Determinants of the Internationalization Pathways of Family Firms - An Examination of Family Influence

– *Chris Graves and Jill Thomas*

Internationalization is considered as an important strategy for a business firm's growth and expansion. However, little is known about the internationalization behaviour of family firms. The role played by the family in internationalization of a business is also an area of intrigue for family business researchers. With an aim to understand the controlling family's influence on internationalization process, Chris Graves and Jill Thomas of University of Adelaide Business School, Australia, examined in-depth, the internalization process of eight family firms from their foundation to the present time. Their findings and recommendations are presented in this summary.

Internationalization Pathways - The authors state that the most common foreign market entry mode for family firms is that of exporting their existing products/services to new countries. The authors found that a large number of firms adopt internalization as a reactive process mostly to an 'unsolicited order.' The authors suggest that firms can be categorized on the basis of their approach to internationalize into three distinct groups –

1. **Traditional Firms** - These firms are motivated by the opportunities for growth and survival that are available in foreign markets. Majority of firms that undertake internationalization are traditional firms. Their pace remains slow, internationalization efforts are ad-hoc and are largely financed or dependent on retained earnings or owner's contribution.
2. **Born Global Firms** – These firms take up internationalization proactively. They have committed managements and tend to pursue global niche markets. They are more flexible in their approach and also look for external sources of funding and build networks.
3. **Born-Again Global firms** – These firms resort to internationalization as a reaction to a critical event in the firm's history (for example buyout/takeover or other sudden change). They tend to exploit new networks gained from this critical event. However, they differ from the traditional firms because after the initial reaction to the critical event, they often undertake rapid, dedicated and planned internationalization.

In addition to the above, the authors also identified three particular determinants of internationalization pathways –

- ***i. Level of Commitment to Internationalization:*** It is the degree to which an owning family is committed to internationalization and is willing to take a long-term position on the company’s financial returns. The family’s vision, mission and importance they attach to internalization also contributes to their commitment.

ii. ***Funds available for international growth:*** Access to financial resources and willingness to commit those funds is also a major determinant of a family firm’s internationalization pathway. Risk aversion negatively affects funds availability whereas family harmony affects it positively.

iii. ***Ability to Develop Organizational Capabilities required for Internationalization:*** A family firm’s ability to acquire and/or develop organisational capabilities like international network linkages, managerial, production, marketing and distribution capabilities influences its internationalization efforts.

The authors concluded with important implications for family business owners and managers. They suggest that in order to grow internationally, the family firms need to make long-term commitment to internationalization. The family as well as the business must arrive at consensus about their objectives. They must arrange adequate finances, develop adequate managerial capabilities, develop international business networks and marketing capabilities to achieve success in the firm’s internationalization efforts.

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