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Bifurcation bias and exporting: Can foreign work experience be an answer? Insight from European family SMEs

Antonio Majocchi[a,*], Alfredo D'Angelo[b], Emanuele Forlani[c], Trevor Buck[d]

[a] Dipartimento di Scienze economiche e aziendali, Università di Pavia, Via S. Felice, 5 – Pavia, 27100 Italy
[b] Dipartimento di Scienze dell'economia e della gestione aziendale, Università Cattolica del Sacro Cuore, Milano 20123, Italy
[c] Dipartimento di Scienze Economiche, Università di Bologna, Bologna, 40125, Italy
[d] Adam Smith Business School, University of Glasgow, Glasgow G12 8QQ Scotland, United Kingdom

A R T I C L E I N F O

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A B S T R A C T

We develop hypotheses from a "bifurcation bias" approach involving the asymmetric treatment of family and nonfamily assets, and we test them on a sample of 6893 European family SMEs. Our findings reveal two asymmetries relating to actions designed to reduce bifurcation bias. First, exporting is indeed positively associated with the presence of outside owners and managers, and from the interaction between them. However, this interaction replaces any separate positive impact from outside ownership. Second, the international work experience of managers has a positive impact on exporting, but this experience seems relevant only in the case of firms with family-managers only.

1. Introduction

What enables some family firms to export while others are content with local markets? Most answers provided by the literature have involved binary comparisons between family and nonfamily firms and the application of competing theories of corporate governance, i.e. agency, socio-emotional-wealth and stewardship perspectives. With such contested governance terrain, it is no surprise that empirical results reviewed in meta-studies of family firm performance (e.g. Arregle, Duran, Hitt & van Essen, 2017; O'Boyle, Pollack & Rutherford, 2012) have also proved to be inconsistent.

Recently however, the focus has switched (Gomez-Mejia, Campbell, Martin, Hoskisson, Makri & Sirmon, 2014) from a binary view of family vs nonfamily firms to the analysis of subtle variations among them, i.e. a "heterogeneity view" (Chua, Chrisman, Steier & Rau, 2012). This has highlighted the importance of the role in family firms' internationalization played by different governance structures (George, Wiklund & Zahra, 2005), organizational configurations (Kraus, Mensching, Calabrò & Filser, 2016; Stewart & Hitt, 2012) and business models (Hennart, Majocchi & Forlani, 2017). In particular, the role played by external managerial as well as financial capital resources has increasingly captured attention in the current debate (Arregle, Naldi, Nordqvist & Hitt, 2012; D'Angelo, Majocchi & Buck, 2016), though studies have hitherto been restricted to single countries. Besides their independent influence on internationalization, the importance of interaction between outside ownership and management has been proposed (De Massis, Kotlar & Frattini, 2013), but studies have not so far embraced the particular importance to exporting of the foreign work experience among family and nonfamily members of the management team (Love, Roper & Zhou, 2016).

Rather than adopt one of the competing governance theories to nonfamily ownership, nonfamily management and foreign work experience, we use a theoretical framework in this paper that can integrate the various perspectives on family firms: bifurcation bias (BB). BB was developed from a transaction cost analysis (TCA) of family firms proposed by Pollak (1985) and extended by Gedajlovic and Carney (2010) and Verbeke and Kano (2010, 2012) who argue that family firms represent a distinct governance mode where family assets are dedicated to the firm, and dysfunctionalities are generated by the *asymmetric* treatment of family and nonfamily assets and liabilities. In this paper we discuss the conditions under which family small and medium-sized enterprises (SMEs) are suited or unsuited to managing dedicated family assets in order to export.

Our findings reveal that the foreign sales intensity of family SMEs is positively influenced by the *independent* presence of nonfamily investors and managers, but there is also positive interaction between them, providing support for D'Angelo et al. (2016) using a wider sample of SMEs. Without a coherent policy of openness towards external capital *and* external managers, exporting is less effective in family SMEs. However, the significance of this *joint* presence of external managers

* Corrresponding author.
E-mail addresses: antonio.majocchi@unipv.it (A. Majocchi), alfredo.dangelo@unicatt.it (A. D'Angelo), emanuele.forlani@unibo.it (E. Forlani), trevor.buck@glasgow.ac.uk (T. Buck).

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and external capital is *asymmetrical* in the sense that the independent influence of outside capital (but not outside managers) disappears. Thus, our results confirm and complement previous findings (Anderson & Reeb, 2004) that family firms with external shareholders (defined here as "family influenced firms" to distinguish them from family owned firms where ownership is exclusively in the hand of a family) can achieve "…the 'best of both worlds', where management harnesses the advantages of family involvement (e.g. patient capital) while avoiding its disadvantages (e.g. myopic traditions) by allowing 'other voices at the table"' (Sirmon, Arregle, Hitt & Webb, 2008: 980).

Besides these findings concerning nonfamily capital and managers, we demonstrate for the first time *another asymmetry* in the effect of foreign work experience for family and nonfamily managers. While the foreign work experience of family managers has a positive impact on foreign sales intensity, this experiential contribution disappears for outside managers. This outcome is consistent with the explanation that international experience may be already embodied in hired outside managers, whereas family managers may be able to increase their contribution to exports by seeking foreign work experience themselves.

Our paper claims to contribute theoretically to the literature in a number of ways. First, it cuts through the contested terrain of various theories of family firm ownership and control by adopting and applying the BB to develop more nuanced versions of well-established hypotheses already present in the literature concerning dimensions of family firm heterogeneity, i.e. nonfamily ownership, nonfamily management, and interaction between these variables. These more nuanced versions of hypotheses are tested on a large sample of family firms across four EU countries in order to remove the possible effects of heterogeneous national institutional environments and local assets (Arregle et al., 2017; Filatotchev, Stephan & Jindra, 2008; Hennart, 2009), at the same time addressing sample bias and endogeneity concerns.

Second, we develop and test new hypotheses in relation to how family firms may mitigate BB and achieve higher level of export sales by promoting the professionalization of family management through international work experience. In this way, we claim to contribute to the nascent (Gedajlovic & Carney, 2010; Pollak, 1985; Verbeke & Kano, 2010, 2012) and ongoing effort by management scholars to develop a unifying theory of family firms in the International Business (IB) context (Kano & Verbeke, 2018; Narula & Verbeke, 2015).

The structure of the paper comprises theoretical framework and hypothesis development, followed by methodology, results and conclusions where we discuss the main theoretical and practical implications.

2. Theoretical framework

2.1. Bifurcation bias in family firms and internationalization

Gedajlovic and Carney (2010) and Verbeke and Kano (2012) claim that seemingly incompatible theories and frameworks of family firms research (i.e. agency, stewardship and socio-emotional wealth) are reconcilable by reference to TCA, originally based on Williamson's (1996) behavioural assumptions of opportunism, bounded rationality and asset specificity, i.e. the dedicatedness or non-tradability of certain family assets, such as the long-term orientation or the emotional attachment to the firm. Family firms are seen as institutions that govern the specific assets unique to this kind of firm. This specificity is the result of the idiosyncratic bundle of resources and capabilities generated by the interactions between the family owners, the business entity, and the individual family members involved (Sirmon et al., 2008). These assets are by definition specific to the family firm because their value outside the firm is much lower. "Classical" TCA combines the assumption of asset specificity with those of bounded rationality and opportunism to explain the binary perception of family and nonfamily assets, liabilities, ownership and managers in family firms. However, Verbeke and Kano (2012) justify BB in family firms, building their theoretical framework not only on the assumption of opportunistic behaviour but also on the more comprehensive concept of bounded reliability (Verbeke & Greidanus, 2009). This concept includes also all those cases of failed human commitments without intentional deceit as in the case of preference reversal when previous commitments are scaled back because of family events that may change the order of priorities. This approach is particularly effective in the realm of family firms where altruism is a relevant feature of many members' behaviour and where opportunism is too narrow a concept to explain all possible contingencies. This combination of assets that are family specific with bounded rationality and reliability generates the potential for BB in family firms. For example, in relation to managerial assets, the family firm has a "…tendency to amass relational assets over an extended period of time" (Gedajlovic & Carney, 2010: 1154). This raises managerial entry barriers for outsiders and exit barriers for family members, but may also lead to dysfunctional decisions over performance evaluation and compensation for family members treated as stewards and long-term assets. This raises the problem of family firms neglecting the "…letting go or reallocation of individuals who contribute little to economic value" (Verbeke & Kano, 2012: 1188).

In contrast with the retention of family members, family firms are commonly "lean and mean" in their hiring and lay-offs of nonfamily professional managers, with training viewed as a short-term expense, not an investment (Gedajlovic & Carney, 2010: 1158), and this dysfunctional treatment may apply to liabilities as well as assets. The well-documented preferences of families (Hutchinson, 1995) against raising external capital, given family aversion for capital dilution, implies that family firms could forgo profitable projects opportunities for a lack of resources thus reducing overall performance.

Overall, when BB is present it generates dysfunctional decision-making leading to inefficiencies. However, the extent of the damage produced by this bias is not uniform and tends to be greater, the more complex and volatile is the context, as is the case of firms expanding in new geographic markets (Verbeke & Kano, 2012: 1197). Therefore, we investigate the potential dysfunctional effects of BB in the context of family SME internationalization in general, focusing on exporting in particular. According to an EU Commission's (2010) study, exporting is by far the preferred internationalization mode of European SMEs: more than 30% of European SMEs are involved in exporting while only 6% use higher commitment operating modes such as joint ventures and FDI. As the large majority of SMEs in the world are family businesses (IFERA, 2003), exporting represents the most frequent internationalization mode for family SMEs (Fernández & Nieto, 2005).

According to BB theory, family firms that do not implement specific policies to reduce BB will show sub-optimal levels of internationalization that could be eliminated only in the long-run (Verbeke & Brugman, 2009). Clearly, these sub-optimal levels could be in either direction, i.e. taking the form of either insufficient or excessive exports compared to the optimum level. For example, family heirs could favour international investment to fulfil personal ambitions in a particular foreign market or excessive international sales could be the result of personal global ambitions.[1]

In general, however, we argue that in the case of family SMEs, BB tends to generate lower and not higher than optimal levels of foreign sales as a consequence of "localness" reinforced by "smallness". Explanations of low exporting by SMEs − both family and nonfamily − have generally been proposed in terms of their shortage of resources, difficulties in accessing physical assets, the risk averse of undiversified family members and the costs of foreignness to pursue international expansion (Leonidou, 2004; Zaheer, 1995). It is argued here however that it is BB that lies at the heart of the relative smallness of family SMEs, e.g. a firm biased against external sources of financial capital

[1] We thank an anonymous referee for raising this point.

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