ARTICLE IN PRESS

Journal of Business Research xxx (xxxx) xxx–xxx

Contents lists available at ScienceDirect

Journal of Business Research

journal homepage: www.elsevier.com/locate/jbusres

Family ownership and family involvement as antecedents of strategic action: A longitudinal study of initial international entry

Robert E. Evert[a], Joshua B. Sears[b], John A. Martin[c], G. Tyge Payne[b,*]

[a] *Department of Management, United States Air Force Academy, USAF Academy, CO 80840, United States*
[b] *Rawls College of Business, Texas Tech University, Lubbock, TX 79409, United States*
[c] *Raj Soin College of Business, Wright State University, Dayton, OH 45435, United States*

ARTICLE INFO

Keywords:
Family business
Family control
Heterogeneity
Internationalization
Strategic action
Willingness and ability

ABSTRACT

This study integrates behavioral agency theory with the conditions of willingness and ability to investigate how family ownership and family involvement affect the likelihood of initial international entry, both directly and interactively. A firm's initial international entry—its first expansion into a foreign market—is considered a major, and often risky, strategic action that enables a firm to compete and grow. Among family firms, variance in initial international entry is theoretically explained by the family's willingness and ability to participate. Using survival analysis on data representing 190 different family firms across 10 years, our findings support hypotheses suggesting that family ownership and involvement decrease the likelihood of initial international entry. However, these two forms of family control also act as interactive substitutes in relation to initial international entry likelihood. Our findings provide for a more nuanced understanding of family control heterogeneity in relationship to major strategic actions.

1. Introduction

Within the family business field, the topic of internationalization has a long history that has attracted much attention (for recent reviews see Kontinen & Ojala, 2010; Pukall & Calabro, 2014). Prior research has investigated internationalization differences both between (e.g., Cappuyns & Pieper, 2003; Gallo & Pont, 1996) and among family firms, which focus on topics such as family ownership and involvement (Zahra, 2003), generational perspectives (Fernández & Nieto, 2005; Okoroafo & Koh, 2010) and financial structures (Claver, Rienda, & Quer, 2009). In general, there is a wide range of studies that suggest a linkage between family control in internationalization decisions and processes, although mixed findings exist (Pukall & Calabro, 2014; Sciascia, Mazzola, Astrachan, & Pieper, 2012).

While scholars have made significant progress in advancing the topic of family business internationalization, important pieces are absent that hinders a more complete understanding. To date, scholars have remained predominately focused on the nature (e.g., type of market entry) and extent of a family firm's international operations by examining either scale (e.g., ratio of international sales to total sales) or scope (e.g., number of countries in which a firm conducts operations). As such, the extant research has focused on international operations that have already commenced (e.g., D'Angelo, Majocchi, & Buck, 2016; Majocchi & Strange, 2012; Sanchez-Bueno & Usero, 2014). That is, while scholars have extensively examined the ongoing international activity of family firms, questions remain regarding the preconditions and motives that compel family firms to take this very important *initial* strategic action.

The determinants of a family firm's initial international entry—their first foreign market penetration—is critically relevant given the global, social, and economic importance of family firms (Shanker & Astrachan, 1996; Sharma, Chrisman, & Gersick, 2012). Indeed, compared to scholarly investigations of firms already engaged in worldwide operations, the importance of initial international entry is underscored by the additional burdens that first-time international entrants must bear, such as establishing legitimacy and gaining knowledge of foreign market peculiarities (e.g., cultural norms, laws, politics). Such entrants are thought to operate at a disadvantage because they "face the problem of 'unknown unknowns'" that is attributed to their lack of familiarity with the local business environment (Yip, Biscarri, & Monti, 2000: 10).

Conducting business in a foreign country thus leaves first-time entrants facing both steep costs and learning curves that only begin to level out as firms gain more knowledge of the market that was entered (Zaheer & Mosakowski, 1997). Overall, investigating the motives that drive initial entry is highly pertinent in terms of understanding not just what is necessary to sustain international operations within the family

* Corresponding author.
E-mail addresses: robert.evert@usafa.edu (R.E. Evert), joshua.sears@ttu.edu (J.B. Sears), john.a.martin@wright.edu (J.A. Martin), tyge.payne@ttu.edu (G.T. Payne).

http://dx.doi.org/10.1016/j.jbusres.2017.07.019
Received 1 August 2016; Received in revised form 21 July 2017; Accepted 27 July 2017
0148-2963/ © 2017 Elsevier Inc. All rights reserved.

firm setting, but also the insufficiently-understood mechanisms through which the family's desire to expand internationally is motivated, developed, and perpetuated among family firm principals as it is successfully translated into a firm's initial international entry.

We attempt to close this gap in our understanding of the family control and internationalization relationship by considering the behavioral agency model (Wiseman & Gomez-Mejia, 1998) alongside the willingness and ability conditions forwarded by De Massis, Kotlar, Chua, and Chrisman (2014). Combining these theoretical perspectives, and utilizing survival analysis techniques on a longitudinal sample of 190 U.S.-based family firms (totaling 727 firm-year observations), we develop, test, and find support for hypotheses that predict a relationship between family ownership and family involvement in the family firm and the likelihood of initial international entry. In doing so, we make three key contributions to the extant literature. First, and most importantly, our study is the first to examine initial international entry as a separate and distinct strategic action of family firms. Our focus on a firm's initial international entry represents a key departure from existing internationalization studies. Indeed, first-time family firm international entrants face a different risk prospect when compared to subsequent entries that take place once global operations have commenced. For example, first-time international family entrants may lack managerial capabilities (Graves, 2006) and financial resources (Graves & Thomas, 2008) that immediately confront the family upon initial international entry. Comparatively, such constraints will likely be diminished, or absent, for those firms engaged in repeated or ongoing international operations, particularly since these firms have established momentum in terms of international scale and scope (Contractor, Kundu, & Hsu, 2003; Lu & Beamish, 2004). By providing a more nuanced perspective on the antecedents of initial international entry, our study helps disentangle how family firms deal with different risk and financial propositions ascribed to different stages in the internationalization process.

As a second contribution, we advance theory by supplementing the behavioral agency model (Wiseman & Gomez-Mejia, 1998) with the willingness and ability conditions proposed by De Massis et al. (2014). Although previous studies have linked family-oriented goals such as socioemotional wealth (SEW) preservation to a family's willingness to engage in distinctive behavior (e.g., Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007), such behavior will not happen unless the family also possesses the ability to make it happen. In terms of initial international entry exploration, our inclusion of logic grounded in the willingness and ability conditions helps develop a more complete understanding of the heterogeneity implications involved in determining the relationship between family control and family-oriented, particularistic behaviors (Chrisman, Memili, & Misra, 2014). Therefore, our study lends itself to advancing knowledge about the willingness and ability paradox in family firms that accompanies strategic activities such as investments in innovation (Chrisman, Chua, De Massis, Frattini, & Wright, 2015).

Finally, and building on the previous contribution, we add to the family business literature by recognizing, and explicitly testing for, the interactive effects of family ownership and involvement. Based on our findings, it appears that once sufficient family control has been attained through either ownership or involvement, increases in the other dimension of control no longer significantly contributes to the likelihood of engaging in a strategic action. This finding offers a more granular understanding of the strategic implications of heterogeneity and, more specifically, how such heterogeneity—couched in a family's willingness and, primarily, ability to act—impacts initial international entry as a major strategic action.

2. Theoretical foundations

According to Nordqvist, Sharma, and Chirico (2014: 194), “agency theory has by far dominated thinking on governance of family firms.” However, agency theory's focus on incentive structures reveals shortcomings when it comes to exploring families and their businesses. Instead, family business scholars more often employ the behavioral agency model, which incorporates elements of prospect theory (e.g., Kahneman & Tversky, 1979) and the behavioral theory of the firm (Cyert & March, 1963), to relax many rationality assumptions ascribed to agency theory. In contrast to traditional agency theory, the behavioral agency model does not infer that firm owners or managers are necessarily risk averse or that risk preferences remain constant (Chrisman & Patel, 2012). Rather, in explaining and predicting the behavior of family firms, this model hinges on the premise that the preservation of SEW, which captures the “nonfinancial aspects of the firm that meet the family's affective needs, such as identity, the ability to exercise family influence, and the perpetuation of the family dynasty,” serves as a primary reference point for family firms and that family principals are loss averse with respect to SEW (Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007: 106). Preservation and protection of SEW typically involves a range of essential goals and related strategic behavior, primarily: a) maintaining family control and influence with respect to ownership and conducting operations, b) sustaining the family's dynastic aspirations and ensuring that the business remains viable across future generations, and,

c) enhancing and perpetuating family image and reputation (Naldi, Cennamo, Corbetta, & Gomez-Mejia, 2013). In many cases, preservation of SEW, which is invariably linked to the firm, is a critical stand-alone goal that can only be attained by continued family control and influence over the firm's decisions and behaviors. Hence, vis-à-vis financial considerations and obligations, family principals are likely to prefer strategies where family control over the firm's affairs is enhanced or sustained (e.g., Gómez-Mejía, Makri, & Larraza-Kintana, 2010).

Family control, of course, varies from one firm to the next and is generally discussed by separating the terms of ownership, governance, and management (e.g., Villalonga & Amit, 2006). For example, in cases where ownership is high but involvement in governance and management is low, a family's control can be exercised through voting rights and the ability to determine the availability of resources to the top management team (Carney, 2005; Hambrick & Finkelstein, 1987). However, family control can also be exerted, even in the absence of high ownership, when family members are in prominent managerial and governance positions. So, while family ownership and family involvement in management and governance (heretofore, family involvement) are typically highly integrated, differences do exist that can potentially influence the strategic decisions and actions of the firm (e.g., Choi, Zahra, Yoshikawa, & Han, 2015).

Differences in the degree and nature of family firm ownership and involvement suggest that it is inappropriate to assume that the willingness and ability to pursue SEW goals will apply uniformly to all family firms (De Massis et al., 2014). Willingness refers to the family's favorable disposition to behave distinctively, which is commonly motivated by the desire to preserve SEW. For example, when family members have a large ownership stake in the firm, concerns regarding succession, reputation, and the identity of the family firm will be stronger influencing factors that dictate the goals and intentions of the firm. Therefore, it reasons that as family ownership increases relative to other shareholders, the willingness to behave in a way that is distinctively supportive of the family should also be present. In other words, as the disposition to act strengthens, families—as the dominant coalition (Brigham, Lumpkin, Payne, & Zachary, 2014; Chua, Chrisman, & Sharma, 1999)—should be able to compel the firm to act in ways that distinguish and differentiate it in terms of the family. Although direct measurement of willingness is difficult, it is expected to be associated with a family's ownership stake, where family ownership is expressed in terms of the goals and intentions of the firm (De Massis, Di Minin, & Frattini, 2015).

Ability, on the other hand, refers to the discretion of family members to “direct, allocate, add to, or dispose of a firm's resources” (De

Download English Version:

https://daneshyari.com/en/article/7425501

Download Persian Version:

https://daneshyari.com/article/7425501

Daneshyari.com