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Family Businesses' Views on Internationalization: Do They Differ by Generation?

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Abstract

The purpose of this exploratory study is to compare the views on internationalization (i.e., global business attitudes) of family businesses run by 'first', 'second' and 'third'generation owners. It is common to investigate/ ascertain different generational perspectives and its impact on strategy and performance. This research compares differences in internationalization views of multi-generational owners. It is hoped that conclusions can be derived as to the impact of succeeding generational owners on internationalization. A mail survey of US family business owners based in Ohio was conducted. The results revealed remarkable consistency and similarity in views pertaining to internationalization by the first, second, and third generation owners. Family business owners irrespective of their generation do not monitor foreign markets, desire relations with foreign family owned businesses, etc. They also felt their businesses were not affected by foreign competitors.

Keywords: Internationalization, Family business, Views, Generations

1. Introduction

Internationalization is the "process by which firms both increase their awareness of the direct and indirect influence of international transactions on their future, and establish and conduct transactions with firms in other countries" (Beamish 1990, p.77). For family businesses, their views on internationalization are largely unknown. Given that 90% of US businesses are family businesses, account for 60% of employment

(Family Business Statistics 2009), and because family businesses can be perceived differently from non-family businesses (see, Carrigan and Buckley 2008; Cooper, Upton and Seaman 2005), the extent of their internationalization needs to be understood. Some evidence is beginning to come in regarding the internationalization path of family owned businesses (henceforth FOBs) (Zahra 2003). In general the studies have been mixed in suggesting that FOBs from different nations are starting to recognize and capitalize on global opportunities (Claver, Rienda, and Quer 2009). Social science theories acknowledge that perceptions generally occur before behavior. Likewise, internationalization views could precede actions. Understanding perceptions of globalization could be relevant to explaining their approach to internationalization.

The purpose of this exploratory study is to compare the views on internationalization (i.e., global business attitudes) of family businesses run by 'first', 'second' and 'third' generation owners. By comparing differences in internationalization perceptions, it is hoped that conclusions can be derived as to the impact of succeeding generational owners on internationalization activities. It could also provide clues as to the continued limited involvement of FOBs in foreign markets. This finding can be useful in getting more US family businesses involved overseas. As the US Commerce department has reported, only 240,000 small and medium sized companies (the bulk of family businesses) export a third of US merchandise exports (Reilly and Murphy 2009). So it is seems clear that US family businesses that

are typically small and medium sized enterprises (SME) are not actively internationalizing proportionate to their numbers. Also, Debicki, Matheme, Kellermanns, and Chrisman (2009) in a review of the family businesses research noted the paucity of emphasis on international strategy (p.159).

Some studies have looked at factors that influence the internationalization of FOBs (Davis and Harveston 1998; Claver et. al. 2009; Zahra 2003). Factors such as technology (Davis and Harveston 2000), family structure (Claver et al. 2009), and ownership arrangements (Zahra 2003) have been postulated to explain FOB commitment in foreign markets.

While there are facilitating factors favoring internationalization, the inherent nature of family businesses may deter some firms from seeking international involvement. For instance, Gallo and Sveen (1991) have suggested that the family owned character of a business might be challenged by internationalization. That's partly because the internationalization process could cause the firm to change its objectives, culture, structure, and strategy- an unwelcome outcome.

In line with buyer behavior theory that suggests that consumers will have a positive attitude towards a product before they purchase it, we expect that views on globalization of FOBs need to be determined. So, the impact of generation differences in levels of internationalization is not conclusive yet. Claver et. al. (2009) say it has no influence. Fernandez and Nieto (2005) say it does. Perhaps understanding views on internationalization by generations can clarify this issue. That is the purpose of this research.

This study contributes by investigating differences in multi-generational owner perceptions of internationalization. Specifically, what degree are the operations of family businesses affected by increased globalization? For instance, are foreign competitive threats and rapidly changing international environments credible concerns? Do they continuously monitor the international marketplace for exchange rates, political risk, etc. shifts? Are global dimensions integrated into domestic business decisions? The approach has not been undertaken in the literature.

This paper first provides a brief overview of the theoretical and conceptual foundations and uses them to present the hypothesis. In the second section, the research methodology is provided. Next, the results are presented. Finally, the conclusions, recommendations, and future research directions are provided.

2. Conceptual Origins

2.1 Generational Differences

While, it is rare to find three successive generation leaders of family businesses (Aronoff 1999; Grote 2003), the presence of generations is the endearing difference between family businesses and non-family businesses. When it comes to generational issues in family business literature, there has still been a pre-occupation with succession (e.g., Cater and Justis 2009; Miller, Steier, and Le Breton-Miller 2003; Brenes, Madrigal, and Moilina-Navarro 2005; Venter, Boshoff, and Maas, 2003). For instance, a more recent review of family business research (Debicki et. al. 2009) found that 15.1 percent of articles in four journals between 2001-2007 focused on succession.

Unfortunately, there doesn't seem to be much about differences between generational owners' characteristics and views. However, there is some information about the attributes and motivations of founders (1st generation) and successors (Chrisman, Chua, and Sharma 1998; Sharma and Rao 2000; Handler 1994). For instance, Sharma (2004) summarizes writings from various studies and concludes that founders exert considerable influence on the culture, values, and performance of the company (p10). It is from these studies that we gleem the differences between generations of family business leadership.

2.1.1 Successor Attributes

Attitudes and behaviors of family businesses can vary by generation (Welsch, 1991; Swinth and Vinton, 1993). Some studies have tried to understand founders' long term influence and relationship with other family and non-family members. Davis and Harveston (1998) implied that 'successive generation' leaders are influenced by many individual, family, and organizational factors (also, see Goldberg 1996). Lambrecht (2005) added that the multigenerational transfer process should address the soft elements of entrepreneurship, freedom, upbringing, etc.

It appears attributes can vary by country. For instance, Sharma and Rao (2000) compared Canadian and Indian successor attributes and found that while 'integrity' and 'commitment' ranked high for both, the Indian owners rated 'blood/family relations' higher. Alternatively, the Canadian owners rated interpersonal skills, performance, and experience higher than the Indian sample. In the South African context, Venter et. al. (2005) found the relationship between the successor and incumbent, among other factors critical to succession success.

2.1.2. Generations and Entrepreneurship

Another thought trend that may suggest differences in generational views could be entrepreneural tendencies. Here again, studies have not found strong correlation with succeeding or subsequent generations. Age of the CEO also does not suggest entrepreneurial or contemporary thinking (de Pontet, Wrosch, and Gagne 2007). Or at least does not over

ride the "conformity" norm. Lee (2006) did not find a significant relationship between CEO age and entrepreneurship. Their findings was further confirmed by Kellermanns et. al. (2007) that comment that "even if a family firm member becomes a CEO at a young age, he or she may not have the power to enact entrepreneurial behavior (p.8)." But, Lee (2006) cautions "family business owners to exercise a certain degree of flexibility (p.187)" to entice second generations to stay. This implies that cases of extreme differences may result in organizational exit. In conclusion, it appears the selection and grooming process in family businesses is designed to identify smiliarities rather than differences. So we would not expect different views of globalization by multiple generations.

2.2 Views on Internationalization

There are conceptualization and anecdotal evidence for increased internationalization. Some studies have dealt with some views on internationalization tactics. For example, owners of family firms elsewhere in the world frequently prefer to do business with other family companies (Nelton, 1995a). Further expectations are for more joint ventures between family companies across countries and cultures (de Farias, Nataraajan, & Piros 2008). Also expected are cooperative endeavors between multinational companies and family firms (Swinth and Vinton, 1993; McKibbin and Pistrui, 1997) particularly as multinationals continue to reduce their operations and rely increasingly on smaller firms for products and services (Nelton, 1995b). As to whether family businesses prefer to deal with their own kind, Wong, Reynolds, and Wong (1992) found that immigrant Chinese family firms in the San Francisco Bay area found their success rested on kin-ship relations and systems. Swinth and Vinton (1993) have argued that the likelihood of success for an international joint venture increases when both partners are family owned businesses since both firms have shared values and goals that enable them bridge cultural barriers more effectively than publicly held firms. It therefore seems that family ethnicity tied to a certain country increases the likelihood of international family business connections. Alternatively, Lansberg and Perrow (1991) found that highly successful family businesses in Latin America called Grupos have found duplicating their success in the US difficult.

2.3 Internationalization by Family Businesses

Gallo and Sveen (1991) discussed the facilitating and restraining factors on the internationalization of family businesses. Five factors – objectives and strategy, structure, culture, life cycle, and its international characteristics were used to rationalize the family firm's internationalization. They suggest that family businesses desiring to internationalize should take advantage of facilitating factors while simultaneously overcoming restraining factors. Following Gallo and Sveen (1991), a number of studies have looked at the internationalization process of family businesses (Zuchella, Palamara, and Denicola 2007; Graves and Thomas 2008).

Some research still subscribe to the notion that the nature and character of family businesses is challenged by the internationalization process (Nelton 1996; Claver et. al. 2009). They argue that family businesses tend to have certain shortcomings (e.g., resource limitations) particularly at higher levels of internationalization (see, Graves and Thomas 2006).

2.4 Internationalization by Generations

That family involvement affects the extent of internationalization is significant, but it does not explain generational differences in views. One study that investigated generational impact on internationalization is Claver et. al. (2009).

Following observations that family businesses in second and successive generations are more likely to be present in international markets (Fernandez and Nieto 2005), they hypothesized (unsupported) that the number of generations running a family firm will increase the likelihood of using entry modes that involve a high level of commitment. Their findings did not substantiate this and they argued that later generations were consumed with the 'transfer process' to be concerned about international opportunities. Fernandez and Nieto (2005) similarly argued and proved that newer generations bring new ideas, are more prepared, and trained thus learn towards internationalization- a finding that conflicts with Claver et. al. (2009).

Davis and Harveston (2000) used age as a surrogate for generations. In other words, in a multigenerational business the older owner must represent the first generation. On this basis they hypothesized that older family business entrepreneurs would be less likely to internationalize. Their analysis supported this notion. Using age as a surrogate makes sense if it is shown that multiple generations are involved in the firm simultaneously. Graves and Thomas (2008) found (based on qualitative case study) that succession to younger generations did not lead to greater internationalization of the family businesses.

In summary, the literature is inconclusive as to the impact of generations on internationalization. However, a strong leaning suggests conformity and uniformity between successive generations (Kellermanns, Eddleston, Barnett, and Pearson 2008). So it was expected that no differences in views on internationalization would exist. Additionally, it was expected that few family businesses would monitor global changes or integrate them into their domestic decisions unless as Gallo and Sveen (1991) have suggested, they have an international dispositions such as traveled abroad, speak foreign languages, or have immigrant connections.

3. Research Design

A mail survey of family businesses from Northwest Ohio, USA was done. The data collection method was deemed cost effective and reliable enough to generate a large response pool for analysis. It was considered appropriate to address research on family business issues (Handler 1989). Mail survey was judged superior to other formats such as web survey because of external validity concerns. The objective of this study was to determine whether views about globalization varied by generations.

3.1 Questionnaire

The questionnaire was designed to first distinguish/screen out non- family business owners and determines their current generation status. Eight five (85) percent of the respondents identified themselves as family businesses. The following six questions were asked of all family business respondents.

(i)Whether their family businesses were affected by direct (same businesses) or indirect (similar businesses) foreign competitors?

(ii) Whether family businesses continuously monitored changes in the global marketplace?

(iii) Whether family businesses integrated global considerations in making domestic business decisions?

(iv) Whether family businesses have business ties with family businesses in foreign countries and their preference for dealing with foreign family businesses?

(v) Whether overseas suppliers were used, if so, what stimulated such decision?

(vi) If the family business has any foreign customers or operated in foreign markets?

3.2 Scale and Analysis

Categorical scales (yes, no) were used for all questions. Nominal scales are typically used for internationalization research where responses by percentages are desired. Also, the nature of the questions above lends themselves best to non-parametric measures. We wanted respondents 'truthful' answers as opposed to perceptual feelings that would be the case if interval scales (e.g. Likert) were used. It should be noted that some authors (e.g., Coulter, Zaltman, and Coulter 2001) suggest that respondents using the Likert scale yield scores close to the midpoint.

The percentage of family businesses being run by the first, second, and third generations were 38.1%, 37.5%, and 18.8% respectively. So, Pearson's chi squared goodness of fit analysis was used to test for significance on responses to the six questions.

3.3 Sample

The sample frames used were Ohio Manufacturers Directory and the University of Toledo Center for Family Business membership roster. Five hundred firms were selected from counties identified by the former source as constituting "Northwest Ohio". Respondents were dispersed across all industrial sector with the most being manufacturers of machinery and computers (21%), food and kindred products (9%), fabricated metal products (9%), rubber and plastic products (5%), and primary metals (5%). Their self reported annual sales ranged from $500,000- $10 million with most having sales of $1-$5 million annually. The top two categories in terms of annual sales were $1-$5 million (36%) and above $10 million (19%).

3.4 Mailing Frequency and Response Rates

A pre-test and two mailings were done. A pretest using 50 randomly selected respondents generated 14 responses (28% response rate). The initial mass mailing of 450 generated 125 responses (27.77 % response rate). A follow up mailing to 361 non-respondents from the pretest and initial mailing generated 57 additional responses (15.8 % response rate). Thus, a total of 196 responses were received of which 187 were usable. The effective response rate for the study was 37.4 percent.

4. Results

Table 1 shows the results based on the questions posed. The null hypothesis of no generational differences in responses was accepted. So, as expected no significant differences in views were obtained. Views on internationalization were consistent across generations. As we expected, the 'conformity' culture bred in successive generations of family business members reveals itself in consistency in responses. Although, there were no differences in the 'yes-no' views on the questions, it should be noted that responses from the most recent generations (3rd) were strongly negative.

When asked whether their businesses were affected by direct (same business) foreign competitors, majority felt that it was not. This view was unanimous across the three generations.

How about the impact from foreign businesses in similar businesses? Here again the responses was mostly that they were not affected. Majority respondents said 'no'. Again, the third generation respondents were more strongly negative.

To capitalize on opportunities in the marketplace, businesses need to monitor environmental developments. If these developments are not monitor that could be an indication of lack of interets. So the question about whether the international marketplace was monitored continuously is revealing. Respondents did not express any desire to monitor global markets.

Based on the responses to 'monitoring foreign markets', it is not suprising that global considerations were not taken into account in making domestic decisions. Global markets were seen as immaterial or irrelevant to their operations in domestic markets.

As to whether they desired business relations with family businesses in other nations, the answer was negative. So Wong, et. al. (1992) sopposition that FOBs desire doing business with each other was not supported.

A related question is their desire to do business with FOBs in foreign makets was not supported. Majority of respondents irrespective of generations did not indicate prefrenece for business with foreign FOBs.

5. Conclusions

The study shows that family businesses' views about internationalization did not vary by generations. They were remarkably consistent in their views on internationalization. Collectively, their perceptions of the benefits of internationalization are unappreciated. So it appears that if a family business does not get involved in foreign markets in the first and second generations it is unlikely to do so in later generations. The third generation's views were strongly more negative on internationalization than the first or second.

Interestingly, it is nonfamily managers that are more likely to engage in internationalization activities (Claver, et. al. 2009). The findings lend credence to the limited involvement of US FOBs in foreign markets.

6. Recommendations

If it is generally accepted that in today's global marketplace, entreprises must participate to survive, the views of these respondents are sobering. So much effort needs to to put into educatiing family business about global opportunities. Efforts probably should be on the younger generations as they seem less impressive by internationalization. Family business owners are encouraged to monitor the global environment for opportunities and threats therein. This can very readily be done by monitoring exchanges rate movements, trade agreements, regional economic associations, etc or simply by subscribing to journals and periodicals that repost on global business issues. Knowledge and interpretation of the global environment can be obtained through many public and private educators.

Many international issues affect many domestic business issues. Family businesses are requested to integrate global considerations into their domestic decisions. For instance, when choosing advertising agencies, the probability of using that agency for future foreign market operations should be contemplated. It would be relevant to use agencies that have some international presence.

Family businesses are encouraged to actively seek out foreign family businesses for business relations. Belonging to family business associations with foreign membership could achieve this. Alternatively it could be achieved through direct solicitation when foreign partners or business associates are needed.

First and second generation owners of family businesses should be more aggressive in getting into foreign markets or at least encouraging younger generations to be globally centered. Later generations of family businesses do not seem to be adventurous towards foreign markets. As recommended earlier, all family members active in the business should be involved in the firm's international activities to ensure continuity.

7. Further Research Issues

Getting views on internationalization of FOBs from other nations will provide a more robust assessment of this issue. If generational differences in views are obtained, emphasis should be focus on the younger generation.

8. Limitations

Using respondents from Ohio limits the ability to generalize to a broader universe. Also, utilizing non-parametric measures and testing may hamper the robustness of the analysis. That is, using percentages as the basis of argument may be limited compared to more robust methods (e.g., betas in regression analysis)

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Table 1. Chi-squared results

Q1: Is your business affected by direct (same business) foreign competitors?

Response	1st Gen	2nd Gen	3rd Gen	χ & Likelihood Ratios	df.	Sig	Valid cases
Yes	24	23	8	160.89	12	.000	
No	31	29	21	124.464	12	.000	187

Q2: Is your business affected by indirect (similar businesses) foreign competitors?

Response	1st Gen	2nd Gen	3rd Gen	χ & Likelihood Ratios	df.	Sig	Valid cases
Yes	25	22	8	168.37	12	.000	
No	28	24	20	136.73	12	.000	187

Q3: Does your business continuously monitor changes in the international marketplace (e.g., exchange rates, trade deals, etc.)

Response	1st Gen	2nd Gen	3rd Gen	χ & Likelihood Ratios	df.	Sig	Valid cases
Yes	15	15	2	179.022	12	**.000**	
No	46	43	27	139.806	12	**.000**	187

Q4: Are global considerations considered in making business decisions in the US market?

Response	1st Gen	2nd Gen	3rd Gen	χ & Likelihood Ratios	df.	Sig	Valid cases
Yes	15	16	7	166.916	12	**.000**	
No	44	42	23	126.894	12	**.000**	187

Q5: Do you have any business ties to family owned business in foreign countries?

Response	1st Gen	2nd Gen	3rd Gen	χ & Likelihood Ratios	df.	Sig	Valid cases
Yes	7	8	2	169.044	12	**.000**	
No	54	51	27	129.99	12	**.000**	187

Q6: Would you prefer to conduct business with family owned businesses in foreign markets?

Response	1st Gen	2nd Gen	3rd Gen	χ & Likelihood Ratios	df.	Sig	Valid cases
Yes	10	14	5	169.623	12	**.000**	
No	23	14	9	129.852	12	**.000**	187