



How may the nature of family firms explain the decisions concerning international diversification?



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ABSTRACT

This study explores how the ownership structure of family firms gives these organizations a distinctive nature in terms of international diversification. We argue that the heterogeneity of family firms may cause variations in the degree of international diversification among these types of businesses. We have studied three factors related to ownership structure: the degree of family ownership and the type and degree of ownership of the second largest shareholder (another family or a financial company). The empirical evidence is provided by a sample of European and Asian family firms (2004–2008). Our results show that the degree of family ownership has a negative impact on the degree of international diversification. However, the presence and ownership share of a financial company as the second largest shareholder in a family firm favor this diversification. This study also reveals the importance of the financial company as a second owner in the preference family firms show for growth in international markets.

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1. Introduction

In recent years, there has been an important and growing stream of research into several issues involving family businesses (De Massis, Frattini, & Lichtenthaler, 2012; Gomez-Mejia, Cruz, Berrone, & De Castro, 2011), such as agency costs (e.g., Chrisman, Chua, & Litz, 2004; Lubatkin, Durand, & Ling, 2007; Luo & Chung, 2013; Schulze, Lubatkin, & Dino, 2003), innovation (e.g., Block, 2012; Chen & Hsu, 2009), performance (e.g., Kowalewski, Talavera, & Stetsyuk, 2010; Mazzola, Sciascia, & Kellermanns, 2013; Miller, Le Breton-Miller, Lester, & Cannella, 2007; O'Boyle, Pollack, & Rutherford, 2012), and diversification strategies (Fernandez & Nieto, 2005, 2006; Gomez-Mejia, Makri, & Larraza-Kintana, 2010; Jones, Makri, & Gomez-Mejia, 2008; Zahra, 2003), among others. Specifically, a recent body of literature has stressed the role of the distinctive nature of family firms in diversification choices by showing that family firms prefer less rather than more diversification, and product rather than international diversification, and that family firms are more profitable than non-family firms when they engage in joint product and international diversification (e.g., Anderson & Reeb, 2003; Gomez-Mejia et al., 2010; Jones et al., 2008; Muñoz-Bullon & Sanchez-Bueno, 2012). Despite growing research on international diversification of family firms, the results are still quite inconclusive

(Pukall & Calabrò, in press; Sciascia, Mazzola, Astrachan, & Pieper, 2012).

Many of these previous studies have explored the preferences for international diversification strategies in family firms compared to non-family firms (e.g., Anderson & Reeb, 2003; Gomez-Mejia et al., 2010), thereby contributing to our understanding of how family and non-family firms are different. However, as Chrisman, Chua, Pearson, and Barnett (2012, p. 267) have recently indicated “a theory of the family firm must be able to differentiate family firms from non-family firms as well as explain variations among family businesses”. Therefore, there is another important research question regarding this issue: How may heterogeneity among family firms leads to differences within this type of businesses in terms of international diversification? Although the literature posits the heterogeneity of family firms (Chrisman et al., 2012; Sharma & Nordqvist, 2007), only a limited number of studies have examined those factors unique to family firms that influence this behavior (e.g., Claver, Rienda, & Quer, 2009; Fernandez & Nieto, 2005; Graves & Thomas, 2008; Zahra, 2003). Thus, in view of the above, the objective of this work is to understand how ownership structures may induce family firms to reduce or increase their level of international diversification. Arregle, Naldi, Nordqvist, and Hitt (2012) find that external ownership positively influences to internationalization in family-controlled firms but they do not account for different types of external owners. In this sense, Singla, Veliyath, and George (in press) highlight the need to study differing blockholder influences on internationalization-governance relationships, especially among family firms. Hence, our study extends previous research on family firms' internationalization in that it helps explain how family and non-family ownership affects international diversification. We explore three contingency

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factors related to ownership structure; the first one is the degree of family ownership, and the other two are related to the type and degree of ownership of the second largest shareholder, in particular, the presence of another family or the presence of a financial company.

This study contributes to existing literature in several ways. First, the importance of international diversification in family firms is well known (e.g., Bhaumik, Driffield, & Palm, 2010; Sciascia et al., 2012; Sciascia, Mazzola, Astrachan, & Pieper, 2013). However, recent studies have conceded that the body of knowledge on family business internationalization is limited, and the actual number of articles is small (Kontinen & Ojala, 2010). Moreover, prior literature does not agree on the impact of family firms on international diversification (Sciascia et al., 2012). While some scholars have found a positive relationship between family firms and internationalization (Zahra, 2003), other studies have shown that the propensity of family firms to internationalize is low (Fernandez & Nieto, 2005, 2006; Okoroafo, 1999). We contribute to the literature by analyzing different dimensions of family firms that may help to integrate these inconsistent past empirical results and drive research on this topic. Thus, we incorporate insights from agency theory and the socioemotional wealth (SEW) approach into the theoretical framework of the relationship between family firms and international diversification. Family firms are less likely to be affected by an agency problem between owners and managers (e.g., Chrisman et al., 2004), but altruism and the conflicts of interest between family shareholders and minority shareholders (Sacristan-Navarro, Gomez-Anson, & Cabeza-Garcia, 2011; Schulze et al., 2003) may create new agency problems in these firms, with the consequent effect on strategic choices such as international diversification. Besides these agency costs, the preservation of SEW is purported to affect diversification strategies (Gomez-Mejia et al., 2010), having greater priority over economic objectives. SEW includes factors such as the desire to perpetuate family values and the retention of a strong family identity, the preservation of the founder's legacy, or the continuation of the family dynasty (Berrone, Cruz, & Gomez-Mejia, 2012; Gomez-Mejia, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007). These non-economic factors are distinguishing features of family firms that may affect the scope of their businesses.

Second, we take into account the fact that family firms are not a homogeneous group of businesses (Corbetta & Salvato, 2004). Most previous literature has shown that family firms differ from non-family firms in several key features, with the consequent effect on strategic decisions such as international diversification (e.g., Bhaumik et al., 2010; Fernandez & Nieto, 2006; Lin, 2012). Nevertheless, few studies have considered that there are also significant differences among family firms that may cause variations within these businesses in terms of international diversification (e.g., Banalieva & Eddleston, 2011; Claver, Rienda, & Quer, 2008; Claver et al., 2009). Consequently, this study seeks to shed light on this issue by arguing that the unique conditions of some family firms (proportion of ownership in the hands of the family and the type of second major shareholder) might have a significant importance in explaining international diversification. As regards the first factor (degree of family ownership), we agree with Berrone, Cruz, Gomez-Mejia, and Larraza-Kintana (2010, p. 86), who have recently reported that "family business research has long stressed the unique characteristics and peculiarities of family ownership". With reference to the second dimension, we also follow recent studies on family firms that have indicated that "different types of owners will vary in their priorities, and therefore in the strategies of their businesses" (Le Breton-Miller & Miller, 2008, p. 42). Therefore, we contribute to the literature by identifying some of the contingencies related to ownership structure that are likely to influence strategic decisions in family firms, and thus we improve our understanding of the heterogeneity of family firms. There are important differences between family firms and non-family firms in the way they make international diversification decisions, but there are also important differences between different types of family firms.

There are also several empirical reasons that the above research question is important and worthy of study. This work extends our knowledge

to capture how distinctive aspects of family firms play a key role in international diversification in a hitherto unexplored context. Most prior literature has focused on a single country, especially on the United States (e.g., Gomez-Mejia et al., 2010; Jones et al., 2008; Okoroafo, 1999; Zahra, 2003), although other economies such as Europe or Asia have also received considerable attention in recent years (e.g., Bhaumik et al., 2010; Claver et al., 2008, 2009; Fernandez & Nieto, 2006; Sciascia et al., 2012). This means there is a need to complement earlier research with works on different contexts. This article is focused on two different settings (EU-27 and Asia), where family firms represent a common type of organization: in Asia and the Middle East they account for around 95% of all firms (Gomez-Mejia et al., 2011). Indeed, countries such as India and Korea are dominated by family-owned firms, and nearly half of the firms in Western Europe are actually family controlled (Yoshikawa & Rasheed, 2010). In Europe, family firms are a significant type of business and even involve large public companies (44% of publicly listed firms in Europe are family controlled), while in the U.S. families control about 33% of the S&P 500 (Gedajlovic, Carney, Chrisman, & Kellermanns, 2012). Likewise, family firms are more concentrated than other forms of ownership and their degree of concentration is generally higher in countries outside the English-speaking world (Mazzi, 2011). Family businesses in U.S. firms are characterized by the presence of fewer influential shareholders, who range between 8% and 16% (Anderson & Reeb, 2003; Villalonga & Amit, 2006). However, there are large ownership concentrations in Asian and continental European countries (Lee & O'Neill, 2003; Li, 1994), and, therefore, influential shareholders use control-enhancing mechanisms to influence strategic corporate decisions such as international diversification. Thus, the empirical evidence is provided by a sample of family firms from the European Union (EU-27) and Asia over the 2004–2008 period.

Furthermore, exporting toward foreign markets has been the most widely used variable to measure family firm internationalization (e.g., Calabrò & Mussolino, 2011; Claver et al., 2008; Fernandez & Nieto, 2005; Graves & Thomas, 2006; Okoroafo, 1999), but there is a need to understand not only the way of entering foreign markets but also the intensity of international operations among family firms. This paper may allow us to advance in the metrics of international diversification by considering the degree of international diversification (entropy index) (Muñoz-Bullon & Sanchez-Bueno, 2012).

The paper is organized as follows. The second section begins with a review of the literature and develops the hypotheses. The third section addresses the methodology used in this work (data, measurement of variables, and method). An analysis is then made of the empirical evidence, and the study's most relevant results are presented in the fourth section. Finally, we present the main conclusions.

2. Theoretical background and hypotheses

In spite of the growing stream of research into the study of international diversification in family firms (e.g., Claver et al., 2008; Fernandez & Nieto, 2005; Gomez-Mejia et al., 2010; Graves & Thomas, 2008), few papers have explored the specific factors that may favor or limit internationalization in this type of businesses (e.g., Banalieva & Eddleston, 2011; Claver et al., 2009). This shortfall therefore raises interest in the topic and informs the need to develop further research, and scholars should treat family firms as heterogeneous (Chrisman et al., 2012; Corbetta & Salvato, 2004; Habbershon & Williams, 1999). Accordingly, this paper examines the role ownership structure plays in the international diversification of family firms.

In this section, our aim is to understand whether and how distinctive family firm features (family firms are not a homogeneous population) related to their ownership structure – the percentage of family ownership in the hands of family members and the existence of another family or a financial company as the second major shareholder and their degree of ownership – may limit or favor strategic choices such as international diversification in these firms. These factors highlight the differences

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