

A NEW LOOK ON FAMILY BUSINESS INTERNATIONALIZATION.  
NONECONOMIC GOALS IN FAMILY FIRMS AND STRATEGIC DECISIONS.

*Synthesis*

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Family firms are defined as those organizations owned and usually also managed by a controlling family (Shanker and Astrachan, 1996; Lansberg, 1999). They represent the most common type of organization around the world (La Porta et al., 1999; Morck & Yeung, 2003; Gomez-Mejia et al., 2011) and are major contributors to economic growth, wealth creation, job generation, and competitiveness (Westhead & Cowling, 1998). The importance of family firms in developed and emerging markets as well as among top MNEs is progressively growing (Birley, 2001; Carr and Bateman, 2009). Accordingly, the internationalization of family business is receiving increasing attention by scholars and developing into a significant research area (Pukall and Calabrò, 2014). Prior research has demonstrated that when family firms go international they show a peculiar behavior compared to firms with different ownership structures and related to the distinctive character of the family business (Thomas and Graves, 2005; Fernandez and Nieto, 2006; Claver et al., 2009): given the duality of economic and non-economic goals, a growing body of research has demonstrated that family involvement in ownership and/or management deeply affects firms' strategic decisions, including internationalization. Nevertheless this field of inquiry is still in its infancy and the distinctive features of family firms' international behavior have been only partially addressed (Kontinen and Ojala, 2010).

In order to contribute to international business and family firms literature, the dissertation is a collection of three studies organized as follows. The first study is a theoretical and empirical

investigation on the relationship about family ownership and entry modes. To develop this study I cooperated with “Università Politecnica delle Marche” and used their dataset on Italian medium-sized family firms. Relying on a sample of 368 foreign market entries related to 204 Italian medium-sized family firms, I show that different types of ownership structures within family firms differently influence entry modes. Specifically, since the identity of the owners and the ownership level (or ownership concentration) are the two key dimensions of the ownership structure (Thomsen and Pedersen, 2000), we take into consideration both the level of family control and the identity of the family-owners. This study highlights that different family-owners, having different idiosyncratic and family-related goals, present a different overall degree of Socioemotional Wealth endowment (SEW) (Gomez-Mejia et al., 2011; Pukall and Calabrò, 2014). The different overall degree of SEW differently drives owners’ strategic decisions and influences the two key decisions related to entry modes: the equity nature of the investment abroad and the possibility to cooperate with external non-family parties. I also provide evidence that non-family managers moderate the relation between family ownership and entry modes strategic decisions. Whereas prior studies have focused on the relationship between family involvement in the ownership and/or management influences the degree of internationalization, this study emphasizes *how* family firms enter into foreign market and *how* differences within the family ownership structure may differently drive strategic decisions. Furthermore it adds to SEW theory by indicating that the focus on SEW preservation has a different weight family firms according to differences in the ownership structure.

The second study focuses on family leaders’ strategic decision making and the subsidiary ownership policy i.e. the choice between forming a Joint Venture (JV) or setting up a Wholly-Owned Subsidiary (WOS) (Hennart and Larimo, 1998). This study – developed in cooperation with Bocconi University – relies on a sample of 3,939 subsidiary ownership policies run by 586 family-controlled firms with more than 50 million of euros of revenues. I show that family leaders are either more or less willing to preserve their Socioemotional Wealth (SEW) – entering the foreign

market by a wholly owned subsidiary – in relation to the level of performance hazard (Gomez-Mejia et al., 2010), the identity fit between the family and the business (Zellweger et al., 2013) and the cultural distance between the home and the host country (Berry et al., 2010). More precisely, this study shows that family leaders switch from a SEW risk-aversion to a SEW risk-taking strategic behavior in the presence of a persistent performance hazard: depending on whether the firm performance is improving (gain mode) or declining (loss mode) (Gomez-Mejia, Makri and Larraza-Kintana, 2010; Gomez-Mejia, Patel and Zellweger, 2015), the family leader will be more or less driven by the desire to preserve family control when making strategic decisions and, therefore, more or less likely to enter a foreign market through a WOS. I also found that the above tendency is either amplified or weakened by the family identity, such that for gain mode firms the positive relation between the family leader and WOS is reinforced in case of high family identity, whereas for loss mode firms the negative relation between the family leader and WOS is reinforced in case of low family identity. Moreover, results of the analyses indicate that the reinforcing or neutralizing effect related to the different matching of those two SEW determinants loses its predicting power when the host country is culturally distant from the domestic one: in high identity firms the inclination of family leaders for WOS is reduced regardless of the level of performance hazard such that the more culturally distant is the host country, the more willing is the family leader to enter that country through a JV. This study contributes to the growing debate on the *contextual* nature of SEW preservation logic by theoretically and empirically challenging the prevalent notion that major managerial decision in family-controlled firms are driven by SEW preservation goals, even if doing so might entail higher financial risks or lower performance.

Finally, the third study is a conceptual investigation about succession in family firms. Prior research demonstrated that succession is directly related to internationalization according to the idea that the involvement of new generation in the ownership and/or management often stimulates and fosters internationalization (Fernández and Nieto, 2005; Menéndez and Requejo, 2005). Nevertheless only

30% of family firms is thought to survive the leadership passage to the second generation and only 10% makes it to the third generation (Beckhard and Dyer, 1983). Thus the succession success is a high critical and fundamental step for the firm survival as well as the survival of the family within the firm. This study theoretically investigates how agency problems occurring between the predecessor and successors during succession – in terms of misalignments and goal divergence – may affect the succession success. More precisely I split the succession process into three different stages and in each stage I analyze how the different way the decision-making power is shared between the predecessor and successor moderates the relation between agency problems and succession success. Two different situations, referred as “power centralization” and “power duality”, are detected and a divergent moderator effect on the above correlation is highlighted. This study contributes to succession literature, taking into account a dynamic perspective of succession and the moderator role of decision-making power evolution between predecessor and successor on the relation between agency problems and succession success.

The three papers of this dissertation have been all presented during international such as Academy of Management Annual Meeting and the most important worldwide conference on family business studies (IFERA Annual Meeting). Moreover the first paper has been already submitted to an “A” journal (*Small Business Economics*) and it is at the 3<sup>rd</sup> round of revisions. The second and third papers are ready for submission and will be sent to journal soon.

An overview about the main information of the three papers - research question, type of study, data source, type of organization under investigation, level of analysis and conference presentation – is provided in Table 1.

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**Table 1: Collection of papers: an overview**

<i>Paper</i>	<i>Title</i>	<i>Research questions</i>	<i>Type of study</i>	<i>Data</i>	<i>Level of analysis</i>	<i>Type of organization</i>	<i>Conference presentation/Journal submission</i>
1	<i>Family Business Going Abroad: A Study on Family Ownership and Foreign Market Entry Modes</i>	<i>How do different family ownership structures influence family firms' foreign market entry modes?</i>	<i>Empirical</i>	<i>Merloni Foundation dataset</i>	<i>Organization</i>	<i>Medium-sized family firms</i>	<i>IFERA annual meeting 2015</i>  <i>Submitted to Small Business Economics (3<sup>rd</sup> round of revisions)</i>
2	<i>How much emotional is Socio-Emotional Wealth? A context-based investigation of the SEW determinants in family firms' subsidiary ownership policies</i>	<i>How do family leaders make strategic decisions on subsidiary ownership policy? Moreover, what are the business or emotional drivers of those decisions?</i>	<i>Empirical</i>	<i>AUB Observatory and Reprint</i>	<i>Organization</i>	<i>Large family firms</i>	<i>IFERA annual meeting 2015</i>
3	<i>Dolphin Becoming Shark : Agency Problems in Family Firms During Succession</i>	<i>How do agency problems in family firms in terms of misalignments and goal divergence affect succession success?</i>	<i>Conceptual</i>	<i>-</i>	<i>Organization</i>	<i>Family firms</i>	<i>AOM annual meeting 2013</i>  <i>IFERA annual meeting 2014</i>