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Internationalising Family Run Business: Overcoming Conflict, Embracing Cohesion and the role of Entrepreneurship

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Internationalising family run business: Overcoming conflict, embracing cohesion and the role of entrepreneurship.

ABSTRACT

Family run businesses, despite their importance to both local economies and at a broader national level have traditionally received significantly less attention in business research than either Small to Medium Enterprises (SMES) or new venture business start-ups.

The study proposes to examine the internationalisation of family run businesses with a focus on cohesion, leadership and the role of entrepreneurship, both during and directly thereafter the critical interim of expanding operations across international borders.

Proposing a multiple case study methodology, we intend to explore the practicalities of how family run enterprises expand beyond their national borders and embrace wider, international markets. Further, the study proposes to examine the unique idiosyncracies inherent in the context of family run businesses; notably the importance of succession planning, managing paternal relationships and overcoming internal human resourcing conflicts through collective negotiation.

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INTRODUCTION

Globalisation forces many organisations, particularly small and medium enterprises (SMEs) to adopt an international perspective to ensure survival, to expand beyond their national borders and to embrace wider, international markets. While the IB research domain and in particular the Uppsala internationalisation model addresses generic problems facing organizations such as the '*liability of foreignness*' or the '*liability of outsidersness*' (Johanson and Vahlne, 1977; 2006; 2009) less is known of the unique and idiosyncratic problems facing family run businesses as they attempt to embrace international markets.

In this working paper we explore the literature pertaining to the internalisation of SMEs including a discussion of the typical barriers to SME internationalisation. Building upon this foundation we highlight how the family run business context also presents new challenges including business model adaption, succession planning, conflict resolution and establishing a workable balance between entrepreneurship and tradition. We conclude the paper by addressing the rich research opportunities identified within this domain.

THEORETICAL BACKGROUND

A number of reviews have been conducted in an effort to synthesize the literature on internationalisation (Welch and Loustarinen 1988; Aaby and Slater 1989; Johanson and Vahlne 1990; Anderson 1993), however a single universally accepted definition of the term remains elusive. In this study we use the definition provided by Beamish (1990: 77) who defines internationalisation as '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 other countries'. Two factors have influenced our adoption of this

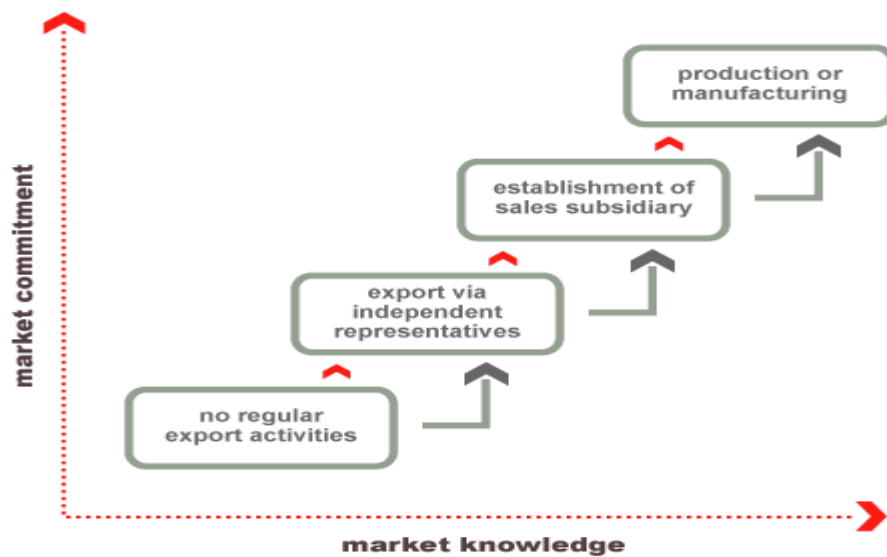
definition. Firstly, it acknowledges the necessity of internalization for many firms; a factor made all the more apparent by globalization and the need to move beyond saturated domestic markets to ensure survival. Secondly, it recognises the saliency of *indirect* influences on international activities. This latter point is quite important given obstacles such as succession planning and crises of leadership – which have traditionally been found to curb expansion plans within family run enterprises (Brockhaus, 2004; Handler, 1992).

Existing Frameworks & the Uppsala Model

For the last number of decades the internationalisation process has received significant attention within the IB domain. Within this arena the Uppsala process model (original and subsequent revisions) has largely dominated the field of internationalisation. The underlying assumptions of the model are that firms are guided by both uncertainty and bounded rationality and must learn from their experience in foreign markets whilst also making commitment decisions to strengthen their positions within these markets (Johanson and Vahlne, 1977; 2006; 2009). This model largely referred to as the stage model of internationalisation. In an attempt to explain the paths, patterns and pace of the internationalisation process, Johanson and Vahlne (1977) developed this framework based on empirical observations of Swedish manufacturing firms engaged in international operations. The central argument of the model, given its theoretical base in the behavioural theory of the firm (Cyert and March, 1963) and Penrose's (1959) theory of the growth of the firm, is that the more accustomed a firm is to its foreign market, the more it increases its foreign market commitment. Further, it is argued that a lack of market knowledge is an important obstacle in the development of international operations and such critical knowledge can only be acquired through operations abroad.

The Uppsala model thus portrays internationalisation as the product of a series of incremental decisions with the firm passing through four consecutive stages of increasing commitment to international activities as it seeks to gradually increase knowledge of foreign markets while lowering the perceived risk and transaction costs (Karadeniz and Gocer, 2007):

Fig. 1 Uppsala Model of Internationalisation



(Adapted from Johanson and Vahlne, 1977)

Within the establishment chain Johanson and Vahlne (1977) suggest firms begin their internationalisation process in markets with less psychic distance - with psychic distance being defined as the factors such as differences in language, culture or political systems disturbing the flow of information between the firm and the market and the source of considerable barriers to foreign market entry. Johanson and Vahlne (1977) found that firms typically undertake the internationalisation effort in a stage-wise, planned manner starting with nearby and similar countries with a lower “psychic distance” to the home market, and then moving towards other unfamiliar markets using the learning from this process. Psychic

distance can be likened to Ghemawat's CAGE distance framework which identifies various Cultural, Administrative, Geographic and Economic differences or distances between countries that managers should address when crafting internationalising strategies. This process must also overcome '*liability of foreignness*', i.e. the larger the psychic distance the larger the liability of foreignness. Despite the merits of the Uppsala model there have been various criticisms among practitioners in recent times for its lack of structural, methodological and conceptual rigor. Table 1, which follows outlines some of these weaknesses as evident in the literature.

Criticisms of the stage model of internationalism

Table 1.

| Limitations Identified | Author(s) |
|---|---|
| Too deterministic and sequential. Companies sometimes leapfrog over stages in the establishment chain | Reid (1983), Hedlund and Kverneland (1985) Turnbull (1987), Fina and Rugman (1996) |
| Says nothing about the beginnings of internationalisation | (Andersen, 1993) |
| Ignores fact that the world has become much more homogeneous and consequently psychic distance has decreased | Nordstrom (1990) |
| Does not take into account interdependencies between different country markets | Johanson and Mattsson (1988), Hollesen (2001) |
| Internationalisation can occur via planned or unplanned strategies especially in smaller firms where CEO can make decision on the spot. Model excludes other strategic options | Melin (1992), McDougall and Oviatt (1997), Crick and Spence (2005) |
| Fails to explain the dynamics of progressing from one stage to another | McKiernan (1992) |
| No empirical evidence of dynamic progression based upon longitudinal studies over time | Burns (2008) |
| Ignores acquisition as a path to internationalisation | Forsgren (1990), Sharma (1992) |
| Does not adequately consider external factors such as industry competition, market demand or government initiatives which could enhance or inhibit internationalisation process | Sullivan and Bauerschmidt (1990) |
| Does not capture the complexity of the realities of internationalising SMEs in high-technology sectors, where environmental variables change | Bell (1995), Bell, Crick, and Young (1998), Knight and Cavusgil (1996) |

constantly

While U-model argues internationalisation is slow, cautious and risk averse, INVs/Born Global firms employ different strategies by rapidly expanding into foreign markets from inception taking high risks during the process

Chetty and Campbell (2003), Oviatt and McDougall (1994)

In accord with Andersen (1993) we argue that the Uppsala model falls short in explaining what happens when enterprises decide to internationalise their operations - or more specifically, what happens *within* the business both during and directly thereafter the critical interim of expanding operations across new international borders. It is also noted that the absence of research within the domain of family run business is quite alarming, given empirical data which shows considerable expansion over the last number of years (Birdthistle and Fleming, 2007). Recent conceptual work by Patel et al (2012) argues that minimal growth in many home markets is now forcing many family businesses to develop the capabilities necessary to internationalize operations and constitutes an unavoidable strategic choice. In response, we propose to examine the common pitfalls, barriers and internal struggles which hinder may the difficult transition that family run businesses face in crossing international borders. Building upon the foundations of internationalisation theory we now address the family business context and the new avenues of potential research identified.

Family Business & Entrepreneurship

The founders or first generation family members responsible for business startup must possess the necessary entrepreneurial skills to create a business (Aldrich and Cliff, 2003; Cruz and Nordqvist, 2012; Schein, 1983). This is in contrast to subsequent generations tasked with finding new ways to ‘revitalise and further expand the business they have inherited while at the same time deal with the shadow of the founder’ (Cruz and Nordqvist, 2012: 36). This indicates that new generations face very different challenges than their predecessors.

The onus on subsequent generations often becomes focused on maintaining the legacy of their predecessors and the long term survival of the firm rather than the proactiveness, risk taking, aggressiveness and innovation which drives an entrepreneurial orientation (Dess and Lumpkin, 2005). This phenomena is captured by Zahra (2012:52) who finds that ‘as they become established, some family firms may lose their entrepreneurial zeal and emphasize their ongoing operations and legacy over innovating’. It also becomes apparent that the entrepreneurial orientation, and the internal and external factors which drive it, is likely to differ substantially among first, second and subsequent generational family firms (Cruz and Nordqvist, 2012). Where issues of legacy begin to take precedence over entrepreneurship another danger may begin to emerge in the form of organizational inertia and the unforeseen redundancy of current business models.

Crisis of Leadership & Cohesion

Research indicates that second and subsequent generation managers often possess more formal education and outside experience - providing them with a heightened ability to analyse competitors, markets and to sense and seize new opportunities for growth (Cruz and Nordqvist, 2012; Sonfield and Lussier, 2004). Despite this, Zahra (2012) highlights how family run businesses are prone to search for opportunities in familiar places thus limiting the potential scope for identifying expansion opportunities which break from the status quo. A significant challenge can emerge in the preservation of socioemotional wealth, defined as the non-financial aspects of the business including ‘the family's affective needs, such as identity, the ability to exercise family influence, and the perpetuation of the family dynasty’ (Gomez-Mejfa 2007: 106). The preservation of such wealth is likely to fuel indecisiveness where an inward orientation takes precedence over future growth prospects. As an area of research which remains undeveloped we intend to delve further into how leadership is negotiated

within this context. Should internalization pose a significant change to the current business model of the organization it is argued that the need for cohesion and leadership becomes an increasingly salient issue. The research aims and objectives of our proposed study are now outlined.

RESEARCH AIMS AND OBJECTIVES

The research project proposes to shed light on the neglected area of how family run businesses internationalise their operations and the barriers they must overcome to do so. In accordance, the following aims and objectives are highlighted:

Business Models:

- To explore how business model adaption and renewal is negotiated within the family business context.
- To examine how the need for market adaptability shapes strategy in family run business.
- To develop a sustainable framework for understanding the transition from local responsiveness to international/global applicability.

Entrepreneurship and Tradition:

- To examine *sustainability and equilibrium*; profits are not the only element in the decision making process but remain essential for the enterprise to survive and to stay in the family.
- To explore the extent to which succession planning and expectation may hinder entrepreneurial strategies within the family run business.
- To uncover effective methods for conflict resolution within family run businesses.

PROPOSED METHODOLOGY

A Qualitative Approach

As the focus of this research is to contribute to our understanding of how family run enterprises break from the status quo and embrace new business models it became quickly apparent that a more micro, qualitative perspective was not only warranted but was also likely to yield significantly greater insights. Adopting a qualitative approach thus allows for a more detailed account of practices as it reduces the distance between the researcher and the phenomena under investigation (Creswell, 2003). Through both detailed interviewing and observations the researcher can then gain well substantiated conceptual insights that reveal how broad concepts and theories operate in particular cases' (Gephart, 2004: 455). Also, cognisant that it may be necessary to sacrifice some of the generality of quantitative investigation for a more qualitative attention to detail' (Lockett and Thompson 2001: 743) the benefits of gaining a deeper, contextualised understanding of the issue under observation (Denzin and Lincoln, 2005; Stroh, 2000) was deemed to outweigh the perceived benefits of wider generalisability.

Exploratory / Pilot Interviews

The piloting phase, as a crucial step in research design provides initial insights into the research inquiry in respect of both the content and procedures to be followed (Yin, 2009). Discussions with a variety of respondents including both key stakeholders in family run enterprises and experts from *Enterprise Ireland* (State run organisation which works with indigenous Irish enterprises looking to access global markets) are to be carried out. This stage is intended to provide interviewer feedback on areas including misleading terminology or

unclear concepts and to inform and refine the discussion guide for subsequent use during the data collection stages.

Interviews with key stakeholders in Family businesses

Upon successfully gaining access to family run business (of which a number have already been secured) we propose to carry out a number of case studies based on semi-structured interview data gathered from key respondents who play integral roles in family run enterprises. These targeted cases will be from a variety of industries. Standard discussion guides will be developed to ensure that data gathered is consistent and germane to the cross case analysis to be subsequently implemented. This also allows us to utilise replication logic (Eisenhardt, 1989; Eisenhardt and Graebner, 2007) and for the cross case analysis to generate greater rigor in the findings which emerge. By adopting this technique we can thus treat cases as experiments with each individual case either confirming or disconfirming the inferences drawn from the other cases (Santos and Eisenhardt 2009; Yin 2009).

Data Analysis

The data analysis process should be an iterative one and will run concurrent with the data collection. Miles and Huberman (1994) demonstrate how the collection, coding and analysis of data should all take place simultaneously to allow for both flexibility in the research process and for emergent insights to inform subsequent interviews. Additionally, this approach allows the researcher to probe emergent themes that arise during the research process (Eisenhardt, 1989). Cases will first be treated separately, conducting a single case analysis in accordance with guidelines by Yin (2009) and Eisenhardt (1989). Subsequently, we will pursue a cross analysis through indexing, search functions and queries which can be used to uncover patterns and relationships in the data. This process of comparing and

contrasting data, revisiting the data in an iterative manner and through cross-case analyses provides us with a sounder basis for creating generalisable theory when compared with single case designs (Eisenhardt, 1989; 1991; Eisenhardt and Graebner, 2007; Yin 2009).

CONCLUSION

Family run businesses, despite their importance to both local economies and at a broader national level have traditionally receive significantly less attention in business research than either Small to Medium Enterprises (SMES) or new venture business start-ups. In this working paper we advance our research aims, objectives and proposed methodology which focuses on business model adaptation in family run business and the paradox of game changing entrepreneurship and tradition both during and directly thereafter the critical interim of expanding operations across international borders. The exploratory nature of this working paper is clearly evident and we welcome any feedback reviewers may have as we further develop our theoretical arguments and begin our data collection.

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