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A socioemotional wealth perspective on how collaboration intensity, trust, and international market knowledge affect family firms' multinationality

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ABSTRACT

Internationalization theory does not account for the priority family firms place on socioemotional wealth (SEW). This can reshape how critical theoretical dimensions of collaboration intensity, network trust, and international market knowledge exert their effects. Bringing together the internationalization model of Johanson and Vahlne (2009) with SEW theory, our study of 334 German-speaking family firms reveals international market knowledge mediates the relationship between collaboration intensity and family firms' multinationality. High network trust positively moderates the relationship between collaboration intensity and the acquisition of international market knowledge. Our work expands the predictive ability of Johanson and Vahlne's (2009) important model.

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1. Introduction

The multinationality of family firms is increasingly important. Nearly 85% of European companies are family firms, generating 70% of Europe's GDP, employing 60% of its workforce (Family Business Center of Excellence, 2015). In Germany, 80% of family firms have international activities and 53% derive more than 40% of their sales internationally (Calabrò, Rüsen, Bartels, & Müller, 2014). Multinationality, defined as the spread and diversity of international activities undertaken by a firm (Asmussen, Pedersen, & Petersen, 2007; Hassel, Höpner, Kurdelbusch, Rehder, & Zugehör, 2003; Hennart, 2007), is attractive to family firms because of the opportunities it presents to sustain family firms' long-term strategy for growth for both the business *and* the family (Brigham, Lumpkin, Payne, & Zachary, 2014).

A family firm is defined as "a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families" (Chua, Chrisman, & Sharma, 1999, p. 28). While research on family firm internationalization is growing (Kontinen & Ojala, 2010; Pukall & Calabrò, 2014), most studies test for empirical relationships between the features of a family business (e.g., family involvement) and unidimensional measures of internationalization (e.g., export intensity and country scope) (e.g., Calabrò, Torchia, Pukall, & Mussolino, 2013; Cerrato & Piva, 2012; Lin, 2012) with little regard for internationalization theory (Pukall & Calabrò, 2014).

Absent is an integration of internationalization theory with theory unique to family firms. The need to retain family control and sustain the family's financial *and* non-financial wealth cause family firms to behave in ways unique to their non-family counterparts. With this in mind, it remains open if internationalization theory can accurately predict family firm multinationality without accounting for family firms.

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Existing international business theories explain a part of the internationalization of family firms. Internationalization theories are used sparingly in the family business literature, but the most popular is the Uppsala Model by Johanson and Vahlne (1977) (Pukall & Calabrò, 2014). The underlying assumptions of this model rest on uncertainty and bounded rationality. Firms act slowly and incrementally while internationalizing to accumulate knowledge and resources necessary to increase commitment further. A not too dissimilar pattern is seen among family firms (Child, Ng, & Wong, 2002; Claver, Rienda, & Quer, 2007; Graves & Thomas, 2008). Family firms tend to internationalize in controlled and measured ways protecting family control, and tend to internationalize slower than non-family firms (Cesinger, Bouncken, Fredrich, & Kraus, 2014), expanding their international reach incrementally as knowledge about the process slowly accumulates within the firm and among family members (Casillas & Acedo, 2005; Gallo & Sveen, 1991). However, the traditional Uppsala Model (Johanson & Vahlne, 1977) focuses on the liability of foreignness to explain why an internationalizing enterprise *gradually* accumulates knowledge and resources over time. The model forecasts that firms hand control of international sales to agents or intermediaries in those markets until the accumulated learning causes the firm to increase their commitments toward further internationalization and international scope, so long as the *financial* performance prospects are favorable. As a result, concerns about losing control and ownership of the international venture are ignored, which contradicts the logic of family firms. The equal primacy given to *non-financial* utilities in family firms does not receive any attention and questions of how family firms accumulate sufficient international market knowledge to offset the dangers posed by multinationality to these utilities are left unanswered.

In 2009, Johanson and Vahlne revised their Uppsala Model adding a specific focus on network relationships. According to their revised model, insidership in relevant networks is necessary for successful internationalization. Building collaboration intensity (as a form of commitment) and network trust are preconditions for the spread and diversity of a firm's internationalization (i.e., its multinationality) while also enabling further access to international market knowledge as its own precursor to internationalization. Theoretically then, network conditions such as collaboration intensity and trust directly affect multinationality while also being mediated by the learning of international market knowledge.

However, family firms are rarely strategic in forming network ties and their relationships tend to remain identity-based (Kontinen & Ojala, 2011a; Musteen, Francis, & Datta, 2010; Pukall & Calabrò, 2014). Family firms are reluctant to enter new networks (Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007), prefer to rely on well-established and long-term collaborations with other family firms as more intimate sources of information for internationalization (Musteen et al., 2010), and are more likely to draw on the rich social capital within their existing collaborative ties first to acquire information (Kontinen & Ojala, 2011b), regardless of its strategic value (Hite & Hesterly, 2001). This reluctance originates from the dominance of socio-affective utilities in family firms.

Theorizing has attributed family firms' unique behavior to the preservation of non-financial or socio-affective utilities, known as *socioemotional wealth* (SEW) (Berrone, Cruz, & Gómez-Mejía, 2012; Gómez-Mejía, Cruz, Berrone, & De Castro, 2011). For family firms, the primary reference point in making strategic decisions is not economic hazard but the loss of SEW (Gómez-Mejía et al., 2007). Emotions permeate the boundaries between the family and the firm (Berrone, Cruz, Gómez-Mejía, & Larraza-Kintana, 2010) such that potential gains or losses of SEW are the primary frame of reference to predict family firm owners' strategic actions (Berrone et al., 2012). The desire to accumulate and protect SEW is foreshadowed to affect the family firm's internationalization as well (Pukall & Calabrò, 2014). Although Johanson and Vahlne (2009) realize that "affective dimensions are indeed important for understanding relationships" (p. 1417), extant theory does not account for the idiosyncrasies of the family firm that are likely to reshape how the critical theoretical dimensions (collaboration in networks, trust, and international market knowledge) of the Johanson and Vahlne (2009) model exert their effect. The primacy of SEW disrupts the ability of current internationalization models to appropriately explain the behavior of family firms and may understate the difficulties relevant to family firms while internationalizing and the peculiarities of their solutions.

This study draws on Johanson and Vahlne (2009) supplemented by SEW theory to examine for and explain the multinationality of family firms. Linking the SEW perspective with traditional internationalization models enables us to delineate a research model investigating the impact of *international market knowledge* (the firm's knowledge and understanding of foreign stakeholders, rules, norms, and values associated with international markets, and its accumulated internationalization experience gained through international operations) (Eriksson, Johanson, Majkgård, & Sharma, 1997), *collaboration intensity* (the strength and frequency of any formal and informal relational interaction via personal meetings, cultivation of close relationships, and informal communication) (Lin & Germain, 1998), and *network trust* (the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform an action important to the trustor, irrespective of the ability to monitor or control that other party) (Mayer, Davis, & Schoorman, 1995) on family firms' multinationality. We do not predict that collaboration intensity and network trust directly affect family firms' multinationality.

Instead, we expect that a mediation effect by international market knowledge between collaboration intensity and family firms' multinationality is likely and network trust will moderate the relationship between collaboration intensity and the acquisition of international market knowledge. Family firms typically hold non-strategic ties such that collaboration intensity offers little security for its SEW as a direct pathway to internationalization. Thus, they must accumulate international market knowledge from their network partners first. Collaboration intensity can increase international market knowledge and this knowledge can then decrease the fear of SEW loss in turn, mediating the relationship between collaboration intensity and multinationality. Moreover, because family firms emphasize personal contacts, only high levels of trust will allow them to accept and leverage the knowledge of their network partner. In turn, network trust is likely to moderate the relationship between collaboration intensity and the acquisition of internal market knowledge.

We offer two contributions. First, we supplement traditional internationalization theory by the SEW perspective to explain the multinationality of family firms. In doing so, we directly tailor our research to the specific characteristics of family firms enabling us to make a theoretical contribution to internationalization theory in this regard. The use of internationalization theories in family firm research is limited because they do not consider how family ownership and control affect internationalization (Pukall & Calabrò, 2014). We put forward how these are part of the causal mechanisms of SEW to examine how SEW preservation tendencies influence family firms' internationalization and reshape how the critical theoretical dimensions of the Johanson and Vahlne (2009) model exert their effects. Bringing SEW insights into internationalization theory resolves the shortcoming that current internationalization theories do not sufficiently account for the non-financial priorities of family firms in predicting internationalization. In turn, our work offers new knowledge to contextualize

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