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Governance structure and internationalization of family-controlled firms: The mediating role of international entrepreneurial orientation

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ABSTRACT

Stemming from resource dependence theory this article investigates the mediating role of international entrepreneurial orientation on the relationship between the involvement of non-family members in the firms' governance structure and both pace of internationalization and international performance of family firms. Relying on a sample of 113 German family firms, the theoretical model proposed in the study is tested via structural equation modeling techniques. Our findings suggest that a high involvement of non-family members in governance structure has a positive impact on family firms' pace of internationalization, and that this relationship is mediated by the international entrepreneurial orientation of the firm. The discussion section offers implications for family business and international entrepreneurship literature, as well as practical implications.

1. Introduction

The extent to which a family controls and affects its firm has been recently acknowledged as a significant element to explain some of the inconclusive findings in the literature about internationalization of family firms (Calabrò, Torchia, Pukall, & Mussolino, 2013; Pukall & Calabrò, 2014). For instance, the level of sales internationalization in family firms is affected by external influences in the board of directors (Sciascia, Mazzola, Astrachan, & Pieper, 2013). Thus, beyond the difference between family and non-family firms, family firms' idiosyncrasies may differently affect the strategic behaviors and their consequences in terms of internationalization outcomes (Miller, Minichilli, & Corbetta, 2012). In particular, the degree of family involvement in ownership and management is acknowledged as a discriminating factor, so that any external influences on these systems in the family firm may have an impact on the strategic attitudes towards internationalization (Holt, 2012).

This study aims, in particular, at investigating the effect of the presence of non-family members in the family firm's governance structure on its internationalization outcomes, meant in terms of both pace and performance (He & Wei, 2011; Vermeulen & Barkema, 2002), hypothesizing and testing the mediating effect of international entrepreneurial orientation (hereafter IEO). Internationalization is considered an entrepreneurial activity (Oviatt & McDougall, 2005), and international entrepreneurship – recognized as a stand-alone research field – is defined as “a combination of innovative, proactive, and risk-seeking behavior that crosses national borders and is intended to create value in organizations” (McDougall & Oviatt, 2000, p. 903). This definition suggests that it is important to focus on the entrepreneurial qualities of firms and to investigate how firms compete after internationalization, more than understanding whether and how they enter global markets (Zahra, 2005). Nevertheless, scant literature has considered strategic orientations (Keupp & Gassmann, 2009) as antecedents of internationalization (Dess, Pinkham, & Yang, 2011); and, in particular, IEO at the firm level (Liu, Li, & Xue, 2011) may play a significant role, as it regards value-creation behaviors that, through proactive and innovative methods, make firms engage in risk-taking activities aimed at identifying and leveraging international opportunities (Sundqvist, Kylaheiko, & Kuivalainen, 2012) and in turn affect pace and performance (Etemad, 2015). Consistently with a call for further research on the role of board composition in ventures engaging in international entrepreneurship (Zahra, Filatotchev, & Wright, 2009), this study investigates to what extent IEO does

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mediate the relationship between the involvement of non-family members in governance and the pace of internationalization and international performance.

For this purpose, we rely on resource dependence theory (Pfeffer, 1972; Pfeffer & Salancik, 2003) as a leading theoretical framework to analyze the influence of members from outside the owner-family, sitting in various governance bodies, as antecedent to firm internationalization. According to this theoretical perspective, we focus on board resource provision, which encompasses a variety of specific activities, including: (i) providing expertise and advice, (ii) linking the firm to important stakeholders, (iii) facilitating access to resources such as capital, (iv) building external relations, and (v) helping in strategy formulation (Hillman & Dalziel, 2003). Access to resources is, indeed, vital for successful firm internationalization, as venturing into foreign markets may pose specific resource challenges for family firms (Naldi, Nordqvist, Sjoberg, & Wiklund, 2007). While some family firms' attributes can drive internationalization, e.g. commitment, long-term orientation and unique capabilities (Zahra, 2003), the dearth of resources can instead hinder the orientation of family firms towards international markets, due to the lack of either opportunity recognition or the capabilities to engage in internationalization efforts, that are acknowledged as relevant underpinnings for international entrepreneurship (Calabrò, Brogi, & Torchia, 2015; Muzychenko, 2008). Few managerial resources (Fernández & Nieto, 2006), scarce financial resources (Okoroafo, 1999), and especially lack of knowledge concerning international markets (Pukall & Calabrò, 2014) are instances of factors hindering internationalization. Resource dependence theory suggests that connections with members from outside the organization are of paramount importance in order to gain access to those critical resources (Pfeffer & Salancik, 2003). This study relies on the assumption that the firm's governance structure is acting as the main bridge to external resources (Hillman & Dalziel, 2003; Hillman, Cannella, & Paetzold, 2000). The access to resources, that the owner-family sometimes cannot provide, is fundamental for business internationalization, and limits the dependency from national markets by opening the business to new opportunities abroad. The hypothesized model is tested via partial least squares (PLS) structural equation modeling on a sample of 113 German family firms (i.e., firms where one owner-family holds more than 50.1% of the firms' shares, and the CEO perceives the firm as a family firm), collected in the summer of 2012. Our results indicate that high involvement of non-family members in governance positively affects family firms' pace of internationalization; and that this relationship is mediated by the international entrepreneurial orientation of the firm. Overall, the results stress the importance of the involvement of non-family members in the governance of family firms, as their influence brings resources which limit dependencies and open the firm to new opportunities abroad.

This study contributes to the research stream of family firms' internationalization, providing insights also to entrepreneurship and governance research. First, the findings suggest that non-family members in governance serve as promoters of family firms' internationalization thus explaining some of the variance in family firms' international behaviors. Second, by considering the family firm's proclivity to engage in corporate entrepreneurship and their propensity towards internationalization endeavors as important mediators between the involvement of non-family members in governance and internationalization outcomes, we extend research on strategic orientations and corporate entrepreneurship in family firms. Third, by examining the pace of internationalization and international performance, two conceptually different facets of internationalization, we provide a more fine-grained understanding of the involvement of non-family members in governance and its effects on internationalization outcomes (Pukall & Calabrò, 2014).

2. Theoretical model development

A firm is equipped with a number of governing bodies (e.g., the board of directors, the management board and the advisory board) to ease and manage its decision-making processes and survival (Steier, Chrisman, & Chua, 2004). Each group serves different functions; in this study we mainly focus on their common function as providers of the necessary resources to successfully internationalize the family firm, according to the resource dependence theoretical perspective adopted to consider broad governance decisions, in charge of both directors and managers (Brunninge, Nordqvist, & Wiklund, 2007). The governance structure of a firm is, indeed, considered to be a central determinant of its capacity to access the needed resources for international activities (Tihanyi, Johnson, Hoskisson, & Hitt, 2003). The choice of the owning family to open the firm's governance to non-family members is, hence, expected to strongly influence its internationalization process and outcomes (Pukall & Calabrò, 2014). In fact, the openness of family firms' governance structures denotes the degree to which the boards embrace non-family members in addition to family ones. This study exclusively focuses on the inclusion of non-family members in the different boards (management, supervisory and/or advisory board), while ownership structure is not considered, as family firms are extremely reluctant to share their equity with potential external owners just for the purpose of strategic firm growth (Chua, Chrisman, & Sharma, 1999).

2.1. Resource dependence theory

Previous research on the effects of the openness of family firms' governance structure and subsequent internationalization outcomes is still limited, although recent scholarly efforts overall show a positive influence of external parties in the governance of family firms on internationalization (Pukall & Calabrò, 2014). Indeed, family firm heterogeneity in the governance structure emerges as an important element to be taken into account when analyzing family firms' internationalization (Sciascia et al., 2013). In this study, resource dependence theory (hereafter RDT) is chosen as the most appropriate, first of all, because we focus on the board that is acknowledged as one of the main actors allowing firms to minimize dependencies and access new resources (Pfeffer, 1972). According to this theoretical perspective, these different governing bodies pursue the same function: provide resources which are necessary for the firm (Brunninge et al., 2007). Hence, RDT (Pfeffer, 1972) will be the guiding theoretical lens to investigate the way through which (e.g., by hiring non-family board members) those governing bodies provide and access resources to internationalize the family firm.

The acquisition of knowledge about foreign markets through market research, the customization of products for international customers and the logistical handling of these products across multiple borders are just some of the challenges that internationalizing firms face (Johanson & Vahlne, 1993). In international management research, it is, therefore, commonly agreed that access to resources improves the success of internationalization endeavors facilitating those international challenges. The emphasis lies on the role of resource providers to reduce uncertainty and interdependence (Hillman, Withers, & Collins, 2009). The benefits for the firm can be, indeed, described in terms of information spread as advice, access to preferential channels of resources and information, and legitimacy (Hillman et al., 2009). Moreover, considering in particular the case of established companies, new

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