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Small Business Research Summary
Advocacy: the voice of small business in government

June 2009 No. 346

Family Firms Venturing into International Markets: A Resource Dependence Perspectives

by Lucia Naldi and Mattias Nordqvist, SE 551 11 Jönköping, Sweden, [37] pages.
Under contract no.SBAHQ-07-M-0364

This paper was originally presented in Chapel Hill, North Carolina, at the Babson Entrepreneurship Research Conference (BERC) in June 2008. It was awarded the Office of Advocacy Best Paper Award at the 2009 BERC meetings at Babson College in Massachusetts.

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Purpose

Overseas markets offer enormous opportunities for small businesses; yet many U.S. firms have not looked proactively at ways to engage in international markets. The reason for this is twofold. First, the domestic market is large enough that many businesses have no reason to explore exporting their goods and services. Second, many small businesses do not have the resources to devote to exploring new markets. Increased globalization may push more business owners to rethink their export strategy.

This paper examines the likelihood that a family-run enterprise is engaged internationally. In particular, it looks at the amount of external or nonfamily influence in the family business. The authors hypothesize that external leadership can bring fresh ideas, increased willingness to take risks, new sources of financial and human capital, and perhaps even international experience. Family businesses that are more open to outsiders in the management of the business are more likely to engage in international trade.

For the purpose of this study, “scale” is a measure of the percentage of sales stemming from international markets. “Scope” refers to the number of countries in which a firm does business.

Overall Findings

The empirical findings show that open family firms attract more nonfamily resources through external ownership, board representation, the choice of a chief executive officer (CEO), and a large top management team that can enhance either the scale or the scope of its internationalization.

In particular, the authors show that expansion across foreign markets is favored by opening up all levels of a firm’s governance structure. Penetration within foreign markets, on the other hand, is favored by opening up the top management level alone.

Highlights

- Increases in external ownership among family-run businesses are correlated with increases in the scope, but not the scale, of exporting. That is, firms with external ownership have an increased geographic reach, but overall sales percentages from overseas are not affected.
- Similarly, external board members enhance the scope or number of countries to which a family firm exports, but not the scale—its involvement in different types of activities across national borders.
- Having a nonfamily CEO affects the scale, but not the scope of internationalization. The authors made a similar finding with respect to the percentage

This report was developed under a contract with the Small Business Administration, Office of Advocacy, and contains information and analysis that was reviewed by officials of the Office of Advocacy. However, the final conclusions of the report do not necessarily reflect the views of the Office of Advocacy.

of nonfamily members constituting the top management team. They surmise that these external actors bring functional skills to the management team that might be different from those of family-run leadership. These different skills may be beneficial to the scale of a firm's foreign operations, but are not likely to enhance its geographic reach..

- Future research should explore why increases in external management (including a CEO and board members) are more likely to affect the scale of foreign-run operations, but not the scope.

Scope and Methodology

The authors define a family firm as one in which (1) one or more family members own at least 50 percent of the firm's shares, and (2) the CEO perceives the business as a family firm.

In 1997, the authors interviewed 2,020 Swedish small and medium-sized enterprises, of which 461 were deemed to be family firms. These firms were contacted again in 2000; of these, 331 (71 percent) responded to the phone interview. Data from the interviews were used as the dependent and independent variables of fractional logit regressions. Results of these models appear in Tables 2 and 3 of the report.

This report was peer reviewed consistent with the Office of Advocacy's data quality guidelines. More information on this process can be obtained by contacting the director of economic research at **advocacy@sba.gov** or (202) 205-6533.

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