Journal of Business Research 69 (2016) 2018–2029

Contents lists available at ScienceDirect

Journal of Business Research

Export behavior and board independence in Colombian family firms: The reverse causality relationship

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ARTICLE INFO

Article history:
Received 1 September 2014
Received in revised form 1 February 2015
Accepted 1 September 2015
Available online 12 November 2015

Keywords:
Export behavior
Family firms
Corporate boards
Colombia

ABSTRACT

In the context of greater market liberalization in Latin America, one issue that merits greater attention for empirical investigation is the international expansion of family-owned business. Specifically, the relationship between export behavior, family control and board composition in the Latin American context is absent in the literature. Using a large and unique database from Colombian firms (33,249 firms in the period of 2008 to 2013), one may find insightful information on the determinants of export behavior of family firms in emerging markets. Our empirical test confirms an endogenous relation between boards' composition (specifically the presence of independent members) and export behavior in family firms. Firms with a higher participation of independent board members are more likely to exhibit higher levels of exports. A "virtuous cycle" was also detected whereby the introduction of independent members on the board can be expected to boost export behavior, which in turn will encourage the increase of independent members on the board of private firms.

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1. Introduction

Family firms are decisive in the economic growth for both industrialized and emerging markets (Benavides-Velasco, Quintana-Garcıa, & Guzman-Parra, 2011; Calabro, Mussolino, & Huse, 2009; Graves & Thomas, 2004; Sciascia, Mazzola, Astrachan, & Pieper, 2012; Zahra & Sharma, 2004), but during the last decade the main currents of globalization (of which trade liberalization is an integral feature) represent a major challenge for the survival and stability of family-owned business (Brunninge, Nordqvist, & Wiklund, 2007; Filatotchev, Dyomina, Wright, & Buck, 2001; Naldi & Nordqvist, 2008; Sanders & Carpenter, 1998; Sirmon & Hitt, 2003). Scholars have studied family firms' internationalization process and the determinants that trigger that process (Claver, Rienda, & Quer, 2009; Fernández & Nieto, 2005; Gallo & García-Pont, 1996; Graves & Thomas, 2004, 2006; Segaro, 2010; Thomas & Graves, 2005), however there's still a dearth of research on how family ownership and management changes affect these firms' propensity to become exporters, especially in the context emerging economies.

Although the investigation of family firms' internationalization has gained momentum in the literature, scholars have recently pointed out that research on the role of the board of directors on family firms' international activity is still needed (Mitter, Duller, Feldbauer-Durstmüller, & Kraus, 2014). Specifically in the context of Latin American firms, the investigation of how Latin American family firms develop their export activities through improved corporate governance is missing in the literature. Such investigation is particularly important in the context of Latin America, since family firms account for about 90% of all businesses in the continent, and export activity during the last two decades has turned into a crucial activity for the long term survival of these firms (Bhaumik, Driffield, & Pal, 2010; Haar & Ortiz-Buonafina, 1995).

Thus, the objective of this research is to study the relationship between board characteristics and export behavior. Specifically we analyze how family firms increase the quality of their boards to access international markets, noting that at the same time high export activity in family firms generates improvements in the quality of the boards. We focus on two dimensions of export behavior: export density (exports amount), and export intensity (export/total sales ratio) (Aaby & Slater, 1989; Bonaccorsi, 1992; Calof, 1994; Miesenbock, 1988), and analyze the influence of outside board members on these dimensions in the Colombian context.

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http://dx.doi.org/10.1016/j.jbusres.2015.10.147
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Family firms are often reluctant to pursue export opportunities, as information asymmetry and risk aversion deter their "going global" motivations (Fernández & Nieto, 2006; Gomez-Mejia, Makri, & Kintana, 2010). However, research finds that firms do become more efficient after becoming exporters (Clerides, Lach, & Tybout, 1998). As for outside members of boards of directors and their influence, they are very often key drivers of improved firm performance (Pombo & Gutierrez, 2011). Independent directors can bring valuable tacit knowledge to the firm (Sanchez-Bueno & Usero, 2014), and their presence has proven to result in improved sales growth and return on equity in emerging markets (Black, Jang, & Kim, 2006; Peng, 2004). In those markets, especially, independent directors can have a major impact on the strategic decision-making capabilities of these firms (Hillman, Cannella, & Paetzold, 2000; Peng, 2004). Recognizably, operating in emerging markets is fraught with challenges (Ciravegna, Fitzgerald, & Kundu, 2013). However, firms with an entrepreneurial orientation, global focus and propensity to utilize networks can experience improved performance (Contractor, Kumar, & Kundu, 2007; Felzensztein, Ciravegna, Robson, & Amorós, 2015).

Among emerging markets, why Colombia? Colombia was chosen as the focus for the study, as it is the third largest country in Latin America (527.6 billion) with stable political and economic systems, a large family business sector, strong work ethic, and a priority for the government and private business associations to expand and diversify its export sector. Also, there is a broad consensus that export diversification is very important to a nation aiming to enhance its competitiveness (Mejia, 2011), as Colombia has very good prospects in global markets, mainly the U.S. which accounts for 36% of Colombia's exports. Clothing, flowers, and leather goods, and machinery have great upside potential for exporting (Proexport, 2014) as do capital goods and technology (Torres & Gilles, 2012) and oil and coal which account for 59% of Colombia's exports. Therefore, Colombia presents a good emerging economy setting to be studied, considering the many important exporting industries it possesses, the current classification of Colombia as a traditional emerging market (MSCI, 2014) and the strong presence of family firms.

The study's contributions are twofold. First, one finds evidence that in the context of Latin America family firms are less prone to invest abroad, which sheds light on the conversation regarding the risk aversion position and agency problems faced by family firms (Gomez-Mejia et al., 2010). Second, the study demonstrates that as these firms invest more in corporate governance over time, namely by incorporating independent directors into their boards, these firms will develop a higher capacity to explore foreign markets. In this case, we observed that the introduction of independent members on the board increases export behavior, which in turn encourages the participation of independent members to the board of private firms, thus creating a virtuous cycle. This finding is particularly important to the understanding of how improved corporate governance practices can reduce agency conflicts and not only benefit the firms' reputation and profitability (Bhagat & Bolton, 2008), but also its international business development.

In terms of research design, data are drawn from the Colombia Superintendencia de Sociedades data base on foreign sales in 33,249 firms from 2008 to 2013 and a test applied to gauge the existence of reverse causality between the independence of board members and export behavior. The Hausman Specification Test is employed to assess if unseen characteristics are fixed or random and the results indicate the significance of temporal effects. Therefore, this study provides further evidence from an emerging economy perspective that family firms still lag behind non-family firms when it comes to international expansion (Fernández & Nieto, 2006; Gomez-Mejia et al., 2010). Additionally, the research sheds additional light on the debate of the role of independent directors in family firms' boards (Mitter et al., 2014; Pearce & Zahra, 1992) and finds that these independent members help firms to increase their international business.

The study starts by comparing the two dimensions of export behavior between family and non-family firms and between family firms with and without independent board in Colombia. Then, the research examines how the engagement of qualified independent board members and family ownership interact to promote exports. Finally, paper addresses the endogenous relationship between the engagement of independent board members and export increases occurring in family firms. In structuring the paper, the review of the literature presents and justifies the hypotheses tested in the empirical assessment then provides a description of the data, followed by the design and methodology employed; analysis of the results, conclusions and implications of the findings. Ite Study limitations and suggestions for future research are also presented.

2. Literature review

2.1. Family firms and internationalization process

The investigation of how family firms are created and managed has drawn attention of many scholars since the early nineteenth century until today (Bertrand & Schoar, 2006). Family controlled firms are the most prevalent business type in the world and have been studied with regard to their internal capabilities such as stewardship, risk management, organizational culture as well as internationalization and performance (González, Guzmán, Pombo, & Trujillo, 2013; Mitter et al., 2014; Schulze, Lubatkin, & Dino, 2003; Zahra, 2003). Drawing from the agency theory (Fama & Jensen, 1983) and the principal-agent model (Jensen, 1998), scholars have studied family firms departing from the concept that the ownership status of board members has a key influence on firms' strategic decisions. Considering that family firms have a higher concentration of ownership and control (Bertrand & Schoar, 2006), these firms would arguably deal with minimized agency costs since family members have a more developed communication and shared knowledge system (Fama & Jensen, 1983). Additionally, family-controlled firms benefit from strong social ties and open interaction among members as well as increased organizational commitment (Schulze et al., 2003). Family-controlled firms also have distinctive motivations regarding their business, since they focus not only on profits but also on the long term maintenance of social status and family needs (Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007). In this context, managers-owners are more willing to act as stewards of firms' resources and put the firms' goals as their highest priority (Zahra, 2003).

However, family controlled firms may not always have advantages over non-family firms when non-family firms can develop good internal intangible capabilities (Habbershon, Williams, & MacMillan, 2003). Although family involvement in management can generate positive performance (Anderson & Reeb, 2003; Kim & Gao, 2013), family firms are strongly grounded on culturally-based patterns of behavior which can lead them to inefficient decision-making (Bertrand & Schoar, 2006). With regards to international business, there's still a lack of consensus on how family firms develop their internationalization. On the one hand, past research has pointed out that family businesses have a higher entrepreneurial drive which can lead to internationalization (Tsao & Lien, 2013). Studies have also found that family ownership can positively influence firms' degree of internationalization (Simon, 1996; Zahra, 2003) based on the argument that family firms possess unique intangible assets and capabilities that help them in their international ventures. Such intangible assets have been cited in the literature as the family members' commitment and dedication to the firm, also called "familiness", increase opportunity recognition (Aldrich & Cliff, 2003) and stewardship, which are related to increased market orientation and entrepreneurship (Mitter, Duller, Feldbauer-Durstmüller, & Kraus, 2014).

On the other hand, the most prominent finding in the literature is that family owned firms lag behind non-family firms in their propensity to invest abroad (Graves & Thomas, 2008). For example, studies have found that family firms are more cautious about going abroad because it usually requires major resource commitments and generates conflict among family members (Calabrò, Torchia, Pukall, & Mussolino, 2012;

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