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Influence of CEO characteristics in family firms internationalization

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ABSTRACT

This research uses a survey dataset of 187 Spanish family firms to study the characteristics that may influence family firms in their decision of internationalize their activity. Based on individual and demographic variables, the study concludes that the CEO academic level of achievement influences the level of success in international expansion. In addition, the capacity for generating resources of the family firm provokes a lower resistance from family members to export. Moreover, we confirm that industry characteristics do matter in internationalization processes, noting that the specific market, product/service and technology characteristics influence the family firm internationalization. Contrary to expectations, the gender variable and the percentage of family members sitting on the board do not significantly predict the propensity to export.

Our findings suggest family firm leaders seeking greater levels of firm internationalization to seriously consider the qualification level of their CEO. These insights can be useful for regulators who have to develop programs for supporting sales internationalization, as well as owners and managers of family firms, who need to understand the CEO abilities that may improve their capacity to internationalize their business.

1. Introduction

Family firms are used to operate in domestic markets. However, in order to survive in a globally competitive market, they are obliged to internationalize (Claver, Rienda, & Quer, 2007; Fernández & Nieto, 2005, 2006; Graves & Thomas, 2006, 2008; Kontinen & Ojala, 2010), which consists of expanding its sales across the borders of global regions and countries into different geographic locations or markets (Hitt, Bierman, Uhlenbruck, & Shimizu, 2006). According to the Uppsala internationalization process model (Johanson & Vahlne, 1977), firms start by expanding to geographically and culturally close countries (with low psychic distance) and locating their operations close to the residence of family members. After gaining international experience, the firm continues gradually to expand to more distant countries and regions.[1] This process implies important changes in firms due to the fact that they should deal with the complexity arising of this process, doing their national products suitable for international customers (Knight & Liesch, 2002), being the CEO executives a key determinant to successfully deal with such complexity (Jaw & Lin, 2009).

Internationalization is positive for family firms (FF). It provides them an opportunity for growth and value creation (Hsu, Chen, & Cheng, 2013). Through internationalization, firms are able to reduce the risk and provide potential returns in a higher level than if they operate in domestic markets (Gande, Schenzler, & Senbet, 2009). However, the implementation of such a strategy is affected by a number of factors constraining this process, such as the great diversity among business cultures, customers, competitors, and regulations (Hsu et al., 2013), the evolutionary stage of the firm and the family's international orientation (Gallo & Sveen, 1991), the founder's age, education level (Casillas & Acedo, 2005; Davis & Harveston, 2000; Hsu et al., 2013; Tihanyi, Ellstrand, Daily, & Dalton, 2000) and experience of the CEO (Tihanyi et al., 2000; Tsang, 2001).

In recent years, a growing body of literature has focused on studying the degree of internationalization of FF and the factors which facilitate (e.g., long-term orientation, entrepreneurial behavior, high commitment and communication of family members, etc.) or restrain (e.g., limited growth objective, risk-aversion, restricted financial support, etc.) their export activities (Calabró & Mussolino, 2013; Colli, García-Canal, & Guillén, 2013; Fernández & Nieto, 2005, 2006; Graves & Thomas, 2006, 2008;

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[1] There are some family firms which internationalizes rapidly to several different countries, which are called "born global" firms (Weerawardena, Mort, Liesch, & Knight, 2007).

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Zahra, 2003). At the same time, extant literature studies executives' characteristics and their influence on economic firm variables. However, the association between family CEO attributes and export sales is scarce and most of the literature is based on large listed firms (Sciascia, Mazzola, Astrachan, & Pieper, 2013). In this context, just a few number of studies have examined the moderating effects of the characteristics of CEOs into the internationalization process (Hsu et al., 2013), being them the dominating person in FF (Feltham, Feltham, & Barnett, 2005). Based on the upper echelons theory, previous research finds the international experience (Kirca, Hult, Deligonul, Perryy, & Cavusgil, 2012), the age (Davis & Harveston, 2000; Hsu et al., 2013; Olivares-Mesa & Cabrera-Suárez, 2006), tenure (Herrmann & Datta, 2005), and duality of CEO (Hsu et al., 2013) as important factors influencing the international behavior. On the contrary, there are some studies considering factors that constrain the internationalization process. The lack of managerial capability (Fernández & Nieto, 2006; Gallo & García Pont, 1996; Graves & Thomas, 2006), the aversion to risk of the CEO (Fernández & Nieto, 2006; Gallo & García Pont, 1996), the conservative attitude of the family business (Gallo & Sveen, 1991) or even the involvement of the family in the business (Zahra, 2003) are among the main reasons for the internationalization constraint of FF.

Since empirical research on FF internationalization is inconclusive (Graves & Thomas, 2008), the main contribution of this paper is to continue and extend past efforts aimed at analysing the tendency of FF to internationalize. Then, the issue of how FF strives to manage and cope with the complexity arising from the internationalization of their operations is one of the most pressing issues in the fields of international and strategic management (Zahra, 2003).

We will focus on specific characteristics of CEOs that have not been studied previously in the internationalization literature of Continental countries. Specifically, we will analyze the effect of gender and specific factors constraining the internationalization process of FF. We will also study the effect of the education level of the CEOs in Spanish FF, the availability of financial resources and the presence of the family in the boardroom as determining factors for internationalization. In this paper, we shed light on these issues in one Continental European country, namely, Spain. The Spanish context provides an interesting setting to explore this question due to Spain is a small and medium-sized financial market with a growing importance in the world financial market (Marcelo, Quirós, & Lisboa, 2012) where the high ownership concentration and predominance of family-controlled firms is one of its main characteristics (La Porta, Lopez de Silanes, & Shleifer, 1999). In Spain, family businesses imply 90% of the total business, representing 60% of the Gross Domestic Product (GDP) and 66% of private sector employment (Instituto de la Empresa Familiar, 2015). In addition, in Spain, FF offer a better work environment with the main aim of achieving stable business conditions, which establishes the basis for continuous growth. It shows their importance and capacity to generate employment, as well as to their contribution to the creation of wealth.

As far as internationalization is concerned, it is an important issue to be studied because it contributes to the socio-economic development through increasing employment opportunities and reducing national deficits (Katsikea & Skarmeas, 2003; Leonidou, Katsikeas, & Piercy, 1998). However, Spanish FF enjoy of a lower export behavior than non-family firms and their export propensity, on average, is much lower for each year than those obtained by the SMEs (Sacristán-Navarro, Rico García, & Lafuente Ibáñez, 2004). In addition, several studies highlight that the FF internationalization process has been rarely analyzed (Claver et al., 2007; Claver, Rienda, & Quer, 2008; Fernández and Nieto, 2005; Gallo & García Pont, 1996), which justifies the interest of this study.

This paper contributes to the literature in several ways. First, we provide evidence on the link between family CEO characteristics and internationalization for a context in which ownership concentration is prevalent and the presence of FF is the natural type of companies. Second, we analyze how gender diversity affects the internationalization for FF, a question has not been addressed in previous studies. A focus on non-listed family firms and its gender diversity is essential to improve the recommendations on governance and help them to be better defined and tailored to this specific type of firms. Third, our paper contributes to the literature on CEO style, by noting that CEO education is an important key issue for FF, especially in those who want to internationalize their businesses.

We proceed as follows. Section 2 discusses previous literature and provides the motivation for our study. Section 3 includes the database and variable description of our analysis and methodology. Section 4 shows and discusses the results, while Section 5 summarizes the conclusions, describes limitations, and discusses implications for future research.

2. Theoretical background and hypotheses development

Lately, business literature has increased its interest in the way of top managers play an essential role in shaping organizational outcomes (Carpenter, Geletkanycz, & Sanders, 2004; Hambrick & Mason, 1984; Loane, Bell, & McNaughton, 2007). According to Hambrick (2007) the best way to understand why organizations do and/or perform the things they do, it is fundamental to consider the biases and dispositions of their most powerful actors – their top executives. The base of these assumptions is on the upper echelons theory proposed by Hambrick and Mason (1984). It is based on the idea that managerial characteristics can be a useful measure to predict organizational outcomes. This theory argues that executives act on the basis of their personalized interpretations of the strategic situations they face, influenced by their cognitive base and their values. It indicates a person's values, skills, knowledge base and information processing abilities influences the decision-making process (Hambrick, 2007).

When a firm decides to expand to international markets, it has to deal with institutional and cultural characteristics which vary from country to country (Hsu et al., 2013). In order to succeed, and due to the complexity and uncertainty of the process (Nielsen & Nielsen, 2011), executives should possess knowledge that enable them to process information efficiently (Herrmann & Datta, 2002; Nielsen & Nielsen, 2011).

According to the resource-based view (RBV) (Barney, 1991) these intangible resources and capabilities provided by executives which are unique, valuable, and difficult to imitate, have an impact on the ability to come into international markets (Bloodgood, Sapienza, & Almeida, 1996) looking for competitive advantages and a greater profitability (Barney, 1991).

Therefore, the socio-cognitive capacities of executives related to their educational levels, such as open-minded attitude toward other cultures, greater abilities of processing information, openness to change, and flexibility and receptivity to change, are likely to play significant roles in ensuring success in the international context (Herrmann & Datta, 2005). Following this line of reasoning, a handful of studies focus on education as a proxy for the executive's cognitive orientation, knowledge base and information processing abilities which has an important impact on the firm's internationalization behavior (Herrmann & Datta, 2005; Tihanyi et al., 2000; Wang, Hsu, & Fang, 2008). It has also been found that CEOs with high educational background are better able to develop problem-solving skills when complex problems arise (Goll, Johnson, & Rasheed, 2007), report more corporate social responsibility information in small firms (Herrera, Larrán, Lechuga, &