

**The international expansion of family firms:
the moderating role of successor and external manager**

This paper provides new evidence on the relationship between family firms features and their international growth. In particular, our aim is to understand how the family impacts on the degree of internationalization of a multinational firm.

The sample is composed of 361 Italian multinational companies affiliated with 5,348 foreign firms in the period 1994–2013. Our results show that the involvement of the family in the ownership is negatively associated with the level of internationalization of a firm, while governance has no effect. In contrast, the presence of young successors favors the development of the business abroad. Moreover, the negative effect of the family ownership is enhanced for firms that didn't employ external manager. On the contrary the negative effect of family ownership on the level of internationalization of a firm is lower for firms without successor.

Keywords: family firms, internationalisation, successor, external managers

INTRODUCTION

The vast majority of firms, around the world, are owned by families. This fact can be observed not only among small and medium enterprises but also among large companies. The value and culture of family firms (FFs) play an important role in today's global economy (Tapies and Ward, 2008). According to Family Firms Institute, two thirds of all businesses around the world can be considered family businesses. Family-owned firms represent the backbone of the European economy and especially of the Italian one. In fact in Italy the family model of control is by far the most diffused (Giacomelli and Trento, 2005; Unicredit, 2014).

Serving a foreign market, either through exports, foreign production or contractual modes, is a very important opportunity to grow for most of the firms. Internationalisation is a key factor in terms of productivity, profitability, innovation and growth. At the same time, firm ownership and governance structures seems to have a strong impact on firms internationalisation choices and their success in foreign markets. Family firms, just like other firms, must face today the challenge of being present in foreign markets (Naldi and Nordqvist, 2008). Internationalisation strategies are costly, not only in terms of financial resources but also in terms of managerial and human capital resources necessary to successfully enter foreign markets. Only a small number of firms in fact are more likely to export and to internationalise in some way (Greenaway and Kneller, 2007). The Italian economy is one of the less internationalized. The stock of outward foreign direct investments(FDI) as a share of GDP is lower in Italy than in many other advanced countries (UNCTAD 2013).

The low rate of growth of the Italian industry, over the last decade,due partly to anemic domestic demand makes foreign markets entry strategies very important (Tardivo and Cugno 2001). There is moreover an increasing interest in the internationalization pathways of family businesses (Kontinen and Ojala 2010).

This study contributes to research on family business in several ways. First, the paper investigates for the first time the degree of internationalisation of family firms. We aim at understanding how multinational family business features may have an impact on their internationalization strategies. The concept of internationalisation which underpins us but also many other studies is based on the foreign versus home production dichotomy (Ietto-Gillies, 1998). Thus, our index is constructed as shares of activities that the company has abroad in relation to its domestic activities. In literature these activities are represented by sales, assets, employment, R&D, profits or other variables. In many cases only one of these variables is represented; in others, a composite basket usually aggregated together as a linear average with the same weights, is used (Sullivan, 1994; UNCTAD, 1995, 1997). Here we consider the ratio between the number of employees hired abroad and the number of workers employed in Italy as a good indicator of the degree of foreign markets penetration. Second, by analyzing international activities, which imply key strategic and risk taking decisions, we provide a better understanding of how family presence and influence affect the strategic choice, in this specific case on the international expansion. In other words, we focus on internationalised family firm in the attempt to examine whether family affects the strategic decision to intensify their presence abroad through further FDI. Thirdly, our study examines the separate effects of three attributes of family firms, assuming that the degree of alignment with family firm characteristics can vary across different family firm dimensions. By adopting this approach, we acknowledge the heterogeneity of family firm and are able to assess which and how different dimensions of family ownership and family involvement in the firm's operations actually influence the international strategy. Last, we examine the consequence for management and policy making.

The paper is structured as follows. The first paragraph propose a literature review about FF definition and the relationship between family business and internationalization. The second

paragraph describes the adopted definition and the consequent research hypothesis, while the third is focused in the methodology description and the fourth on the empirical results. Finally, a concluding section completes the paper.

1 THEORETICAL FRAMEWORK

1.1 Family business definition

Although the family business field became an autonomous academic discipline since the nineties (Bird *et al.* 2002), it still doesn't exist a widely accepted definition of the phenomenon (Di Toma and Montanari 2010; Greenstein and Davis 2013; Littunen and Hyrsky 2000; Sharma 2004). "To be functional a definition must be unambiguous and transparent in such a way that it can be quantified" (Astrachan, Klein and Smyrnios 2002, p. 46). Authoritative researchers assert that an appropriate definition of family business has to account to multiple dimensions (Chua, Chrisman and Sharma 1999; Gallo and Sveen 1991; Graves and Thomas 2006, 2008; Villalonga and Amit 2006; Zahra 2003) in order to understand how the distinctive characteristics of FFs affect the business behavior.

In spite of the lack of definitional clarity (Chua, Chrisman and Sharma 2005) a review of definitions employed in studies reveals that is possible to identify some similarities among the definitions proposed. The birth of this field of research is naturally linked with the conviction that exist a clear demarcation between family and non family firms (Sharma 2004), in particular the involvement of the family shapes differently the business (Miller and Rice 1967) and make it unique (Habbershon and Williams 1999); therefore an appropriate FF definition has to get this difference (Chua, Chrisman and Sharma 2005). In this sense many researchers made an effort to understand which are the typical features of a FF that allows to distinguish them from non family ones (e.g. Anderson and Reeb 2003; Littunen 2003; Westhead, Cowling and Howorth 2001).

Large number of definitions are based on *ownership*. Gallo (1995) and Lee and Tan (2001) argue that a firm can be considered a family business only if the family owns a share of 50% or more of the equity. Similarly Littunen and Hyrsky (2000) assert that a FF is a business owned by a family or by a member of a family.

Most researchers define FFs emphasizing the family *management* dimension, namely focusing on the presence of one or more members of the family with strategic roles within the firm (Davis and Harveston 2000; Tsang 2001). At the same time other definitions combine these two elements, *family ownership* and *family management*.

From a different point of view, another key dimension used to define FFs is the generational transfer and in particular the involvement of the young generations not only in the present, but in the future too (Cabrera-Suarez, de Saa-Perez and Garcia-Ameida 2001; Cucculelli and Micucci 2008).

Researchers try to avoid dichotomous categorizations between family and non family business that could bias the results of empirical analyses. Rather than opposite categories, family and non family firms represent the extremes of a continuum (Bannò and Sgobbi 2013).

In line with the above literature contributions and with the aim of the paper, namely understanding how the family influences the international activity of the firm, we need to adopt a multidimensional definition of family business. Our research is focused on the involvement of the family in the business and, in particular, on three key dimensions highlighted in the literature: *family ownership*, *presence of family members with strategic roles* and *participation of young successors*.

1.2 Relationship between family business and internationalization process

Several empirical researches show that the development of a FF internationalization process is different in comparison with a non family one (Bell, Crick and Young 2004;

Fernandez and Nieto 2006; George, Wiklund and Zahra 2005; Graves and Thomas 2006; Johanson and Vahlne 2009); for this reason the internationalization of family businesses is becoming a significant research area (Kontinen and Ojala 2010). In particular there is no agreement among researchers; the literature is heterogeneous concerning the assessment of family impacts (Pukall and Calabrò 2013). Although some authors suggest that family involvement have a positive impact on internationalization, on the contrary others argue that the family-related factors have a negative influence.

Authoritative contributions in the literature suggest that FFs are less likely to expand their business out of the national boundaries (Fernandez and Nieto 2005; Gallo and Garcia Pont 1996) because they traditionally operate in domestic markets. Gallo and Garcia Pont (1996) argue that the focus on local market inhibits the international growth opportunities of the firm. The same authors state that another family-related factor with negative impact is represented by the lack of adequate financial resources, essential to undertake a global expansion process. In line with the above contributions, Thomas and Graves (2008) argue that the concentration of the business in the hands of the family and the absence of financial capital limit the expansion of family businesses abroad. Moreover they show that FFs are not prone to hire managers with international experience and, at the same time, desire to remain wholly family owned and managed due to the fear of losing control. This depend on the risk adverse nature of FFs, that are reluctant to accept outside expertise and to form networks with other businesses. According to Roessl (2005), exist strong internal ties within FFs, that may became a liability when hindering the information sharing process and obstructing links to new partners. Kontinen and Ojala (2010) recognized that the scope of an entrepreneur network is positively associated with the ability to recognize opportunities of growth and development. This fact is dependent on the willingness of FFs to perpetuate their cultural identity (Zaniewska 2012). According to Gallo and Sveen (1991), family-related factors that inhibit

the international growth include the unwillingness to hire external managers with international expertise, fear of losing control and not enough developed information systems. Moreover, Okoroafo (1999) argue that the main factor that restrains the global expansion of a family business is related with the incapacity to monitor the international environment regularly.

On the other hand, FFs possess unique skills and expertise that they can use abroad (Zahra, 2003). Firstly, FFs tend to support long-term goals (Schulze *et al.* 2001; Sirmon and Hitt 2003); in fact generally they are focused on long-term results especially when making decision regarding demanding investments as may be considered internationalization. It is found by Gallo and Garcia Pont (1996) that the ability to make quick decision is a family-related factor that facilitate the global growth of the business. Furthermore, due to the family involvement, family businesses are characterized by stable exchange of information among members. Surely the knowledge sharing attitude is another element that support internationalization (Zaniewska 2012). It has been recognized by James (1999) and Zahra and Sharma (2004) that the knowledge sharing create trust and encourages long-term investments. In conclusion, the majority of the literature contributions analyzed argue that another significant family-related factor that enhance the international growth of the firm is represented by the entry on the scene of new generations. In particular, Fernandez and Nieto (2006) highlight that the young family members are more likely to launch an expansion process. Moreover, the involvement of multiple generations create an organizational culture that support risk-taking strategies (Zahra 2003). Graves and Thomas (2008) assert that the commitment to global growth is related with the qualities and the vision of the heirs. Okoroafo (1999) shows that if a family business does not start to develop its operations abroad in the first or second generation, it is not likely to do it in the third.

2 RESEARCH HYPOTHESES

Considering the evidences emerging from the literature review and, at the same time, the research object, namely understanding how the family impacts on the international expansion of a firm, the FF definition adopted is multidimensional. It is essentially based on the involvement of the family in the business and is focused on three dimensions: *family ownership*, *presence of family members with strategic roles* and *participation of young successors*.

Ownership significantly influences a firm's strategic choices, especially when the family owns a significant equity stake (Zahra and Pearce 1989; Zahra 1996). FFs belong to the wider cluster of concentrated ownership (Naldi and Nordqvist 2008; Trento 2008). When the involvement of the family in the ownership is high, the firm tends to avoid the implementation of strategies that could decrease the family control on the business (Casillas, Moreno and Acedo 2010). If ownership remains in family hands, the firm can experience a convergence around norms and values (Thusman and Romanelli 1985). On the other hand, ownership concentration limits the ability of the firm to react promptly to change need and, more generally, to catch new business opportunities (Bosi and Trento 2012), e.g. international expansion. For the same reasons, family owned firms are reluctant to get in touch with possible external partners. Changes in ownership are likely to provide more financial resources, encourages the adoption of a more dynamic and competitive business model and increase the responsiveness to market changes (Goodstein and Boeker 1991). Based on the considerations presented above, we believe that family ownership dimension is highly important, indeed exists a substantial degree of dependence between ownership and strategies. We therefore hypothesize that:

Hp1: Family ownership is negatively associated with the degree of internationalization of a firm.

The second dimension considered is referred to the participation of family members in the board of directors. The composition of the board impacts on how FF makes decisions (Goodstein and Boeker 1991). Specifically, most researchers show that external members can be considered as a fundamental resource for strategic and decision-making process within a FF (Corbetta and Salvato 2004; Fiegengeret al. 2000). They can think freer on different strategic alternatives because they are not linked to family ties and, for the same reason, they can focus on giving independent advices to top management (Westphal 1999). External board members can represent an important resource in the firm strategic process, in fact the outsiders entails heterogeneity of resources as expertise, skills and information that can support the international expansion process (Corbetta and Salvato 2004; Fiegengeret al. 2000; Naldi and Nordqvist 2008). Most researchers have demonstrated that family involvement in the board of directors limits the access to critical resources for internationalization (Calabrò, Mussolino and Huse 2009; Filatotchev, Isachenkova and Mickiewicz 2007). The above observations suggest that the presence of family members in the board of directors can inhibit the international growth of the firm.

Hp2: The presence of family members in the board of directors is negatively associated with the degree of internationalization of a firm.

The involvement of young generations is considered a key dimension because the succession can be considered a source of renewal and discontinuity with past strategies. Generational transfer enriches the business and the value of the firm (Astrachan, Klein and

Smyrniotis 2002). Often the entry of successors encourages the adoption of new business ideas and, at the same time, a delegation of leadership by the previous generations (Sardeshmukh and Corbett 2011). They can be considered an incentive for risk taking by the firm (Zahra 2003). Moreover, young generations are used to promote the recruitment of external managers (Graves and Thomas 2008; Okoroafo 1999). As previously stated, external professionals are an highly significant source of resources required to undertake successfully international growth strategies. These elements support a positive impact of new generation on the level of internationalization of a firm. Accordingly, our third hypothesis is as follows.

H₃: The involvement of young successors is positively associated with the degree of internationalization of a firm.

However, the ultimate effect of the FF upon degree of internationalization may differ among firms. The resource-based paradigm suggests that a firm's international performance is based on firm-level resources (Filatotchev et al., 2009). The relevant assets and skills of a firm may enable firms, also family ones, to develop an appropriate strategy and execute it effectively in international markets. It has often been suggested that the presence of external manager in a firm can be a useful and manageable approximation of firm resources. Managerial organizations appear able to generate stronger competitive capabilities as a result of their superior access to resources. As previously asserted, for FF resources and managerial capabilities are normally even scarcer and the presence of external manager may help them to develop their internal capabilities further and faster, with positive effects upon international business growth (Storey 1994). External managers can represent an important resource in the firm's strategic process; in fact, very outsiders bring a range of resources such as expertise, skills and information that can support the adoption of risk. The absence of non family

managers limits the access to external critical resources and therefore reduces the scope of internationalization while, on the contrary, the presence of non family managers may provide greater access to knowledge and capabilities useful to international strategy (Sciascia et al. 2013). Based on the arguments just given, we raise the hypothesis that the effect of the family ownership and governance upon firms' degree of internationalization is moderated by resource-related factors such as the presence of external manager. Specifically:

Hp4: The negative effect of both the family ownership and presence of family members in the board of directors on the degree of internationalization of a firm is stronger for firms without external managers.

As previously argued the presence of young successor in a firm may represent an important exclusive resource. Family owners frame problems in terms of assessing how actions will affect socioemotional endowment (Berrone, Cruz and Gomez-Mejia, 2012). When there is a menace to that endowment, the family is inclined to make decisions that are not driven by the maximization of profit, on the contrary the family would be disposed to place the firm at risk if this is what it would take to defend that endowment. More in general, ownership significantly influences a firm's strategic choices, especially when the family owns a significant equity stake (Zahra, 2005). When the family has a high stake in the ownership, the firm tends to avoid the implementation of strategies that could decrease the family control on the business and increase the risk (Casillas, Moreno and Acedo 2010), such for example the international expansion. If ownership remains in family hands, the firm can experience a convergence around norms and values (Thusman and Romanelli 1985). As such we argue that, if the family has not a successor, then it is more inclined to undertake international

expansion because FF feel lower endowment due to the absence of a family future for the firm. Thus, we may expect the negative effect of the family ownership and governance to be less important for firms without successor. Specifically:

Hp4: The negative effect of both the family ownership and presence of family members in the board of directors on the level of internationalization of a firm is lower for firms without successor.

3 METHODOLOGY: ECONOMETRIC MODEL AND VARIABLES

3.1 The model and the variables

As disclosed above, this paper aims to understand the impact of the family on the degree of internationalization of a firm. Over the years most researchers discussed the best way to measure the internationalization degree of a firm (Reuber and Fisher, 1997; Ietto-Gilles, 1998), that represents the dependent variable of this research. For example, Dunning and Pearce (1981) developed a one-dimensional index based on sales. Afterwards Dunning (1996) decided to extend it creating a multidimensional indicator based on three elements: assets, number of employees and investments in R&D. On the other hand, Sullivan (1994) enhanced an index that takes into account five dimension, namely sales, profits, assets, top management international experience and degree of physical dispersion of the international activities. According to the considerations above, we measure the degree of internationalization (*Internationalization*) with the ratio between the number of employees hired abroad and the number of workers employed in Italy.

Given the continuous nature of the dependent variable, represented by the degree of internationalization, we decided to adopt a multiple linear regression model to estimate the influence of the independent variables on the dependent one.

The estimated model assess the impact of the family business characteristics, namely the share of equity owned by the family (*Family_ownership*), the presence of family members with strategic roles (*Family_governance*) and the involvement of young generations (*Successors*), on the degree of internationalization. It can be summarized as follows:

MODEL 1: Degree of Internationalization = f(Family_ownership; Family_governance; Successors; Control variables)

The variable *Family_ownership* is the percentage of social capital owned by the family. The variable referred to the presence of family members with strategic roles is the percentage of family representatives in the board of directors. Finally, the variable *Successors* is a dummy equal to 1 if at least one younger family member has an active role in the firm, 0 otherwise.

In addition to family business specific characteristics, we decided to include in the analysis the control variables that may influence the international activity of a firm.

Firstly, considering that managerial and well-established firms are more experienced and prone to collect information essential to start an expansion process effectively (Zahra 2003), we take into account the variables *No_External_manager*, *Age* and *International_age*. Our analysis also includes other two proxies of the organizational and managerial capacity, element that surely affects the international operations of a firm (Dunning and Lundan 2008). It is represented by two dimension variables, in particular the variables *Listed-firm*, dummy equal to 1 if the firm is listed, 0 otherwise, and *Size*, defined as the logarithm of the number of employees. Because past research found a positive relationship between performance and internationalization (Lu and Beamish 2001), the firm profitability is measured as the profit per employees (*Profitability*) calculated as the logarithm of the ratio between revenues and labor cost. Furthermore the analysis takes into account that the firm is exposed to financial

restrictions; it is clear that a firm needs adequate capitals to develop its business abroad (Goodstein and Boeker 1991). For this reason we introduce the variable *Financial_constraints*, represented by the homonym index and calculated as the ratio between current assets (net of inventory) and current liabilities. The innovative ability of the firm is represented by the *Patent* variable and measured as the logarithm of the number of patents registered by the firm. In line with the research outputs of Kotabe *et al.* (2002) and Kafouros *et al.* (2008), that demonstrate the existence of a reciprocal influence between the international process and the innovational activity, we decide to include this factor in our analysis. We argue that another essential variable is the number of foreign direct investments of a firm (*FDI*), by definition representative of the international commitment. Further variables included are geographical location dummies (*Geo*). Due to the fact that the firms located in Northern Italy are more prone to adopt international strategies (Intesa San Paolo and SRM, 2011), we argue that it is significant take into account this element. The dummies are referred to North and Center (South as baseline). Finally, because of the significant impact of industry on internationalization paths (Villalonga and Amit 2006), we also include industry dummies (*Industry*). In particular, the industries taken into account are information and communication technology, construction, professional services, mining and metallurgical, made in Italy, chemical and pharmaceutical, automotive, electronics and electromechanical, metal products, wood and paper, (energy and oil as baseline).

In order to verify the last two hypothesis, the first model was extended to test the moderating effects of the resource based variables (i.e. the absence of external manager and successor) on firms' degree of internationalisation. In statistical terms, we test the significance of the corresponding interaction variables (namely, *Family_ownership*No_External_manager*, *Family_ownership*No_Successor*, *Family_governance*No_External_manager*, *Family_governance*No_Successor*):

MODEL 2: Degree of Internationalization = f(Family_ownership; Family_governance; Successors; Interactions; Control variables)

Data used for the variables construction were found in different databases (Table 1). In particular they are REPRINT, a yearly updated dataset created in 1986 that take a census of the foreign affiliates of Italian firms, AIDA (Bureau Van Dick), BorsaItaliana and Espacenet. Reprint classifies FDIs based on the actual location of economic activities. We were consequently able to exclude foreign investments made by financial firms, investment funds, private equity funds and merchant banks as part of management buy-outs and when there is no direct participation in the management of the investee company (for additional details see Mariotti and Mutinelli 2012).

3.2 Descriptive analysis of the sample

The sample is composed of 361 multinational Italian companies affiliated with 5,348 foreign firms and data are updated to 2013.

Table 2 reports the mean values of the variables that account for the whole sample, family business specific and control variables effect by cluster. Considering the aim of the paragraph, namely the descriptive analysis of the sample, we decide to adopt the family business definition based on the criterion of the ownership for two reasons. Firstly this choice allows to distribute the firm coherently with the real Italian situation, in fact around 80% of Italian firms are owned by a family (Unicredit 2014). Furthermore the ownership definition is the most common in the literature (Gallo 1995; Lee and Tan 2001; Littunen and Hyrsky 2000). The interpretation of the elaborations can not overlook this premise.

The mean of the degree of internationalization is higher for the non family business cluster (the t-test between the two groups is significant at $p < 0.05$). This result is in line with other relevant researches (Fernandez and Nieto 2005; Gallo and Garcia Pont 1996).

The last panel of Table 2 displays the results referred to control variables. Although FFs are older than non family firms, the difference between the two mean values is only around three years. The percentage of listed firms is similar for both the two groups. Notwithstanding this it is important to notice that generally Italian firms are reluctant to undertake the listing process (Onida 2004); moreover family businesses are more reluctant than the other firms, in fact typically they avoid the adoption of solution that may jeopardize the family control on the business (Boeker and Karichalil 2002). On average, non family businesses take on 1.450 workers, while FFs employee 519 units (t-test is significant at $p < 0.01$). The t-test signals that neither the profit per employees nor the liquidity ratio significantly different from zero for the two clusters. Similarly happens for the for the number of FDI. The majority of the headquarters, both for family and non family firms, are located in Northern Italy, while respectively 6.5% of family business and 15.1% of non family firms operate in the center (in both cases the proportion test between the clusters is significant at $p < 0.01\%$). In relation to the south there is not statistically differences between groups.

4 RESULTS: OUTPUT OF THE ECONOMETRIC MODEL

Our results, summarized in Table 3, demonstrate that the coefficients associated with the three dimensions used to define the family business phenomenon are differently significant. The correlation matrix shows acceptable correlation indexes between regressors.

In line with Hypothesis 1, the results of the empirical model show that the concentration of ownership in the hands of the family may hinder the international expansion. In fact the coefficient associated with *Family_ownership* is negative and significantly different from zero

at $p < 0.05$. The results of the regression also support Hypothesis 3, revealing that the involvement and the participation of young successors has a positive impact on the degree of internationalization of the firm. The coefficient of *Successors* is positive and significant at $p < 0.05$, in line with the research of Zahra (2003) and Fernandez and Nieto (2006). Contrary to expectation Hypothesis 2 is not attended, *Family_governance* doesn't affect the ability of the company to develop its business abroad.

As concern the third hypotheses the resource-based paradigm is confirmed. The absence of relevant assets and skills of a firm limit it to develop an aggressive strategy and to execute it effectively in international markets. In particular the absence of external manager enhances the negative effect of the family ownership on the degree of internationalization (the coefficient associated with *Family_ownership*No_Ext_manager* is negative and significantly different from zero at $p < 0.10$). On the contrary the same moderator effect is not significant for the governance (the coefficient associated with *Family_governance*No_Ext_manager* is not significantly different from zero).

The last hypotheses is also confirmed. If ownership remains in family hands and contextually the family has not a successor, the firm is more inclined to undertake international expansion because FF feels lower endowment due to the absence of a family future for the firm. The negative effect of the family ownership on the level of internationalization of a firm is counteracted for firms without successor (the coefficient associated with *Family_ownership*No_Successor* is positive and significantly different from zero at $p < 0.05$). On the contrary the same moderator effect is not significant for the governance (the coefficient associated with *Family_governance*No_Successor* is not significantly different from zero).

The examination of the coefficients displayed by the control variables show interesting results in both models. Firstly the absence of external manager has no significant effect in

Model 1. On the contrary the experience of the older firms has a positive impact both in Model 1 and 2 (the coefficient of the variable *Age* is positive and significant at $p < 0.05$), while the international experience does not matter. In contrast with our expectations, both the coefficient associated with the two variables that represent the firm size are negative in both models. While the variable *Listed_firm* has no significant effect, the variable *Size* is significantly different from zero at $p < 0.01$. This result may depend on the high connection between the number of workers hired and the dependent variable. The variable that measures the firm profitability (*Profitability*) is not significantly different from zero in Model 1 and 2. Conversely the variable *Financial_constraints* has a positive and significant coefficient ($p < 0.05$) in both models. This result is in line with authoritative contribution (Goodstein and Boeker 1991) and confirms that the financial availability is a basic requirement to develop the business out of the national boundaries. Likewise the outputs of the regression model display that the innovative activities encourage the international expansion. The coefficient of the *Innovation* variable is positive and significant at $p < 0.01$ only in Model 1. In particular the innovation allows the firm to develop new products or services to sell out of the national boundaries (Filipescu et al. 2009). Moreover the coefficient of the *FDI* variable is positive and significantly different from zero at $p < 0.01$ in both models. Considering that the dependent variable is represented by the ratio between the number of employees that work abroad and the number of people hired in Italy, this result is not obvious, but interesting: not necessarily exist a positive relationship between the number of subsidiaries and the parent company commitment abroad. In contrast with our expectations the *Geo* coefficient is not significantly different from zero in any model. It is unexpected in fact although the majority of the multinational Italian companies are located in Northern Italy (Intesa San Paolo and SRM – Studi e Ricerche per il Mezzogiorno 2011), their commitment abroad, measured with our dependent variable, is not influenced by the geographical localization. Finally, only the

coefficients associated with some of the industry dummies are significantly different from zero (*Mining and metallurgical*, *Made in Italy*, *Chemical and pharmaceutical*, *Automotive* and *Electronics and electromechanical* in Model 1 while *Mining and metallurgical* and *Automotive* in Model 2).

CONCLUSIONS AND FUTURE RESEARCH DIRECTIONS

The empirical analysis provided in this paper offers interesting contributions to the family business and internationalization literature. There can be different possible way by which the controlling family influences the firm's governance and strategy. Our analysis shows that different governance solutions may have a different impact on internationalisation strategies of the firm.

In particular, the share of equity controlled by the family members and the participation of family members into the board of directors of the firm have a negative impact on the degree of internationalization, while the presence of young successors into the board seems to foster the growth of the firm abroad. Another interesting result of our analysis is that firms in which simultaneously there is a significant share of ownership by the family but there are no successors show a higher degree of internationalization. One possible interpretation of this fact is that family firms with no heirs have a less risk-adverse approach. In general, internationalisation is a risky strategy. Given that there is no generation to bequest the firm, the controlling owners are more willing to take a pro-active and riskier strategy to enter foreign markets.

The above findings have significant consequences. In today's global marketplace the firms, including the family ones, need to develop their operations out of the national boundaries not only to grow, but simply to survive (Naldi and Nordqvist 2008). For this reason families that own a firm need to promote internationalisation of their business. In particular they may

encourage equity participation of new partners into the firm, in order to raise additional financial resources and new managerial competencies. Recruiting directors who are independent from the family in fact may facilitate global markets penetration. At the same time direct involvement of the family new generations is an additional factor that could increase the degree of internationalization of the firm. Indeed in Italy the generational transfer is a thorny process: only 50% of the firms is able to make the transition from the first to the second generation successfully and only 15% of the firms survives when the passage takes place from the second to the third generation. The involvement of young heirs both allows an adequate planning of the generational transfer and, at the same time, may encourage the international growth of the firm.

From a public policy point of view, appropriate subsidies to support the internationalisation of national firms could speed up the process. In most cases these subsidies depend on the size of the firm and do not take into account the governance structure and its features of the firm itself. This is a weakness of these policy, our results show that the international degree of a firm is highly family-related. FFs need relevant public support because they tend to be self-financed and this may limit their growth (especially into foreign markets).

Our study is not without limitations and future research could expand the present analysis in several directions. First, the results should be taken with some caution because the sample is composed only by Italian firms and may not reflect the current situation in other countries. Additional comparative studies along the lines we proposed could be very helpful to better understand the links between governance structures and family firms internationalisation. Secondly, our analysis is focused on the internationalisation of Italian FFs. We have not examined the opposite direction of our hypothesis: whether a higher degree of internationalization has some effects on the governance structure of the firm. Further, the differentiated impact of the dimensions used to define family businesses on the

internationalization degree suggest the opportunity to extend this line of analysis to additional key features of FFs such as organizational experience or culture. Finally the analytical framework we used, based on the foreign versus home activities dichotomy, is just one of the many possible frameworks for the measurement of the degree of internationalization. Other possible way to understand firm's internationalization strategies could be based on the degree of geographical dispersion of the firm's activities (e.g. one or few dominant foreign markets or diffused presence in many markets). As Ietto Gilles (1998) states each of these frameworks may be relevant for explaining characteristics of companies and industries. Further research is thus necessary.

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Table 1: Definition and source of the variables used in the empirical analysis

Variable	Definition	Source
<i>Dependent variable</i>		
Internationalization	Ratio between the number of employees hired abroad and the number of workers employed in Italy.	REPRINT/ AIDA
<i>Family business</i>		
Family_ownership	Percentage of social capital owned by the family.	AIDA
Family_governance	Percentage of family representatives in the board of directors.	AIDA
Successors	Dummy variable equal to 1 if at least one younger family member has an active role in the firm, 0 otherwise.	AIDA
<i>Control variables</i>		
No_External_manager	Dummy variable equal to 1 if there are only family manager in the firm, 0 otherwise.	AIDA
Age	Firm age.	AIDA
International_age	Number of year of firm presence in international market through FDI.	REPRINT
Listed_firm	Dummy variable equal to 1 if the firm is listed, 0 otherwise.	Borsa Italiana
Size	Logarithm of the number of firm's employees.	AIDA
Profitability	Logarithm of the profit per employee index, calculated as the ratio between revenues and labor cost.	AIDA
Financial_constraints	Liquidity ratio, calculated as the ratio between current assets (net of inventory) and current liabilities.	AIDA
Patent	Logarithm of the number of patents held by the firm.	Espacenet
FDI	Number of FDI.	REPRINT
North	Dummy variable equal to 1 if the firm is located in the South of Italy, 0 otherwise.	AIDA
Centre	Dummy variable equal to 1 if the firm is located in the Centre of Italy, 0 otherwise.	AIDA
Industry	Dummy variable equal to 1 if the firm belongs to a specific sector, 0 otherwise.	REPRINT

Table 2: Comparison between family and non family firms

Variable	Mean/% Sample [361 firms]	Mean /% FB [229 firms]	Mean /% NFB [132 firms]	Difference FB vs NFB	
Internationalization ^{a)}	12.31	5.1	24.7	19.5	**
<i>Family business</i>					
Family_ownership ^{a)}	50.3%	--	--	--	
Family_governance ^{a)}	39.5%	58.6%	6.3%	52.2%	***
Successors ^{b)}	36.1%	51.5%	9.1%	42.4%	***
<i>Control variables</i>					
No_External_manager ^{b)}	10.0%	13.5%	3.8%	9.7%	***
Age ^{a)}	56.9	57.8	55.2	2.68	
International_age ^{a)}	37.5	51.8	12.8	38.9	*
Listed_firm ^{b)}	36.6%	36.7%	36.3%	0.3%	
Size ^{a)}	2.30	2.2	2.5	0.4	***
Profitability ^{a)}	0.74	0.8	0.7	0.1	
Financial_constraints ^{a)}	1.19	1.1	1.2	-0.1	
Patent ^{a)}	0.84	0.8	0.9	-0.1	*
FDI ^{a)}	14.6	12.6	18.0	-5.5	
Geo ^{b)}					
North	87.8%	93.0%	78.8%	14.2%	***
Center	9.7%	6.5%	15.1%	-8.6%	***
Industry ^{b)}					
ICT	5.2%	2.8%	11.4%	-8.6%	**
Construction	4.1%	7.9%	3.8%	4.1%	
Other professional services	7.2%	6.1%	11.4%	-5.3%	
Mining and metallurgical	6.3%	7.5%	1.3%	6.2%	**
Made in Italy	16.6%	20.6%	8.9%	11.7%	**
Chemical and pharmaceutical	9.7%	8.9%	7.6%	1.3%	
Automotive	6.9%	6.1%	6.3%	-0.2%	
Electronics and electromechanical	29.4%	27.6%	30.4%	-2.8%	
Metal products	8.3%	9.3%	7.6%	1.7%	
Wood and paper	2.2%				

^{a)}T-test

^{b)}Proportion test

* significant at the 10% level; ** significant at the 5% level; *** significant at the 1% level.

Table 3: Output of the econometric model

Degree of Internationalization	Model 1		Model 2	
	β	Std. Err.	β	Std. Err.
<i>Family business</i>				
Family_ownership	-38.63 **	20.97	-5.17	69.32
Family_ownership*No_Successor			110.68 **	46.42
Family_ownership*No_Ext_manager			-128.16 *	75.93
Family_governance	-8.11	24.76	-23.70	34.40
Family_governance*No_Successor			10.99	43.99
Family_governance*No_Ext_manager			-10.66	81.19
Successors	18.44 **	9.66	103.41 ***	23.59
<i>Control variables</i>				
No_External_manager	-22.76	15.39	-122.65 **	62.24
Age	0.28 **	0.12	0.25 **	0.12
International_age	-0.01	0.02	-0.01	0.02
Listed_firm	-0.19	10.64	-12.44	10.93
Size	-49.94 ***	7.53	-49.63 ***	7.45
Profitability	6.54	12.80	1.17	12.66
Financial_constraints	9.94 **	3.99	10.18 **	3.97
Patent	10.41 *	6.21	8.95	6.15
FDI	0.29 ***	0.10	0.28 ***	0.10
North	-5.15	26.70	-8.96	26.27
Centre	25.53	29.58	21.69	29.09
<i>Industry ^{a)}</i>				
ICT	36.93	28.17	27.49	27.83
Construction	26.88	29.44	19.35	29.05
Other professional services	40.92	26.47	31.65	26.13
Mining and metallurgical	94.24 ***	27.48	80.59 ***	27.25
Made in Italy	42.76 *	24.07	31.83	23.84
Chemical and pharmaceutical	42.00 *	26.29	34.88	26.05
Automotive	58.38 **	27.52	48.36 *	27.21
Electronics and electromechanical	44.77 *	23.66	33.72	23.48
Metal products	28.62	26.67	26.88	26.38
Wood and paper	35.41	35.66	20.81	35.38
Const	58.52	39.07	76.84 **	38.73

* significant at the 10% level; ** significant at the 5% level; *** significant at the 1% level

^{a)}Baseline: Energy and oil

^{b)}Baseline: Center