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Political ideologies and the internationalization of family-controlled firms

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ABSTRACT

This paper examines the effect of government political ideology on internationalization of family-controlled firms (FCFs). FCFs tend to internationalize less than non-FCFs, because of their loss aversion and conservative concerns about maintaining the family's socioemotional wealth (SEW). We propose that FCFs' concerns related to internationalization are alleviated when the ideology of government (i.e., the set of values about society's goals) are aligned with FCFs' non-economic objectives (e.g., protecting SEW). Governments that subscribe to socially conservative and family-oriented ideology are viewed as particularly supportive of FCFs, which makes family owners feel safe and protected and more open to venturing into internationalization.

1. Introduction

The literature suggests that family control negatively impacts the internationalization strategies of family-controlled firms (FCFs). Scholars have explained this negative effect through the behavioral agency perspective (e.g., Gómez-Mejía, Cruz, Berrone, & De Castro, 2011; Gómez-Mejía, Makri, & Larraza-Kintana, 2010), which argues that FCFs internationalize less than non-FCFs because of concerns for loss of socioemotional wealth (SEW) associated with internationalization. SEW reflects "the non-financial aspects of the firm that meet the family's affective needs, such as identity, ability to exercise family influence, and the perpetuation of the family dynasty" (Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007: 106). This finding however, is at odds with the economic reality today, which shows that most emerging and successful new global competitors are FCFs (McKinsey & Co., 2014; Zellweger, Miriam, & Walter, 2015).

In this paper we attempt to disentangle this paradox, by examining the potential influence of political context on FCFs' internationalization decisions. Blending the SEW perspective and political literature we build an argument that FCF internationalization is more likely when the political environment favors the institution of the family and puts business elites and family businesses at the center of the policymakers' social and economic agenda. In contrast, political orientation that is less focused on the institution of family and more concerned about increasing power of family-based business elites might feed into family owners' sense of uncertainty, lack of legitimacy, and perception that their SEW objectives are at risk, resulting in less internationalization.

The paper contributes to the family firm literature by theorizing and providing evidence that contextual socio-political conditions play an important contingency role in the family control-internationalization relationship. Our explanation of how this negative effect is reduced by the fit between ideological objectives of policymakers and non-economic objectives of family owners is a notable extension of the behavioral agency theory. Political support that family owners feel when the government has a socially conservative and family oriented ideology also makes them perceive their SEW to be protected and more likely to pursue riskier strategies. We also add to the contextualization research in IB (Cuervo-Cazurra, 2011; Cuervo-Cazurra & Genc, 2011) by focusing on the in-country variation in FCF internationalization as a function of political regime changes over time. Furthermore, we propose that political conditions will have a differential effect on FCFs and non-FCFs (NFCFs; i.e., state-controlled, foreign-owned, and widely-held firms). Political orientation of the government, we argue, is more salient for FCFs than NFCFs, especially in countries where FCFs rely strongly on family's social capital and political know-how for their strategies (Guillén & García-Canal, 2009; Luo & Rui, 2009; Mustakallio, Autio, & Zahra, 2002).

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Finally, the paper contributes to the IB literature by focusing on Latin American firms. This region has attracted less attention from IB scholars (Brenes, Montoya, & Ciravegna, 2014; Cuervo-Cazurra, 2016) despite the increasing regional and global leadership of Latin American firms in their respective industries (Casanova, 2009; Cuervo-Cazurra, 2008; Fleury & Fleury, 2011; Santiso, 2013). Our focus on family firms is also very important given that Latin America is home to large and powerful family firms (Schneider, 2009). Family owners are part of the business elites and family firms receive government support in many Latin American countries. At the same time, they are expected to play a significant role in the socio-economic development of their countries. Despite the relevance of family firms, especially in Latin America, they have been left out of consideration in past theoretical and empirical work on internationalization. This paper attempts to fill some of these gaps by studying how the political conditions in the home country affect the international expansion of family firms. In that, it complements earlier work on the broader political factors influencing firms' foreign expansion (for a review, see Cuervo-Cazurra, 2016) providing more nuanced insights on the specific effects of political ideologies.

In the following sections, we develop hypotheses on family control, internationalization, and political ideologies. This is followed by a description of the methodology, analysis, results, and robustness checks. We conclude with a discussion of the theoretical implications, limitations, and opportunities for future research.

2. Theory and hypotheses

2.1. Internationalization of FCFs

FCFs possess unique characteristics resulting from the intersection between family and business objectives. These firms are, in a way, extensions of family relationships, thus, in addition to business considerations, their goals and governance choices are also affected by non-market values and concerns (Means, 2013). Behavioral agency scholars have suggested that a main objective of the controlling family is the preservation of the family's SEW (Gómez-Mejía et al., 2007). The preservation of SEW impacts strategic decision-making and behavior of family businesses including their propensity to expand abroad (Arregle, Hitt, Sirmon, & Very, 2007; Carney, 2005; Gómez-Mejía et al., 2007; Gómez-Mejía et al., 2011; Habbershon & Williams, 1999; Sirmon & Hitt, 2003; Verbeke & Kano, 2012).

Internationalization presents firms with a number of advantages, such as achieving economies of scale and scope, and cross-border learning (Kogut, 1985). A global strategy can improve efficiency and market growth and can mitigate exposure to risk by spreading investments across different countries (Elango, 2004; Ghoshal, 1987). At the same time, internationalization is associated with significant challenges and risks, for example liability of foreignness (Zaheer, 1995), unfamiliarity with different cultures and business practices, and increased coordination costs (Li, 2005). Banalieva and Eddleston (2011) suggest that some firms are better able than others to capitalize on globalization; moreover, how FCFs manage internationalization may be unique, as a result of their need to balance business and family demands.

Internationalization often requires raising additional capital by taking on more debt and resources from domestic or international parties external to the firm, as well as coopting managers with international expertise (Fatemi, 1984; Hitt, Hoskisson, & Kim, 1997). Scholars have argued that, when compared to NFCFs, FCFs are more reluctant to invest in such extra resources necessary for internationalization given the potential loss of SEW caused by financial distress, dilution of ownership, loss of managerial control, and the inevitability of having to adhere to foreign stakeholders (Galve-Górriz & Salas-Fumás, 1996; Gómez-Mejía et al., 2010; Gómez-Mejía et al., 2011; McConaughy, 2000; Mishra & McConaughy, 1999; Schulze, Lubatkin, & Dino, 2003). Although FCFs enjoy some unique resources derived from the accumulated social capital of family founders and their heirs, such "home field" advantages (McKinsey & Co., 2014) are not easily transferrable from one country to another (Eberhard & Craig, 2013; Pukall & Calabro, 2014). Similarly, the unique access to a stable human resource base that fosters social capital and the enduring reputation of family firms is mostly bounded to their home country (Verbeke & Kano, 2012). While useful at home, such resources are not necessarily valuable in international locations.

In summary, for FCFs, the benefits of internationalization are likely to be outweighed by the strong forces against internationalization, most importantly, their loss aversion and conservative attitudes aimed at maintaining the family's SEW without significant external scrutiny and their non-transferable home field advantages that FCFs enjoy in their own countries. Therefore, we hypothesize:

Hypothesis 1. FCFs internationalize less than NFCFs.

2.2. Political ideologies

The central idea in this study is that the political environment, in particular the political ideology of the ruling party, influences internationalization decisions of FCFs. Political ideology is defined as "an interrelated set of attitudes, behaviors, and values about the goals of society and how they should achieved" (Tedin, 1987: 65). Political ideologies reflect two main aspects of societies – economic and socio-cultural, which, as suggested by political scientists, are essentially orthogonal (Jost, Federico, & Napier, 2009). In other words, two different political ideologies may have similar attitudes toward economic issues (e.g., free and open market economy), but might differ on socio-cultural issues (e.g., traditional family values), and vice versa. To capture the essential features of the dominant ideologies of political parties and to classify them in terms of their ideological position on the two aforementioned dimensions, political scientists have developed a number of typologies and models (Gunther & Diamond, 2003; Jost et al., 2009; Marks, Hooghe, Nelson, & Edwards, 2006). Marks et al. (2006), for example, suggest a two-dimensional structure of competition among political parties: (a) left-right and (b) liberal-conservative continuum. The left-right continuum is basically concerned with the economic dimension of a society such as redistribution, welfare, and the level of state involvement in the economy. The liberal-conservative continuum is concerned with the socio-cultural dimension of a society such as the predominant social values and norms. For the purpose of this study, we focus on the socio-cultural dimension of political ideologies, more specifically exploring the distinction between social liberal and social conservative political ideologies.

Social liberal and social conservative ideologies are radically different with respect to family values, society, and the role of higher-order institutions in social welfare. Social liberal moral values include tolerance, progress, and liberty (Vincent, 2009). Social liberals see individualism and freedom as the basis of moral, political, and cultural existence (Heywood & Gamble, 1992; Vincent, 2009). They believe that people should be left as free as possible to pursue their own courses of personal development (Graham, Haidt, & Nosek, 2009). Social liberals endorse the role of the state and market (rather than families or religious bodies) in addressing social welfare issues (Esping-Anderson, 1990). Consequently, social liberals take a more secular and permissive position on morality issues like traditional family values, and are more