Family Ownership and Family Involvement as Antecedents of Strategic Action: A Longitudinal Study of Initial International Entry

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A family firm's first entry into the international market is a major strategic decision that is often considered risky but essential to compete and grow. Variations in initial international entry by the family firm are often attributed to the family's willingness and ability to operate in the foreign market. In this study, the authors examine the influence of family involvement on initial international entries made by 92 USA-based family firms over a 10-year period. This summary succinctly presents the findings of the study and their implications for family firms.

Initial International Entry and Family Ownership

Large block of ownership with the family influences the mission and strategy of the firms and aligns it with the family's vision. When ownership level is low, the family does not have the willingness and ability to drive the firm according to the family's motives and aspirations. In contrast, when ownership is high and personal wealth is at stake, family owners are more likely to behave in risk-averse manner to protect socioemotional wealth (SEW).

High up-front costs of initial international entry is likely to result in loss of SEW, as it might require infusion of fresh equity from non-family investors. Unfamiliarity with foreign environment and financial costs of travel, transportation and coordinator, may be the additional liabilities for the firms, which owners may not like it be bear. Thus, firms with large ownership stakes with the family are likely to be reluctant to make an international entry.

Initial International Entry and Family Involvement

Family Involvement is core to the definition of family firms and may take different forms. Family members may limit their involvement to the broad issues of strategic importance or they may be fully involved in daily operations of the business.

Firms with higher level of family involvement are likely to assign higher priority to SEW protection. Unlike ongoing international operations, initial entry may require new skills and capabilities, which may not be available in the family. This may necessitate hiring non-family professionals, which is likely to be seen as a threat to SEW and family influence over the business.

The authors further argue that family firms exhibit particularistic behaviour when the family has the ability and willingness to act. Therefore, firms with high family involvement are likely to forego initial international entry and opt for a safer strategic option of domestic growth. Increased family involvement also constrains the board and human capital. Therefore, high family involvement is likely to hinder the firm's entry in the international market.

Interaction of Family Ownership and Involvement on Initial International Entry

The authors suggest that ownership and involvement may exhibit substitution effect in generating family ability to provide strategic direction to the firm. For instance, high family ownership adds to voting rights to appoint board members. This in turn, reduces the need for family involvement through executive positions. Similarity, when a family member serves as both, the CEO and a board member, then the need for family ownership diminishes. Therefore, an increase in either family involvement or ownership will accentuate the negative effect of involvement/ ownership on the initial international entry of the firm.

The Study and its Key Findings

The study analyzed the initial international entries made by 92 family firms from 2006 to 2015. The central finding of the study was that initial international entry of a family firm was less likely to occur as family involvement and ownership increase. It further found that ownership and involvement substituted each other as explanatory mechanisms of initial entry to the international market. The firm's willingness and ability to engage in family oriented behaviour aimed at protecting SEW were instrumental in determining its initial international entry. Thus, the findings provided a complete understanding of the interactions between family control heterogeneity, SEW priorities, and family's ability to provide strategic direction to the firms.

Practical Implications

Initial international entry is a significant decision for family firms as it requires considerable resources and is fraught with uncertainty. Family firms need to assess their decision of entry into international markets primarily on business rationale. They must be cognizant of the fact that family involvement and ownership will tend to influence the strategic direction of the firm towards family goals, which will make them risk averse and desist from international entry.

Thus, family firms need to overcome the impediments to internationalization posed by non-economic goals. One way to achieve that is to have a more empowered and independent board of directors.

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