Chinese Private Firms and Internationalization: Effects of Family Involvement in Management and Family Ownership

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This paper examines how family control in private Chinese firms affects whether firms tend to go international. The authors divide family control into two separate variables of (1) family involvement in management and (2) family ownership percentage. Findings empirically show how these two variables have a different influence on the likelihood of internationalization: family involvement in management has an inverted U-shaped relationship whereas ownership percentage has a U-shaped relationship with the likelihood of internationalization.

The importance of this study lies in a better understanding that we gain from distinguishing between the effects of family involvement and family ownership as different, though related, characteristics of family firms. The findings of U-shaped phenomena help explain contradictory previous findings concerning internationalization and point at the complex mechanisms influencing this relationship. Another contribution is in looking at two separate manifestations of internationalization: export and Foreign Direct Investment (=FDI).

Family involvement in management is defined as “how extensively the founding family controls daily operations” and is measured by the ratio of family members in top management teams. Family involvement was predicted to have a non-linear influence on export and FDI: higher family involvement is connected to lesser managerial resources and capabilities (because less outside expertise enters the management group), leading to lesser internationalization. However, family involvement is connected also to higher altruism, which promotes collective long-term goals even at the cost of short term deprivation, thus leading to greater internationalization. These conflicting mechanisms suggest an inverted U-shaped relationship where medium levels of family involvement in management have the highest levels of internationalization.

Family ownership also was predicted to have a non-linear influence on internationalization: a higher ownership percentage may be linked to increased risk aversion, as owners tend to protect their wealth, thus lowering internationalization which seems more risky. However, research of socioemotional wealth (=SEW) shows, that owners may pursue riskier business policies in order to protect their SEW, thus leading to more internationalization. These contradicting mechanisms lead to a U-shaped relationship where medium levels of ownership have the lowest levels of internationalization.

A sample of 902 Chinese private firms coming from five different industries tested these predictions. About half of the firms in the sample were small firms with annual sales revenue of less than US$1.7 million. The results controlled for firm age, size, performance, industry and founders' management experience, meaning that the findings are significant even after controlling for variables which have been found in the past as also influencing internationalization.

Different findings were found for exporting and FDI. Specifically, as predicted, family involvement in management was found to have an inverted U-shaped relationship with FDI, but a positive relationship with exporting. This means that a simple relationship of higher family involvement was connected to higher levels of exporting. This result may be explained by a lesser degree of influence of the managerial resources constraint on the outcome of exporting. Regarding family ownership – as predicted, it was found to have a U-shaped relationship with both exporting and FDI.

This study contributes in demonstrating the different effects of family control, namely family involvement in management and family ownership, on the two manifestations of internationalization namely exporting and FDI. While more research needs to be done to see if these findings can be replicated in other situations, practitioners can make their clients aware that while a very high percentage of family members in management won’t harm export, it might lower the probability of FDI.