The influence of cooperative relations on geographical expansion and diversification strategies in family firms

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This study examines the relationship between existing partnerships and geographical expansion and diversification strategies in family firms in the Spanish manufacturing sector. It specifically analyses whether the family nature of a business and its cooperative relations (vertical cooperation with clients and suppliers, horizontal cooperation with competitors, and institutional cooperation with technology centers and universities) influence its geographical expansion and diversification strategies, and whether there are significant differences between family and non-family firms. This paper includes a review of the literature and an empirical study with a sample of 1848 companies of which 824 are family firms. Significant differences were generally found between family and non-family firms, depending on the type of partner selected for cooperation and the relationship between the types of cooperation and the growth strategies developed by them. Research results and policy implications are discussed, and management practices are proposed.

1. Introduction

The growing complexity of markets and rapid technological development often make it difficult for companies to carry out geographical expansion and diversification strategies due to a lack of resources and capacities. Accordingly, competitiveness no longer depends only on firms’ internal capacity, but also on the relationships they establish with other firms (Guinn & Young, 1996; Kanter, 1994). As resource constraints often make it impossible for firms to bear the high costs of research, development, foreign market penetration and expansion, cooperative relationships are important (Crick & Jones, 2000). The literature demonstrates that inter-firm cooperation generally facilitates access to resources and capacities, allowing firms to develop strategies and improve their competitive advantage (Aschhoff & Schmidt, 2008; Hillman & Withers, 2009; Hoffmann, 2007). However, few studies have focused on the particular case of family firms (Franco & Haase, 2012; Fuentes-Lombardo & Fernández-Ortiz, 2010; Niemelä, 2004; Roessl, 2005), and little is known about their growth strategies (Astrachan, 2010; Zahra, 2003; Gómez-Mejía, Makri, & Kintana, 2010; Goel, Mazzola, Phan, Pieper, & Zachary, 2012).

Due to the importance of family firms around the world, it is important to address this gap in the literature. This study considers that the determining factors for undertaking growth strategies are different in nature between family and non-family firms. Indeed, their different ways of establishing strategic goals and planning to reach them (Chrisman, Chua, & Sharma, 2005; Benito-Hernández, Priede-Bergamini, & Lopez-Cozar-Navarro, 2014; De Massis, Frattini, Pizzurno, & Cassia, 2015) result in different motivations for seeking business growth. Due to the family’s participation in the business, family firms often face circumstances, which non-family firms do not have to face. The aim of this paper is to analyze the relationship between inter-firm cooperation and geographical expansion and diversification strategies to answer the following question: Does the family nature of a firm influence its decision to use growth strategies and its choice of how to do so? To answer this question, this study establishes two main objectives: (1) to analyze if family businesses behave differently from non-family businesses in terms of their growth strategies, and (2) to examine if the positive relationship between geographical expansion and diversification strategies and inter-firm cooperation is significant in the case of family businesses.

As previous studies have pointed out the need to continue analyzing growth strategies and their implementation (Barbero, 2005; http://dx.doi.org/10.1016/j.ibusrev.2017.01.005
Casillas, & Barringer, 2012; Ortiz de Urbina et al., 2014), this paper aims to better understand the phenomenon of firm growth specifically for the case of family businesses. In particular, the relationship between cooperation and geographical expansion and diversification strategies is examined. The results of this study provide additional empirical evidence of how the family nature of a firm influences its choice of a partner (customers-suppliers; competitors; universities–research institutes) when choosing a growth strategy. Unlike previous studies focusing on only one of the two strategic alternatives (diversification or expansion), we aimed to examine both strategies simultaneously. Finally, this paper further contributes to the literature by offering new insights into cooperation strategies in family firms. So far, few studies have addressed this topic, and those which have very often focused on SMEs. However, we use a wide sample including companies of all sizes.

This paper has been structured in the following manner. A more detailed discussion of growth strategies and cooperative agreements is provided in the next section, as well as a brief overview of family enterprises, our hypotheses and their rationale. The methods section explains the approaches to data collection, measurement and analysis. The next sections present the results, interpretation of results, conclusions and practical implications. The final section discusses the limitations of the paper and directions for future research.

2. Literature review and formulation of hypotheses

According to Ansoff (1957), firms can follow four strategies if they decide to grow: market penetration (current product and current market), product development (a new product or technological process in the current market), market development (expanding a firm’s business from its current market to new geographic sites) and diversification (a new product and market). As market penetration, product development and market development entail an expansion strategy, firms generally grow into areas related to their current activity (Ansoff, 1965). Strategies involving the development of new products and new markets generally involve a greater risk. Thus, the strategy of market penetration becomes a less risky alternative compared to diversification (Moreno & Casillas, 2008). This study focuses on expansion to new markets and diversification strategies.

Following Barringer and Greening (1998), geographical expansion is defined in this paper as the growth of a firm from a single location to several locations while essentially retaining the same ownership structure. Barbero et al. (2012) considered geographical expansion from a domestic (enlargement of a firm’s activity within its national borders) and international (outside its national borders) perspective. According to Chandler (1962), Ansoff (1965), Rumelt (1982) and Ramanujam and Varadarajan (1989), diversification is the entry of firms into new businesses, namely, their entry into new markets with new products. Thus, this paper assumes that a firm launches new products and enters new markets simultaneously.

One of the main characteristics of family firms is the concurrence of three groups of people: family members, business owners and business managers, each with its own value system and objectives, bringing about multiple, complex relationships (Benito-Hernández, López-Cózar-Navarro, & Priede-Bergamini, 2015). It is precisely these interrelationships that cause differences in behavior compared to other types of businesses. Several authors have highlighted that family interests make the process of establishing strategic goals in family firms different from this process in non-family firms (Astrachan, 2010; Benito-Hernandez et al., 2014; Goel et al., 2012).

With regard to growth strategies, family firms generally have a particular set of characteristics which make their expansion and diversification strategies differ from those of non-family firms. For instance, due to their fear of losing the family’s wealth, family firms try to keep the control of the business in the family, so that they can control the organization and avoid risks. As incorporating new products and entering new markets may involve important changes in the firm’s organization, family firms are often reluctant to make changes (Anderson & Reeb, 2003; Gómez-Mejía et al., 2010).

Growth strategies in family businesses have generally received less attention (Astrachan, 2010; Gómez-Mejía et al., 2010; Goel et al., 2012; Zahra, 2003). In an empirical study, Gómez-Mejía et al. (2010) identified some characteristics of family firms which may make their growth strategies different than those of non-family firms and found that family-controlled firms diversify less, both domestically and internationally, than their non-family counterparts. Goel et al. (2012) pointed out that the lack of consensus on whether family firms are more or less likely to grow than non-family firms may be because growth often implies a loss of control; so families whose interests are linked to the control of their firms’ economic future have less incentive to grow. Furthermore, Zhang, Venus, and Wang (2012) showed that the relationship between family ownership and family business expansion is complex and a subject of controversy among researchers.

Due to the peculiarities that arise when a family owns and manages a business, we asked if the nature of family businesses could affect the development of their growth strategies, and we formulated the following hypotheses:

H1a. The relationship between the frequency of using an expansion strategy and the family character of a firm is weaker than in non-family firms.

H1b. The relationship between the frequency of using a diversification strategy and the family character of a firm is weaker than in non-family firms.

Regarding cooperation agreements, the literature review confirms that corporate cooperation with partners generally has many advantages. For instance, it can provide access to external resources, data, training and experience, as well as reduce costs and support the development of new ideas and innovation in products, processes and markets (Hagedoorn, Link, & Vonortas, 2000; Miotti & Sachwald, 2003a; Miotti & Sachwald, 2003b; Belderbos, Carreeb, & Lokshin, 2004; Eom & Lee, 2010; Tether & Tajar, 2008). Moreover, previous studies have analyzed the relationship between partner selection and the resulting performance of business cooperation, obtaining different outputs depending on the specific partner chosen. Three types of cooperation can be distinguished: vertical, institutional and horizontal cooperation (Belderbos, Carreeb et al., 2004; Cassiman & Veugelers, 2002; Tether 2002; Belderbos, Carree, Diederen, Lokshin, & Veugelers, 2004; Emden, Calantone, & Droge, 2006; Aschhoff & Schmidt, 2008; De Faría, Lima, & Santos, 2010; Santamaría & Surroca, 2011).

Vertical cooperation consists of agreements with suppliers and clients. The information given by clients could be very valuable during the process of new product development, especially in the definition of attributes and features. This could help a firm to adapt its products appropriately, facilitating its entry into new niches or markets (Chung & Kim, 2003; Santamaría & Surroca, 2011; Tether, 2002). Cooperation with suppliers allows the firm to improve product quality and the adaptability of its products to the market, reducing production costs (Chung & Kim, 2003; Surroca & Santamaría, 2007). Institutional cooperation is based on agreements between firms and universities or research institutions. These
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