more often than non-family firms due to their need for local partners and to help with management of the firm. Furthermore, in cases of higher levels of international experience, Kuo et al's study shows that family firms more aggressively pursue investment in a wholly-owned subsidiary than non-family firms. These disparate results are just two that can be found in the small pool of available empirical work on equity modes of family firm internationalization done thus far. These similar themes reiterate the elements of SEW. For example, family control and the motivation for independence remains a main issue.

In their study of listed Japanese firms in Japan, Abdellatif, Amman, and Jaussaud (2010) find that family firms establish fewer joint ventures than non-family firms. The authors confirm that this result implies that family firms prefer to remain independent when compared to non-family firms.

As discussed earlier vis à vis non-equity modes of internationalization, Liang et.al (2014) find in their study of privately-held Chinese SMEs that family involvement in management has an inverted-U-shaped relationship with the likelihood of outward foreign direct investment. Thus, on the motivation side, this empirical study seems to indicate that family-managed firms are more reticent to invest heavily internationally and they prefer to minimize risk by committing fewer firm resources via a non-equity mode (i.e., export). Less risk implies a lower likelihood of loss of SEW. Thus, this study indicates how family firm strategies are designed and executed to fulfill the management/ownership motivation to preserve and enhance SEW. Since SEW serves as a primary driver in owner prioritization as shown in this study, the importance of SEW in forming firm strategies varies with the degree of family involvement in management and the degree of family ownership.

On the capabilities side, for example, family involvement in management mostly affects the managerial capabilities and resources related to international expansion. In contrast, family

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ownership influences the motivation side towards internationalization strategy via owner risk preference and long-term orientation. Ultimately, a higher family ownership stake decreases the likelihood of exporting because owners fear potential financial and SEW losses, but as outlined in this study, that negative relationship reaches a threshold, after which owners are more likely to take more significant risks due to their desire to preserve long-term SEW in the form of transgenerational succession. This study shows evidence of how family control can affect FDI decisions in SMEs, which extends extant evidence of SME internationalization through export behavior.

Family owners have been shown to exhibit a few distinctive characteristics that create advantages in relation to outward FDI.

First, family control may promote flexibility and speedy decision-making vis à vis internationalization (Chen et al., 2014; Fernández & Nieto, 2006). This capability enables firms to respond to rapid changes in the international marketplace, which consequently increases the potential for success in internationalization (Chen et al., 2014).

Second, family-controlled firms are characterized as long-term oriented. Thus, their patient capital can be considered to be a capability enabling long-term commitment to investments in internationalization (Abdellatif et al., 2010; Carr & Bateman, 2009; Claver et al., 2009b; Gallo & Pont, 1996). For instance, internationalization was found to be positively associated with speed (Gallo & Pont, 1996), flexibility, and intuition (Tsang, 2002b) in family firm decision making.

Third, owners possess family-specific capabilities such as trust, family social capital, dynastic stability, and network ties (Casillas, Moreno, & Acedo, 2010; Jess H. Chua, Chrisman, Kellermanns, & Wu, 2011; Segaro, 2012). For example, in their study of international joint ventures, Swinth and Vinton (1993) show that JVs between family firms are more likely to succeed than those between family firms and non-family firms. They find that this can be explained by the fact that family firms – even across different cultural contexts – share similar values by which they conduct business. Specifically, trust, loyalty, and commitment to the transgenerational continuation of the firm within the family are mentioned as the values that contribute to the family firm capability pool.

Family firms also exhibit lower borrower-lender agency costs which result in a lower probability of managerial opportunism (Jess H. Chua et al., 2011). These advantages provide the firm a capability to leverage external financial capital with preferential borrowing terms (Anderson, Mansi, & Reeb, 2003), which is helpful for large-scale investments abroad.

In their sample of 146 family firms that had at least undergone one succession process, and had a minimum of EUR 40 million turnover in diverse industries, Puig and Perez (2009) show that these firms had accumulated internal intangible assets over a long period of time. These accumulated intangible assets create key family firm capabilities in the areas of marketing, branding, and negotiation skills that facilitate execution of international projects which become of primary importance for firms following Spain's accession to the EU.

The empirical literature also outlines disadvantages when it comes to family firm motivations and capabilities affecting equity-based outward FDI. In Sanchez-Sellero, Rosell-Martinez, & García-Vazquez's study of 1288 Spanish manufacturing firms (2014) they find that excessive family control can impede changes in management styles, staffing policies, and other operational decisions, which ultimately impede firm productivity and absorptive capacity from FDI (Gulbrandsen, 2005). Additionally, they find that family management has a significant negative influence on absorptive capacity through FDI, thus asserting that firms who are run by people who are not members of the same family—those who are sourced from a broader pool of professional managers—are more skilled at absorbing spillover effects from FDI.

Table 6.1 Review: Family Firm Motivations and Capabilities for Internationalization Based on Entry Mode

Non-Specified Entry Mode			*Non-Equity Entry Modes: e.g., Export, International Sales, Contractual Agreements, & Franchising*				*Equity Entry Modes: e.g., Greenfield, Mergers, Acquisitions, Joint Ventures*			
Concept (Fiber)	*Effect*	*Reference*	*Concept (Fiber)*	*Effect*	*Reference*	*Entry mode*	*Concept (Fiber)*	*Effect*	*Reference*	*Entry Mode*
(F)AMILY CONTROL	Fear of losing control makes family firms rather forgo international activities in order to maintain their decision-making power	Gallo & Sveen 1991; Bhaumik et al. 2010; Chen, Hsu, & Chang, 2014; Sanchez-Bueno & Usero, 2014	**(F)AMILY CONTROL**	FFs less likely to internationalize than NFFs due to motivation to maintain control of the firm. Arrival of new generations in the family firm, however, positively influence export orientation, as does corporate ownership.	Fernández and Nieto (2005)	Export	**(F)AMILY CONTROL**	While family control & concentrated ownership in the Indian pharmaceutical & automotive industries could be optimal in their home institutional environments, family ownership & management has a detrimental impact on outward investments	Bhaumik, Driffield, and Pal (2010)	Outward FDI
	Due to family involvement in the firm, family firms have the capability to mobilize their social capital to improve the firm's access to debt financing of new ventures.	Chua, Chrisman, Kellermanns, & Wu, 2011		The likelihood of a firm to participate in export activities increases as subsequent generations to the founder/owner arrive on the scene.	Okoroafo & Perryy, 2010	Export		Finds that FFs establish fewer JVs than NFFs. The result implies that FFs prefer to remain independent when compared to NFFs.	Abdellatif, Amman, and Jaussaud (2010)	Joint ventures

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Non-Specified Entry Mode			Non-Equity Entry Modes: e.g., Export, International Sales, Contractual Agreements, & Franchising				Equity Entry Modes: e.g., Greenfield, Mergers, Acquisitions, Joint Ventures			
Concept (Fiber)	*Effect*	*Reference*	*Concept (Fiber)*	*Effect*	*Reference*	*Entry mode*	*Concept (Fiber)*	*Effect*	*Reference*	*Entry Mode*
	Thanks to fewer agency problems due to family control, firms are capable of making speedy and flexible decisions, which allows the firm to swiftly decide to internationalize once they are ready to commit.	Gallo & Carcia Pont, 1996		The possibility to exploit international opportunities drives growth & search for expansion. Wish to maintain family control encourages stability and more risk-averse behavior: develop lower-risk projects through low-equity investments.	Calabrò & Mussolino, 2013	Export		This study shows evidence of how family control can affect FDI decisions in SMEs, which extends extant evidence of SME internationalization through export behavior.	Liang et.al (2014)	Outward FDI
				Facilitating factors for internationalization are issues of family control (e.g., possibility to create work opportunities for other family members in various countries thus ensuring they maintain family control of the business). Also, agent alignment facilitates speedy decision-making & possibility of alliances w/other family firms abroad.	Gallo & Pont, 1996	Alliances		Family control may promote flexibility & speedy decision making vis à vis internationalization, which in turn enables firms to respond to rapid changes in the international marketplace, thus increasing potential for international success.	Chen, Hsu, & Chang, 2014; Fernandez & Nieto, 2006	Outward FDI

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Two types of control: family ownership & family management. They predict that family involvement in management will have a negative relationship with export propensity because owners fear potential financial and SEW losses. Yet contrary to their prediction, their study finds that when family members are more actively involved in management, export propensity increases. The positive relationship between export propensity and family management involvement in this study suggests that exports – especially if carried out through distributors/agents—might require fewer managerial capabilities than the skill set required to do direct exports.	Liang, Wang, & Cui, 2014	Export	Lower borrower-lender agency costs which results in lower probability of managerial opportunism	Chua, Chrisman, Kellermanns, & Wu, 2011	Outward FDI

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Non-Specified Entry Mode			*Non-Equity Entry Modes: e.g., Export, International Sales, Contractual Agreements, & Franchising*				*Equity Entry Modes: e.g., Greenfield, Mergers, Acquisitions, Joint Ventures*			
Concept (Fiber)	*Effect*	*Reference*	*Concept (Fiber)*	*Effect*	*Reference*	*Entry mode*	*Concept (Fiber)*	*Effect*	*Reference*	*Entry Mode*
				According to Graves' study of 890 Australian exporters (2006), managerial capabilities of family SMEs lag behind NFF counterparts, FFs less likely to hire outside management/utilize professional training, and FFs less likely to develop strategic plans or utilize QA when compared to NFF counterparts.	Graves 2006	Export		Excessive family control can impede changes in management styles, staffing policies, & other operational decisions, which ultimately impede firm productivity & absorptive capacity from FDI.	Sanchez-Sellero, Rosell-Martinez, & García-Vazquez, 2014	Outward FDI
(I)DENTIFICA-TION	Family owners tend to impose family-derived common values, goals, and organizational culture, which may cause conflicts with foreign values and practices	Munoz-Bullón & Sanchez-Bueno, 2012	**(I)DENTIFICA-TION**				**(I)DENTIFICA-TION**			

(B)INDING SOCIAL TIES	*B* dimension implies that family firms value kinship and reciprocal social connections in foreign operations which may restrict their location choices abroad.	Sciascia, Mazzola, Astrachan, & Pieper, 2012	**(B)INDING SOCIAL TIES**	In the family firms engaged in international sales studied, their capability is characterized by intense communication among their member owners.	Zahra, 2003	Int'l sales	**(B)INDING SOCIAL TIES**	Finds that FFs are likely to choose JVs more often than NFFs due to their need for local partners & to help with management of the firm.	Kuo, Kau, Chang, & Chu (2012)
				Re. managerial & operational capabilities for internationalization, this study of 500 Spanish manufacturing firms that export considers whether family SMEs are able to overcome lack in resources nec. for internationalization (e.g. financial, human, marketing) through focused family-specific resources (e.g. trust/altruism/social capital/network ties). Provides evidence that the expertise and capabilities of different generations of family owners/employees, combined w/FF culture, positively affect export activities of FFs.	Merino, Monreal-Pérez, & Sánchez-Marín, 2014	Export		JVs between FFs are more likely to succeed than those between FFs and NFFs. This can be explained by the fact that family firms – even across different cultural contexts—share similar values by which they conduct business: specifically, trust, loyalty, and commitment to transgenerational continuation of the firm.	Swinth and Vinton (1993)	JVs

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Non-Specified Entry Mode			*Non-Equity Entry Modes: e.g., Export, International Sales, Contractual Agreements, & Franchising*				*Equity Entry Modes: e.g., Greenfield, Mergers, Acquisitions, Joint Ventures*			
Concept (Fiber)	*Effect*	*Reference*	*Concept (Fiber)*	*Effect*	*Reference*	*Entry mode*	*Concept (Fiber)*	*Effect*	*Reference*	*Entry Mode*
(E)MOTIONAL ATTACHMENT TO THE FIRM	Family owners attach emotional benefits to the firm, which may result in weak management of investment funds	Graves & Thomas, 2004	**(E)MOTIONAL ATTACHMENT TO THE FIRM**	Family managers emotionally attached to firm, which negatively influences levels of commitment to internationalization when compared with NF management. This study opens up for future research into the relative importance of both types of managers as far as international commitment is concerned.	Claver, E.; Rienda, L.; Quer, D., 2009	Export, contractual agreements	**(E)MOTIONAL ATTACHMENT TO THE FIRM**			
(R) ENEWAL OF FAMILY BONDS TO THE FIRM	*I*ntention to ensure continuity & firm survival over the long run. This suggests family owners value long-term projects to ensure transgenerational succession, which leads to both fear of the higher inherent risk associated with foreign assets and ventures.	Chua, Chrisman, Kellermanns, Wu, 2011; Gibb Dyer, 2006; Gómez-Mejía et al., 2010, Claver, Rienda, & Quer, 2009	**(R) ENEWAL OF FAMILY BONDS TO THE FIRM**	Motivation to ensure patient returns confirms a long-term orientation in their sample.	Gallo & Pont, 1996	Strategic alliances	**(R)ENEWAL OF FAMILY BONDS TO THE FIRM**	Higher family ownership stake decreases the likelihood of exporting b/c owners fear potential financial and SEW losses, but this study shows that negative relationship reaches a threshold, after which owners are more likely to take more significant risks due to their desire to preserve long-term SEW in the form of transgenerational succession.	Liang et.al (2014)	Outward FDI

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The family-related factor of long-term vision is a necessary motivation/capability of a family firm when considering international expansion. If family owner-managers consider internationalization to be essential for long-term business development, the family would want to pursue the strategy despite risks and damage to short-term returns. A long-term perspective, combined with the presence of outside management and directors, may lead these companies to choose entry modes that involve greater resource commitment over the long-term.	Daily & Dollinger, 1993; Gersick, Davis, Hampton McCollom, & Lansberg, 1997; Harris, Martínez, & Ward, 1994; Tagiuri & Davis, 1992; Zahra, 2003; Claver et al., 2009.		The capability of intense communication can lower the risks associated with strategic moves that require a longer return on investment and altruism, which means owners are expected to devote resources necessary to protect their investments.	Zahra, 2003	Int'l sales		FFs are characterized as long-term oriented. Their patient capital is a capability enabling long-term commitment to investments in internationalization	Abdellatif, Amann, & Jaussaud, 2010; Carr & Bateman, 2009; Claver et al, 2009; Gallo & Pont, 1996	Outward FDI

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Non-Specified Entry Mode			*Non-Equity Entry Modes: e.g., Export, International Sales, Contractual Agreements, & Franchising*				*Equity Entry Modes: e.g., Greenfield, Mergers, Acquisitions, Joint Ventures*			
Concept (Fiber)	*Effect*	*Reference*	*Concept (Fiber)*	*Effect*	*Reference*	*Entry mode*	*Concept (Fiber)*	*Effect*	*Reference*	*Entry Mode*
				Long-term vision is a key element of the international expansion of family firms & presence of external managers in the family firm may lead these companies to choose entry modes involving greater ressource commitment.	Claver, E.; Rienda, L.; Quer, D., 2009	Export, contractual agreements		Shows firms had accumulated internal intangible assets over a long period of time. These accumulated intangible assets create key family firm capabilities that facilitate execution of international projects which become of primary importance for firms following Spain's accession to the EU.	Puig and Perez (2009)	FDI

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Implications for Future Research

This review has shown a great degree of variance and inconclusive results about the motivations and capabilities of family firms to internationalize. In particular, the scarcity of studies on how and why family firms choose a specific mode of entry leaves much potential for further scholarly work at a time when FDI is becoming an increasingly important internationalization strategy for SMEs (Liang et al., 2014). Since FDI has been shown empirically to be a risk-heavy and uncertainty rich strategic decision-making process that might meet company demands not possible via export activity, and while the complexities the bundled resources within familiness and socioemotional wealth have yet to be explored specifically within this context of outward FDI, we recommend further work in this direction.

For example, the notions of familiness and socioemotional wealth have enhanced our understanding of what it means to be a family business. These notions encourage us to migrate away from a dichotomy of the family firm. This migration inherently accepts a new and complex view of firm behavior, which subsequently further complicates investigation. The complex bundles of resources comprising familiness/SEW within the family firm would be fruitful to investigate. Since the dimensions of familiness and socioemotional wealth are not, as yet, easily measurable, further investigation might help to take these abstract concepts that otherwise help to form motivations and capabilities of family firm systems. As Rau suggests, investigation of where family-specific bundles of resources qualify as valuable, rare, inimitable, and non-substitutable offer opportunities to empirically connect elements of familiness to a competitive (dis)advantage of the family firms while also showing moderating and/or mediating effects of these elements on firm behavior (Rau, 2014). Examples could include further work on Segaro's (2012) theoretical and conceptual contribution about the relationship between familiness and internationalization: specifically governance systems, social capital, and human capital (including managerial capabilities and international experience dimensions in top management teams and boards of directors in family-controlled SMEs). Another avenue of investigation could include a systematic analysis of the way in which family firms approach FDI. Familiness and SEW affect the decision-making process, and one could extend Tsang's comparative study of the process by which Chinese and Taiwanese family firms and non-family firms collect and analyze data in anticipation of FDI and place such a study into a different institutional setting. Such an extension could address another significant theme not addressed in this chapter: the role of institutional differences in family firm internationalization. Finally, at the intersection of the international business literature and the family business literature, scholars could further investigate family firm internationalization and firm performance. Specifically, future research could consider not only financial measurements of performance (e.g. revenues, innovation, and efficiency) but could also extend measurement to include non-financial performance objectives of family firms (e.g., preservation of SEW) (Fernández & Nieto, 2014).

Conclusion

Despite assertions that unique family firm advantages for internationalization—e.g. reduced agency costs for swift and flexible decision-making, patient capital for long-term investment, and social capital for lower cost access to venture financing—, are undermined by conservative attitudes towards diversification, lack of international professional experience, and a closed attitude towards hiring outside professional managers, the literature reviewed herein shows that family firms are, in fact, internationalizing in many different ways and affected by a number of family firm specific motivations and capabilities.

Although the literature reviewed herein fails to provide conclusive results about the way in which family firms are motivated to choose specific modes of internationalization, this chapter hopefully achieves its intended goal of outlining the relevance of family firms within the organizational sciences, describing how the notions of familiness and socioemotional wealth differentiates family firms from non family firms, frames how the literature has begun to assess the ways in which familiness and SEW affect family firm behavior with particular focus on the process of internationalization, and provides a structured overview of the literature classified into various modes of entry (unspecified, non-equity based, and equity-based modes). Finally, this chapter touches upon some unresolved issues within the field of family firm internationalization and recommends further avenues of scholarly study.

Note

1 Georgia, Tennessee, South Carolina, North Carolina, and Virginia

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