The Influence of Family Involvement on De-internationalization of SMEs

Internationalization of family firms has received increasing attention over the last decades. Although many have recognized the possibility for withdrawal from international markets, known as de-internationalization, little research has looked at this phenomenon. The purpose of this paper is to get more insight in the influence of family ownership on de-internationalization because many SMEs are family owned. It is argued that due to family involvement in the firm, not only financial considerations but also non-financial considerations play a role in the decision-making process. A preliminary analysis based on a sample of 430 family firms does not provide support for this hypothesis and instead suggests an inverted U-shaped relationship. This indicates that at low levels of family involvement, financial considerations are more important than non-financial whereas after 80% of family ownership non-financial considerations become more important.

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INTRODUCTION

Family firms can be found among the long-lived firms and the most successful firms in the world (Miller & Le Breton-Miller, 2003). Over time, these firms have been able to deal with a large variety of changes in the internal and external environment. Among the changes in the external environment, is the increasing degree of globalization which has made internationalization an important strategy for small and large firms (Lamb & Liesch, 2002; Lu & Beamish, 2001). The research with regard how family ownership influences the internationalization of firms has steadily increased in the last years, but the findings that are provided are contradictory. Family ownership can have a positive influence on the internationalization strategy because of the long-term commitment to the firm, the interest of family members in pursuing an international strategy and the concentration of power in the hands of one individual (Gallo & Sveen, 1991; Zahra, 2003). However, more common is the argument that family ownership has a negative influence on the internationalization of the firm because of risk aversion, fear to lose control over the company, and a concentration of power (Fernández & Nieto, 2006; Gallo & Pont, 1996; Gallo & Sveen, 1991; Sanchez-Bueno & Usero, 2014). All these factors closely relate to the idea that in family firms socioemotional wealth is a more important consideration in decision-making than financial wealth. Socioemotional wealth is are 'the non-financial aspects of the firm that meet the family's affective needs' (Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007, p. 106). Gomez-Mejia, Makri, and Kintana (2010) argue that family firms face a dilemma in the decision to internationalize, because on the one hand internationalization gives advantages in terms of risk diversification and cost reduction. On the other hand, in order to gain from internationalization they can face a loss in their socioemotional wealth because more external funding might be required, new networks need to be build and family members might lose control due to the

increasing complexity of the firm's operations. Because socioemotional wealth is a more important reference point for family firms than financial wealth, following the behavioral agency model, any decision that can result in a loss of socioemotional wealth will be avoided and hence internationalization is less likely to occur.

Although there is agreement that family ownership does influence the internationalization of the firm, the strategy of de-internationalization is not considered yet. De-internationalization is the withdrawal from foreign markets and can be either a result of failure or a strategic decision (Turcan, 2011; Welch & Luostarinen, 1988). Whereas the reasoning of the behavioral agency model and socioemotional wealth, gives insight in the internationalization of the family firm, it is less clear how family ownership influences de-internationalization. Nevertheless, as Welch and Luostarinen (1988) pointed out, no firm can expect to experience international growth indefinitely and therefore should also be prepared for decline in their international presence.

The purpose of this paper is to get a better insight in how family ownership influences de-internationalization of family firms. By doing so, we will contribute to the family business literature by focusing on the concept of de-internationalization and provide insight in how ownership influences also this later stage in the internationalization process. We also contribute to the field of international business by using the concept of socioemotional wealth and the relating behavioral agency model.

THEORETICAL BACKGROUND

In the last decades the research on the internationalization of family firms has steadily increasing and reviewing this literature, there seems to be agreement that family ownership influences the internationalization of the firm. Moreover it shows that the arguments that are provided in this research strongly relate to non-financial considerations. Gallo and Sveen (1991) argued that on the one hand the family can have a positive influence on the internationalization of the firm, because of the long-term focus and family members in the firm might want to have

their own area to focus on. On the other hand they suggest that family ownership can also have a negative influence on internationalization because of the concentration of power in the hands of one individual and risk avoidance of the family. For both these perspectives evidence is found. Some scholars found that family ownership has a positive influence on internationalization (Zahra, 2003), but it is more common to find a negative relationship between family ownership and internationalization (Fernández & Nieto, 2006; Gallo & Pont, 1996; Sanchez-Bueno & Usero, 2014). Chua, Chrisman, Steier, and Rau (2012) suggest that many of the mixed findings that are found in the study of family firms can possibly be explained by taking into account that family firms as a group are heterogeneous and that the degree of family involvement can impact the decisions made within the firm. Building upon this idea, some scholars have argued that there is an inverted U-shaped relationship between ownership and the degree of internationalization (Mitter, Duller, Feldbauer-Durstmüller, & Kraus, 2014; Sciascia, Mazzola, Astrachan, & Pieper, 2012). They argue that at low to moderate levels of family involvement in the firm, there is a positive effect on internationalization because of the concern with continuity, employees and customers. However, when family involvement increases the effect becomes negative because of a reduced resource base, risk aversion and increasing conflict among family members.

The majority of the family firm literature focuses on the growth of the firm, but firms cannot expect to be growing internationally forever and rather it is more common that firms have periods of internationalization and periods in which they do not internationalize or even decline their international presence (Casillas & Acedo, 2013; Welch & Luostarinen, 1988; Vissak, 2010). De-internationalization is a broad concept that includes a decline in the international operations of the firm, which can indicate complete withdrawal from any international activities, withdrawal from certain markets or a change to an operation mode that requires a lower level of commitment (Benito & Welch, 1997; Vissak, 2010). In this paper, when we talk

about de-internationalization we refer to the withdrawal from one specific foreign market. Majority of the literature on de-internationalization looks at the antecedents for internationalization, but little agreement exists about whether de-internationalization is influenced by internal factors or external factors or whether it is a reactive or a proactive approach (Benito & Welch, 1997; Boddewyn, 1979; Cairns, Quinn, Alexander, & Doherty, 2010; Turner, 2011). Fletcher (2001) argued that de-internationalization is mainly a reaction to changes in the external environment like a decline in overseas order and increasing competition abroad. Contradicting this, Cairns, Marie Doherty, Alexander, and Quinn (2008) find that internal forces like a strong inward looking culture, preserving of a failing international strategy and change in management are the main reasons for withdrawing from a foreign market. Because of a strong focus on the divestment of foreign subsidiaries, majority of this literature looks at de-internationalization of large multinationals and although several scholars have pointed out that de-internationalization is a common strategy for small,- and medium-sized firms (Crick & Jones, 2000; Kuivalainen, Sundqvist, Saarenketo, & McNaughton, 2012), very little empirical research exists about the de-internationalization of small firms. Recently, Lafuente, Stoian, Rialp, and Matlay (2015) found that the export decision of SMEs is influenced by past international experience, whereas the decision to de-internationalize is mainly determined by the fear of business failure. Despite the disagreement on what is driving de-internationalization, it seems that the decision to de-internationalize is influenced by different factors than the decision to internationalize.

HYPOTHESIS DEVELOPMENT

The behavioral agency model states that if there is a close connection between the performance of the firm and the executive's rewards, then when the firm is performing well and the executive expects future gains, he or she will be less risk taking in order to preserve this wealth. If the expected performance is below expectations, the executive will anticipate a loss in wealth and

will become more risk taking in order to preserve the wealth he or she has (Wiseman & Gomez-Mejia, 1998). Family firms are characterized by a significant overlap between the family and the work system and therefore the family has a strong influence on the main decisions that are made within the firm (Sharma, Melin, & Nordqvist, 2014). Moreover, the wealth of the family is closely connected to the performance of the business. However, family firm owners are not only concerned with financial wealth but also non-financial. Non-financial aspects that are considered to be relevant for the family are benefits associated with family control and influence, identification of the family members with the firm, social relationships that are built over a long period of time, emotional attachment and the succession of the firm to the next generation (Berrone, Cruz, & Gomez-Mejia, 2012; Gómez-Mejía et al., 2007). The concept of socioemotional wealth captures these non-financial aspects of the firm that meet the affective needs of the family (Gómez-Mejía et al., 2007). Gomez-Mejia et al. (2010) argued that internationalization of family firms poses a dilemma to the family. On the one hand, internationalization diversifies away some risks by entering in a larger variety of markets and allows the firms to exploit the benefits from globalization. On the other hand, socioemotional wealth can be threatened when the firm internationalizes. When family firms internationalize they might need more external funding to internationalize and hire non-family specialists with knowledge about internationalization which can result in a loss of control. Moreover, the firm needs to increase their external network in order to get access to foreign stakeholders, resources and institutions. These factors make it less likely for a family owned firm to internationalize.

As mentioned before de-internationalization can be a result of a change in leadership as well as a result of financial considerations like a poor performance or increased competition. Feldman, Amit, and Villalonga (2013) argued that in the family firm the decision to divest foreign operations is strongly influenced by the history of the family firm. The research that is available found that family ownership makes it less likely that firms divest a part of their operations

because of the emotional attachment to the firm (Block, 2010; Feldman et al., 2013; Sharma & Irving, 2005). Similar arguments can be provided for de-internationalization of family firms. When the family firm de-internationalizes, it risks losing socioemotional wealth. In line with the argumentation of Sharma and Manikutty (2005) it can be argued that due to the emotional connection to the firm, the decision to de-internationalize will be a difficult decision to make. Because the family firm often carries the name of the owners, it is seen as an extension of the family (Berrone et al., 2012). As a result of that it is more difficult to decline the business' activities. Moreover, over time family firms are likely to have built up networks in the international markets that they are doing business in. Kontinen and Ojala (2011) found that international networks of family firms are very limited, even after international market entry and therefore there is a strong reliance on only a few partners. Withdrawing from an international market will result in a loss of these few, but possibly stronger, relationship that the firm has built up over the years. Hence, there is a risk that the firm loses socioemotional wealth when de-internationalizing. Gómez-Mejía et al. (2007) argued that a decline in socioemotional wealth is for the family firm a crucial loss and a more important consideration than financial losses. Given this notion, the behavioral agency model predicts that if the firm expects to have a loss in socioemotional wealth due to a decline in their international performance, it will at first become more risk-seeking. Hence, instead of withdrawing from a market when the performance in the foreign market is not meeting the aspiration levels, the firm will continue to invest in the market in order to maintain socioemotional wealth and is willing to accept the financial losses for some time. However, Gómez-Mejía et al. (2007) state that the importance of socioemotional wealth in the decision-making process is more important when the family involvement is high. Hence, the above argumentation is likely to vary with the degree of family involvement in the business. Based on this argumentation we hypothesize that:

Hypothesis: A higher degree of family involvement in the firm has a negative influence on de-internationalization.

METHOD

To test our hypotheses we are collecting data from a random 2500 small and mediums sized firms in Sweden. The companies are first contacted over the telephone and then they receive an on-line questionnaire. 430 family firms agreed to participate in our study and preliminary analysis presented here is based on the answers from this sample.

According to the European Union, SMEs are defined as independent enterprises which employ between 10 and 249 individuals, and whose annual turnover is between 2 and 50 million Euro (European Commission, 2003). We utilized the survey data to obtain the data on de-internationalization, family involvement and time since fist internationalization while we used archival, registrar data to measure most of the control variables.

To deal with the potential problem associated with single-informant bias, including common method bias, we are collecting information from anther respondent in each company. Further, we are also collecting data on the firm export activities from archival sources. Yet, the data from the additional respondents and the archival data are not yet available.

Variables

We measure *de-internationalization* with a dummy variable which takes value of 1 if— over the previous three years— the company has completely withdrawn from a foreign market to which it was selling its products or services, and 0 otherwise.

Family involvement is calculated as the percentage of the firm equity held by a family.

We also control for a number of factors which can potentially affect de-internationalization. Specifically, we control for *firm age*, as the number of years since the firm inception. Further, we control for firm performance using a summated scale of four items (profit, cash flow,

company value, growth in sales). We also control for *firm size*, measured as the number of employees. Further, we controlled for *generation in control*, by dummy coding whether the business was controlled by the first generation or later generations and *international intensity* as the percentage of sales coming from foreign market. Finally, we controlled for *time to first internationalization* is measured as the number of years since the first international sales.

PRELIMINARY ANALYSIS

The analysis is performed in two steps. First, we use a probit model to estimate the likelihood of being international. Second, we save the inverse-mills ratio from the first analysis and use it in the main analysis which estimates the likelihood of de-internationalization. This two-step procedure is chosen to control for the possible sample selection bias of having selected only international firms for our main analysis. The results of the logit model are reported in Table 1. Model 1 reports the analysis only including the control variable. Model 2 includes the effect of our independent variable—family involvement. The effect of this variable is not statistically significant and thereby we do not find support for our hypothesis.

As an additional analysis we test the curvilinear effect of family involvement on the likelihood of de-internationalization. Prior studies on the internationalization of family firms show that the relationship between family involvement and firm internationalization might be non-linear (Sciascia et al., 2012; Sciascia, Mazzola, Astrachan, & Pieper, 2013). The results of these additional analysis are reported in Model 3 (Table 1). Here, both the direct and the squared term of family involvement are statistically significant and their signs— positive for the direct effect and negative for the squared term—suggest an inverted U-shaped relationship between family involvement and de-internationalization. Figure 1 shows this relationship graphically.

DISCUSSION AND CONCLUSION

We have argued that family involvement in the firm has a negative influence on the decision to de-internationalize because of a fear to lose their socioemotional wealth. This argument is in line with the reasoning on the behavioral agency model, which argues that firms become more risk-seeking when they experience a loss situation. A preliminary analysis does not provide support for this hypotheses. Instead, the preliminary findings show an inverted U-shaped relationship between ownership and de-internationalization. This is in line with previous findings on the relationship between family involvement and internationalization (Sciascia & Mazzola, 2008; Sciascia et al., 2013). The findings suggest that if less than 80% of the firm is owned by the family, non-financial considerations referred to as socioemotional wealth are less important and the main factor influencing the risk-taking of the family firm are financial factors. Whereas a high percentage of family involvement means that factors like the reputation of the firm, succession to the next generation, and the relationships that have been build up over time start to play a more important role in the decision to stay in an international market or withdraw from the market when facing a loss situation. Hence, this suggests that in order to understand the de-internationalization of firms the ownership of the firm should be taken into account because different factors are likely to be relevant in the decision to de-internationalize.

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TABLES AND FIGURES

Table 1: likelihood of de-internationalization

VARIABLES	(Model 1) Deint	(Model 2) Deint	(Model 3) Deint
Mills ratio	0.602	0.574	1.088
	(2.165)	(2.306)	(2.355)
Firm age	0.000254	-0.000843	-0.00104
	(0.00831)	(0.00832)	(0.00833)
Firm performance	-0.303	-0.349	-0.305
	(0.241)	(0.245)	(0.251)
Firm size	0.0120	0.0114	0.0132
	(0.00734)	(0.00761)	(0.00772)
First generation	1.338**	1.291**	1.342**
	(0.490)	(0.490)	(0.500)
Export intensity	-0.00860	-0.00695	-0.00465
	(0.00812)	(0.00820)	(0.00838)
Years since first int	0.0155	0.0126	0.0125
	(0.0141)	(0.0143)	(0.0145)
Family involvement		0.0271	0.808*
		(0.0179)	(0.367)
Family involvement squared			-0.00483*
			(0.00219)
Constant	-2.523	-4.756	-35.34*
	(2.098)	(2.695)	(15.32)
Observations	209	209	209
Log-likelihood	-83.91	-82.45	-79.22
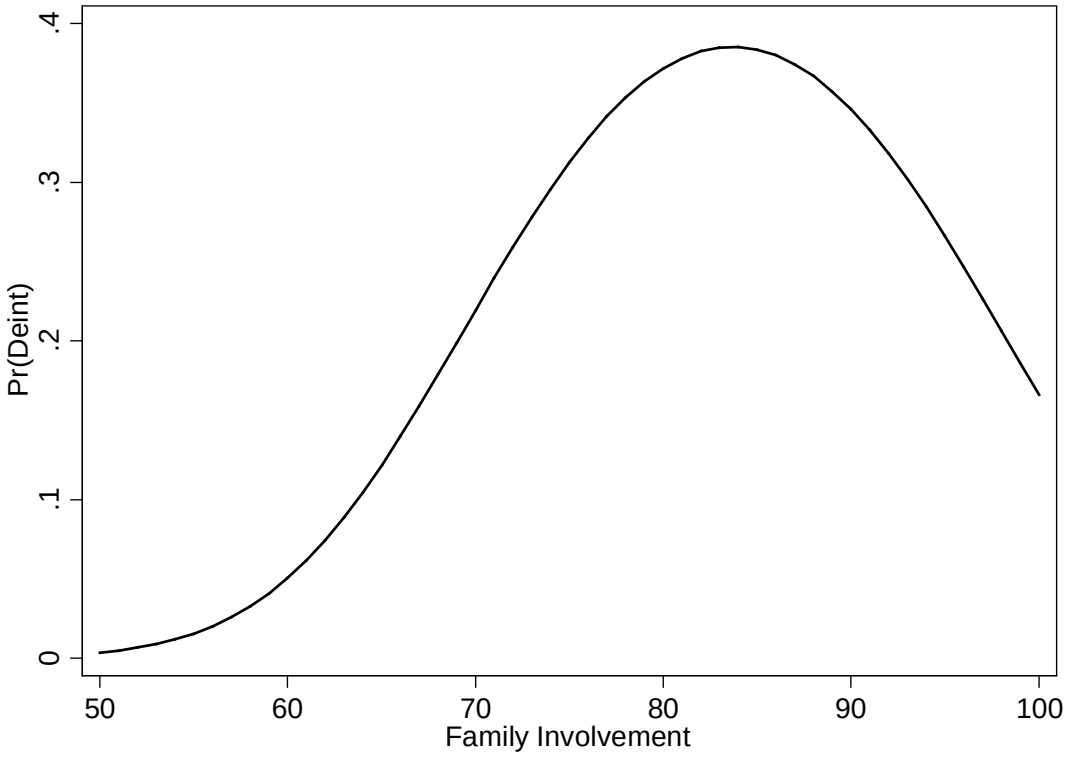
Figure 1: inverted U-shaped relationship between family involvement and de-internationalization