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An exploratory study of international opportunity identification among family firms

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ABSTRACT

This research examines how family firms identify international opportunities. Family firms are characterised by long-term orientation, being risk averse, and benefiting from familiness capital, resources and capabilities related to family involvement and interactions. Built upon opportunity identification theory and in two perspectives of accidental discovery and purposeful search, we explore the role of social and business networks, and prior knowledge in a *first* and *subsequent* international opportunity identification by family firms. In addition, we attempt to understand the role of family characteristics in the process of opportunity identification. Multiple case studies were carried out with seven family businesses from emerging economies, namely, India, Turkey and Taiwan. The findings of this research illustrate that because of being risk averse and long-term oriented, family firms are more likely to identify the first international opportunity through accidental discovery and subsequent international opportunities through purposeful search. The findings of this research show that, as risk-averse firms, family firms are not proactive in initiating international opportunity identification but rather learn about opportunities through accidental discovery. After the first experience of internationalisation, family firms engage in a more purposeful search to identify avenues that will aid their longevity through internationalisation. In the identification of firms' first international opportunities, it is mainly social networks that play a crucial role, especially those that contain international industry and market-specific knowledge. There is also a positive relationship between a family entrepreneur's prior knowledge and international opportunity identification and this relationship is moderated by the prior knowledge of their network. Familiness capital of these organisations can also play a role in long-term international opportunity identification.

1. Introduction

The primacy of opportunity identification in international markets is well established (Eckhardt & Shane, 2003; Ozgen & Baron, 2007; Zahra, Korri, & JiFeng, 2005) in the field of international entrepreneurship. Opportunity can be defined as the possibility of introducing a new product to the market with the potential for financial gain (Lee & Venkataraman, 2006). Opportunity identification is a critical part of the internationalisation process as it guides firms as to where to start and how to direct their internationalisation efforts (Chandra, Styles, & Wilkinson, 2009). This study explores international opportunity identification in the context of family firms as there is limited empirical research that has documented the practice in this context (Kontinen & Ojala, 2010). Family firms may demonstrate different behaviour in the identification of opportunities (Kontinen & Ojala, 2010, 2011a), though prior studies have mainly focused on the process of international opportunity exploitation (Styles & Gray, 2006).

Drawing upon opportunity identification theory (Ardichvili, Cardozo, & Ray, 2003), this study aims to examine how family firms identify international opportunities. Specifically, the objectives of this study are to: (a) examine whether family businesses identify international opportunities through accidental discovery or purposeful search; (b) the extent to which social and business networks are employed in the identification of international opportunities; (c) explore the nature of prior knowledge employed by those firms in recognising international opportunities; and

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(d) examine how family firms' characteristics influence the identification of international opportunities. To achieve these objectives, multiple case studies were conducted with seven small and medium-sized family enterprises (i.e., family SMEs) from three emerging economies, namely, Taiwan, Turkey and India.

This research offers several contributions. First, it adds to the international business literature and internationalisation theories by highlighting the factors that influence international opportunity identification in family firms. This adds to the existing knowledge about the development of international business in family firms (Kontinen & Ojala, 2010). Second, this research offers better understanding of Ardichvili et al.'s (2003) theory of opportunity identification in the context of international activities of family firms. The present study also provides insights into the behaviour of family manufacturing firms from emerging economies.

This article is organised as follows. First, the characteristics of family firms and prior research on international opportunity identification are reviewed. Then, the research method, the empirical analysis and the discussion of the findings are presented. This is followed by an explanation of the conclusions and contributions of the research.

2. The context of family firms and international opportunity identification

There are various understandings of what is meant by family firms (Kontinen & Ojala, 2010). In this research, we adopt the comprehensive definition suggested by Abdellatif, Amann, and Jaussaud (2010). According to them, family firms should meet three conditions: (1) one or several family members hold a significant part of the company's capital, (2) family members retain significant control over the business, and (3) family members hold top management positions. Studies show that family firms are characterised by several distinctive factors, including familiness capital, long-term orientation, and risk averseness (Chrisman, Chua, & Steier, 2005; Patel & Fiet, 2011), which are explained below.

Familiness capital – Familiness can be defined as "resources and capabilities related to family involvement and interactions" (Chrisman, Chua, & Litz, 2003, p. 468). Family firms provide a unique context in which family members, the family, and the business interact with each other (Chrisman et al., 2005). Greater interdependence and more interaction among the family create a greater level of trust, and higher degree of reciprocity and exchange among the family members. For example, parents support their children without the use of specific repayment plans but under the implicit promise that the children will eventually care for the family and the family business (Bubolz, 2001). In addition, being raised by the family, the children have a better understanding of the family values and accepted behaviour, which can contribute to the integration, cohesion, and survival of the family unit (Bourdieu, 1994, p. 139). The uniquely strong ties offered by kinship are viewed as an important resource required for opportunity identification (Hayton, Chandler, & DeTienne, 2011). Sardeshmukh and Corbett (2011) point out that, as a result of being trained by the family, and because of the experience of working within the family firm, the successors of family firms are confident in their ability to recognise the right opportunities.

Long-term orientation is defined as "the tendency to prioritise the long-range implications and impact of decisions and actions that come to fruition after an extended time period" (Lumpkin, Brigham, & Moss, 2010, p. 241). In comparison with non-family firms, family firms have a greater interest in their long-term performance (Walsh & Seward, 1990; Zellweger, 2007). Most family firms attempt to make their decisions in such a way as to ensure that the business can be passed on to the succeeding generation (Poza, 2007; Ward, 2004). This long-term orientation of family firms may enable them to engage in longer-term international opportunity identification practices and build internal knowledge structures that can contribute to the finding of international opportunities (Carney, 2005; Patel & Fiet, 2011).

Risk averseness – Risk taking is related to the willingness of the firm to venture into the unknown without certain knowledge of the possible outcomes (Covin & Slevin, 1991). Compared to non-family firms, family firms are usually characterised as being more risk averse. In a study of 696 Swedish SMEs (265 family and 431 non-family), Naldi, Nordqvist, Sjöberg, and Wiklund (2007) found that family firms take fewer risks than non-family firms. As family firms usually rely on their own assets, they pursue strategies that reduce the risk of financial failure. On the one hand, internationalisation and international opportunity recognition are usually postponed because of concerns regarding the family's wealth (Schulze, Lubatkin, & Dino, 2002). On the other hand, family firms' risk averseness may influence the process by which they seek international business opportunities.

3. Background theory

There are two competing perspectives of opportunity identification, accidental discovery and purposeful search, which are explained in Section 3.1. Ardichvili et al. (2003) highlight several factors that can contribute to opportunity recognition within each of these perspectives. These factors include network ties and prior knowledge, which are explained in Sections 3.2 and 3.3, respectively.

3.1. Opportunity identification perspectives: Accidental discovery versus purposeful search

There are two perspectives in terms of the way opportunities are identified: accidental (serendipity) discovery and purposeful search (deliberation) (Ardichvili et al., 2003; Chandra et al., 2009). The former argues that the recognition of an opportunity occurs in a moment of insight and is the result of an accidental discovery (Gaglio & Katz, 2001). Family entrepreneurs do not search for opportunities but recognise the value of information that they happen to receive (Ardichvili et al., 2003; Koller, 1988). Kirzner (1979, p. 56) defines alertness as "notice[ing] without search[ing]". According to the advocates of this perspective, although family entrepreneurs may be engaged in other activities, implying that a systematic search would be impossible for them (Fiet, 2007), they are able to discover opportunities because of being alert (Ardichvili et al., 2003; Shane & Venkataraman, 2000). In this perspective, family entrepreneurs have an extraordinary ability to "smell" opportunities, allowing them to pick up on overlooked opportunities (Kirzner, 1979; Tang & Khan, 2007).

In contrast, the process of opportunity identification is the result of a purposeful, rational, and systematic search which takes place over time (Bhave, 1994; Fiet, Piskounov, & Patel, 2005). Searching refers to family entrepreneurs' attempts to "find signals related to a specific set of criteria where a signal is new information that changes understanding about the future" (Fiet, 2007, p. 593). Kirzner (1997) explains that entrepreneurs search for pieces of missing information which they are aware are missing. The family entrepreneur knows what he/she does not know and as a result knows what he/she is searching for.

In the context of family firms, Hayton et al. (2011), for example, argue that family firms are less likely to enter international markets proactively when they do not know much about them. Graves and Thomas (2008) highlight that family businesses are reactive in recognition of their first international opportunities and proactive in recognition of subsequent international opportunities.