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Family firms, internationalization, and national competitiveness: Does family firm prevalence matter?

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A R T I C L E I N F O

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A B S T R A C T

We revisit the question of family firms (FFs) and their capacity for internationalization, and link it to the literature on national competitiveness. We draw widely on the FF competitive advantage and internationalization literature to argue that FFs' organizing preferences and capabilities will typically support exporting and that these same organizing preferences will mitigate against outward FDI, two dimensions of national competitiveness. Using the logic of aggregation, *we hypothesize that family firm prevalence (FFP), measured at the country level, negatively moderates a series of country-level variables associated with country outward FDI, and positively moderates a series of variables associated with country exports*.We develop a unique dataset on FFP across countries using a novel method in which we extract estimates from from both published and unpublished academic studies. We develop empirical tests that are rooted in Porter's Competitive Advantage of Nations (Porter, 1990), and its extensions in the Global Competitiveness Index (GCI). Our results provide consistent confirmation of the positive moderator effect of FFP on country export performance hypothesis, but contrary to expectation, higher FFP in a country has a null or positive effect on outward FDI at the country level, thus suggesting a more nuanced view of FF strengths and weaknesses. We conclude by discussing the implications of these results for both the competitiveness and the FF literatures.

1. Introduction

Whether and to what degree family firms (FFs) are able to successfully develop internationally competitive strategies is an open question in the literature. A significant strand of the literature identifies several factors that could disadvantage FFs in their quest to succeed internationally: their failure to professionalize management (Chandler, 1990), their unwillingness to adopt efficient management practices (Bloom & Van Reenan, 2007), and concerns that internationalizing will erode family socioemotional wealth (Gomez-Mejia, Makri, & Kintana, 2010). In addition, it is sometimes argued that relational ties, a characteristic of FFs, are likely to be strongest in the firm's domestic market and given that these domestic network ties are sticky and deeply embedded, firms may become entreneched in their home markets (Lincoln & Gerlach, 2004).

However, other family business scholars provide a more sanguine view of FFs' capacity to develop internationally competitive capabilities (Arregle, Duran, Hitt, & van Essen, in press). According to these perspectives. FFs do possess characteristics that can in principle be translated into success abroad including long-term orientation and ability to support innovation, (Duran, Kammerlander, van Essen, & Zellweger, 2015), particularly, when part of a business group, (Castellacci, 2015) and a capacity for using social capital to effect international strategy (Carney, Dieleman, & Taussig, 2015; Erdener & Shapiro, 2005), often in countries where institutions are weak (Miller, Lee, Chang, & Le Breton-Miller, 2009). Other studies suggest that family ownership does not inhibit internationalization if family owners are able to involve outsiders in their governance (Arregle, Naldi, Nordqvist, & Hitt, 2012). Given the conflicting theory and expectations, it is perhaps unsurprising that several recent literature reviews of the FF-internationalization relationship find mixed and inconsistent evidence regarding FFs and their internationalization capacities (Kontinen & Ojala, 2010; Pukall & Calabro, 2014).

In this paper, we revisit the question of FF internationalization capacities and evaluate it using the lens of Michael Porter's landmark study *The Competitive Advantage of Nations* (CAoN) (Porter, 1990) and

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its extension and empirical refinement in the Global Competitiveness Index (GCI) (Schwab, 2014). Porter pointed to the interaction between country specific factors and firm strategy and structure as drivers of national competitiveness, and we develop this part of his model by exploring the impact on country competitiveness of cross-country differences in family firm prevalence (FFP), measured as the extent to which a nation's firms are comprised of family owned and controlled firms. The prevalence of FFs has become a meme in the literature with claims that "family firms are the oldest and most prevalent type of firms all over the world" (Miralles-Marcelo, del Mar Miralles-Quirós, & Lisboa, 2014: 158) and that "family firms are the prevalent form of business worldwide" (Bassetti, Dal Maso, & Lattanzi, 2015: 219). While the oft repeated claim is familiar, the implications are little investigated. We focus on FFP as a form of ownership identity, comparable to state or foreign ownership, and an often neglected dimension of competitive advantage (Thomsen & Pedersen, 2000). Specifically, we use the GCI framework to examine the degree to which FFP, measured at the country level, is related to two indicators of national competitiveness: exports and outward FDI. Since the publication of CAoN in 1990, both international trade and international investment outflows have increased dramatically, the former nearly five-fold and the latter over four-fold (http://unctadstat.unctad.org/, retrieved January 12, 2016). Accordingly, we consider the implications of the prevalence of family ownership and control for the export and outward FDI performance of a country, variables associated with the competitive advantage of nations.

Thus, whereas the literature on FF internationalization is focused on the firm level of analysis, in this study, we take a different approach by focusing on country-level measures of international competitiveness and consider the moderating effects of FFP on factors associated with exports and outward FDI. To explore these relationships, we propose that FFs have certain characteristics that provide advantages and disadvantages with respect to foreign market entry modes. In particular, we expect that compared with other types of firms, FFs will enjoy efficiency *advantages* with respect to export-related activities and, contrarily, relative *disadvantages* in managing more complex organisational structures associated with foreign direct investment. Accordingly, we hypothesize that with respect to our two measures of international competitiveness, FFP will negatively interact with GCI competitiveness drivers to depress national levels of outward FDI but will interact positively with competitiveness drivers to enhance export performance.

In order to effect test these hypotheses, we develop a unique dataset on FFP across countries using a novel method in which we extract estimates from published and unpublished academic studies. Our results indicate that consistent with our hypothesis, the presence of FFs does enhance a country's export performance, pointing to the strengths of FFs in organizing activities leading to exports. However, contrary to our hypothesis we find no strong evidence that FFP is negatively associated with outward FDI at the country level, suggesting that at least some FFs do develop the sophisticated capabilities required for successful international investments.

Our contributions, are therefore, twofold. Our first contribution is to the family firm literature and in particular that part of it that focussed on their internationalization. By focussing on distinct modes of international entry, we emphasize the differential advantages required for exporting and outward FDI. We, therefore, offer a more nuanced view of international capabilities of FFs, one that distinguishes capabilities associated with exporting from those associated with outward FDI. Thus, we argue that FFs have both strengths and weaknesses, and these may influence FF strategic choices with respect to international activities, and thus, the role of FFs in the world of the global factory (Buckley, 2009; Buckley & Strange, 2015). Our second contribution is to provide greater definition to unmeasured and untested assertions made about the value of FFP in the economy, and to thereby further understanding of the nature and determinants of national competitiveness. In this case, we incorporate the prevalence of a particular owner identity as a moderating factor to country-level determinants of international competitiveness as defined in the GCI. Although Porter did point to firm strategy and structure as being country-specific factors that might impact the international competitiveness of its firms, its importance has not been widely studied. We develop this part of his model by exploring the impact of cross-country differences in FFP.

We proceed as follows: The next section reviews Porter's ideas regarding international competitiveness. We then consider the FF internationalisation literature differentiating between exporting and outward FDI as internationalization modes in order to arrive at our conclusions regarding the international capabilities of FFs and the impact of FFP on national competitiveness. We discuss the methods and data used to test our hypotheses, and then present the results. We conclude with an extended discussion of our findings and their implications for future research.

2. Porter and international competitiveness

In *The CAoN* Porter poses the question: 'why does a nation become the home base for successful international competitors?' (1990: 1). The question is intriguing because it suggests a national or country-specific basis for firm-level competitive advantage. Established theories at that time viewed the firm's international strength in terms of various firm-specific advantages such as its market power and proprietary organizational and technical capabilities (Hymer, 1976; Vernon, 1979) or the firm's ownership of unique assets such as brands and patents (Dunning, 1981; Teece, 1985). In contrast, Porter hypothesized the existence of advanced country-specific factors that interact with firm-specific attributes to provide advantages to both domestic and foreign firms located in that country by creating the conditions under which firms innovate and upgrade their capabilities.

Porter introduced the now familiar diamond model suggesting that country-specific conditions, such as factor endowments, demanding consumers, and clusters of supporting industries, interact with firm strategies and structure, to determine the export and outward FDI performance of domestic firms. Under Porter's leadership the diamond model became the theoretical basis for the GCI (Schwab, 2014), which introduced a more finely grained framework incorporating 12 country competitiveness drivers including the quality of institutions and infrastructure, market efficiency, human capital and financial market development, and several 'business sophistication' indicators such as firms' control of international distribution, firm innovation, firm reliance on professional management and the state of cluster development. Importantly for this paper, Porter argued that the international competitiveness of a nation's firms is reflected in their participation in the global economy through trade and investment and he proposed that the 'best measures of international competitive advantage were either (1) the presence of substantial and sustained exports to a wide array of other nations and/or (2) significant outbound foreign investment based on skills and assets created in the home country' (1990: 25). We later employ these measures in our analysis.

Porter was also aware of the importance of firm ownership, stating that 'company goals are most strongly determined by owner identity, the motivation of the owners and holders of debt, the nature of corporate governance, and the incentive processes that shape the motivation of senior managers' (1990: 110). For example, Porter accepted the consensus view that government ownership was unlikely to produce competitiveness. He dwelled at some length on the virtues of the export-intensive, FF dominated industrial clusters of northern Italy, and also recognized the governance stuctures and long-term orientation of German and Japanese firms. However, for the most part the CAoN contains no systematic analysis of owner identity and its effects on the competitiveness of either a country or its leading firms. Subsequently, research has accumulated concerning the competitive strengths and weaknesses of different types of owners (Gedajlovic & Shapiro, 1998; Goldeng, Grünfeld, & Benito, 2008; Munari, Oriani, & Sobrero, 2010;