Internationalization of Family-Controlled Firms - A Study of the Effects of External Involvement in Governance

– *Jean-Luc Arregle, Lucia Naldi, Mattias Nordqvist and Michael A. Hitt*

Family businesses are often perceived as conservative organisations that are limited in their market presence. However, they are now increasingly internationalizing their operations and entering in new countries. Family business researchers are interested in knowing the factors that facilitate this outbound movement of family businesses. In this pursuit Jean-Luc Arregle, Lucia Naldi, Mattias Nordqvist and Michael A. Hitt studied the role of 'external parties in governance' (i.e. ownership and board of directors) in internationalization efforts of family business organisations. The authors also examined this influence on both the scale and scope of internationalization of family firms. They came up with interesting prepositions and findings that are succinctly presented in this summary.

Open Governance and Family-Controlled Firms' Internationalization - The authors posit that governance structure of a firm is an important determinant of its ability to access the resources needed to internationalize. The controlling family's decision of bringing in external parties is therefore likely to influence the firm's internationalization strategy. Drawing inference from extant literature, authors state that a firm's governance structure mainly has two components – i) Ownership and ii) Board of Directors

External ownership for a family firm can bring in additional finances required to internationalize. External owners can also provide intangible benefits that may help in internationalization efforts of the family firm. These may include legitimacy in foreign markets and knowledge of international markets.

External board members provide the family-controlled firm with various resources that play vital role in internationalization. They provide advice, counsel, and know-how to the management. They provide a channel of communication to and from external organisations. They also add to the firm's reputation.

Larger external involvement in governance also leads to changes in the existing power distribution and internal group dynamics within the family firm. This alters the status-quo. External parties provide counterbalancing views in strategic decisions. Their expertise, skills and information make valuable contribution to the firm's internationalization efforts.

The authors surveyed 1402 Swedish family controlled firms and analysed the data. They came up with the following findings –

- The authors found that family firms with non-family board members had a higher level of foreign activity. However, the internationalization activity was limited to one or a select set of countries. Thus, the authors concluded that ***external board members positively influence a family firm to internationalize the business but limit its scope of internationalization***, possibly due to risk aversion from venturing into too many markets.

- The authors also found that ***external ownership had a general positive effect on the scope of a family firm's internationalization*** efforts. Thus, external owners help the business to go to several country markets.

The authors concluded that, in general, bringing-in external parties in family firm governance helps the firm in its internationalization efforts. They also concluded that external owners and external board members influence different aspects of the internationalization efforts. External owners are more influential in terms of the scope of internationalization whereas external board members are more of an influence in terms of the scale of internationalization.

Source:*Entrepreneurship Theory and Practice, 36 (6), 1999; pgs. 1115-1143.*