

**Venturing beyond the backyard:  
An examination of the internationalisation process of  
Australian small-to-medium-sized family-owned  
manufacturing enterprises**

by

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### List of abbreviations

CEO	Chief Executive Officer
CIBM	Centre for Innovation, Business and Manufacturing
EMDG	Export Market Development Grant
FBA	Family Business Australia
FBA (SA)	Family Business Australia (South Australian Chapter)
FBN	Family Business Network
FFI	Family Firm Institute
FTAs	Free Trade Agreements
IT	Information Technology
JIT	Just-In-Time Manufacturing
Non-SMFE	SME that is not a family business
QA	Quality Assurance
SME	Small-to-Medium-Sized Enterprise
SMFE	Small-to-Medium-Family-Owned and Managed Enterprise
RBV	Resource-Based View
TCF	Textiles, Clothing and Footwear manufacturing sector
TQM	Total Quality Management

## **Abstract**

In recent years, the Australian government has opened the Australian economy to the global marketplace through tariff reductions and the establishment of free trade agreements with other countries. The ability of the Australian economy to benefit from these agreements is dependent on Australian businesses identifying international opportunities and exploiting their competitive advantage in the international marketplace. However, the family business literature suggests that complexities unique to family firms limit their ability take advantage of such opportunities and grow internationally. To date, the limited empirical testing of such claims has produced conflicting results. As a consequence, little is known about the international behaviour of family firms, what influences such behaviour and what effect internationalisation has on the owning family and the business.

This study addresses this gap in the literature by using a mixed research method design. Using the quantitative analysis of small-to-medium-sized family-owned enterprises (SMFEs) contained within the most recently available longitudinal database of Australian businesses and the qualitative analysis of eight SMFEs, the internationalisation process of SMFEs in the manufacturing sector was examined.

The findings of this study suggest that, compared to their non-family counterparts, Australian SMFEs are less likely to venture into the international marketplace. Furthermore, those that do, do so to a lesser degree when compared to non-SMFEs. Although the internationalisation behaviour of most SMFEs was similar to that of traditional international firms, some exhibited ‘born-again’ global internationalisation behaviour as a result of critical events within the firm. These included succession to the next generation and the appointment of non-family managers with the requisite expertise. The internationalisation of SMFEs was dependent on their ability to configure their resources to create globally relevant capabilities, and their willingness to exploit those capabilities in the international marketplace. In addition to the family’s commitment to internationalisation, the production capabilities, international network relationships and overcoming a ‘production mindset’ to build the requisite managerial and marketing capabilities were all found to be critical to the international growth of SMFEs. An SMFE’s financial and human resources were found to have a substantial influence over their ability to build the organisational capabilities and international network relationships required for internationalisation.

Compared to solely focusing on the domestic marketplace, there were some financial benefits to be gained by SMFEs in venturing overseas. However the extent to which they did so had no observable effect on financial performance. Overall, the financial benefits gained from internationalisation were dependent on having a long-term commitment to, and possessing the managerial capabilities required for, internationalisation. The changes brought about by internationalisation improved the overall competitiveness of SMFEs, enabling them to successfully compete with their domestic and international competitors. However, internationalisation was found to place substantial strain on the family unit, particularly when the firm had limited managerial capabilities, and was often a trigger for conflict within the family and the business. The implications of this study's findings for SMFEs, policy and future research are explored in the thesis.



## **Statement of declaration**

This thesis contains no material which has been accepted for the award of any other degree or diploma in any university or other tertiary institution and, to the best of my knowledge and belief, contains no material previously published or written by another person, except where due reference has been made in the text.

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Christopher Graves

September, 2006

## **Publications from this thesis since enrolment**

### **Journal articles (refereed)**

Graves, C. & Thomas, J. (2004), Internationalisation of the family business: a longitudinal perspective, *Int. J. of Globalisation and Small Business*, Vol. 1(1), pp. 7-27.

Graves, C. & Thomas, J. (2006), Internationalisation of Australian family businesses: a managerial capabilities perspective, *Family Business Review*, Vol. 19(3), pp. 207-224.

Thomas, J. & Graves, C. (2005), Internationalization of the family firm: the contribution of an entrepreneurial orientation, *Journal of Business and Entrepreneurship*, Vol. 17(2), pp. 91-113.

### **Conference proceedings (refereed)**

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Graves, C. & Thomas, J. (2006), Traditional vs. born-again global pathways to internationalisation: the family business experience, Proceedings of the conference *International Council of Small Business' 51st Annual Conference*, Melbourne, Victoria.

Thomas, J. & Graves, C. (2004), Internationalising the family firm as a demonstration of an entrepreneurial culture, Proceedings of the conference *Association for Small Business and Entrepreneurship's Annual Conference*, Albuquerque, New Mexico.

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## **Introduction**

### ***1.1 Background to the research***

This study focuses on the internationalisation process of small-to-medium-sized family-owned enterprises (SMFEs). For many years, a considerable amount of research into international business and strategy focused on issues surrounding the globalisation of large businesses (Coviello & Munro, 1997; De Chiara & Minguizzi, 2002; 1997; Lu & Beamish, 2001; McDougall & Oviatt, 1996). However, over the last two decades, research into how small-to-medium-sized enterprises (SMEs) have benefited from globalisation by adopting internationalisation strategies has flourished (Coviello & Munro, 1995; Manolova, Brush, Edelman & Greene, 2002). Such research has resulted in the development of a number of alternative theories of the internationalisation process of the firm. Although it is well recognised that the majority of SMEs are family-owned (and often family-managed), and that the complexities associated with managing a family business are not entirely addressed by classical management theory (Davis & Stern, 1980), there is a lack of research on the internationalisation process of SMFEs (Davis & Harveston, 2000; Gallo, Arino, Manez & Cappuyns, 2002; Gallo & Pont, 1996; Gallo & Sveen, 1991; Harris, Martinez & Ward, 1994; Okoroafo, 1999; Zahra, 2003). Family business literature argues that the complexities unique to family firms influence their propensity for and degree of internationalisation (Cappuyns & Pieper, 2003; Gallo & Pont, 1996; Gallo & Sveen, 1991). Yet, to date, the limited empirical testing of such claims has produced conflicting results (Fernández & Nieto, 2005; Zahra, 2003). Because of the paucity of research into the internationalisation of family firms, little is known as to whether internationalisation of SMFEs lags behind that of their non-family counterparts, what influences their ability to internationalise and what effect internationalisation has on the owning family and the firm.

## 1.2 Research problem

The problem addressed in this study was:

In what ways does family involvement influence the internationalisation process of SMFEs?

In this thesis, it is argued that the internationalisation of SMFEs is dependent upon their ability to configure their resources to create globally relevant capabilities, and their willingness to exploit those capabilities in the international marketplace.

The research problem was investigated by focussing on the following four issues:

*Research Issue One. (RI #1):* Is there a difference in the propensity for and degree of internationalisation of SMFEs and non-SMFEs?

*Research Issue Two. (RI #2):* What effect has internationalisation had on SMFEs?

*Research Issue Three. (RI #3):* Is the internationalisation behaviour of SMFEs similar to that of traditional international firms?

*Research Issue Four. (RI #4):* What factors influence the internationalisation process of SMFEs? Specifically, what role do the firm's strategic management process, resources and capabilities play in the internationalisation process and how does family involvement influence this process?

In Chapter 2, the study's two parent literatures, 'family business' and 'the internationalisation process of SMEs' are reviewed. The purpose of the literature review is threefold. The first purpose is to review the development and current state of the family business research field with a focus on the issues pertinent to the internationalisation process of family businesses. Of particular interest in this study is whether (and how) family involvement triggers a family business to internationalise, as well as influencing its internationalisation process. Based on a review of the relevant family business literature, family members have the potential to influence a family firm's internationalisation process through their involvement in the strategic management process. Through the firm's strategic management process, the appropriateness of an internationalisation strategy is assessed according to its vision fit, strategic fit and family fit. Family members also have the potential to affect the firm's internationalisation through their influence over its resources (e.g. human and financial resources) and capabilities.

The second purpose of considering the literature is to review the development and current state of the internationalisation research field, with particular focus on the SME sector. Four theories that are commonly used to explain SME internationalisation are reviewed: Eclectic Paradigm/Transaction Cost Theory, Stage Model Theory, Network Theory and the Resource-Based View (RBV). Despite the increase in research into the internationalisation process of SMEs, there is still insufficient knowledge of this process and it is in an early stage of theory development (Leonidou & Katsikeas, 1996). There remains considerable debate as to what factors trigger SMEs to internationalise and what factors influence their internationalisation process (Westhead, Wright & Ucbasaran, 2001). In order for internationalisation theory to progress, Leonidou and Katsikeas (1996) call for knowledge from other disciplines to be drawn on and integrated. Coviello and Munro (1999) argue that future research should look to integrate different internationalisation theories. As a consequence, in order to explore the internationalisation process of SMFEs, Stage Model Theory, Network Theory and a RBV of internationalisation will all be drawn on and integrated.

The final purpose of the literature review is to construct a theoretical model that depicts the internationalisation process of SMFEs. Based on this model, the study's research issues are developed and discussed. The study's research issues (and the related hypotheses) are discussed in greater detail in Section 2.6 of Chapter 2.

The contributions made to the extant literature by addressing these research issues are discussed in Chapter 7 and summarised in Table 7.3. Some of these are noted below.

- Compared to non-SMFEs, SMFEs were less likely to venture into the international marketplace. Those that did, did so to a lesser degree when compared to non-SMFEs.
- Compared to SMFEs that solely focused on the domestic marketplace, there were some financial benefits to be obtained by SMFEs that ventured overseas, regardless of the degree to which they did so. However, internationalisation was found to bring about conflict within the firm and place substantial strain on the family unit and management, particularly when the firm executed complex foreign market entry strategies (e.g. joint ventures) with limited managerial capabilities.
- Most SMFEs followed the traditional pathway to internationalisation. However, some were able to follow a born-again global pathway to internationalisation as a result of critical incidents within the firm. These included succession to the next generation and the appointment of non-family managers with expertise in sales and marketing. Family

involvement was found to influence the type of foreign entry methods adopted, and was critical in the development of a family firm's network relationships with other businesses around the world.

- The internationalisation of SMFEs was dependent on their ability to configure their resources to create globally relevant capabilities, and their willingness to exploit those capabilities in the international marketplace. Their willingness to pursue opportunities overseas was influenced by the vision and multiple objectives of the firm, which were primarily determined by the owning family. A SMFE's ability to configure the necessary resources and capabilities for internationalisation was influenced by several factors including the effect of the pecking order financing behaviour on available financial resources, the entrepreneurial orientation of the family leaders, and the managerial capabilities of the firm.
- The managerial capabilities of SMFEs lagged behind that of their non-family counterparts, particularly at high levels of internationalisation, which suggests that SMFEs face unique barriers to developing these capabilities as they grow internationally. Because of their importance for strategic management, limited managerial capabilities inhibited the ability of SMFEs to grow internationally and influenced the outcomes (financial and non-financial) associated with internationalisation.
- In addition to production and managerial capabilities, it was critical that SMFEs developed their marketing capabilities for internationalisation. Limited managerial expertise and a production mindset of family leaders were key obstacles to developing marketing capabilities. Employment of a competent non-family marketing manager with previous experience in working in other family businesses, and with the autonomy to bring about change, was critical for the development of an SMFE's marketing capabilities.

### ***1.3 Justification for the research***

Since the 1970s, the pace of the globalisation of commerce has been hastened by the widespread adoption of neoclassical economics (the invisible hand), the importance of economies of scale, and significant advances in technology. On the 11<sup>th</sup> of September 2000, the Australian Prime Minister, John Howard, spoke at the World Economic Forum outlining Australia's position on globalisation. He argued that globalisation is the ticket to prosperity as it can lead to 'more jobs, more investment and ultimately stronger sustainable economic growth'. Australia must embrace globalisation as it 'is presenting Australian business with exciting new opportunities' and 'enables Australian businesses to find new



markets for its [*sic*] products, attract international capital to develop its economic potential, and access better and cheaper business inputs to make domestic enterprises globally competitive' (Sheil, 2001, p. 282).

Competing globally means competing with world's best practice, resulting in Australian firms becoming more efficient and innovative, adopting and developing global best practice (Austrade, 2002). As a result, the Australian government has opened the Australian economy to the global marketplace through tariff reductions and the establishment of free trade agreements (FTAs) with other countries. Since 2003, Australia has entered into FTAs with Singapore, Thailand and the USA; and the Australian Government is currently negotiating agreements with four other countries/regions<sup>1</sup>.

There is little doubt that the proliferation of FTAs represents both increased opportunities and threats to Australian businesses, a 'double-edged sword'. Although Australian companies have opportunities to expand their markets outside Australia, foreign-based firms are also presented with these opportunities, including greater access to previously protected markets such as Australia. There will be short-term winners and losers among companies and communities in this continuous evolution. D'Souza and McDougall (1989) argue that the ability of SMEs to expand internationally is essential for their survival and growth. Although there is little empirical evidence linking exporting and business survival, a number of studies have found that exporting SMEs record significantly higher levels of growth (McDougall & Oviatt, 1996; McMahan, 2001; Westhead, 1995). Nevertheless, the ability of the Australian economy to benefit from these agreements is dependent on Australian businesses identifying international opportunities and exploiting their competitive advantage in the international marketplace. Despite the persuasive arguments for expanding internationally, of all the businesses in Australia, of which 67 percent are family businesses (Smyrnios & Walker, 2003), only 4 percent are engaged in exporting, well below the percentage of exporters among businesses in most European countries and Canada (Austrade, 2002; OECD, 1997).

Although geographical distance may explain why Australia lags behind its OECD partners in export activity, it cannot explain the whole gap. As a result, in 2002 the government implemented a range of strategies with the aim of doubling the number of exporting

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<sup>1</sup> China, Malaysia, United Arab Emirates, Aust./NZ - ASEAN

businesses (particularly SMEs) by 2006 (Austrade, 2002). Recent studies (Fernández & Nieto, 2005) suggest that compared to their non-family counterparts, family firms face unique barriers when it comes to growing internationally. Therefore research into identifying those factors that limit the ability of family firms to grow internationally, as well as the manner in which these obstacles can be overcome will be of value to both family businesses and the Australian economy.

#### **1.4 Methodology**

In order to examine the four research issues outlined in Section 1.2, a mixed research method design within the critical realism paradigm was adopted. As argued by Tashakkori and Teddlie (2003), the advantages of using mixed method research are that a mixed method can answer questions that other methods cannot, can provide for stronger conclusions, and create opportunities for eliciting a greater diversity of views. As stated by Mintzberg (1979):

We uncover all kinds of relationships in our hard data, but it is only through the use of this soft data that we are able to explain them. (p. 538)

Quantitative analysis was used to examine research issue one, while qualitative analysis was used to examine research issue three. Both quantitative and qualitative analyses were used for examining research issues two and four. The findings from each approach were drawn together to develop the study's overall conclusions.

##### **1.4.1 Quantitative data analysis**

The data used for the quantitative analysis was obtained from the Business Longitudinal Survey (BLS), which is the most recently available longitudinal database of Australian businesses. The key advantage of using a longitudinal dataset as opposed to a cross-sectional dataset was that it provided the opportunity to test the persistence of the relationship between variables hypothesised in this study. Also, in an environment where the response rate for survey research has rapidly declined over the last three decades, the BLS has the added benefit of having a high response rate (over 90 percent) of the firms surveyed. The variables used in this study were either categorical in nature, or if metric, exhibited highly non-normal distributions and were subject to extreme values. Because of their robustness in such circumstances, non-parametric statistical techniques and logistical regression analysis were used.

### **1.4.2 Qualitative data analysis**

Eight internationally active Australian SMFEs from high and low internationalisation-intensive manufacturing industries were selected to enable a more in-depth analysis of the issues arising from the quantitative analysis. A range of generational firms (1st, 2nd, and 3rd + generations) was represented, which assisted in examining the influence of multigenerational issues on the SMFE's internationalisation process. Data were collected over a two year period (2003 and 2004) from a range of sources, including interviews of senior managers from each firm, observations, notes from field visits, questionnaires, firm documents and other archival records such as newspaper articles on each firm. *NVivo* qualitative analysis software was employed when carrying out this research as it assisted the researcher in storing and managing large quantities of data. *NVivo* was a particularly useful tool for 'thinking up' from the data, that is, in linking data with emerging concepts and themes, exploring linkages between concepts within each case, across cases, and with the results from the quantitative analysis, and in developing the overall conclusions of the study.

### **1.5 Outline of the thesis**

As outlined in Figure 1.1, the thesis comprises seven chapters.

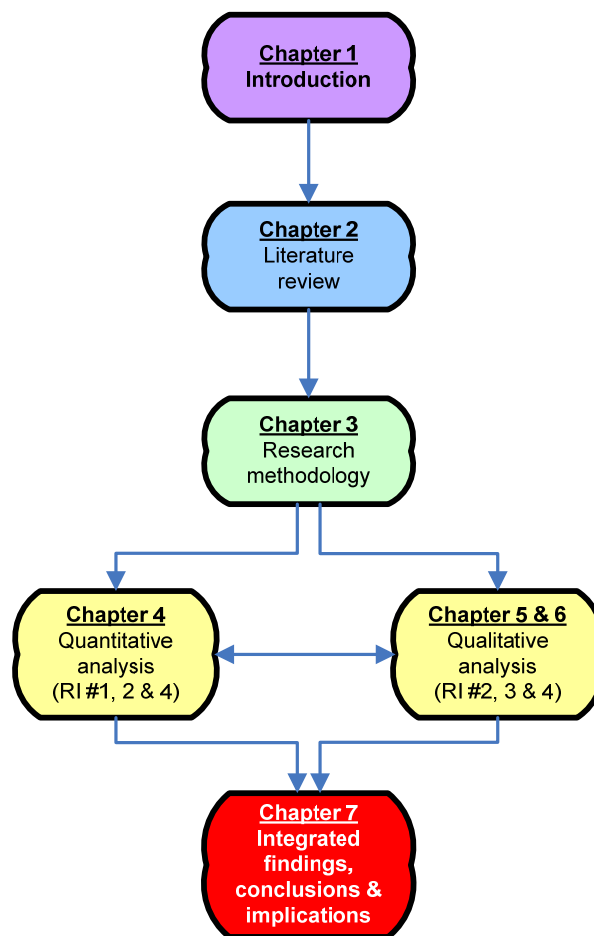
*Chapter 1* outlines the research problem and the research issues of this study. The background to, and the justification for, the research problem are presented and the research methodology used to investigate the study's research issues is outlined. This chapter concludes with the definition of key terms used, and the delimitations of scope of this study.

In *Chapter 2*, the study's two parent literatures, 'family business' and 'the internationalisation process of SMEs' are reviewed. The purpose of the literature review is to summarise the current state of the family business and internationalisation research fields, with a focus on the issues pertinent to the internationalisation process of SMFEs. The review was used to develop a model of the internationalisation process of SMFEs, from which the study's research issues were developed.

In *Chapter 3*, justification for the study's research paradigm and mixed method research design is given, followed by a discussion of the research procedures employed in the quantitative and qualitative analyses.

*Chapter 4* presents the results of the quantitative analysis, which is used to test the hypotheses related to research issues one, two and four. Specifically, the internationalisation and the managerial capabilities of SMFEs and non-SMFEs are contrasted. Also, the effect of internationalisation on the financial performance of SMFEs is examined.

*Chapters 5 and 6* present the results of the qualitative analysis, which is used to investigate research issues two, three and four. In Chapter 5, the internationalisation behaviour of the eight case firms (RI #3) is analysed and discussed followed by an examination and discussion of the effects (financial and non-financial) of internationalisation on the eight case firms (RI #2). Chapter 6 discusses the analysis of those factors that influenced the internationalisation behaviour of the eight case firms. Specifically, this chapter focuses on issues that influenced an SMFE's commitment to internationalisation, as well as what (and how) firm resources (financial, physical, human and organisational) and capabilities influenced its ability to grow internationally.



**Figure 1.1** Outline of thesis structure

Drawing on the findings of the quantitative and qualitative analyses, *Chapter 7* presents the overall findings of the study's four research issues. These findings are used to develop an integrated model, which identifies factors that were found to influence the internationalisation process of SMFEs. The contributions made by this study to the extant family business and internationalisation literature are also summarised. The implications of the findings for theory, policy and practice are discussed. The chapter concludes with a discussion of the limitations of the quantitative and qualitative analyses and the implications for future research.

## **1.6 Definitions**

### **1.6.1 Family business**

A key issue that any family business study must address is the question 'what is a family business?' Almost two decades ago, Handler (1989) identified the issue of defining the term 'family business' to be one of the major challenges facing family business researchers. Despite the research conducted since then, the definition of a family business remains one of the key challenges in family business research where a single, agreed upon definition remains elusive (Astrachan, Klein & Smyrnios, 2002; Westhead & Cowling, 1997). Based upon an extensive review of the family business literature, Westhead and Cowling (1998) and Chua, Chrisman and Sharma (1999) found the following characteristics to be the most commonly used when defining a family business:

- The business perceives itself to be a family business (Binder Hamlyn, 1994; Carsrud, 1994; Smyrnios & Walker, 2003; Westhead, Cowling & Howorth, 2000).
- A family has controlling ownership (Barnes & Hershon, 1976; Cromie, Stephenson & Montieth, 1995; Davis, 1983; Donckels & Frohlich, 1991; Dreux, 1990; Gallo & Sveen, 1991; Lansberg, Perrow & Rogolsky, 1988; Litz, 1995; Lyman, 1991; Neubauer & Lank, 1998; Rosenblatt, DeMik, Anderson & Johnson, 1985; Smyrnios, Romano & Tanewski, 1997; Stern, 1986; Welsch, 1993; Westhead et al., 2000).
- Family members are employed as managers in the business (Cromie et al., 1995; Daily & Dollinger, 1992; Davis, 1983; Litz, 1995; Lyman, 1991; Rosenblatt et al., 1985; Smyrnios et al., 1997; Stern, 1986; Welsch, 1993).
- Transfer of ownership to the next generation has occurred or is intended (Churchill & Hatten, 1987; Donnelley, 1964; Ward, 1987).

Although some definitions solely used one characteristic while others used a combination, Chua et al. (1999, p. 22) found that there was ‘total agreement that a business owned and managed by a nuclear family is a family business.’

Of particular concern is the difficulty in interpreting family business research when different definitions have been employed. Westhead and Cowling (1998) and Shanker and Astrachan (1996) argue that family business statistics are highly sensitive to the definition employed. Applying seven different definitions to 427 unquoted companies sampled in the United Kingdom, Westhead and Cowling (1998) demonstrated how the percentage of firms classified as family businesses varied from 15 percent to 78.5 percent. As a consequence, they argue that differences in findings in family business research may simply be due to demographic sample differences rather than real differences. To complicate matters further, Litz (1995) argues that under certain circumstances, some non-family businesses could be considered potential family businesses while some family businesses could be considered potential non-family businesses. Until agreement can be reached over what constitutes a family business, researchers ‘will find it difficult to build on each other’s work and to develop a usable knowledge base’ (Lansberg et al., 1988, p. 2).

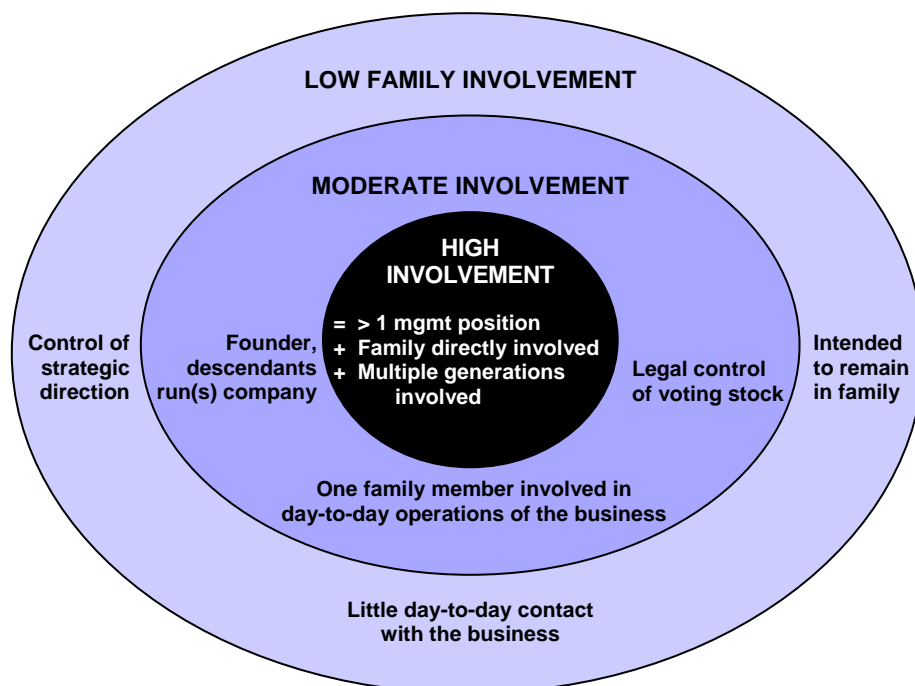
The business community has fared no better when interpreting the term ‘family business’. For example, two of the companies included in Chua et al.’s (1999) study were very similar in that they were second generation firms, majority family-owned and managed. However, one strongly argued that they were a family business while the other vehemently opposed such a label. Smyrnios et al. (1997) found that, compared to first-generation firms, multigenerational firms were more likely to perceive themselves as family firms.

Shanker and Astrachan (1996) were among the first to suggest that viewing family businesses on a continuum rather than as a dichotomous category could solve the definitional problem. They argued that family business definitions could be categorised according to the degree of family involvement: low (broad definitions), moderate, and a high degree of family involvement (narrow definitions) (see ).

*Broad family business* definitions refer to a low level of family involvement where the family has some degree of control over strategic direction and the business is intended to remain in the family. However the family is not involved in the day-to-day operations of the business.

Definitions that refer to a *moderate level of family involvement* include all the criteria in the low family involvement category in addition to requiring a family member(s) to be involved in the day-to-day operations of the business and have legal control over the business.

*Narrow family business* definitions that refer to a high degree of family involvement include all the criteria in the moderate involvement category but also require that multiple generations are involved in the business, family are involved in the day-to-day operations of the business, and more than one family member has significant management responsibility (Shanker & Astrachan, 1996).



**Figure 1.2** Family businesses categorised by degree of family involvement (Shanker & Astrachan, 1996)

Family business researchers argue that family businesses comprise a worthy field of research because these firms possess unique characteristics that differentiate them from other types of businesses. As a result, a definition of family businesses must identify this source of differentiation, that is, it must address the issue *what makes family businesses unique?* Chua et al. (1999) identify this uniqueness as *family influence*:

...the pattern of ownership, governance, management, and succession **materially influences** the firm's goals, strategies, structure, and the manner in which each is formulated, designed, and implemented. (emphasis added) (p. 22)

Although it could be argued that all businesses are influenced by families in some way, Chua et al. (1999) assert that what makes family businesses distinct is the way family business characteristics (e.g. ownership, governance, management, and succession) ‘materially influence’ the operations of the business. Similarly, Astrachan et al. (2002) argue that one way in which businesses are distinct is that some are influenced by a family to a high degree, while others are not. Therefore, the issue is to what degree is the business influenced by a particular family. It is this difference in influence that affects a firm’s goals, strategies, structure, and the manner in which each is formulated, designed, and implemented. Based upon an in-depth content analysis of various definitions, Astrachan et al. (2002) propose the F-PEC scale to ascertain the degree of influence that a family has on a business. This scale measures family influence using three dimensions: power (ownership, governance, and management participation), experience (generation in charge), and culture (family and business values).

In conclusion, although the discussion above highlights that a single agreed definition of a family business still remains elusive, in the literature there is broad agreement that a business owned and managed by a nuclear family is a family business (Chua et al., 1999). This is not to suggest that all businesses owned and managed by a nuclear family are a homogeneous group. As highlighted by Shanker and Astrachan (1996) and Astrachan et al. (2002), family businesses differ with regard to the degree of family influence. Because the current study was concerned with ascertaining how family involvement influences a family firm’s internationalisation process, a broad definition of a family business was used. For the purposes of this study, therefore, a family business was defined as one where:

- a single family or group of families which are relatives of the founding family member(s) control more than 50 percent of the ownership of the business, and
- at least one family owner is present on the management board.

This definition includes first generation businesses, which is consistent with Australian family business research (Smyrnios et al., 1997; Smyrnios & Walker, 2003) and family business internationalisation research (Davis & Harveston, 2000), which the current study drew on.



Because the F-PEC instrument had not been statistically tested at the time of this study, it was not used to determine the degree of family influence. However, drawing upon the concepts behind the instrument, to ensure that different levels and forms of family influence were represented, case firms were selected in order that:

- first, second, third and fourth generation-owned and managed firms were represented;
- firms with high and low family representation on management boards and boards of directors were represented.

### **1.6.2 Small-to-medium-sized enterprises (SMEs)**

The definition of an SME as defined by the Australian Bureau of Statistics – a non-agricultural business that employs less than 200 people (Australian Bureau of Statistics, 2002) – was adopted for the study.

### **1.6.3 Small-to-medium-sized family enterprises (SMFEs)**

Based on the definitions of a family business and an SME outlined previously, an SMFE was defined as a non-agricultural business employing less than 200 people that is majority family-owned with at least one family owner in the management team.

### **1.6.4 Internationalisation**

The internationalisation phenomenon has been researched using different perspectives, and as a result there is little agreement in the academic literature over the precise meaning of the term ‘internationalisation’. Internationalisation has been described as a pattern of foreign direct investment (Dunning, 1981, 1988, 1993; Williamson, 1975), and as an ongoing strategic process (Melin, 1992) where firms expand into foreign markets in a sequential and orderly manner as the firm gains greater experiential knowledge (Johanson & Vahlne, 1977). Welch and Luostarinen (1988) define internationalisation more broadly as ‘the process of increasing involvement in international operations’ (p. 36), a definition which incorporates both inward and outward international activity.

Despite the array of definitions of internationalisation that have emerged over the last two decades, Beamish’s (1990) definition is the most useful as it accommodates economic and behavioural views of internationalisation into one holistic concept (Coviello & McAuley, 1999). Secondly, it views internationalisation as a dynamic phenomenon (a process) as opposed to a static one (Johanson & Vahlne, 1992; Melin, 1992). Thirdly, it incorporates

inward activities, such as importing, and outward international activity, whether it is direct (e.g. exports) or indirect (e.g. sales to local firm which forms part of its exports) in nature. As a consequence, Beamish's (1990) definition of internationalisation was adopted for the purposes of the research:

...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. (p. 77)

### **1.7 Delimitations of scope**

This study focuses on family businesses in the SME sector rather than on large or all family businesses for three reasons. Firstly, increasing the number of internationally active SMEs is high on the Australian Government's agenda (Austrade, 2002). Secondly, over 90 percent of Australian family businesses are SMEs (Smyrnios & Walker, 2003). Thirdly, because of a historical bias towards the research of the globalisation of large businesses (Coviello & Munro, 1997), research into the internationalisation process of SMEs is in an early stage of theory development (Leonidou & Katsikeas, 1996; Westhead et al., 2001).

This study focuses on SMFEs in the manufacturing sector for three reasons. Firstly, the manufacturing sector is the largest sector in the Australian economy (Australian Bureau of Statistics, 2003). Secondly, there is concern about the ability of the Australian manufacturing sector to become and remain internationally competitive as a result of the proliferation of FTAs. Compared to manufacturers located throughout Asia, Australian manufacturers are not cost competitive. This is because their wage rates are substantially higher compared to their Asian neighbours (*The Economist*, 1996), and Australia's small population limits their ability to generate economies of scale (Buxey, 2000). Thirdly, 99 percent of all manufacturing firms are SMEs (Australian Bureau of Statistics, 2002).

### **1.8 Conclusion**

This chapter has presented the nature and the framework of the research reported in this thesis. The background to, and the justification for, the research problem were presented: how does family involvement directly and indirectly influence the internationalisation of Australian SMFEs. A mixed method research design using both a longitudinal database and eight case study firms was employed to examine four research issues. Based on this foundation, the next chapter reviews the family business and internationalisation literatures, from which the study's four research issues were developed.

## **Review of the literature**

### **2.1 Introduction**

In this chapter, the study's two parent literatures, 'family business' and 'the internationalisation process of SMEs' are reviewed. In Section 2.2, the development and current state of the family business research field is reviewed, with a focus on the issues pertinent to the internationalisation process of family businesses. Section 2.3 reviews the development and current state of the internationalisation research field, with particular focus on the SME sector. Four theories that are commonly used to explain SME internationalisation are also reviewed: Eclectic Paradigm/Transaction Cost Theory, Stage Model Theory, Network Theory and the RBV. Section 2.4 reviews the research on the effect of internationalisation on SMEs. Drawing on the relevant themes and theories identified from the review of the two parent literatures, a theoretical model that depicts the internationalisation process of SMFEs is presented and discussed in Section 2.5. This model is used to develop the study's research issues, which are presented and discussed in Section 2.6.

### **2.2 Family business research**

In addition to commenting on the current state of the growing family business literature, for the purposes of this study on the internationalisation of SMFEs, the relevance of previous studies in the following areas will be discussed: the family business system and development cycle, strategic planning within the family business, and the resources, capabilities and entrepreneurial behaviour of family firms.

#### **2.2.1 Current state of family business research**

The majority of businesses in many countries are family businesses, constituting between 65 and 80 percent of all business enterprises worldwide (Gersick, Davis, Hampton & Lansberg, 1997). For example:

- In the United States of America (USA), an estimated 80 percent of its 15 million businesses are family businesses, contributing more than 50 percent of the Gross National Product (Davis & Harveston, 2000);
- In Singapore, family businesses constitute 78.5 percent of all manufacturing enterprises, and employ 44.8 percent of the country's manufacturing workforce (Lee & Tan, 2001);
- The Finnish Family Business Network estimate that 70 percent of Finnish firms are family-owned (Littunen & Hyrsky, 2000);
- In Australia, family businesses account for 67 percent of all businesses and employ approximately 50 percent of the entire private sector workforce, making a significant contribution to the national economy, with an estimated wealth of \$AUS 3.6 trillion (Smyrnios et al., 1997; Smyrnios & Walker, 2003). Although many Australian family businesses have successfully become large enterprises<sup>2</sup>, over 90 percent are SMEs (Smyrnios & Walker, 2003).

Over two decades ago, Davis and Stern (1980) highlighted that the complexities associated with managing a family business are not entirely addressed by classical management theory. Because of the contribution of family businesses to the global economy and a lack of management theory to fully explain their associated complexities, one would expect a high degree of research activity in the family business domain. Yet, as highlighted by Morris, Williams, Allen and Avila (1997), family businesses remain an under researched area:

Relatively little attention has been devoted to researching the nature and functioning of family-owned businesses, or the strategic challenges confronting these firms. Research on these firms is certainly disproportionate to their numbers and contributions to the economies of virtually every nation. (p. 386)

In Australia, family business research efforts have lagged behind those of overseas countries (Moore, 1995). Although research on family businesses is still in its infancy, with most of the research having been conducted since 1987 (Shanker & Astrachan, 1996), it nevertheless is an emerging field. The journal *Family Business Review* that was launched in 1988 by The Family Firm Institute (FFI) is dedicated to publishing research on issues pertaining to family businesses. Other well-established journals such as *Entrepreneurship*

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<sup>2</sup> For example, News Corporation is a third generation family business, with the Murdoch family owning approximately 30 percent of the company's shares and with second and third generation family members on the board of directors. It is one of the world's largest media companies with total assets as of December 31, 2002 of approximately US \$42 billion and total annual revenues of approximately US\$16 billion (<http://www.newscorp.com/investor/index>).

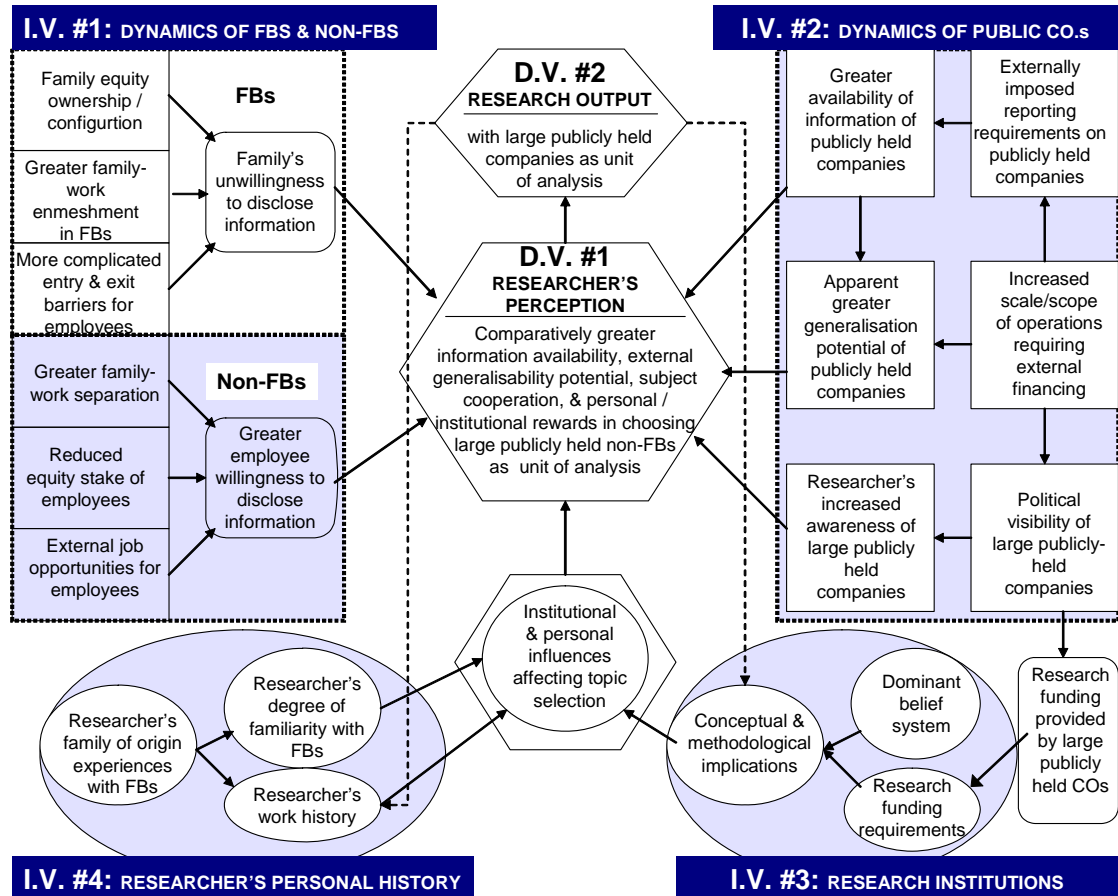
*Theory and Practice, Journal of Business Venturing* and *International Journal of Entrepreneurial Behaviour and Research* are publishing family business research at an increasing rate. Several notable books have also been published in the family business field. Examples include Ward's (1987) *Keeping the family business healthy: How to plan for continued growth, profitability, and family leadership*, Gersick, Davis, Hampton and Lansberg's (1997) *Generation to generation: Life cycles of the family business*, and Carlock and Ward's (2001) *Strategic planning for the family business*.

In Australia, academic interest has been growing, culminating in the establishment of the research centre The Australian Centre for Family Business at Bond University in 1994. Networks have also been developed to support the survival and growth of family businesses. Consisting of 1,400 members from around the world, the FFI was founded in 1986 with the purpose of providing education and networking opportunities for family firms, and advisors, educators and researchers in the family business field. They currently publish the journals *Family Business Review* and the *FFI Practitioner*. The Family Business Network (FBN) was formed in 1990 and now consists of 1,700 members from more than 50 countries with 16 chapters throughout the world. The aim of FBN is to promote the success and sustainability of family businesses worldwide. Family Business Australia (FBA), a national member based, not-for-profit organisation, was established in 1998 with the purpose of improving the effectiveness of Australian family businesses.

Because of the significance of family businesses to the Australian economy, research into issues that affect their performance is of critical importance. However, as discussed in the following section, to date, there has been a paucity of family business research both in Australia and internationally.

Litz (1997, p.57) argues that the lack of research on family businesses is due to the 'longstanding pattern of interaction between business firms, business regulators, academic institutions, and individual academic researchers', resulting in a preoccupation with researching publicly traded companies. This bias towards researching large public companies is determined by the researcher's perceptions of the research process itself. Researchers perceive that it is comparatively easier to access information and obtain cooperation from large firms. They also perceive the generalisability and personal and institutional rewards associated with public company research to be greater (see Figure 2.1).

As Figure 2.1 outlines, a researcher's perceptions are shaped by four variables: the dynamics of family and non-family controlled businesses, dynamics of publicly-traded companies, dynamics of research institutions and dynamics of the researcher's personal history.



**Figure 2.1** Explaining the void in family business research (Litz 1997)  
 KEY: DV = dependent variable; IV = independent variable; FBS = family business; non-FBS = non-family business

### Dynamics of family and non-family businesses

Litz (1997) argues that it is common for family members to be both shareholders and employees in a family business, making the affairs of the family and the business inseparable. As an illustration, Miles (1980) states:

The thanksgiving table was frequently laden not only with the feast, but with the business problems left over from the last gathering of the clan. Differences of opinion on work methods, firm goals, personnel policies, and the like also spilled over into family life. (p.16)

Having joined the business it can be difficult for family members to leave because of ownership and family influences. At the same time, barriers also exist to appointing non-family members to management positions within the business. Hence, family businesses

have been referred to as armoured cars: no one gets in, no one gets out (Litz, 1997). Compared to their non-family counterparts, employees of family firms have a preference for privacy because disclosing information about the business is indistinguishable from disclosing information about the family. As a result, researchers perceive greater difficulty in researching family businesses because of the difficulty in obtaining information.

#### **Dynamics of publicly traded companies**

Public companies have a high degree of political visibility because of the contribution they make to employment, economic growth and taxation revenue, thereby increasing awareness and perceived importance in the researcher's eye. Research on public companies is perceived to be generalisable for two reasons: they have similar ownership structures, and data availability enables the generation of large sample sizes required for hypothesis testing. Greater availability of data, political visibility and research generalisability encourages a bias towards public company research.

#### **Dynamics of research institutions**

According, to Litz (1997), the family business phenomenon has been viewed as throwback to a former, primitive era where inherited wealth was associated with the propagation of the elite ruling class. He further argues that modern management views the combination of family and business as inferior economic organisation. Such views influence society's beliefs on how the world should be organised which, in turn, ultimately influence what research institutions deem as 'acceptable research'. Because public companies have a tradition of funding business research, research institutions are more likely to promote research into such companies. Also, academics are faced with the 'publish or perish' mentality within research institutions. Because there is no unified theoretical framework in the family business field (Wortman, 1994), academics may be reluctant to undertake family business research because of the potential difficulty in being published in reputable academic journals.

#### **Dynamics of researcher's personal history**

Unless they have had first hand experience with family businesses, either through their own family history or work history, researchers are unlikely to appreciate the complexities associated with managing a family business. As a result, researchers will tend to overlook research topics pertaining to family businesses. Family business research often requires using a multidisciplinary approach. However, most researchers are trained solely in one

field, making research in the multidisciplinary family business field a more challenging one for researchers (Lansberg et al., 1988).

As a result, no single theory has been developed to explain the complexities associated with family businesses. The variables identified in Figure 2.1 offer one explanation as to why there has been a paucity of research into the internationalisation of family firms despite the anecdotal evidence that suggests they face unique challenges to growing internationally. Litz (1997) and Goffee (1996) call for greater research on family businesses so that this deficiency in the management literature can be addressed. The purpose of this exploratory study is to contribute towards closing this research gap by examining a range of issues associated with the internationalisation of SMFEs.

## **2.2.2 The family business system and development cycle**

### **2.2.2.1 The family business system**

In Chapter 1 it was argued that what made some businesses unique was their high degree of family influence, as this influence affected the firm's goals, strategies and structure, and the manner in which each is formulated, designed, and implemented. It is commonly accepted in the family business literature that family members exert an influence on the business through three overlapping systems: the business system, the ownership system and the family system. The degree to which the family and ownership systems overlap the business system indicates the degree of influence that a family has over the business. Many researchers have studied family-owned businesses using this 'systems' perspective, culminating in the development of a number of models (Donckels & Frohlich, 1991; Gersick et al., 1997; Neubauer & Lank, 1998; Tagiuri & Davis, 1996; Tagiuri & Davis, 1992).

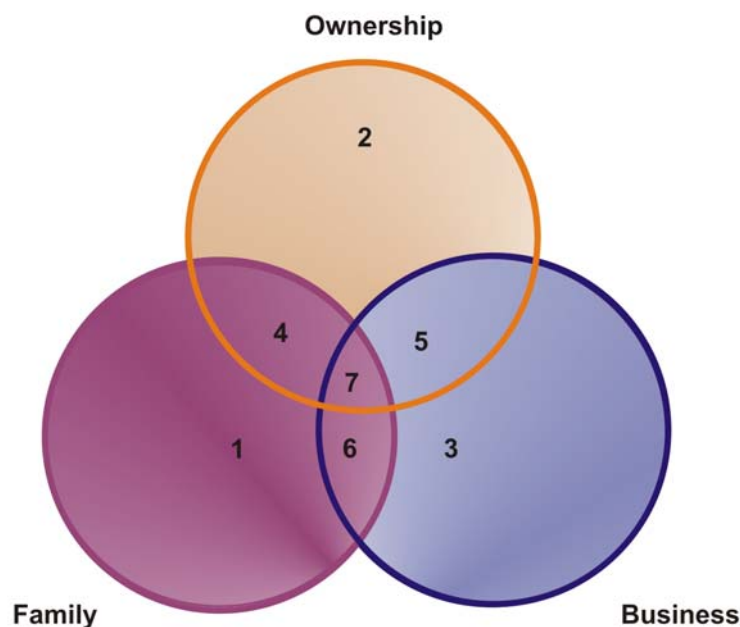
According to the Gersick et al. (1997) model, depicted in Figure 2.2, any individual within a family business can be categorised into one of seven sectors:

- '1' represents family members who neither own or are employed by the business
- '2' represents non-family members who are owners of the business
- '3' represents non-family employees of the business with no ownership
- '4' represents family members with ownership but are not employed by the business
- '5' represents non-family business employees who are owners
- '6' represents family members employed by the business but have no ownership



- ‘7’ represents family members employed by the business who are owners.

This list is by no means exhaustive as Neubauer and Lank (1998) identify fifteen different sectors to categorise individuals within a family business. Nevertheless, the key point is that family businesses are complex because they consist of individuals who possess different relationships to and/or within the business. Some individuals have multiple roles within the family business, while others do not. Nevertheless, they all form part of the overlapping and sometimes contradictory institutional forces of the business (Lansberg, 1983). One might simplistically argue that family members are primarily concerned with the welfare and harmony of the family as a whole; owners are primarily concerned with the return on investment and the survival of the business; while family and non-family managers are concerned with the day-to-day management of the business. However, in reality, the interactions between the family, the owners, management and the business are much more complex. A key advantage in researching family-owned businesses from an integrated systems perspective is that it facilitates an understanding of the context in which family-owned businesses must operate (Moore, 1995). This study will investigate how family involvement, exercised through those represented in segments one, four, six and seven (outlined in Figure 2.2), influences the internationalisation of SMFEs.



**Figure 2.2** The three-circle model of family business (Gersick et al., 1997)

Although the approach depicting overlapping systems argues that one cannot comprehend an organisation as a whole without looking at the systems that constitute it, Whiteside and

Brown (1991) contend that an overemphasis on the various systems may lead to a lack of understanding of the whole organisation. Habbershon and Pistrui (2002) argue that an overemphasis on the systems perspective has placed the family business field on a dualistic path where family businesses have become viewed as ‘warring entities rather than as potential high-performance enterprising systems’ (p. 225). For example, in his early article titled ‘Conflicts that plague family businesses’, Levinson (1971) argues that when family and business are intertwined, an inherently flawed economic entity is created. In his opinion, this is because family businesses suffer from rivalries between father and son, siblings, or other family members that ultimately compromise the firm’s financial performance. He further argues that the only real solution for family businesses is to professionalise, that is, replace family with non-family in management positions because ‘I know of no family business capable of sustaining regeneration over the long-term solely through the medium of its own family members’ (Levinson, 1971, p. 98).

Similarly, Kets de Vries (1993) states that because the family and business systems are not always compatible, family businesses have an in-built Achilles’ heel. As a result, compared to public entities, in his view, family firms are more likely to suffer from rampant irrational decision making. He concludes by asserting that the creation of a family council can assist family firms in managing their Achilles’ heel and, in turn, their survival. Donnelley (1964) however argues that this warring view of the family firm is distorted, as family involvement has been a source of competitive advantage in many firms. He concludes that an understanding of the relationships involved *and not family participation per se* is a key determinant of the success or failure of family firms. Davis and Stern (1980) highlight that Levinson’s (1971) less than favourable view of family businesses is at odds with the fact that family businesses are the predominant form of business organisation. Nevertheless, the authors agree that in addition to the challenges associated with the economy, technology, and environmental uncertainty, family firms must also address the challenges associated with family involvement:

Our broader point has been that family organizations pose special problems which have not been adequately addressed by classical management theory. In contrast to the ‘ideal’ image of the organization as a rational, performance-oriented system, the family business represents a system that is organized around a set of highly charged affective relationships. The family firm represents a case in which two otherwise distinct social units are highly integrated. Under such conditions the effect of family-system variables cannot be ignored. (Davis & Stern, 1980, p. 223)

### **2.2.2.2 The family business development cycle**

Carlock and Ward (2001), Gersick et al. (1997) and Neubauer and Lank (1998) build upon the systems approach to highlight that the family, business and ownership systems depicted in Figure 2.3 are not static, but progress along three development cycles: business cycle, ownership cycle and family cycle. As the family business progresses through these three cycles, it faces new challenges and complexities. In this study, it is important to consider issues related to the business, ownership and family cycles of SMFEs when examining their internationalisation process.

Neubauer and Lank's (1998) view is that the family business development model proposed by Gersick et al. (1997) is superior to that of an overlapping systems approach as it incorporates the three major strands of the life cycle literature (see Figure 2.3). Although Gersick et al. (1997) outline the common sequence of stages within each cycle, they stress that not all family firms progress through all the stages of each cycle. These development cycles are interdependent where the development in one cycle may also influence the development along another cycle. As a result, a family business may be in transition in more than one cycle at any given point in time.

- **The ownership cycle:** As the firm ages, it may progress through a series of different forms of ownership. When a business venture is created, the founder solely owns the firm. Over time, this ownership may be passed to the founder's siblings, who may later pass ownership to their children, creating a cousin consortium. As ownership is diluted across more family members in latter generations, the complexity of managing the family business can increase. In this situation, owners will generally have more distant relationships with each other, will be more concerned with dividends, and a smaller percentage of family members will be working in the business. This can create an environment that fosters politicking amongst the growing number of family owners, who feel they deserve a say in the affairs of the business. As a result, family firms may prune the ownership structure (that is, buy out ownership from a number of siblings, cousins or other relatives) in order to reduce the demands for short-term results (dividends), to engender greater control among the remaining owners, and to increase the freedom of managers to manage the business.

Despite these potential benefits, pruning the family tree may limit the financial resources available to execute growth-related strategies such as internationalisation. Although the ownership structure of family firms may include outside investors, in general such firms are averse to non-family ownership (Poutziouris, 2001). Introducing non-family ownership potentially diminishes the ability of the family to maintain

effective control and direction of the business. For example, Levi Strauss, a family-owned company, bought back publicly-owned shares in order to regain the benefits of being family-owned (Gersick et al., 1997). Smyrnios and Walker (2003) found that over 85 percent of multigenerational family businesses in Australia have a high preference for the family retaining total control over their share capital. This preference of family firms for close control and for family dividends may limit the funds available for expansion into the global marketplace (Gallo & Sveen, 1991; Shaw & Young, 2001). Conversely, some family businesses are known for their patient capital (Aronoff & Ward, 1995; De Visscher, Aronoff & Ward, 1995), enabling the business to focus upon the long-term growth strategies such as internationalisation (Donckels & Frohlich, 1991; Gallo & Sveen, 1991).

- The family cycle: As the firm ages, it progresses along a family developmental path, which reflects the dynamic nature of the family's structure and interpersonal relationships. Gersick et al. (1997) outline four stages through which a family may progress as the business matures. Many family businesses begin at the Young Business Family stage, where the founder will be less than forty years of age, and be faced with the challenges of balancing work and family issues while raising children. Because of the additional complexity and time spent abroad, embarking on an internationalisation pathway at this stage of the family cycle may place considerably more strain on the family unit compared to firms further down the family cycle.

As the business progresses through the Entering the Business and Working Together stages to the Passing the Baton stage, the family must confront a range of challenges such as the selection and nurturing of future business leaders from the family stock, fostering cross-generational cooperation and communication, and the generational transfer of family leadership. Davis and Harveston (1999) found that overall conflict within the family firm rises with each successive generation transfer, possibly because of the number and complexity of family members involved with the business. They also found higher levels of conflict in family firms where the founder failed to fully relinquish his or her presence despite succession to the next generation. Conflict among family members can divert energy from actively pursuing business growth (Ward, 1997), such as an internationalisation strategy.

The impact of conflict on family harmony and business growth may explain why only 30 percent of family businesses survive into the second generation (Beckhard & Dyer, 1983) and merely 5 to 15 percent progress to the third generation (Applegate & Feldman, 1994). Dyer (1988) found that the ability of a family firm to survive past the first generation was dependent upon its organisational culture. In Australia, less than 30 percent of family businesses are owned by second-or-later generations, which is

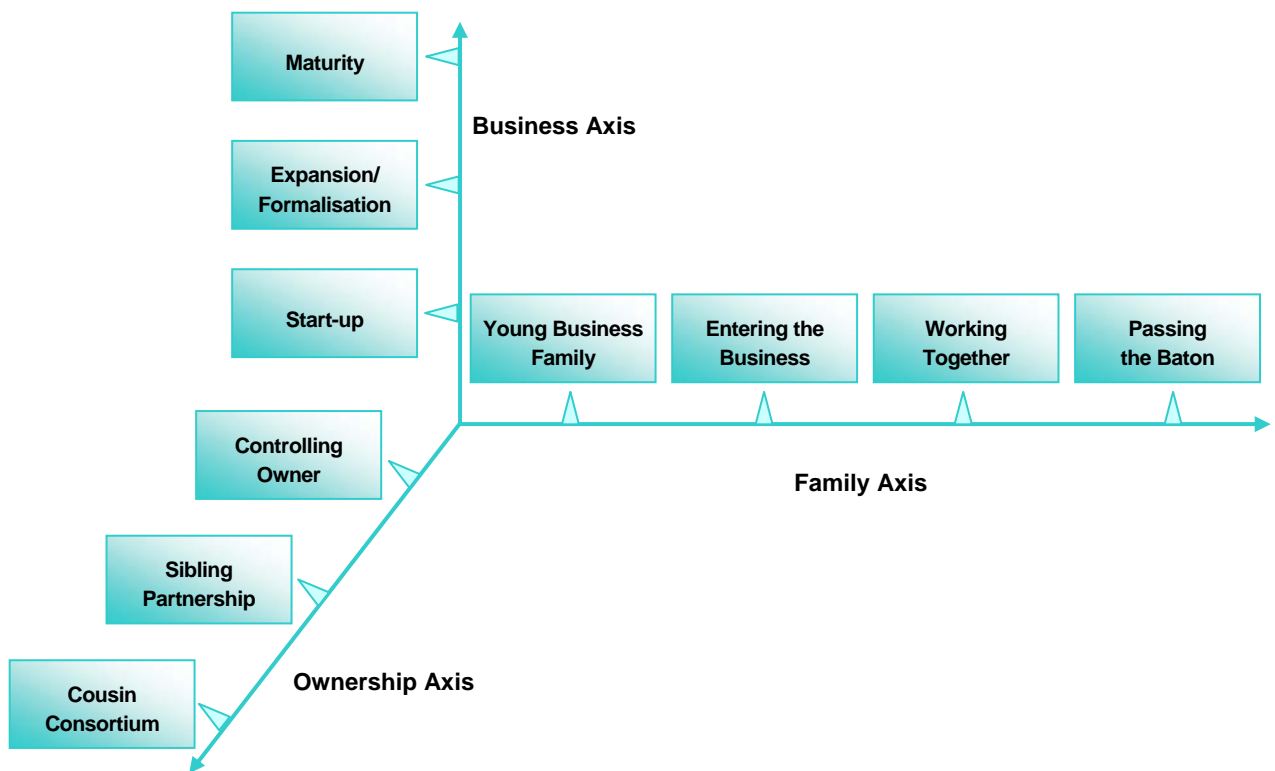
considerably lower than international standards (Smyrnios et al., 1997; Smyrnios & Walker, 2003). Smyrnios et al. (1997) also found that concerns over family turmoil increase as a family firm progresses to latter generations. This may suggest that Australian family businesses struggle in successfully transferring management and ownership to later generations.

Research on the influence of generational transfer on internationalisation appears to be mixed. Gallo and Pont (1996), Fernández and Nieto (2005) and Menendez-Requejo (2005) all found that multigenerational firms achieved higher levels of internationalisation. Zahra's (2001) study suggests that the degree of family involvement is positively associated with international sales<sup>3</sup> amongst family firms. Conversely, Okoroafo's (1999) study found that international involvement tapers off after the first generation. Because of these mixed findings, Davis and Harveston (2000) call for more research on how the dynamics of family relationships, where decision making is influenced by a range of family members, influences the internationalisation process of family firms.

- The business cycle: As the business develops, it progresses through a series of growth stages: start-up, expansion/formalisation and maturity. As the business progresses through these stages, it moves from the challenge of mere survival at the start-up phase to the need for renewal at the maturity stage. Although one may argue that all businesses face the same challenges associated with business development, each stage is more complex for the family firm because they are influenced by (and influence) the family and ownership developmental stages. For example, the aversity to non-family ownership and the need to prune the family ownership tree decreases the funds available for expansion. However, succession can revive the entrepreneurial spirit required to renew the business from its stale state. As with any growing business, one of the key challenges faced by family businesses is acquiring the resources and capabilities required for the transition from start-up stage to the expansion/formalisation and maturity stages of growth. As discussed later in this chapter, a family firm's ability to successfully grow internationally is dependent on its ability to acquire and/or reconfigure its resources to create globally relevant competencies. This may include acquiring additional financial resources to fund an internationalisation strategy and bringing about organisational change to develop the requisite capabilities in production and management.

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<sup>3</sup> Zahra's (2003) study used two methods to measure degree of internationalisation: % of sales from international markets, and the number of countries that the firm sells to. Although the study found that family influence was positively related to % of sales from international markets, it was negatively associated with # of countries that the firm sells to.



**Figure 2.3** The three-dimensional development model (Gersick et al., 1997)

Based on the above discussion of the family business system and development cycle, it is proposed that family businesses can only successfully grow internationally if the needs of the three systems are addressed. This is because the emphasis of one system over another can result in a number of conditions that may inhibit internationalisation including family conflict, poor decision making and strategic inflexibility. In order to effectively balance the needs of the family, ownership and business institutional forces, family firms are encouraged to create an active board of governance, preferably with the inclusion of ‘outside’ non-family members (Neubauer & Lank, 1998; Ward, 1988). These boards can assist family firms in accessing invaluable experience and knowledge, objective and unbiased advice, constructive criticism, and valuable business connections (Neubauer & Lank, 1998).

### 2.2.3 Family businesses and strategy

Although the strategic management process may be similar for both family and non-family businesses, anecdotal evidence suggests that strategy formulation and implementation within family firms is different because of the influence of the family (Harris et al., 1994; Ward, 1988). To ensure the long-term viability and prosperity of family firms, it is important to have an understanding of how family involvement affects the strategic

management process. Yet, to date, research in this area has been limited (Gudmundson, Hartman & Tower, 1999; Harris et al., 1994; Sharma, Chrisman & Chua, 1997), and often contradictory (Gudmundson et al., 1999). Sharma et al. (1997) call for more research into how family involvement 'can be directed towards more productive and profitable outcomes' (p. 19) for family firms, such as successful international expansion. As highlighted in Chapter 1, the ability of the Australian economy to benefit from FTAs is dependent on the ability of SMFEs identifying opportunities and exploiting their competitive advantage in the international marketplace. However, the family business literature suggests that family firms lag behind non-family firms in their international expansion. Therefore, it is important to understand how family involvement influences a family firm's ability to select, execute and manage an internationalisation strategy. Family involvement presumably influences a family firm's internationalisation strategy through the firm's vision and objectives and its overall strategic management process (planning, strategy implementation and control). However, the extent to which this is so remains unclear.

#### **Values and objectives of family businesses**

Ward (2002), who has studied family businesses for over twenty years, argues that family firm strategy is driven by family values and family vision. The success of the family firm is dependent upon matching the family values and vision with the opportunities in the marketplace. He further argues that three core beliefs shape the family's values: whether the family serves the business or the business serves the family; whether the business will unite or fracture the family; and whether a team or individual-based leadership style should be used. Over time, it is these core beliefs that are embedded within the business, represented in the firm's structure (existing systems and leadership preferences). In turn, this structure shapes what strategies are observed and preferred by the family firm.

According to Ward, the structure influences strategic scope (focused or diversified), source of capital (family versus external sources), attitude to risk (low or high), and leadership (family or non-family). In comparing the values of family and non-family firms, Donckels and Frohlich (1991) found that family firms were averse to risk and innovation, less growth oriented, less collaborative with other firms, but placed greater emphasis on satisfying their employees. In this study, it will be important to investigate the affect of family values and family vision on the internationalisation process of SMFEs.

Sharma et al. (1997) argue that family firms are more likely to have multiple, complex, and changing objectives rather than simple, narrowly focussed goals. In their comparative study of family and non-family businesses in the United Kingdom, Westhead and Cowling (1997) found that family businesses were more likely to pursue family-oriented goals (e.g. employment for the family) as well as financial goals. Despite this, the study found no difference in reported financial performance or growth ambitions between the two groups, suggesting that family and business goals can be complementary rather than contradictory. Based on the responses obtained from over 500 owner-managers<sup>4</sup> of small<sup>5</sup> family-owned businesses, Tagiuri and Davis (1992) found that family firms pursued a portfolio of objectives, predominantly because these firms had to contend with the influence of the three systems within the family business that were discussed previously: family, ownership and business systems. Using factor analysis, their study reduced 74 specific goals identified to six groups of independent objectives:

- have a company where employees can be happy and productive, a company whose image and commitment to excellence in its field makes its employees proud
- provide the owner(s) with financial security and benefits
- develop new and quality products
- have the company be a means of personal growth, social advancement, and autonomy
- have the company be a good corporate citizen
- have a company that offers job security (Tagiuri & Davis, 1992).

Smyrnios and Romano (1994) found that the primary objectives of Australian family businesses were:

- to increase the value of the business (96.4 percent)
- to increase profitability (95.2 percent)
- to accumulate family wealth (91.9 percent)
- to pass the business on to the next generation (50.1 percent)

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<sup>4</sup> Tagiuri and Davis (1992) argue that owner-managers within the family business have the greatest influence over the objectives of the firm because of their influence within the family, ownership structure and the business. As a result, in their study, data were collected from owner-managers.

<sup>5</sup> This study was based in the USA where a small firm is defined as one with less than 500 employees. The average number of employees per firm was 152, suggesting that the majority of these firms were SMEs by Australian standards.



- to provide business careers for the next generation (47 percent)
- to employ family members (40.2 percent).

The objectives of family businesses vary across generations (Smyrnios et al., 1997; Smyrnios & Walker, 2003). A significant number of first generational businesses plan to set-up and grow the business with the intention of eventually selling it. Second generational owners appear more concerned with increasing the value of their business, while third and fourth generational owners are more concerned with achieving growth through acquisitions and joint ventures. Despite the growth objectives of latter generational firms, Smyrnios et al. (1997) found that first-generation family businesses experience significantly higher rates of sales growth when compared to multigenerational family businesses. This suggests that, despite their intentions, multigenerational firms are less successful in achieving growth. Research by Smyrnios and Walker (2003) suggests that Australian family businesses are more interested in increasing profitability through increasing profit margins rather than by growth in sales. According to Ward (1997), most family businesses simply do not grow due to a range of factors. The most common reasons given for lack of growth in family firms include maturing business life cycles, limited capital for both the family and business, weak next-generation leadership, inflexibility and resistance to change, conflict amongst successors and disparate family values and goals (Ward, 1997). Successfully growing family businesses are ones that have adopted the following best practices:

- having an ongoing source of fresh strategic insights through experimentation, funding strategy development, using independent directors, and providing family members with international work experience
- attracting and retaining excellent non-family members through appropriate remuneration and career growth opportunities
- creating a flexible, innovative organisation through the sharing of information, fostering new ideas, and promoting change
- creating and conserving capital by using more debt, implementing share redemption and dividend policies, and estate planning
- preparing successors for leadership through sound mentoring and planning the time of the transition
- exploiting the unique strategic advantages of family ownership such as patient capital and strong ties with customer, suppliers and employees (Ward, 1997).

One of the main motivations for undertaking internationalisation strategies is firm growth (OECD, 1997). Because the literature above suggests that family firms are less sales growth oriented when compared to other firms, one would expect that the propensity for and degree of internationalisation of SMFEs would lag behind that of their non-family counterparts. The extent to which the multiple and sometimes contradictory objectives of family firms influence their ability to grow internationally has not been made clear. Because the above literature suggests that multigenerational firms have greater difficulty in achieving growth, they may also have greater difficulty in internationalising their operations compared to first generation family businesses.

In summary, this study will explore whether (and in what ways) a family firm's values and vision, multiple objectives and generational issues influence its ability to grow internationally.

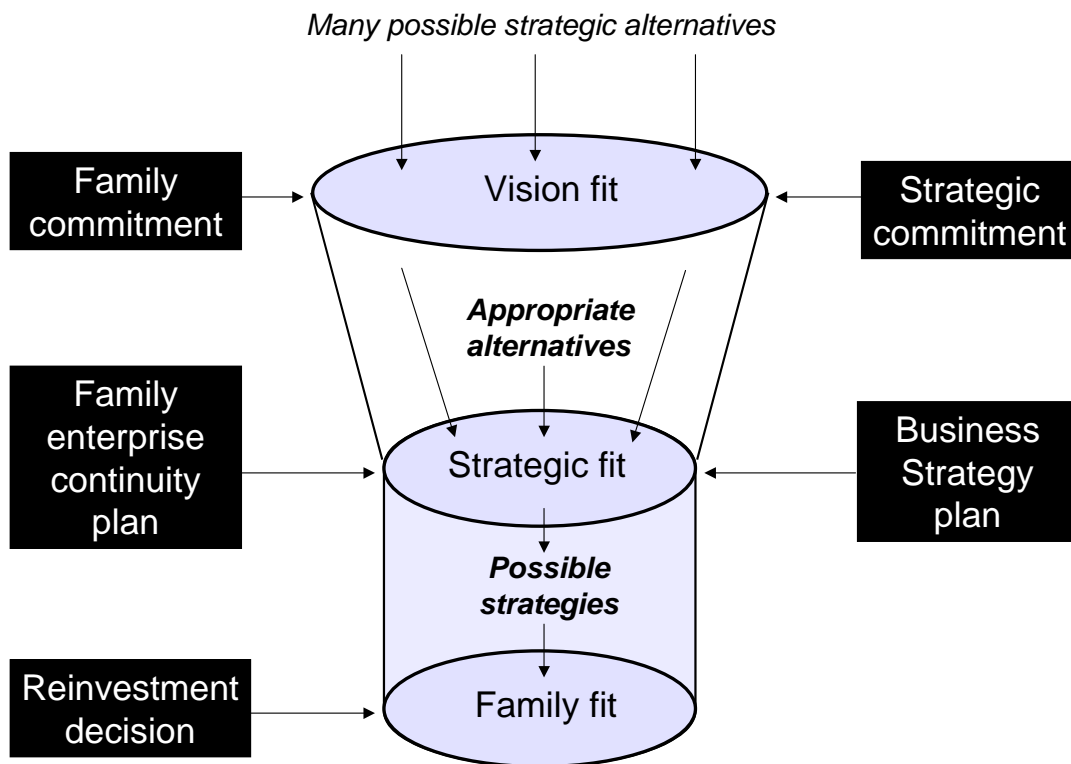
#### **Strategic management process**

Teece, Pisano and Shuen (1997) argue that winners in the global marketplace have been those firms that possess the managerial capabilities to effectively coordinate and redeploy internal and external competencies. This requires a formal planning system, which assesses the strategic fit between the firm's current strategies and its current stock of resources and capabilities. Changes in the marketplace may require the firm to change its current strategies and/or reconfigure its resources to generate the required capabilities. However, Smyrniotis and Walker (2003) found that Australian family businesses lack formal planning systems and appear unprepared for the future, where over 50 percent did not have any formal strategic plans (compared to 35 percent of non-family firms).

Of the family firms sampled, Okoroafo (1999) found that 75 percent did not regularly monitor the international marketplace, nor did they integrate global developments into their domestic decisions. This would explain why unsolicited orders were the primary stimulus for initiating exporting (Okoroafo, 1999). Because of the dynamic nature of the international marketplace, this lack of planning may inhibit the family firm's ability to reconfigure and/or employ its capabilities in order to respond to the opportunities and threats that may emerge. Ward (1997) argues that the lack of strategic planning in family businesses is due to the founder's preference for secrecy, ambiguity, risk minimisation (as they age), and aversion to conflict with other family members.

According to Ward (1988), family firms that do have formal planning systems often fail to incorporate the interests of the family into the planning process (business-first family firms), resulting in performance below that of their strategic potential. Regardless of whether a business acknowledges it or not, Ward argues that family issues do influence the strategic management process, and to ignore them in the strategic planning process is a recipe for financial underperformance. His research suggests that successful family firms are those that actively plan and add new strategies in response to changes in the environment. He concludes that the long-term prosperity of a family business is dependent upon implementing a formal strategic planning process that encompasses both the business and the family strategic plans. In order to ensure that the values and goals of both the family and the business are fully considered, Carlock and Ward (2001) propose the *parallel planning process* (PPP).

The PPP consists of a series of activities that guide family and management in the selection of a business strategy that matches the family's interests and the business' capabilities (see Figure 2.4). Under the PPP, possible alternative strategies are subject to three decision filters: the *vision fit*, *strategic fit* and *family fit* filters. The *vision fit* filter assesses whether the alternatives are consistent with the family's commitment (family's core values, vision and business philosophy) and management's vision for the business (management's business philosophy, business vision and long-term goals). The *strategic fit* filter assesses whether the alternatives, which satisfy the vision criteria, also consistent with the family firm's continuity plan (family participation, leadership development and effective ownership) and the firm's core capabilities. Finally, the alternatives that have satisfied the *vision* and *strategic fit* requirements are assessed according to the firm's *family fit* filter. Because different alternatives may require different levels of investment, the *family fit* filter determines which strategic alternatives are feasible based upon the family's reinvestment policy.



**Figure 2.4** Selecting a business strategy (adapted from Carlock & Ward, 2001)

Although the PPP is more dynamic than other systems models, Habbershon and Pistrui (2002) highlight that the PPP still presents the family firm as a warring entity, satisficing the competing needs of the family and the business. Although Carlock and Ward (2001) argue that the goal of family businesses is to provide a long-term economic return to its owners, this is not explicitly built into the PPP. Habbershon and Pistrui (2002) suggest that such models should focus on development, reconfiguration and exploitation of the resources and unique capabilities for long-term financial success. Nevertheless, the three filters portrayed in Figure 2.4 may be useful in this study for exploring how family involvement in the strategic management process may influence the internationalisation process of family firms.

In conclusion, Gudmundson et al. (1999) argue that the strategic management process of family firms is more complex than empirical studies have been able to operationalise to date. This suggests that a more in-depth approach to researching family firms is required where the influence of different players within the firm on the strategic management process can be thoroughly explored and understood. Sharma et al. (1997) highlight the need for research on how family firms select and implement strategies, such as internationalisation strategies:

We know little about how family firms scan their environments, assess their capabilities, or search for and evaluate alternative strategies; how the strategy formulation process is influenced by family considerations and interests; ...how the dynamics and politics of decision making are different in the family business; and which types of family influences are advantageous and which deleterious to the process. (p. 8)

#### **2.2.4 Resources and capabilities of family businesses**

Based on the distinct firm resources and capabilities attributed to them in the literature [refer to Habberson and Williams (1999; 2000) for a summary], it could be argued that family businesses are in a better position to compete globally:

- Workplace advantages: Family involvement creates a uniquely favourable workplace environment. Family businesses often pay higher wages to their employees (Donckels & Frohlich, 1991); have more flexible employee work practices (Goffee & Scase, 1985); and lower recruitment costs and human resource costs (Levering & Moskowitz, 1993). Employees are more loyal and take greater care in their work (Ward, 1988), are highly motivated towards the goals of the business and strive for excellence in their work (Moscetello, 1990).
- Relationships with other stakeholders: Family involvement can create stronger working relationships with other stakeholders such as suppliers and customers (Aronoff & Ward, 1995; Brokaw, 1992; Lyman, 1991). Family businesses are often perceived to be more trustworthy (Tagiuri & Davis, 1996; Ward & Aronoff, 1991) and are more able to overcome national cultural barriers when dealing with family firms located overseas (Swinth & Vinton, 1993).
- Management: As family members often fill management positions, the management team shares a deep sense of trust, motivation and loyalty to the business (Aronoff & Ward, 1995), reducing agency-related costs (Aronoff & Ward, 1995; Daily & Dollinger, 1992). Family businesses have superior communication channels (Tagiuri & Davis, 1996), less organisational bureaucracy, and efficient informal decision making processes (Daily & Dollinger, 1992).
- Adaptability: Family businesses are more creative (Pervin, 1997) and pay more attention to research and development (Ward, 1997). They are more responsive to changes in the competitive environment (Dreux, 1990; Dunn, 1995) and are able to adapt to these changes without losing any of their momentum (Moscetello, 1990). It is difficult for competitors to benchmark themselves against family businesses due to the lack of publicly available information (Johnson, 1990).

- **Finances:** Family businesses have patient capital (De Visscher et al., 1995) enabling the business to avoid ‘short-termism’ and focus upon the long-term growth of the business (Donckels & Frohlich, 1991). They have a lower cost of capital (Aronoff & Ward, 1995); a lower debt-to-equity ratio and a greater return on investment (Dreux, 1990; Gallo & Vilaseca, 1996), indicating a better managed capital structure and efficient allocation of resources (Monsen, 1969).

Despite the persuasiveness of the family business literature, Habbershon and Williams (1999) argue that the unique resources and capabilities of family businesses are largely anecdotal, and presented in very over-generalised terms. As a result, it is not clear whether the purported resources and capabilities of family businesses, such as their relationships with other stakeholders, assist them in the internationalisation of their operations. Key capabilities required for growth in the international marketplace include managerial capabilities (discussed in greater detail under Section 2.3.4 of this chapter). Despite the advantages that flow from family involvement in management, one of the major constraints to family business growth is its limited management capabilities (Dyer, 1989; Hoy & Verser, 1994; Levinson, 1971). Because the relationship between a family firm’s resources and capabilities and internationalisation is not well understood, this is an area for future research.

### **2.2.5 Family business culture and entrepreneurial behaviour**

Globalisation is forcing firms ‘to reflect continuously on and change the way they do business’ (Hall, Melin & Nordqvist, 2001, p. 193). In such an environment, Habbershon and Pistrui (2002) contend family firms need to develop an entrepreneurial mindset<sup>6</sup> in order to sustain wealth creation in the long-term. Ireland and Hitt (1999) argue that the challenge to remain competitive in the 21<sup>st</sup> century will not be rational or technical, but cultural as culture provides the context within which firms can be enterprising:

Organizational citizens [need to] understand that competitive advantages do not last forever and that the firm must move forward continuously. When citizens are comfortable with the reality of constant change and the need for a never-ending stream of innovation, patterns and practices are in place that can enhance global competitiveness. (p. 51)

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<sup>6</sup> A ‘family as investor’ mindset is one where a family sees itself as a steward of their resources and capabilities, and not necessarily of a particular business entity or legacy asset. An ‘entrepreneurial’ mindset is one where a family business proactively and continuously searches for opportunistic growth. Innovation and adaptation become part of the firm’s processes (Habbershon & Pistrui, 2002).

Because family businesses are often characterised as having a culture that is inward-looking, constrained by history and tradition, and resistant to change (Dyer & Handler, 1994; Gersick et al., 1997; Kets de Vries, 1993), there is concern over their survival in a dynamic global economy. For example, Wright, Szeto and Geory (2000) argue that many Chinese family manufacturing firms are ill equipped to benefit from globalisation because they are dominated by a firmly entrenched paternalistic culture that deters employee empowerment, innovation, and alternative business paradigms.

Internationalisation can be viewed as a bona fide form of entrepreneurial activity (Ibeh & Young, 2001). According to Hall et al. (2001) an organisation's culture acts as a filter which influences how the firm interprets and responds to the environment in which it operates. As a result, certain opportunities, such as expansion into international markets, may be overlooked because they are not interpreted as opportunities or are seen as incongruent with its business culture. For example, Gallo and Sveen (1991) found that family businesses often have a tradition of serving the local community, which can make them overlook opportunities internationally. Poza (1988) argues that many family businesses are reluctant to expand into uncharted territories because their identity and social status is defined by their original product, service or market served. The family business literature (Cappuyns & Pieper, 2003; Gallo & Pont, 1996; Gallo & Sveen, 1991) suggests that family firms are less likely to undertake the entrepreneurial behaviour of pursuing international business opportunities. However, to date, such claims have received little empirical testing. Hall et al. (2001) argue that entrepreneurial behaviour, such as expanding into foreign markets, will only occur if the culture that attaches meaning to the environment, changes. Therefore, the challenge for family firms intent on growing internationally is to create an internal working environment that is supportive of entrepreneurial behaviour, such as pursuing international business opportunities and developing innovative product lines specifically for the global marketplace.

The concepts of entrepreneurship and entrepreneurial behaviour have long been debated and there is a lack of consensus about what characterises them across a range of organisational forms and industries. Definitions of entrepreneurship have evolved (see Dollinger, 1999) from Knight's (1921) view that profits emerge from bearing uncertainty and risk, and Schumpeter's (1934) carrying out of new combinations of firm organisation, through to Stevenson, Roberts and Grousbeck's (1989) pursuit of opportunity without

regard to resources currently controlled. In addition to identifying conditions for successful entrepreneurship, researchers have explored characteristics of the ideal entrepreneur (see Kao, 1995).

Unfortunately there has been a lack of integration which has slowed the field of entrepreneurship being defined with academic rigour as Brockhaus (1994) suggests is also the case with the family business field. A more recent concept of entrepreneurship is that of entrepreneurial orientation (EO), which refers to the 'processes, practices, and decision making activities that lead to new entry' via a start-up firm, through an existing firm or through a process of corporate venturing' (Lumpkin & Dess, 1996, p. 136). The idea of EO emerged from Van de Ven and Poole's assertion that 'new business entry opportunities can be successfully undertaken by purposeful enactment' (cited in Lumpkin & Dess, 1996, p. 136) and as part of a strategic choice. Lumpkin and Dess (1996) reviewed various studies about entrepreneurship and identified five dimensions of EO, viz. autonomy, innovativeness, risk taking, proactiveness, and competitive aggressiveness, which they defined as follows:

- Autonomy refers to the independent action of an individual or a team bringing forward an idea and carrying it to completion.
- Innovativeness reflects the firm's tendency to engage in and support new ideas and experimentation that may result in new products or services.
- Risk taking might include either venturing into the unknown, or incurring heavy debt or making large resource commitments, in the interest of obtaining high returns by seizing opportunities.
- Proactiveness may involve leading rather than following due to the will to seize an opportunity even if it is not first to do so. It does not wait to respond (i.e. be reactive) to competitors.
- Competitive aggressiveness refers to the firm's propensity to directly challenge its competitors to achieve an improved position. (Lumpkin & Dess 1996)

Lumpkin and Dess (1996) argued that while '...all five dimensions are central to understanding the entrepreneurial process, they may occur in different combinations depending on the type of entrepreneurial opportunity a firm pursues' (p. 150). For example, a firm pursuing an international opportunity may place greater emphasis on innovativeness rather than competitive aggressiveness as innovation has been found to be a key driver of internationalisation (Knight & Cavusgil, 2004).



To date, there has been a paucity of research on the entrepreneurial behaviour in family firms, largely because the field has been dominated by a set of restrictive family firm assumptions (Habbershon & Pistrui, 2002). Although the word entrepreneurial is not often associated with multigenerational family businesses (Hall et al., 2001), Nenadic (1993) found that succession is often an impetus for innovation and expansion rather than ossification. McFarlane's (2002) study of Australian family businesses which have thrived for over 100 years, found that these firms had 'been continuously innovative and entrepreneurial, renewing their businesses in the light of changing customer needs, new market opportunities, new technologies, new products, fashion changes and changing competition' (p.61).

Creating an entrepreneurial orientation (autonomy, innovativeness, risk-taking, proactiveness and aggressiveness) that encourages entrepreneurial behaviour often requires organisational change. To encourage entrepreneurial behaviour, family firms need to empower people so that they have the freedom to act entrepreneurially (autonomy) (Habbershon & Pistrui, 2002). Hall et al. (2001) argue that family firms must strive for a culture that is explicit and open. Explicitness ensures individuals are fully aware of what behaviour is encouraged under the current culture; while openness encourages individuals to create and express new thoughts and ideas, which may question the firm's current culture. However, a change in culture requires the redistribution of power amongst individuals within the family firm. The individuals, or groups of individuals, who are able to make their interpretation of the environment the most persuasive will have the greatest influence over whether an entrepreneurial culture can be created (Hall et al., 2001).

Change also requires the ability to unlearn previous ways of doing things, so that old logic can be replaced by new dominant logic (innovativeness) (Bettis & Prahalad, 1995). Harris et al. (1994) argue that change may require the reinterpretation of the firm's entrepreneurial hero. They further claim that, because a family business' management team is often sourced from the family clan, they can become insular and lack exposure to alternative business paradigms. However, an active board of governance, with the inclusion of 'outside' non-family members, can assist family businesses by exposing them to new ideas, by analysing their perceived strengths and weaknesses more objectively (Mathile, 1988), and by being a catalyst for strategic change (Mueller, 1988). Generational transfer of management can also be a catalyst for internationalisation. This is particularly the case when the firm has encouraged potential successors to learn other languages, to travel and spend time in other countries (Gallo & Sveen, 1991).

### **2.3 The internationalisation process of SMEs**

For many years, a considerable amount of the international business and strategy research was preoccupied with issues surrounding the globalisation of large businesses (Coviello & Munro, 1997; De Chiara & Minguizzi, 2002; Gankema et al., 1997; Lu & Beamish, 2001; McDougall & Oviatt, 1996). The findings from this research were of little relevance to the SME sector because SMEs lacked the resources and capabilities required to implement the types of globalisation strategies available to large organisations. As Shuman and Seeger (1986) succinctly stated:

Smaller businesses are not smaller versions of big business...smaller businesses deal with unique size-related issues as well, and they behave differently in their analysis of, and interaction with, their environment. (p. 9)

However, over the last few years, research into the globalisation of SMEs has proliferated (Coviello & Munro, 1995; Manolova et al., 2002) as international trade in the coming years will not be limited to big business (Wright & Ricks, 1994). In the main, SMEs have adopted a scaled down version of the international (referred to as 'internationalisation') strategies of large firms where they seek to exploit their unique products and knowledge globally, primarily through exporting and foreign direct investment (De Chiara & Minguizzi, 2002). Although, SMEs do engage in a range of different internationalisation strategies, exporting is considered the most common foreign market entry mode, due to the minimal business risk and capital required (Leonidou & Katsikeas, 1996). Okoroafo (1999) found exporting to be the most common entry mode for family firms (90 percent of firms sampled), followed by joint ventures and strategic alliances (35 percent).

Internationalisation theories can be broadly grouped into four perspectives:

- an economic perspective (the Eclectic Paradigm and Transaction Cost Theory)
- a process perspective (Stage Model Theory – commonly referred to as the Uppsala Model)
- a relational perspective (Network Theory)
- a resource-based perspective (RBV and Organisational Capabilities Perspective).

### **2.3.1 The Eclectic Paradigm and Transaction Cost Theory of internationalisation**

One of the key issues that firms intending to internationalise must deal with is deciding their mode of entry into foreign markets. There are many alternatives, including a wholly owned subsidiary, a joint venture (minor, equal or major partner), or non-ownership modes such as franchising, licensing, contracting, and exporting. The Eclectic Paradigm and Transaction Cost Theory (TCA) have been used to explain the foreign market entry mode selected by a firm (equity vs. non-equity entry methods). For example, TCA argues that the foreign market entry mode selected is influenced by the associated costs, which are determined by asset specificity, and behavioural and environmental uncertainties (Brouthers & Nakos, 2004). Conversely, using the Eclectic Paradigm, a firm's foreign market entry mode choice will be influenced by its ownership (asset power), internalisation (transaction costs) and location (market attractiveness) advantages.

Although a number of studies have used TCA to examine internationalisation entry modes, one of the main criticisms of TCA is the assumption that entry mode choice is solely determined by cost minimisation (Andersen, 1997; Brouthers, Brouthers & Werner, 1999; Erramilli & Rao, 1993). However, most studies investigating foreign market entry modes have made some modifications to TCA (Erramilli & Rao, 1993) to include non-transaction cost benefits. Dunning's eclectic model is seen as being superior to TCA as it includes ownership-specific and location-specific variables in addition to the transaction cost variables (Brouthers et al., 1999).

TCA and the Eclectic Paradigm have been criticised for being static in nature, that is, merely explaining why differences in the pattern of foreign direct investment occur, rather than explaining the dynamic nature of the internationalisation process (stages) of the firm (Melin, 1992). Although TCA and the Eclectic Paradigm may be useful for explaining firm structure at latter stages of the internationalisation process (Andersen, 1993), these theoretical frameworks have been predominantly used to explain foreign direct investment patterns of large firms<sup>7</sup>. To date, no study has used either of these frameworks for explaining foreign direct investment patterns of family firms. As Fillis (2001, p. 774) argues:

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<sup>7</sup> Refer to Brouthers and Nakos (2004) for a summary of the limited number of SME internationalisation studies that employed TCE and the Eclectic Paradigm.

Given that many small firms do not progress beyond a certain stage, these frameworks will be largely redundant in explaining their internationalisation behaviour.

As a consequence, these theories will not be drawn on in this study.

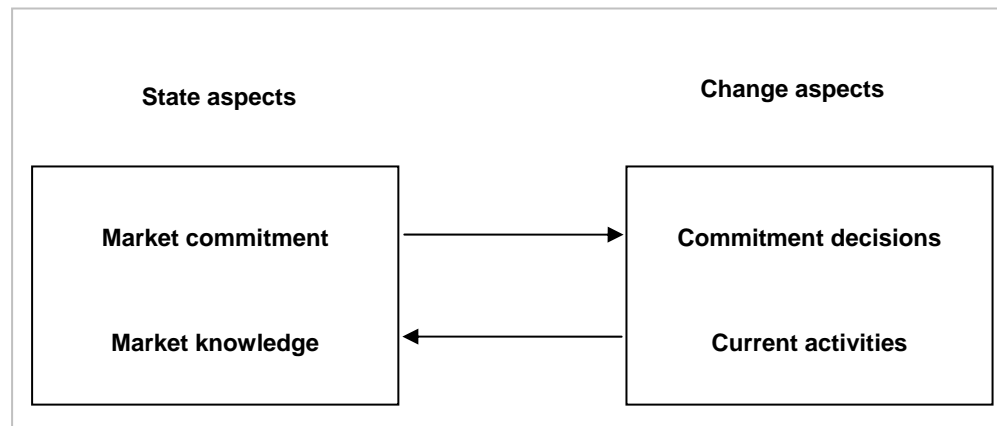
### **2.3.2 Stage model theory of internationalisation**

The Stage Model Theory of internationalisation can be traced back to the work of Johanson and Wiedersheim-Paul (1975) and Johanson and Vahlne (1977), and is built upon Penrose's (1959) theory of the growth of the firm and behavioural theory of the firm (Cyert & March, 1963).

The stage model argues that the internationalisation process of the firm is not static, but a process, consisting of a series of steps reflecting gradual increases in internationalisation. The model is path-dependent in that successive steps in the internationalisation process are built upon preceding steps. The basic assumption underlying the stage model is that the internationalisation process of the profit maximising firm is largely dependent upon its knowledge of the international marketplace (Johanson & Vahlne, 1977). Market knowledge is important as it influences the uncertainty (and therefore risk) associated with expanding the firm's operations into new foreign markets. Because this market knowledge is often country-specific (culture, language, political system) and predominantly tacit in nature, firms can only acquire this knowledge through two sources. It can acquire this knowledge in the market through licensing, strategic alliances, acquisitions of other firms, or employing individuals endowed with such knowledge, and/or through experience obtained from its current business activities (experiential knowledge) (Welch & Welch, 1996).

As highlighted in Figure 2.5, the internationalisation process consists of state aspects (current market commitment and knowledge) and change aspects (current activities and commitment decisions). The firm's current market commitment and market knowledge are assumed to influence the way that it performs its current activities and its decisions regarding the commitment of resources to overseas operations (Johanson & Vahlne, 1977, 1990). In turn, its current activities and resource commitment decisions increase the firm's market knowledge (a source of competitive advantage) and will influence its commitment to new markets. As the firm increases its knowledge from its operations in a particular foreign market, it is more likely to make incremental resource commitments to that market, such as expanding its operations from using an export agent to opening a sales subsidiary in that market. Johanson and Vahlne (1990) make an exception to this incremental,

progressive resource commitment: firms can make larger internationalisation steps (leapfrog stages) when (a) they are large in size (with excess resources); (b) they can obtain market knowledge more easily because market conditions are stable and homogeneous; (c) or they can generalise their market knowledge to other similar markets.



**Figure 2.5** The internationalisation process of the firm (Johanson & Vahlne (1990))

Johanson and Wiedersheim-Paul (1975) and Johanson and Vahlne (1990) argue that stage models can be used to explain two patterns of internationalisation that they have observed. The first pattern is where firms internationalise according to an established chain: (a) no regular exporting activity; (b) exporting via independent representatives or agents; (c) sales via sales subsidiaries; and finally (d) the establishment of a manufacturing plant in the foreign country (see Table 2.1). The stages within the chain reflect different levels of market knowledge and resource commitment. The second pattern is where firms internationalise firstly into markets that they most understand (low market uncertainty), and progressively enter markets that have greater psychic distance (language, cultural, educational, industrial development and political differences). Firms are able to enter foreign markets with greater psychic distance as their market knowledge increases.

Other studies have also developed internationalisation models consisting of a series of steps/stages, which are contrasted in Table 2.1 (Bilkey & Tesar, 1977; Cavusgil, 1980; Czinkota, 1982; Reid, 1981).

Table 2.1 Comparison of the stage models of internationalisation (Andersen, 1993)

	<b>Johanson &amp; Wiedershiem-Paul (1975)</b>	<b>Bilkey &amp; Tesar (1977)</b>	<b>Cavusgil (1980)</b>	<b>Czinkota (1982)</b>	<b>Reid (1981)</b>
<b>Internationalisation process</b>		<b>Stage 1</b> Management is not interested in exporting	<b>Stage 1</b> Domestic marketing: the firm sells only to the home market	<b>Stage 1</b> The completely uninterested firm	<b>Stage 1</b> Export awareness: problem of opportunity recognition, arousal of need
	<b>Stage 1</b> No regular exporting activities	<b>Stage 2</b> Management is willing to fill unsolicited orders, but makes no effort to explore the feasibility of active exporting	<b>Stage 2</b> Pre-export stage: the firm searches for information and evaluates the feasibility of undertaking exporting	<b>Stage 2</b> The partially interested firm	
	<b>Stage 2</b> Export via independent representatives or agents	<b>Stage 3</b> Management actively explores the feasibility of active exporting		<b>Stage 3</b> The exploring firm	<b>Stage 2</b> Export intention: motivation, attitude, beliefs, and expectancy about exports
		<b>Stage 4</b> The firm exports on an experimental basis to some psychologically close country	<b>Stage 3</b> Experimental involvement: the firm starts exporting on a limited basis to some psychologically close country	<b>Stage 4</b> The experimental firm	<b>Stage 3</b> Export trial: personal experience from limited exporting
	<b>Stage 3</b> Establishment of an overseas sales subsidiary	<b>Stage 5</b> The firm is an experienced exporter	<b>Stage 4</b> Active involvement: exporting to more new countries—direct exporting—increase in sales volume	<b>Stage 5</b> The experienced small exporter	<b>Stage 4</b> Export evaluation: results from engaging in exporting
		<b>Stage 6</b> Management explores the feasibility of exporting to other more psychologically distant countries	<b>Stage 5</b> Committed involvement: management constantly makes choices in allocating limited resources between domestic and foreign markets	<b>Stage 6</b> The experienced large exporter	<b>Stage 5</b> Export acceptance: adoption of exporting/rejection of exporting
	<b>Stage 4</b> Establishment of an overseas manufacturing subsidiary				

**Time**

According to Andersen (1993), the models developed by Bilkey and Tesar (1977), Cavusgil (1980), Czinkota (1982) and Reid (1981) view the internationalisation process as a form of innovation by the firm. As Table 2.1 highlights, these models differ with regard to the number of stages and the types of entry mode. The models developed by Bilkey and Tesar (1977), Czinkota (1982) and Reid (1981) focus upon foreign market entry via exporting only while Johanson and Wiedershiem-Paul (1975) and Cavusgil (1980) include other more advanced and complex foreign direct investment entry modes.

Although Table 2.1 outlines a number of stage models, it is not a complete summary of all the internationalisation models that have been developed. For example, Leonidou and Katsikeas (1996), in their review of the export literature, identify eleven empirically validated stage models. Despite the differences in the number of stages and foreign market entry modes, they are similar in that they are behaviourally based and are influenced by experiential knowledge and uncertainty surrounding the internationalisation decision. Leonidou and Katsikeas (1996) found that stage models were similar in two ways. Firstly, they found that the models had similar types of stages of internationalisation: pre-export (firms not interested in exporting, those seriously considering exporting, and those that no longer export); initial internationalisation activities (sporadic exporters with potential for growth but unable to manage such an expansion); and advanced internationalisation activities (active exporters with extensive international experience). Secondly, the authors found that the models shared similar conceptual characteristics associated with the export development process of the firm: facilitators and inhibitors to the export process (managerial characteristics and style, organisational resources and capabilities); information (information requirements and acquisition); stimuli and barriers to exporting; market-related characteristics (market selection, entry mode, market expansion); and marketing strategy (control and adaptations).

Coviello and McAuley (1999) conducted a review of empirical studies on SME internationalisation that were published between 1989 and 1998. Their review highlights that stage models have been the most commonly used theoretical framework. Thirteen of the sixteen studies that were reviewed used stage models. The results of studies employing stage models have, however, been mixed.

Although some studies found support for the stage model approach to internationalisation (Bodur & Madsen, 1993; Chetty & Hamilton, 1996; Hyvaerinen, 1994; Lau, 1992), others found either mixed support (Gankema et al., 1997) or no support (Bell, 1995; Zafarullah, Ali & Young, 1998). Although Gankema et al. (1997) found general support for the stage models, their study found that some firms 'leap-frogged' steps altogether and/or stagnated in their internationalisation. Hence internationalisation was not found to be a never-ending process for all firms.

Zafarullah et al. (1998) found the internationalisation process of SMEs in Pakistan to be highly situationally specific and offered little support for stage models. The authors argued that it was highly unlikely that any of the firms studied would move beyond the export stage. Alternatively, they found that networks play a critical role in the internationalisation process of firms. Bell (1995) found that small software firms did not progress systematically through the stages of internationalisation, and some firms began exporting before they had obtained any domestic sales. In addition, factors other than psychic distance, such as client followership, sectorial targeting, industry type and industry trends, were major influences in the internationalisation process. Chetty and Holm's (2000) discussion of how a New Zealand manufacturer entered, exited and then re-entered the international market also highlights that not all firms progress systematically through the stages of internationalisation. Bell (1995) concluded:

It is evident from these findings that a major limitation of all 'stage' theories is in their use of linear models to try to explain complex, dynamic, interactive and frequently non-linear behaviour. (p. 72)

The recent 'born global' phenomenon, where an SME begins exporting within two years of start-up, is also challenging the Stage Model Theory (Bell, McNaughton & Young, 2001; Knight & Cavusgil, 1996; Moen, 2002). The speed at which born globals internationalise their operations would appear to be at odds with the stage models view of internationalisation as a gradual process involving a series of path dependent, incremental steps. Although Johanson and Vahlne (1990) make three exceptions to this incremental, progressive process, born globals are unlikely to be covered by these exceptions as they are often small in size, operating in dynamic environments, and have little prior international knowledge to base their decisions upon (Knight & Cavusgil, 1996; Moen, 2002).



Madsen and Servais (1997) and Bell, McNaughton and Young (2001) argue that firms can be categorised according to three distinct internationalisation pathways: (a) traditional exporters, which internationalise in an incremental, progressive manner; (b) late starters, which focus on their domestic market for many years before suddenly expanding overseas; and (c) the born globals, which have an aggressive international focus from inception. Bell et al. (2001) label (b) as the 'born-again global' internationalisation pathway:

...well-established firms that have previously focused on their domestic markets, but suddenly embrace rapid and dedicated internationalisation. To extend the biblical analogy, their Pauline conversion and subsequent zeal is often a result of a critical incident on the road to Damascus. (p.174)

This pathway to internationalisation is often triggered by a 'critical incident' where the most common 'episode' was a change in ownership (management buy-out, takeover by another firm), acquisition (of firm, technology, distribution rights) or client followership (internationalisation of domestic client). Table 2.2 compares and contrasts the three traditional, born global, and born-again global pathways to internationalisation.

In summary, although the stage model may be useful for explaining internationalisation behaviour of traditional exporters, it has been criticised for being too deterministic and is challenged by recent research. The internationalisation process of a firm is determined by a range of other factors such as its resources and capabilities, foreign market conditions, and management philosophy (Gankema et al., 1997; Melin, 1992). As a consequence, alternative theories such as Network Theory may be needed to explain the internationalisation process of born-again global and born global firms (Madsen & Servais, 1997).

**Table 2.2 Internationalisation behaviour of traditional, born global and born-again global firms (adapted from Bell, McNaughton, Young & Crick, 2003)**

	<b>Traditional</b>	<b>Born global firms</b>	<b>Born-again global firms</b>
<b>Trigger</b>	Reactive (pushed) Adverse domestic market Unsolicited orders Insufficient funds to finance product or process improvements Reluctant management	Proactive (active search) Pursue global niche markets Committed management International from inception	Reactive to critical event (management buyout [MBO], takeover, acquisition, etc.) Sudden change in focus from domestic to global orientation
<b>Motivation</b>	Firm survival/growth Increasing sales volume Gaining market share Extending product lifecycle	Competitive advantage First-mover advantage Locking-in customers Rapid penetration of global niches or segments Protecting and exploiting proprietary knowledge	Exploit new networks and resources gained from critical incident
<b>Expansion patterns</b>	Incremental Domestic expansion first Focus on psychically close markets Target low-tech/less sophisticated markets Limited evidence of networks	Concurrent Near-simultaneous domestic and export expansion Not influenced by psychic proximity of markets Focus on lead markets Some evidence of client followership Strong evidence of networks	Epoch of domestic market orientation, followed by dedicated and rapid internationalisation Strong evidence of networks (parent company's networks, client followership, suppliers & other channel-partners)
<b>Pace</b>	Gradual Slow internationalisation (focus on small number of key markets) Single market at a time	Rapid Speedy internationalisation (large # of markets) Many markets at once	Late/rapid No internationalisation focus then rapid and dedicated internationalisation Several markets at once
<b>Method of entry into foreign markets</b>	Conventional Use of agents/distributors or wholesalers Direct to customers	Flexible and networks Use of agents, distributors, licensing, joint ventures, overseas production Also evidence of integration with client's channels	Networks Use of agents, distributors, licensing, and joint ventures Existing channel(s) of new parent company, partner(s) or client(s)
<b>International strategies</b>	Ad-hoc and opportunistic Evidence of continued reactive behaviour to new opportunities Atomised expansion, unrelated new customers /markets Adaptation of existing offerings	Structured Evidence of planned approach to international expansion Expansion of global networks Global product development	Reactive in response to critical incident but more planned thereafter Expansion of newly acquired networks Adaptation/new product development
<b>Financing</b>	Bootstrap into new markets Government funding	Self-financed via rapid growth Venture capital, Initial public offerings	Capital injection by parent Refinancing after MBO

### **Application of stage model theory to family businesses**

Scant research has been conducted into the stages in the internationalisation of family firms. As a consequence, it is unknown whether the internationalisation behaviour of SMFEs is similar to that of traditional firms, born global firms or born-again global firms. Because of their risk-averse nature and limited growth aspirations (Donckels & Frohlich, 1991), combined with their limited financial capital (Smyrnios & Walker, 2003; Ward, 1997), the internationalisation process of SMFEs is more likely to mirror that of traditional firms which internationalise incrementally by progressively entering foreign markets with greater psychic distance. Anecdotal evidence suggests that SMFEs are more likely to choose psychically close countries when expanding globally and locate their operations in close proximity to the residence of family members. Harris et al. (1994) documents a case where a family business rejected plans to open an office in a foreign country because ‘the mother of the successor objected to the prospects of too much travel for the parents of her grandchildren’ (p. 159).

Kahn and Henderson (1992) found that compared to non-family firms, family firms had a preference to locate their operations in close proximity to the residence of family members. These family considerations may explain why Zahra (2003) found that family influence was positively associated with international sales, but negatively associated with the number of countries that the firm sold to. When family firms do establish operations in foreign countries, they have a tendency to appoint family members as managers regardless of whether they have the necessary expertise or cultural adaptability, thereby threatening the success of such ventures (Tsang, 2002).

One of the major limitations of stage models is that they view the internationalisation process of the firm in isolation. They fail to recognise the process as ‘part of the company’s overall portfolio of activities with different managerial emphases, organisational needs, investment requirements, and growth patterns’ (Leonidou & Katsikeas, 1996, p. 525). In the main, SME research has largely ignored the influence of family involvement on the internationalisation pathway of family firms. As a result, this study will investigate the steps that family firms have taken in the internationalisation of their operations, and in particular, what influence family involvement has in this process.

### 2.3.3 Network Theory of internationalisation

A network is defined as ‘a set of two or more connected business relationships, in which each exchange relation is between business firms that are conceptualised as collective actors’ (Chetty & Holm, 2000, p. 79). All firms are part of a network, whether formal or informal, and consist of many players including customers and their customers, competitors, supplementary suppliers, suppliers, distributors, agents, consultants and government organisations (Johanson & Vahlne, 1990). Strong interorganisational and interpersonal relationships can develop through the interaction of the players in the network, facilitating the formation of mutual trust and the sharing of knowledge. Opportunistic behaviour is controlled or minimised because network members value the preservation of these relationships, which act as bridges to future business transactions (Coviello & Munro, 1997).

Increasingly, networks are being seen as playing a critical role in the internationalisation process of the firm, where the ability of a firm to grow internationally is dependent on its set of network relationships rather than a firm-specific advantage (Coviello & McAuley, 1999). In essence, a firm begins the export process by forming relationships that will deliver experiential knowledge about a market, and then commits resources in accordance with the degree of experiential knowledge it progressively gains from these relationships (Styles & Ambler, 1994). Using Network Theory, Johanson and Mattsson (1988) argue a firm’s internationalisation process can be explained by its position in international networks as outlined in Table 2.3.

**Table 2.3 Internationalisation and the network model (adapted from Johanson and Mattsson 1988)**

		Degree of internationalisation of the market	
		Low	High
Degree of internationalisation of the firm	Low	Early starter (international extension)	Late starter (international extension)
	High	Lonely international (international penetration)	International among others (international integration)

- The *early starter* is a firm that has only begun to internationalise its operations in a market environment that has a domestic orientation. Because these firms are inexperienced in the international marketplace, and their suppliers and competitors have a domestic orientation, they lack the knowledge and international networks required to expand into foreign markets. As a result, the early starter will most likely utilise the knowledge of agents to sell its products to nearby foreign markets. Through using an

agent, the firm is able to utilise his/her agent's market knowledge and become established in the agent's own network, thereby providing the necessary contacts for further international expansion. As the firm becomes more internationalised, it becomes a 'lonely international' firm.

- A *lonely international* is a firm that is highly internationalised, operating in a market environment with a domestic orientation. From its foreign activities, this firm has acquired the knowledge and ability to handle differences in foreign markets (culture, government policy, customer preferences) and developed relationships with actors in the international network, enhancing its ability to expand internationally. The lonely international has first mover advantages, having established itself in the international networks before its competitors have. Through its international contacts, the lonely international may introduce its suppliers to other actors in the international network, thereby facilitating its access to foreign markets.
- The *late starter* is a firm that has only begun to internationalise its operations in a market that is highly internationalised. Because it is inexperienced in the international marketplace, a late starter lacks the knowledge necessary for foreign market entry. However, the late starter has networks with domestic suppliers, customers, and competitors, which are highly internationalised and therefore are part of international networks. As a result, these domestic networks may be the driving force for the late starter to internationalise its operations. For example, a customer of the late starter, with operations in foreign markets, may require the firm to supply its foreign counterparts. Because of the well-established international network, it can leapfrog steps in the international process and enter markets with greater psychic distance. However, because they are late to enter the international marketplace, late starters may have difficulty in breaking into well-established international networks, and will face intense competition. As a consequence, small-sized late starters will need to be highly adaptable to the specific needs of the foreign marketplace.
- The *international-among-others* is a firm that is highly internationalised, operating in a market that has experienced a high degree of internationalisation. Using Goshal and Bartlett's (1998) terminology, this type of firm would be labelled a transnational firm, where responsiveness to changes in the foreign markets and the sharing of knowledge between foreign subsidiaries are essential. In order to maintain its dominant position and responsiveness in the highly competitive global marketplace, the international-among-others is highly reliant upon the strong network relationships between its foreign subsidiaries. The sharing of market-specific knowledge between its foreign subsidiaries enables the international-among-others to be responsive to changes in the global marketplace and maintain its dominant global position.

Welch and Welch (1996) argue that ‘much of the activity involved in internationalisation could be characterised as networking activity’ (p. 13). The Network Theory of internationalisation is not seen as an alternative, but complementary to other internationalisation theories such as stage models. As a result, several studies have been conducted using both the Network Theory and the Stage Model Theory of internationalisation [see Coviello and McAuley (1999) for a summary of these studies].

Zafarullah et al. (1998) argue that the network perspective may be a useful complementary theory for understanding the internationalisation process of SMEs. Although complementary, Network Theory differs with regard to its view of a firm’s strategic decision making process. TCA, the Eclectic Paradigm and the stage models imply that the firm’s decision makers are the sole determinants of strategic decisions, such as the entry mode into a foreign market. Network Theory, however, views strategic decision making as part of the firm’s networks where strategic decisions are as much influenced by the network relationships as they are by the decision makers of the firm. Hence these network relationships ‘may drive, facilitate, or inhibit a firm’s international market development. Such relationships might also influence the firm’s choice of foreign market and entry mode’ (Coviello & Munro, 1997, p. 366). For example, Bell (1995) and Coviello and Munro (1997) found that the market selection and mode of entry were influenced by the firm’s relationships with customers and suppliers. How well established a firm’s network was can also influence the stage of a firm’s internationalisation. Wickramasekera (2002), in his study of Australian wineries, found that firms at the ‘awareness’ stage of exporting did not have a good network of distributors compared to wineries at more advanced stages of internationalisation.

The use of networks can assist the internationalisation process of SMEs in two ways:

- *Access to market knowledge and international contacts*

Market knowledge: The internationalisation process of the firm is largely dependent upon its knowledge of the international marketplace (Johanson & Vahlne, 1977; Liesch & Knight, 1999). Such knowledge plays a critical role in the perceived risk and selection of foreign market and entry mode. Market knowledge also enables the firm to be responsive to changes in its foreign markets. Such knowledge is difficult to obtain, as it is predominantly tacit in nature and accumulated through experiential learning (Liesch & Knight, 1999). Hence the ability of SMEs to tap into networks is critical as they ‘are

a key and efficient information source...that help to accelerate the firm's progress up the internationalization learning curve' (Liesch & Knight, 1999, p. 386). Coviello and Munro (1997) found that market knowledge, obtained through strong network relationships, enabled firms to accelerate through the internationalisation process and be well established in foreign markets within three years of establishment. The born global phenomenon has been attributed to the acquisition of knowledge through networks (Madsen & Servais, 1997; Moen, 2002).

International contacts: Firms new to the international arena lack the reputation required to build relationships with buyers in foreign markets. Agents can act as the firm's advocate, promoting the firm's capabilities to potential overseas clients (Johanson & Mattsson, 1988). Wickramasekera (2002) found that networks played a critical role in making crucial international contacts. He gives an example where a winery's relationship with one of its competitors enabled them to find a suitable export agent. Welch and Luostarinen (1993) outlined how firms developed international networks initially through importing, which later enabled them to expand into export activities.

- *Access to required resources and capabilities*

A key assumption underlying the network model is that 'the individual firm is dependent on resources controlled by other firms. The firm gets access to these external resources through its network positions' (Johanson & Mattsson, 1988, p. 295). Through its network relationships, SMEs can collaborate with other firms in order to obtain complementary capabilities and opportunities to internationalise, rather than dwelling upon internal deficiencies that inhibit internationalisation (Chetty & Holm, 2000; Hitt, Keats & DeMarie, 1998). In their study of Japanese SMEs, Lu and Beamish (2001) found that forming alliances with firms that have foreign market knowledge is an effective internationalisation strategy in order to overcome a firm's resource and capability deficiencies.

Hitt et al. (1998) argue that both informal and formal (contractual) networks amongst SMEs enable them to remain competitive by reducing the resource and capability advantages of large firms.

### **Application of Network Theory to family businesses**

Swinth and Vinton (1993) contend that, because family firms share some very important characteristics (such as trust, loyalty, reliability, long-term orientation, and continuation of family ownership), international joint ventures between family firms are more likely to succeed. As a result, family firms prefer to enter into joint ventures with other family businesses when entering a foreign market with greater psychic distance (Harris et al.,

1994). In addressing the lack of research into how family involvement influences the operations of the family business, Hoy (1994) argues that one potential area for research is how family relationships can be used to facilitate internationalisation, through the building of trust.

However, to date, the role that network relationships play in the internationalisation of family firms is yet to be empirically tested. Although many family firms desire to develop ties with foreign family firms, the reality is that only a small number have been able to do so (Okoroafo, 1999). Donckels and Frohlich (1991) found that family firms tend to have fewer socio-economic networks and less cooperation and collaboration with other firms, possibly due to the family firm's preference for privacy (Litz, 1997; Ward, 1997). Okoroafo (1999) found that the majority of family firms are not aware of networks, such as government programs, that would assist them in internationalising.

Because networks play a critical role in the success of SMEs (including in their internationalisation), Donckels and Frohlich (1991) call for more research into the networking relationships of family firms. As a result, this study will investigate the role of networks in the internationalisation of SMFEs, including whether family involvement has assisted or inhibited their ability to access networks important for internationalisation.

#### **2.3.4 A resource-based view of internationalisation**

A number of theoretical frameworks have been used to explain how some firms generate a competitive advantage over others. Using neoclassical price theory, which argues that firms within an industry are homogeneous, Porter (1980) developed the 'five forces' model to explain why some industries are more profitable than others. If these 'five forces' were the sole determinants of financial performance, then all firms within the same industry would earn similar rates of return. In reality this is simply not true, as intra-industry variations in firm profits have been found to be greater than inter-industry variations (Jacobsen, 1988; Rumelt, 1991). In response to this, adjustments to Porter's model, such as the introduction of 'mobility barriers' (limits to the ability of firms to imitate the strategies of their competitors) have been required (Barney, 1991).

An alternative theory, the RBV, has gained considerable acceptance in recent years in the competitive advantage literature because it seeks to explain why firm performance differs within industries. A key tenet of RBV is that sustained competitive advantage stems from a



firm's heterogeneous and immobile resources that are valuable, rare, inimitable, and nonsubstitutable (VRIN). As a consequence, differences in firm performance within an industry are due to firm-specific resources, that cannot be easily substituted or imitated by its competitors (Barney, 1991; Barney, 2001; Peteraf, 1993). The two key principles underlying RBV are that (1) resources are not homogeneously spread across firms, and (2) these resources cannot be transferred between firms without incurring costs (referred to as 'sticky' resources) (Priem, 2001). Firm resources are defined as 'all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness' (Barney, 1991, p. 101). Resources can be classified into four categories: financial capital, physical capital (e.g. machinery, technology), human capital (e.g. management expertise, management experience) and organisational capital (e.g. reputation, organisational culture, network relationships).

The mere possession of firm-specific VRIN resources does not guarantee competitive advantage, however. In order for a firm to realise its full economic potential, management must firstly be able to identify firm-specific VRIN resources, and, secondly, develop appropriate strategies to leverage the advantages that stem from these resources in the marketplace (Barney, 1991). As highlighted by Sirmon and Hitt (2003) 'resources alone are not likely to produce a sustainable competitive advantage. Rather, the resources must be managed appropriately to produce value' (p. 341). Hence, effective management of resources involving evaluating, shedding, adding, bundling, and leveraging the firm's resources is an important component of RBV (Sirmon & Hitt, 2003).

Because of concerns over tautological arguments and the testability of the RBV, there is debate as to whether it represents an alternative theory or merely an alternative perspective (to that of SWAT or Value Chain analysis) for strategic management (Priem, 2001). Nevertheless, the rise of the RBV has been a timely reminder that, in addition to demand-side issues (as emphasised by models such as Porter's five forces model), firm resources are a major determinant of firm performance. As a consequence, research 'from resource-based perspectives has made, and is continuing to make, constructive contributions to strategic management, even if the RBV itself is not yet a theory' (Priem, 2001, p. 57).

Zou and Cavusgil (1996) suggest that factors, other than the firm's external environment, can influence the ability of a firm to expand globally. They argue that, in order to better understand global strategy and performance, an appreciation of internal organisational characteristics (such as resources) is also required. Andersen (1997) argues that studies employing a RBV could contribute to a better understanding as to why some firms are able to internationalise more successfully than others.

Although in its infancy, the RBV is increasingly being used to examine the influence of a firm's internal characteristics upon its internationalisation process. Using this perspective, it is argued that the firm's ability to grow into the international marketplace is dependent upon its ability to acquire and/or reconfigure its resources to create globally relevant competencies. Because resources are not homogeneously distributed amongst firms, some are more able to successfully execute an internationalisation strategy. Although not explicitly stated, the Stage Model Theory of internationalisation is based upon a RBV where knowledge is seen as one of the key resources for international growth (Andersen & Kheam, 1998).

To date, only a limited number of studies have employed a RBV in internationalisation research. For example, Zahra, Matherne and Carleton (2003) found intangible technological resources (technological networks and reputation), and the combination of these resources with tangible technological resources (R & D expenditure), to be positively and significantly associated with the speed and degree of internationalisation of new ventures. Westhead, Wright and Ucbasaran (2001) found certain firm resources (management experience, management competencies and networks) to be significantly associated with both the propensity for and degree of international involvement. Andersen and Kheam (1998) found that a firm's resources (international production, marketing and management capabilities) were useful in predicting those with international growth ambitions, and to some degree to predict the intended international growth strategy. Dhanaraj and Beamish (2003) found the entrepreneurial orientation of management, technological resources, and firm size to be positively and significantly associated with the degree of internationalisation.

Despite the limited research, there is substantial support in the literature for the link between firm resources and internationalisation. Upon completing an extensive review of export literature published between 1987 and 1997, Zou and Stan (1998) identified seven categories to be related to export activity. Of these seven categories, four (export marketing

strategy, management attitudes and perceptions, management characteristics, firm's characteristics and competencies) could be argued to be resource-driven factors, providing support for the important role that resources and capabilities play in the internationalisation process (refer to Table 2.4). However, their review fails to identify the process of how firms reconfigure their resources to develop the competencies required for the global marketplace. In fact, their summary outlined in Table 2.4 suggests that a firm's resources and capabilities are uncontrollable, that is, cannot be changed by the firm. This appears to be at odds with the RBV literature, which suggests that a firm can reconfigure its resources to develop the required capabilities, but to do so is dependent on its management competencies and past choices (Teece et al., 1997).

**Table 2.4 Determinants of export performance (Zou & Stan 1998)**

		<b>Determinants of export performance</b>	
		<b>Internal</b>	<b>External</b>
<b>Controllable</b>		<p><b>Export marketing strategy</b></p> <ul style="list-style-type: none"> <li>General export strategy</li> <li>Export planning</li> <li>Export organisation</li> <li>Market research utilisation</li> <li>Product adaptation</li> <li>Price competitiveness</li> <li>Price determination</li> <li>Promotion adaptation</li> <li>Promotion intensity</li> <li>Distribution channel adaptation</li> <li>Distribution channel relationships</li> <li>Distribution channel type</li> </ul> <p><b>Management attitudes &amp; perceptions</b></p> <ul style="list-style-type: none"> <li>Export commitment &amp; support</li> <li>International orientation</li> <li>Proactive export motivation</li> <li>Perceived export advantages</li> <li>Perceived export barriers</li> </ul>	
<b>Uncontrollable</b>		<p><b>Management characteristics</b></p> <ul style="list-style-type: none"> <li>Mgmt.'s international experience</li> <li>Mgmt.'s education/experience</li> </ul> <p><b>Firm's characteristics &amp; competencies</b></p> <ul style="list-style-type: none"> <li>Firm's size</li> <li>Firm's international competence</li> <li>Firm's age</li> <li>Firm's technology</li> <li>Firm's characteristics</li> <li>Firm's capabilities/competencies</li> </ul>	<p><b>Industry characteristics</b></p> <ul style="list-style-type: none"> <li>Industry's technological intensity</li> <li>Industry's level of instability</li> </ul> <p><b>Foreign market characteristics</b></p> <ul style="list-style-type: none"> <li>Export market attractiveness</li> <li>Export market competitiveness</li> <li>Export market barriers</li> </ul> <p><b>Domestic market characteristics</b></p> <ul style="list-style-type: none"> <li>Domestic market</li> </ul>

### **Application of a resource-based view of internationalisation to family businesses**

Although it has been argued that family businesses possess some distinctive resources and capabilities (Habbershon & Williams, 1999; Sirmon & Hitt, 2003), to date little research has investigated how family firms create, reconfigure and exploit these capabilities for success in the global marketplace. Davis and Harveston (2000) found that the internationalisation of family businesses was strongly associated with the founding family owner's characteristics (age and education) and the firm's information technology resources.

Fernández and Nieto (2005) and Gallo (1996) discovered that succession was positively associated with internationalisation, and suggest that this was due to the relevant skills that the next generation brought to the family firm. However, to date, the effect of a successor's characteristics on the internationalisation of the family firm has received little attention in internationalisation research. Researching SMFEs from a RBV may be particularly useful in this study. If in fact SMFEs do lag behind their non-family counterparts when growing internationally, then there must be firm-specific factors (such as availability of certain resources or ability to reconfigure and leverage resources) that cause this to be so. Researching family firms from a RBV can provide an effective way to identify those factors internal to the firm that influence their ability to grow internationally.

The development of the firm's managerial capabilities is argued to facilitate the successful development and execution of growth strategies, such as international expansion (Boeker & Karichalil, 2002; Carlock & Ward, 2001; Dyer, 1989; Flamholtz & Randle, 2000; Hoy & Verser, 1994; Levinson, 1971). As highlighted earlier in this section, the management of firm-specific resources (evaluating, shedding, adding, bundling and leveraging) is crucial to create value in the marketplace, and particularly important for firms intending to internationalise their operations. Compared to selling products in the domestic marketplace, an international growth strategy to enter multiple countries with different social, commercial and political systems is clearly more complex and demanding (Gomez-Mejia, 1988). In order to successfully grow internationally, it is important that the firm have the ability to evaluate, reconfigure, and leverage its resources in order to take advantage of the opportunities that present themselves in the international marketplace. Based on a review of the exporting literature, Zou and Stan (1998) concluded that:

Most researchers hold the view that export performance is under the control of the firm and its management. Thus, not only should better export performance be attributable to management's superior work, but poor export performance should be blamed upon the management as well. (p. 345)

Carlock and Ward (2001) argued that a geographic expansion strategy, such as internationalisation, is suitable for a company that is managed well and has strong management and control systems in place. Similarly, Gallo et al. (2002) observed that increasing the managerial capabilities of family firms was essential for internationalisation via strategic alliances. Flamholtz (2000) argues that in order for a firm to grow successfully, it will need to make the transition from a management style characterised by the founder to a 'professional' style of management. Accordingly, to successfully progress from a domestic orientation to high levels of internationalisation, it is critical that family firms develop the requisite managerial capabilities.

One of the major constraints to family business growth is a lack of professional management (Dyer, 1989; Hoy & Verser, 1994; Levinson, 1971), however, which suggests that compared to non-SMFES, SMFES may have greater difficulty in successfully internationalising their operations. Of the limited number of studies into the internationalisation of family firms, none has investigated the role of managerial capabilities in the internationalisation process. Therefore, in addition to examining the influence of their resources, this study will examine whether SMFES have the managerial capabilities required to configure and leverage their resources to take advantage of the opportunities that exist in the international marketplace.

In this study managerial capabilities are defined as the management capacity (human resources available for managerial tasks), management expertise (managerial competencies) and management processes (commonly used managerial planning and control techniques) available to the firm for evaluating, shedding, adding, bundling, and leveraging its resources to compete in the marketplace.

#### **2.4 The effect of internationalisation on the SME**

Although a number of studies have investigated the effect of internationalisation on the performance of large firms, there has been a paucity of research into the effect on the performance of SMEs (Lu & Beamish, 2001; Majocchi & Zucchella, 2003). Although internationalisation is often argued to improve financial performance, to date, research has reported conflicting findings. While some studies have found a positive association with the

degree of internationalisation and the financial performance of SMEs (Qian, 2002; Qian & Li, 2003), other studies have highlighted that the relationship is moderated by the strength of the local currency and the market entry strategies employed (Lu & Beamish, 2001; Majocchi & Zucchella, 2003). Other financial benefits attributed to internationalisation include improved sales growth (Grant, 1987; McDougall & Oviatt, 1996), and risk management (Qian, 1996).

Of particular significance for family businesses is the effect of internationalisation on the family unit as well as the business. However, because of the paucity of research on the internationalisation of family businesses, little is known as to what effect the internationalisation process has on the firm and the owning family. Westhead et al. (2001) argue that 'additional research is required to explore the full range of economic and noneconomic benefits to independent firms from exporting sales abroad' (p. 352). Similarly, Zahra (2003) and Okoroafo (1999) have called for additional research into the effect of internationalisation on family firm performance. This study addresses this research gap by examining the financial and non-financial outcomes associated with internationalisation.

### ***2.5 Framework to explore the internationalisation process of SMFEs***

Despite the increase in research into the internationalisation process of SMEs, there is still insufficient knowledge of this process and it is in early stages of theory development (Leonidou & Katsikeas, 1996). There remains considerable debate as to what factors trigger SMEs to internationalise and what factors influence their internationalisation process (Westhead et al., 2001). In order for internationalisation theory to progress, Leonidou and Katsikeas' (1996) call for knowledge from other disciplines to be drawn on and integrated. Failure to integrate different perspectives of internationalisation may reinforce the nine blind men and the elephant analogy:

Just as the group of blind men felt and interpreted different parts of the elephant's body and ended up with no description that resembles the animal as a whole, research sometimes does the same. The quest for knowing more about less sometimes does the same. The quest for knowing more about less sometimes leads to very accurate views of the parts, but obscures that these parts are of some 'whole'. (Daniels, 1991, p.182)

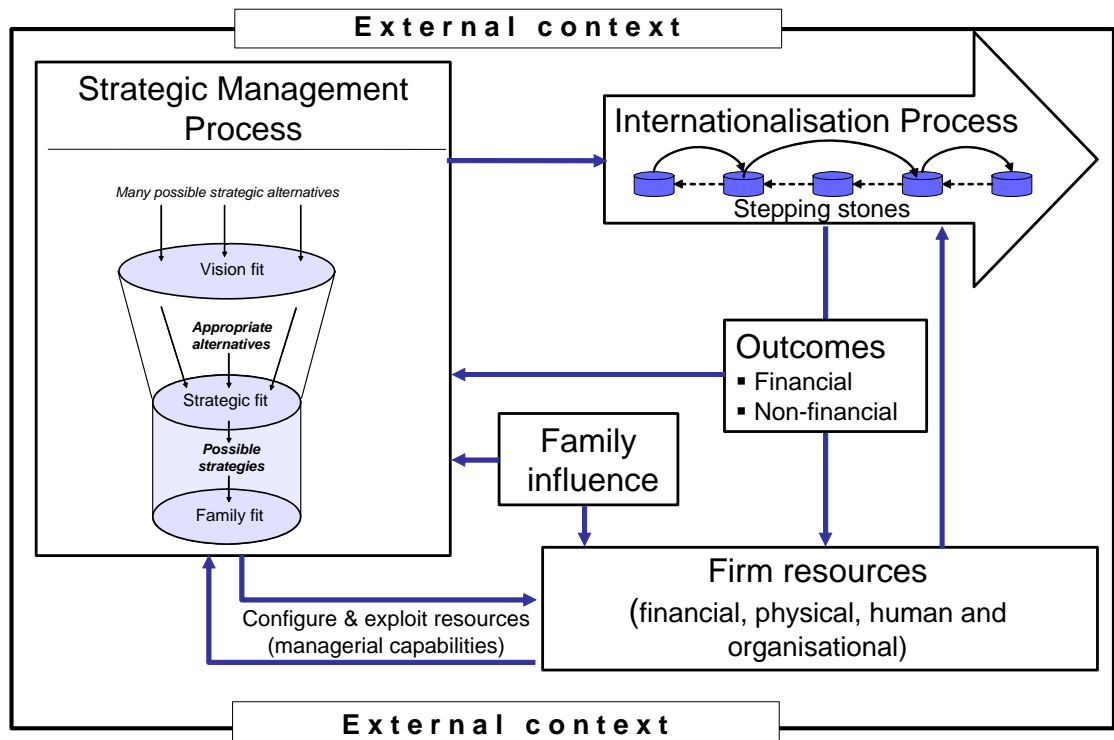
As highlighted by Coviello and Munro (1999), research is increasingly combining different theoretical perspectives of internationalisation because no one perspective can fully explain internationalisation behaviour. They argue that future research should look to integrate different internationalisation theories. Although Stage Model Theory may be useful for describing the steps of a firm's internationalisation process, the theory is limited in its ability to identify those factors that influence (facilitate/inhibit) this process. Researching family firms from a resource-based perspective can provide an effective way to identify those firm-specific factors that influence their internationalisation process. More recent internationalisation research (Kotha, Rindova & Rothaermel, 2001; Zahra et al., 2003) has combined aspects of Network Theory with the RBV, largely because a firm's network relationships can be viewed as a unique firm resource. Networks are valuable in that they can be a source of information on international opportunities, enhance credibility overseas, as well as provide access to much needed resources (e.g. distribution channels) for international growth.

Therefore, to explore the internationalisation process of SMFEs, Stage Model Theory, Network Theory and a RBV of internationalisation will be drawn on, and are represented in the framework presented in Figure 2.6. Given that TCA and the Eclectic Paradigm are more useful for explaining firm structure at latter stages of the internationalisation process (Andersen, 1993) and that many small firms do not progress beyond a certain stage (Fillis, 2001), these theories are not incorporated in this model.

Of particular interest in this study is if (and how) family involvement may trigger an SMFE to internationalise as well as influence its internationalisation process. As highlighted earlier in Chapter 1, although it is well recognised that the majority of SMEs are family-owned (and often managed), and that the complexities associated with managing a family business are not entirely addressed by management theory, there has been a lack of research on the internationalisation process of family firms. As a result, little is known of what ways family involvement influences the internationalisation process of family firms. Davis and Harveston (2000) argue for more research in this area:

One of the newest challenges to entrepreneurs and family businesses is the global business arena. Although a substantial amount of literature addresses issues of growth and internationalisation for large, multinational corporations, family businesses are yet to be given similar attention....Because familial relationships can be complex, the dynamics of different interactions should be considered.

(p. 118-119)



**Figure 2.6** Framework of relevant literature to examine the SMFE internationalisation process [based on literature review; incorporates Carlock and Ward's (2001) strategic management process for family businesses]

As depicted in Figure 2.6, the family has the potential to influence an SMFE's internationalisation process through its involvement in the strategic management process as well as its contributions (e.g. human and financial resources) to the firm resources and capabilities. The strategic management process of an SMFE determines the appropriateness of an internationalisation strategy according to its vision fit, strategic fit and family fit:

- **Vision fit:** Ultimately whether internationalisation is suitable for an SMFE is dependent on the family owners' vision for the business. One of the main motivations for firms undertaking internationalisation strategies is growth (OECD, 1997). SMFEs are more likely to have multiple, complex, and changing objectives rather than simple, narrowly focussed goals. The degree to which these multiple objectives conflict with growth will influence their ability to grow internationally.
- **Strategic fit:** Through family involvement, SMFEs possess some distinctive resources and capabilities. However, the ability of SMFEs to grow internationally is dependent on possessing the requisite resources and capabilities (strategic fit). The management of firm-specific resources (evaluating, shedding, adding, bundling and leveraging) is an important process for configuring the requisite resources and capabilities, and exploiting them through the selection and implementation of an appropriate internationalisation strategy.



- **Family fit:** The ability of the SMFE to grow internationally is dependent on whether it has sufficient financial resources to execute internationalisation-related strategies. The family ownership structure, dividend policy and attitudes to various forms of financing (e.g. debt and outside equity) will influence the rate at which an SMFE can grow internationally.

Consistent with Stage Model Theory, Figure 2.6 highlights the idea that the internationalisation process of SMFEs consists of a series of steps. However, unlike previous stage models, this model does not depict the process as consisting of a series of path dependent steps. SMFEs may skip certain steps in their internationalisation process, settle at a particular step or may withdraw from their current internationalisation state to previous steps in the process. The outcomes of the firm's current international activities (such as organisational learning and the development of networks) are inputs into the firm's stock of resources and capabilities, and its strategic management process. Because the global marketplace is constantly changing, a firm must constantly assess the strategic fit between the marketplace and the firm's current internationalisation strategies and capabilities. Changes in the global marketplace may require the firm to change its current internationalisation strategies and/or reconfigure its resources to generate the capabilities required for internationalisation.

## **2.6 Outline of the study's research issues**

### **2.6.1 Research Issue #1:**

#### **The propensity for and degree of internationalisation of SMFEs**

One of the main motivations for undertaking internationalisation strategies is firm growth (OECD, 1997). Family business literature suggests that complexities unique to family firms influence the attitude towards and degree of international growth (Cappuyns & Pieper, 2003; Gallo & Pont, 1996; Gallo & Sveen, 1991). Smyrnios and Walker (2003) suggest that Australian family businesses are more interested in increasing profitability through increasing profit margins rather than by growth in sales. Also, most family businesses simply do not grow due to a range of factors, including maturing business life cycles, limited financial capital for both the family and business, weak next-generation leadership, inflexibility and resistance to change, conflict amongst successors and disparate family values and goals (Ward, 1997).

To date, such claims have received limited empirical testing. Contrary to that reported by Menendez-Requejo (2005), two other studies (Fernández & Nieto, 2005; Zahra, 2003) found that family businesses are less likely to internationalise when compared to their non-family counterparts. As a result, one of the objectives of this study is to empirically determine whether family-owned SMEs (SMFEs) differ from non-family-owned SMEs (non-SMFEs) with regard to the propensity for and degree of their internationalisation. Therefore the following research issue will be investigated:

**RI #1:** Is there a difference in the propensity for and degree of internationalisation of SMFEs and non-SMFEs?

This research issue will be examined using the following two hypotheses:

H1: *After controlling for demographic and other relevant influences, there is a statistically significant difference in the propensity of SMFEs and non-SMFEs to internationalise.*

H2: *After controlling for demographic and other relevant influences, there is a statistically significant difference in the degree of internationalisation of SMFEs and non-SMFEs.*

### **2.6.2 Research Issue #2:**

#### **The effect of internationalisation on SMFEs**

Of particular significance for family businesses is the effect of internationalisation on the family as well as the business. However, because of the lack of research on the internationalisation of family businesses, little is known as to what effect the internationalisation process has on the firm and the owning family. This study addresses this research gap by examining the financial and non-financial outcomes associated with internationalisation. Specifically, the following research issue will be investigated:

**RI #2:** What effect has internationalisation had on SMFEs?

This research issue will be explored using both quantitative and qualitative research methodologies. Using quantitative analysis, the effect of internationalisation on the financial performance of SMFEs will be examined using the following two hypotheses:

H3: *After controlling for demographic and other relevant influences, there is a statistically significant difference in the financial performance of SMFEs according to whether they have internationalised.*

H4: *After controlling for demographic and other relevant influences, there is a statistically significant difference in the financial performance of internationalised SMFEs according to their degree of internationalisation.*

Both the financial and non-financial effects of internationalisation on SMFEs will be explored using a qualitative research methodology.

### **2.6.3 Research Issue #3: The internationalisation behaviour of SMFEs**

Because of the relative lack of research on the internationalisation of family businesses, little is known about the internationalisation process of family firms, such as the triggers and motivation to internationalise their operations. It is also unknown whether the internationalisation behaviour of family firms is similar to that of traditional firms, born global firms or born-again global firms. Because of their risk-averse nature and limited growth aspirations (Donckels & Frohlich, 1991), combined with their limited financial capital (Smyrnios & Walker, 2003; Ward, 1997), the internationalisation behaviour of family firms is more likely to mirror that of traditional firms which internationalise incrementally by progressively entering foreign markets with greater psychic distance.

Anecdotal evidence suggests that family firms are more likely to choose psychically close countries when expanding globally (Harris et al., 1994), and locate their operations in close proximity to the residence of family members (Kahn & Henderson, 1992; Shaw & Young, 2001). Yet, to date, little research has examined the internationalisation process of family firms. Therefore the following research issue will be investigated using a qualitative research methodology:

<p><b>RI #3:</b> Is the internationalisation behaviour of SMFEs similar to that of traditional international firms?</p>
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### **2.6.4 Research Issue #4: Influences on the internationalisation of SMFEs**

Based on the model depicted in Figure 2.6, the internationalisation process of the family firm is influenced by its strategic management process, its resources and capabilities, and the external environment in which it operates<sup>8</sup>. A review of the family business literature

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<sup>8</sup> Because this study is primarily concerned with the role of firm resources in the internationalisation of the firm, emphasis is placed upon understanding influences internal to the firm as opposed to external influences such as foreign currency exchange rates.

suggests that family members can have a significant affect on the firm's internationalisation process through their influence on the strategic management process and the resources (and capabilities) of the firm.

With regard to the strategic management process, family members are often implicitly involved in determining the values and objectives of the firm, as well as the selection, implementation and control of its strategies. The literature suggests that the ability of family firms to internationalise is dependent upon their ability to configure their resources to create globally relevant capabilities, as well as their willingness to exploit those capabilities in the international marketplace. Therefore the following research issue will be investigated:

**RI #4:** What factors influence (facilitate/inhibit) the internationalisation process of SMFEs? Specifically, what role do the SMFE's strategic management process, resources and capabilities play in the internationalisation process and how does family involvement influence this process?

This research issue will be investigated using predominantly a qualitative research methodology. However, based on the discussion below, a quantitative research methodology will be used to compare the managerial capabilities of SMFEs and non-SMFEs as they grow internationally.

Because one of the main motivations for internationalisation is firm growth (OECD, 1997), and that developing managerial capabilities is essential for growth (Boeker & Karichalil, 2002; Dyer, 1989; Flamholtz, 1986; Hoy & Verser, 1994; Levinson, 1971), one would expect that the managerial capabilities of the firm to be associated with the degree of internationalisation. The literature suggests that family businesses face unique obstacles in developing their managerial capabilities. Because little research has been conducted relating to the internationalisation of family firms, it is unclear whether family firms lag behind non-family firms in developing their managerial capabilities as they grow internationally. This study addresses this knowledge gap by comparing the managerial capabilities (capacity, expertise and processes) of SMFEs and their non-family counterparts as they grow internationally:

#### **Management capacity**

In this study, management capacity refers to the human resources available for managerial tasks. King, Solomon and Fernald (2001) argued that 'as the business grows and becomes more complex, the demand for role specialization and the number of required managerial

layers increases, as does the complexity of the managerial roles' (p. 5). Issues such as selecting, entering and servicing foreign markets, as well as monitoring the global marketplace, require significant managerial time. International expansion 'increases the environmental complexity faced by small firms which, in turn, increases the information processing demands placed on them' (Reuber & Fischer, 1997, p. 30). This issue is compounded when managers are required to spend time travelling overseas in order to service customers or promote the firm at trade shows. Based on a review of thirty-two empirical studies on export barriers, Leonidou (2004) found that the lack of managerial time had a moderate impact on the ability of firms to grow internationally. Therefore it is critical that family businesses increase the size of their management teams to handle the complexities and workload brought about by international expansion.

Compared to non-family firms, however, family firms often lack the financial resources required for international growth (Fernández & Nieto, 2005), and may not be in a position to increase the size of their management teams. Also, because family businesses are more risk-averse, they may be unwilling to commit the financial resources to employ additional managers until the benefits of international growth have materialised (Gallo, Tapies & Cappuyns, 2004). The most recent and comprehensive survey of Australian family businesses (Smyrniotis & Walker, 2003) indicated that family firms had smaller management teams when compared to their non-family counterparts. These observations suggest the following hypothesis:

H5: *There is a statistically significant difference in the management team size of SMFEs and non-SMFEs according to their degree of internationalisation.*

#### **Management expertise**

Not only is it important to have a sufficient number of managers to manage international expansion effectively, it is also critical that they possess the requisite skills. International research has consistently shown a link between the expertise of a firm's management team and successful international expansion. Bilkey (1978) argues that 'the quality of management probably is the greatest single determinant of a firm's export success' (p. 43). Leonidou, Katsikeas and Piercy's (1998) review of the export literature published between 1960 and 1995 highlighted that the education, professional experience, and foreign language proficiency of the management team were all strongly associated with successful international expansion. In his review, Leonidou (2004) noted that managers of SMEs face

a steep learning curve when it comes to understanding what resources need to be acquired or reconfigured in order to venture from their domestic base. Also, issues such as customer attitudes, business practices, distribution channels, language differences, marketing strategies and exporting documentation and procedures will often require employing outside expertise and/or the training of the current management team.

Compared to non-family firms, however, researchers have found that family firms are less likely to hire non-family 'professional' managers because of founders' reluctance to relinquish control (Boeker & Karichalil, 2002; Davis & Harveston, 1999), their entrenched nepotism (Kets de Vries, 1996), and their preference for privacy (Gersick et al., 1997). Family businesses are also less likely to provide their management team with regular formal training (Cromie et al., 1995). These observations suggest the following hypotheses:

*H6A: There is a statistically significant difference in the propensity for SMFEs and non-SMFEs to appoint an outsider to the management team according to their degree of internationalisation.*

*H6B: There is a statistically significant difference in the propensity for the management team of SMFEs and non-SMFEs to receive training according to their degree of internationalisation.*

### **Management processes**

Exporting firms are known to have superior management practices when compared to non-exporting firms (Australian Bureau of Statistics, 2000; Bilkey, 1978). In addition to having the managerial capacity and expertise, it is also important that firms utilise planning and control techniques that assist in monitoring and controlling performance as they grow internationally. Formal strategic planning has consistently shown to be essential for successful international growth (Aaby & Slater, 1988; Bilkey, 1978; Zou & Stan, 1998). Because of the dynamic nature of the international marketplace, planning is essential so that a firm can evaluate and reconfigure its resources in order to respond to the opportunities and threats that may emerge.

Gallo (1991) emphasised the need for a family firm to understand how its intended international growth strategy could have implications for other aspects of the business such as the need to upgrade its production technologies. As a consequence, successful international expansion requires both the development of plans for the international marketplace as well as plans for the business as a whole. However, Australian family

businesses are less likely to engage in formal strategic planning when compared to their non-family counterparts (Smyrnios & Walker, 2003). This may explain why family firms are more likely to commence exporting as a result of unsolicited orders as opposed to the execution of a planned international growth strategy (Okoroafo, 1999). These observations suggest the following hypotheses:

*H7A: There is a statistically significant difference in the propensity for SMFEs and non-SMFEs to develop a strategic plan according to their degree of internationalisation.*

*H7B: There is a statistically significant difference in the propensity for SMFEs and non-SMFEs to develop an international expansion plan according to their degree of internationalisation.*

With regard to management control techniques, previous research has reported that compared to non-exporters, successful exporters are more likely to rely on formal control systems for monitoring performance (Aaby & Slater, 1988), have greater financial management strengths (Cavusgil & Naor, 1987), and more elaborate control systems in place (Schlegelmilch, 1986). Kirpalani and MacIntosh (1980) found that effective control systems are essential for expansion into the international marketplace.

While these studies confirm the link between control systems and international growth, the constructs used for 'control systems' have not been explicitly outlined. Having examined the financial management techniques of family businesses, Filbeck and Lee (2000) concluded 'family firms have not followed the trends of their non-family counterparts with respect to their use of modern financial management techniques' (p. 213). Family firms are less likely to utilise formal control systems because of their preference for informal, more personal forms of control, where they place less emphasis on using information systems, cost centres, profit centres, quality control, standard costing or formal appraisal of employees for assessing performance (Daily & Dollinger, 1992). Smyrnios and Walker (2003) reported that Australian family businesses are less likely to utilise benchmarking when compared to their non-family counterparts. These observations suggest the following hypothesis:

*H7C: There is a statistically significant difference in the propensity for SMFEs and non-SMFEs to utilise formal control systems according to their degree of internationalisation.*

## **2.7 Summary**

As summarised in Table 2.5, the study's research issues will be investigated using both quantitative and qualitative research methodologies. Research issue one will be explored using quantitative analysis, while Research issue three will be explored using qualitative analysis. Research issues two and four will be explored using both quantitative and qualitative research methodologies.

## **2.8 Conclusion**

In this chapter, the study's two parent literatures, 'family businesses' and 'the internationalisation process of SMEs' were reviewed. The purpose of this literature review was to discuss those themes that are pertinent to the internationalisation process of family businesses and to determine the current state of the internationalisation research field, with particular focus on the SMEs sector. This review culminated in the development of a framework (Figure 2.6), which was used to develop the study's research issues. In the next chapter, the research methodology and procedures employed to examine the four research issues are discussed.



**Table 2.5 Summary of research issues, hypotheses and research methods employed**

Research issue (and related hypotheses)	Research method employed
<p>RI #1: <i>Propensity for and degree of internationalisation of SMFES</i></p> <p>H1: After controlling for demographic and other relevant influences, there is a statistically significant difference in the propensity of SMFES and non-SMFES to internationalise.</p> <p>H2: After controlling for demographic and other relevant influences, there is a statistically significant difference in the degree of internationalisation of SMFES and non-SMFES.</p>	Quantitative
<p>RI #2: <i>Effect of internationalisation on the firm</i></p> <p>H3: After controlling for demographic and other relevant influences, there is a statistically significant difference in the financial performance of SMFES according to whether they have internationalised.</p> <p>H4: After controlling for demographic and other relevant influences, there is a statistically significant difference in the financial performance of internationalised SMFES according to their degree of internationalisation.</p>	Quantitative & Qualitative
<p>RI #3: <i>Internationalisation behaviour of SMFES</i></p>	Qualitative
<p>RI #4: <i>Influences on internationalisation process of SMFES</i></p> <p>H5: There is a statistically significant difference in the management team size of SMFES and non-SMFES according to their degree of internationalisation.</p> <p>H6A: There is a statistically significant difference in the propensity for SMFES and non-SMFES to appoint an outsider to the management team according to their degree of internationalisation.</p> <p>H6B: There is a statistically significant difference in the propensity for the management team of SMFES and non-SMFES to receive training according to their degree of internationalisation.</p> <p>H7A: There is a statistically significant difference in the propensity for SMFES and non-SMFES to develop a strategic plan according to their degree of internationalisation.</p> <p>H7B: There is a statistically significant difference in the propensity for SMFES and non-SMFES to develop an international expansion plan according to their degree of internationalisation.</p> <p>H7C: There is a statistically significant difference in the propensity for SMFES and non-SMFES to utilise formal control systems according to their degree of internationalisation.</p>	Quantitative & Qualitative

## **Research methodology**

### **3.1 Introduction**

The purpose of this chapter is to outline the research methodology and procedures employed to examine the research problem through the four research issues presented in the previous chapter. In Section 3.2, the justification for using both quantitative and qualitative research methods is given. The quantitative and qualitative analysis research procedures are presented in Sections 3.3 and 3.4 respectively.

### **3.2 Research paradigm and method**

#### **3.2.1 Justification for adopting the critical realism research paradigm**

It is argued that good research is dependent upon the selection of research methods that are most appropriate for answering the research issues at hand. Trying to answer issues using an incorrect research method ‘has the same effect on projects and researchers as forcing the glass slipper onto their feet had for Cinderella’s ugly stepsisters’ marriage prospects – it won’t work, it will hurt a lot, and the result is a loss of credibility’ (Morse & Richards, 2002, p. 27). As important as the selection of appropriate methods is, first and foremost, effective research requires the selection of an appropriate research paradigm suitable for the issues being studied:

Questions of method are secondary to questions of paradigms, which...guide the investigator, not only in choices of method but in ontologically and epistemologically fundamental ways. (Guba & Lincoln, 1994, p. 105)

Hence, the underlying paradigm employed in a study plays a fundamental role as it outlines the researcher’s view of the world, what he or she considers as real, the degree to which this reality can be understood, as well as the most appropriate research methods to further knowledge and understanding of reality.

However, not all researchers explicitly acknowledge the paradigm that underpins their research, which is particularly evident in those studies employing a mixed research method design (Greene & Caracelli, 2003). This problem is possibly due to issues such as the incompatibility thesis argument or researchers simply taking a pragmatic stance. Labelled the ‘Paradigm Wars’, the incompatibility thesis argues that research that uses both quantitative and qualitative analyses is destined for failure as the paradigms that underlie these research methods (positivism and interpretivism, respectively) are incompatible (Tashakkori & Teddlie, 2003). Because of the paradigms’ differing views of reality, Guba (1987, p. 31) argued that the adoption of one paradigm precludes the adoption of another ‘just as the belief in a round world precludes belief in a flat one’. However, more recently, as many researchers have successfully combined quantitative and qualitative research methods, the incompatibility thesis has largely been discredited (Tashakkori & Teddlie, 2003).

According to Guba and Lincoln (1994) a research paradigm can be viewed as a set of basic beliefs or a worldview, and is often characterised and contrasted according to the following three questions:

- What is the form and nature of reality, and what can be known about it (*the ontological question*)?
- What is the form and nature of the relationship between the researcher and the researched (*the epistemological question*)?
- How can the researcher go about discovering what he or she believes can be known (*the methodological question*)?

According to Healy and Perry (2000) and Guba and Lincoln (1994), alternative research paradigms can be broadly characterised into four groups: positivism, critical realism, interpretivism<sup>9</sup>, and critical theory (see Table 3.1).

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<sup>9</sup> The interpretivism paradigm includes streams such as hermeneutics, constructivism, ethnography, cognitive, idealist, phenomenological, subjectivist, and qualitative sociology (Neuman, 2000).

**Table 3.1 Categories of scientific paradigms and their elements**  
 [adapted from Guba & Lincoln (1994) and Healy & Perry (2000)]

	<b>Positivism</b>	<b>Critical Realism</b>	<b>Interpretivism</b>	<b>Critical theory</b>
<b>Ontology</b>	Reality is real and apprehensible	Reality is real but only imperfectly and probabilistically apprehensible	Multiple local and specific constructed realities	Virtual reality shaped by social, economic, ethnic, political, cultural, and gender values, crystallised over time
<b>Epistemology</b>	Objectivist: findings true	Modified objectivist: findings probably true	Subjectivist: created findings	Subjectivist: value mediated findings
<b>Methodology</b>	Experiments/surveys: verification of hypotheses, chiefly quantitative methods	Case studies: triangulation, interpretation of research issues by qualitative and by some quantitative methods	Hermeneutical/dialectical: researcher is a passionate participant within the world being investigated	Dialogic/dialectical: researcher is a transformative intellectual who changes the social world within which participants live

The majority of research published in the internationalisation domain is based upon the positivist research paradigm, as evidenced by the preference for hypothesis testing using large sample, quantitative research designs (Fillis, 2001; Leonidou et al., 1998; Zou & Stan, 1998). This paradigm holds that social and physical reality is real, is not random but is patterned and ordered by stable observable laws that are waiting to be discovered (ontological assumption). Humans are assumed to be rational, self-interested individuals whose behaviour is determined by these observable laws<sup>10</sup>. Empirical data can be measured accurately and precisely, and is independent of the researcher's own ideas, thoughts and biases (epistemological assumption). According to positivism, the purpose of science is to further knowledge by discovering these laws through value-free logical deduction, expressed using 'formal symbolic systems, with axioms, corollaries, postulates, and theorems' (methodological assumptions) (Neuman, 2000, p. 68).

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<sup>10</sup> Although most positivists do not believe in absolute determinism, they do believe that these observable laws are useful for explaining behaviour of a large group of people (Neuman, 2000). For example, although it may be difficult to accurately predict how an individual will vote at an election, a positivist will argue that it is possible to predict the overall election result.

Coviello and McAuley (1999) and Fillis (2001) argue that the dominance of the positivist paradigm within internationalisation research has inhibited new theory generation. This is because although quantitative methods may produce statistically rigorous, focussed studies, they often fail to uncover the depth of richness required to understand complex phenomenon. As a consequence, there are a growing number of researchers (Bell & Young, 1996; Chetty & Hamilton, 1996; Coviello & McAuley, 1999; Coviello & Munro, 1995; Fillis, 2001; Melin, 1992; Westhead & Cowling, 1998; Westhead et al., 2001) who argue that, in order for internationalisation research to advance, studies should move beyond the positivist paradigm so that more appropriate research methods can be employed.

A limitation of the positivist paradigm is that empirical phenomena are not always directly observable but may exist below the surface and are embedded within the social interactions of humans. This is particularly the situation when researching the internationalisation process of SMFEs, where the influence of family involvement may not always be directly observable. For example, in the next chapter, the quantitative analysis indicates that the propensity for and the degree of internationalisation of SMFEs is less than that of their non-family counterparts. Why this might be so is explored in greater depth in Chapters 5 and 6 using a qualitative research method. Davis and Harveston (2000) argue that because the family influence within a business can be complex, research methodologies outside the positivist paradigm may be required to fully understand in what way family influence affects the internationalisation of the family business. In doing so, researchers can avoid collecting data that is superficial to understanding the characteristics of family enterprises (Litz, 1997).

As outlined in Chapter 2, one of the research issues of this study involves the examination of factors that facilitate and/or inhibit their internationalisation process of family firms such as their network relationships and ability to configure firm resources to develop globally relevant competencies. These are issues that are not easily understood through quantitative analysis. For example, with regard to networks which are an important resource for internationalisation, Johanson and Vahlne (1990, p. 18) argue 'evidently, business relationships and consequently industrial networks are subtle phenomena, which cannot easily be observed by an outside observer'. Coviello and Munro (1997) argue that future research should investigate how and with whom relationships are developed, and what network management skills are required over time. With regard to a firm's capabilities,

Rouse and Daellenbach (1999) argue that firm-specific resources and capabilities are often intangible and not obvious to the outside observer, and therefore are best researched qualitatively from within the firm (i.e. case studies) rather than through quantitative analysis. 'To untangle the nature and sources of such competencies requires going inside the black box of organisations' (Rouse & Daellenbach, 2002, p. 964). How family involvement influences the strategic management process and the development of the capabilities required for internationalisation is also of interest in this study. As a result, in order to further advance our knowledge and understanding of a firm's internationalisation process, an alternative research paradigm may need to be adopted.

For the purpose of this study, which is to further knowledge and understanding of the internationalisation process of SMFEs, the critical realism paradigm is the most appropriate paradigm to use. What makes family businesses unique is the influence that family members have on the firm through the firm's overlapping ownership, management, and family systems. The family business literature outlined in Chapter 2 indicates that the family can affect the firm's attitude towards and degree of internationalisation. Because the influence of the family on the business can be complex and not easily identifiable (Litz, 1997), this study aims to explore in what ways family involvement, enacted through the firm's ownership and management structure, can influence the internationalisation process of the SMFE. Specifically, this study seeks to understand how family involvement can influence an SMFE's strategic management process, resources and capabilities, all of which have been identified as key determinants of the internationalisation of the firm.

The origins of the critical realism paradigm are attributed to the works of Bhaskar (1978; 1979; 1989) and his followers (e.g. Collier, 1994). As outlined in Table 3.1, this paradigm can be distinguished from others in that it acknowledges a reality that is independent of our knowledge of it, but that this reality is only imperfectly and probabilistically apprehensible (Guba & Lincoln, 1994). This is because critical realism argues that reality can be divided into three interrelated domains: the empirical, the actual and the deep (real) (see Table 3.2).

**Table 3.2 Structured ontology of critical realism (Ackroyd & Fleetwood 2000)**

Domain	Entity
Empirical	Experiences, perceptions
Actual	Events and actions
'Deep' (Real)	Structures, mechanisms, powers, relations

Structures and mechanisms exist in the deep (real) domain, which may under certain conditions, give rise to actions and events in the actual domain, which when identified, become experiences in the empirical domain (Tsoukas, 2000). The purpose of research is 'to investigate and identify relationships and non-relationships, respectively, between what we experience, what actually happens, and the underlying mechanisms that produce the events in the world' (Danermark, Ekstrom, Jakobsen & Karlsson, 2002 p. 21). What differentiates this paradigm from the positivist paradigm is that

...critical realism maintains...that a scientific method necessarily involves observation of events, but due to the deep dimension of reality it cannot be reduced to observation of phenomena at the empirical level. To acquire usable knowledge it is essential that we know the mechanisms that produce the empirical events, and these are seldom directly visible. The knowledge we do attain is, however, always fallible, and its usefulness varies under different conditions. (Danermark et al., 2002, p. 22)

Knowledge is advanced by identifying and understanding the mechanisms and causal powers that underlie the actions and events observed in the empirical domain:

Attention turns away from the flux of events and towards the causal mechanisms, social structures, powers and relations that govern them. Rather than the ontology being restricted to the fused domains of the actual and empirical, the critical realist adds another domain, namely the. (metaphoric) 'deep' ...The task of explanation in social science is to penetrate behind the surface of experiences and perceptions and to account for what occurs in terms of an understanding of connections at the level of structures. (Ackroyd & Fleetwood, 2000, p. 13)

Ultimately, the usefulness of the knowledge obtained is dependent on how well it captures the mechanisms that operate in the deep domain (Danermark et al., 2002). This is why knowledge of reality is only imperfectly and probabilistically apprehensible. Some mechanisms may lie dormant for a period of time or may be counteracted by other mechanisms within the deep domain, cancelling each other out and resulting in no event (Tsoukas, 2000). For example, the effect of a lack of managerial capabilities within family enterprises may be counteracted by their ability to develop mutually beneficial long-term relationships with their suppliers and customers. Other influences on family firm performance, such as succession, often lie dormant within the family enterprise until the

need for a successor arises. Even when mechanisms produce actions and events, they may not result in experiences in the empirical domain because we fail to identify them. For example, conflict between family members may be difficult to identify as it may not be disclosed by family members due to their preference for privacy.

The critical realism paradigm can also be differentiated from the others with regard to its epistemological stance. The critical realism paradigm sits somewhere between the positivist and interpretivists, where the researcher is not value-neutral or value-laden, but is conscious of his or her own values and the values underlying individuals. As stated by Healy and Perry (2000) 'realism is neither value-laden nor value-free, rather, realism researchers are value aware...a participant's perception for realism is a window to reality through which a picture of reality can be triangulated with other perceptions' (p.123).

Other paradigms were considered but were deemed unsuitable for this study. As Table 3.1 highlights, the interpretivism paradigm differs from the positivist tradition in that it does not believe that a social reality is waiting to be discovered. Instead it argues that reality is subjective rather than objective, and dependent upon the values, meaning, and interpretation that individuals attach to the world they live in (socially constructed).

As outlined in Chapter 2, the family business literature suggests that family influence affects the internationalisation process of family businesses. The purpose of the current study was to increase our knowledge and understanding of how family involvement influences the internationalisation process of the SMFE. Although family influence may not be easily observable, the family business literature suggests that this influence does exist within family businesses (although the extent of influence may vary from firm to firm), and is independent of an individual's awareness of it; that is, its existence is not socially constructed. Because the purpose of research under the interpretivist paradigm is 'to develop an understanding of social life and discover how people construct meaning in natural settings' (Neuman, 2000, p. 71) rather than identifying mechanisms or causal laws that apply to all family businesses, the interpretivist paradigm was not suitable for the current study.

Critical theory argues that a social reality exists, but is created through a society's social, economic, ethnic, political, cultural, and gender values, crystallised over time. The purpose of research guided by the critical theory paradigm is 'to critique and transform social



relations...by revealing the underlying sources of social relations and empowering people, especially less powerful people' (Neuman, 2000, p. 76). As the purpose of the current study was not to critique and transform social relations, the critical theory paradigm was not suitable.

### **3.2.2 Justification for the use of a mixed research method**

The critical realism paradigm can be distinguished from other research paradigms in that it is open to using both quantitative and qualitative research methods. This paradigm was well suited for addressing the research issues to be investigated by the current study, issues which required examination using both quantitative and qualitative research methodologies. Quantitative analysis was useful for comparing the internationalisation of SMFEs and non-SMFEs in an Australian context (RI #1). The findings from this analysis were further explored through a combination of quantitative and qualitative analyses, which enabled the identification of factors that influenced the ability of SMFEs to grow internationally (RI #4). A combination of quantitative and qualitative analyses was also useful for examining the financial and non-financial effects of internationalisation on SMFEs (RI #2).

#### **Quantitative analysis**

With regard to the quantitative analysis, researchers have been encouraged to utilise a longitudinal as opposed to a cross-sectional data analysis in order to further advance internationalisation research (e.g. Coviello & McAuley, 1999; McDougall & Oviatt, 1996; Melin, 1992). McDougall and Oviatt (1996) state '...more longitudinal research on venture internationalization is needed..., but the sample size should be relatively large in order to withstand inevitable losses of data over time and to detect any patterns in what may be rather disparate venture behaviours' (p. 34). As a consequence, this study utilised longitudinal quantitative analysis where the propensity for and degree of internationalisation of SMFEs, as well as their managerial capabilities and financial performance at different levels of internationalisation (RI #1, 2 and 4), were examined over several years in an Australian context.

#### **Focussed ethnographic case-study analysis**

There are a number of researchers also calling for more in-depth qualitative case study research in order to advance internationalisation theory. Since internationalisation is viewed as a development process through time, Melin (1992) argues that there is a substantial need for internationalisation research using a longitudinal case study approach such as biographic

history where ‘the biography of a firm captures the whole development from the time of its founding to the present time’ (p. 102). This is particularly important because, as argued by Bell and Young (1996), internationalisation strategies are not developed in isolation but are components of the overall operations of the firm. Therefore, the internationalisation process of the firm needs to be examined in the context of its lifecycle, current operations and critical events in the life of the firm (Andersen, 1993). Westhead and Cowling (1998) argue that case study evidence is required to identify the ability of family businesses to sell goods and services abroad. As mentioned earlier, Litz (1997) argues that when carrying out research on family firms, researchers should adopt case-intensive methodologies in order to avoid collecting data that are superficial to understanding the characteristics of these firms. This is particularly important when studying sensitive issues such as family-related mismanagement of the family business. Similarly, Goffee (1996) argues:

...exploratory investigations into the complex relationships between proprietorial ownership and managerial control favour an emphasis on qualitative research methods rather than more quantitative survey techniques. Detailed case studies using both participant and non-participant observation are more likely to yield insight into the control strategies pursued by owner-proprietors and the coping responses developed by managers and other employees. (p. 46)

The case study approach is a research strategy that focuses on understanding the dynamics present within a single setting (Eisenhardt, 1989). The case study approach should not be confused with the research method used, as this approach has been associated with both quantitative and qualitative methods. As highlighted by Miles and Huberman (1994) the case is ‘a phenomenon of some sort occurring in a bounded context...your unit of analysis’ (p. 25). Therefore, the case study approach defines the limits or boundaries as to what is to be studied (the unit of analysis), not the data collection methods to be employed.

According to Eisenhardt (1989) the case study approach is well suited to situations where there is a need ‘to provide freshness in perspective to an already researched topic’ (p. 548). Based upon a review of the case study literature, Christie, Rowe, Perry and Chamard (2000) argue that a case study approach should be undertaken within the realism paradigm when:

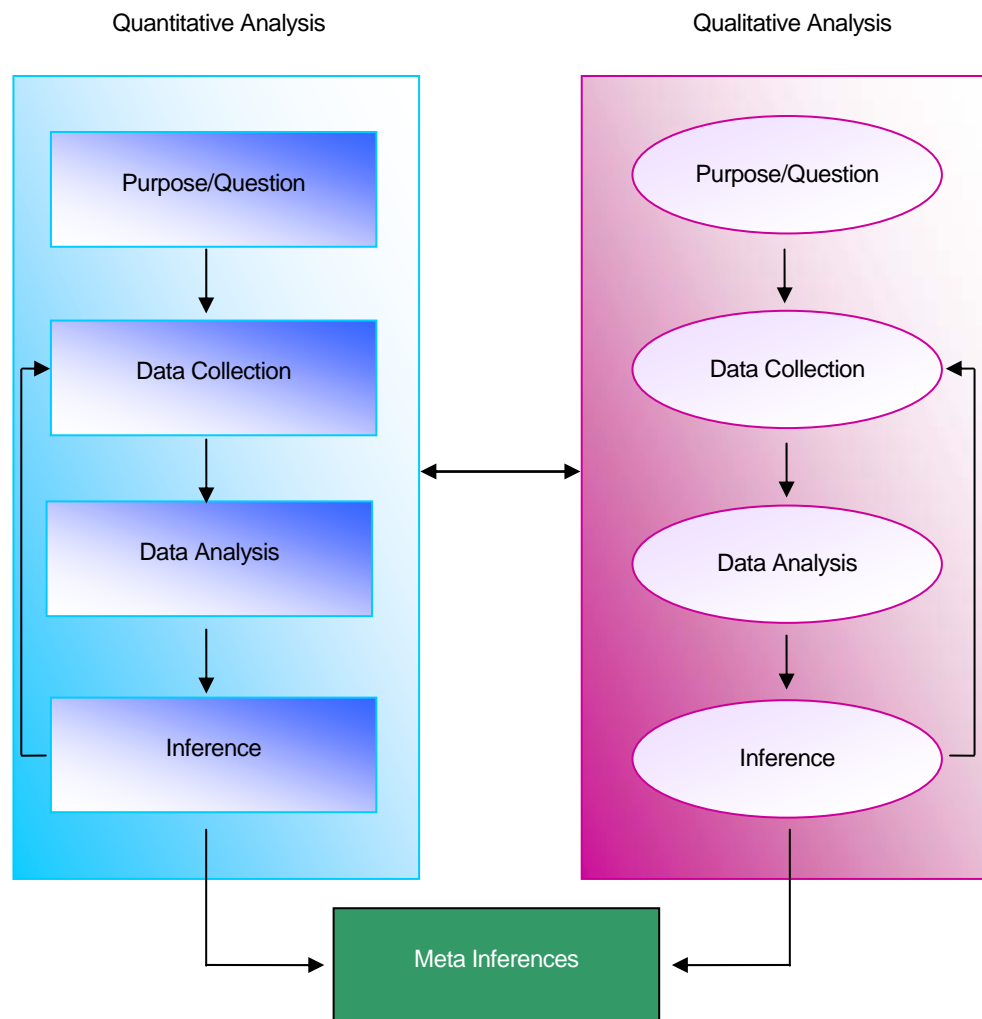
- *There are particular events that are focussed on a situation or context and have specificity:* Case study methodology enables particular contexts to be studied in depth, promoting the emergence of new ideas or new interpretations of existing ideas. The current study was concerned with understanding internationalisation process of SMFEs, and in particular, whether current internationalisation theories cater for the complexities inherent within SMFEs.

- *The social organisational settings are intricate:* Case study research is more adept at capturing the intricacies of the social organisation settings. Because the influence of the family within the family business is complex and not immediately obvious (Davis & Harveston, 2000; Litz, 1997), case study methodology is more likely to capture the ways in which family influence affects the internationalisation process of SMFEs.
- *The researcher seeks contextual meaning within a bounded system:* The case study method enables the researcher to study a particular situation within its natural settings. Case study research is particularly useful when the boundaries between the phenomenon and the context are unclear. The current study investigated the internationalisation phenomenon within the SMFE context, because it is believed that family involvement introduces unique challenges to growing internationally. Because the role that the family plays in the internationalisation process of family enterprises is not clear, a case study approach enabled the examination of how family influence affects key drivers of internationalisation: the firm's strategic management process, resources and capabilities.
- *The research enterprise is inductive theory building:* Case study method is highly suited for inductively building a rich, deep understanding of phenomena that are not well understood or researched. As stated in Chapter 2, despite the fact that research on the internationalisation of SMEs is increasing, there is a lack of research on the internationalisation process of SMFEs. The effect of family influence on the internationalisation process of family businesses has been overlooked and is not well understood. Accordingly, the current study lent itself to using a case study approach where rich detail can be gathered in order to make contributions to, or reinterpretations of, existing internationalisation theory.

Based on the above discussion, the case study approach was used for the qualitative stage of this study, where the 'unit of analysis' was the family firm. The internationalisation process of an SMFE, including what factors influenced this process as well as the effect of internationalisation on the firm (RI #2, 3 and 4) were explored within each case and across cases using a focussed ethnographic research method. Ethnography is often associated with developing thick descriptions through a prolonged time in the field (such as a year) with the group being studied. Because this study required collecting information on a specific issue, the internationalisation process of the SMFE, Morse and Richards (2002) argue that prolonged periods of time within each case is not necessarily required. As a consequence, the current undertook what Morse and Richards (2002) describe as 'focussed' ethnography.

In summary, based on the current study's research issues and the above discussion, a mixed research method approach within the critical realism paradigm was adopted. A combination of quantitative and qualitative research methods were used to investigate the study's research issues. Both research methods were carried out simultaneously for a period of time as the qualitative analysis stage commenced before the completion of the quantitative stage. During the research process, findings from each method informed one another. For example, while using qualitative analysis to explore influences on SMFE internationalisation (RI #4), the influence of family members was found to inhibit a number of case firms in developing the managerial capabilities required for internationalisation. To ascertain whether this was an issue particular to family firms, quantitative analysis was used to compare the managerial capabilities of SMFEs and non-SMFEs as they internationalised. According to Tashakkori and Teddlie (2003), this approach is referred to as the 'Concurrent Mixed Model Design', as there were multiple research issues, some of which were answered by collecting and analysing quantitative data while the others were answered using qualitative data. Although the conclusions (inferences) drawn from each approach were drawn together to develop overall conclusions (meta-inferences), the quantitative and qualitative approaches were pre-planned and were relatively independent of each other. The concurrent mixed model design used for this study is outlined in Figure 3.1. This model is adapted from that proposed by Tashakkori and Teddlie (2003) in that Figure 3.1 includes:

- *A feedback loop from the conclusions of the qualitative analysis to the purpose/questions addressed by the quantitative analysis.* The reason for this is that, as mentioned above, as conclusions were being formed from the qualitative analysis it became clear that SMFEs faced obstacles to building the managerial capabilities required for internationalisation. This conclusion resulted in additions to the literature review and the development of H5 to H7, which were examined using quantitative analysis.
- *A feedback loop from the conclusions of the quantitative analysis to the collection of the qualitative data.* The reason for this is that the conclusions drawn from the quantitative analysis gave further insight into the types of questions that might be useful to ask in the interviews conducted as part of the qualitative data collection. For example, the quantitative analysis highlighted that networking with other businesses is positively and significantly associated with the propensity for and degree of internationalisation. Interview questions were developed to explore how an SMFE's networks with other businesses assisted its entry into the international marketplace.



**Figure 3.1** Mixed model research design used in this study  
(adapted from Tashakkori and Teddlie 2003)

### 3.3 Research procedures – quantitative analysis

#### 3.3.1 Collection of data

Because family businesses have a preference for privacy (Litz, 1997), family business researchers may encounter additional difficulties in achieving suitable response rates. For example, in their study of the internationalisation of family businesses, Gallo and Pont (1996) were only able to achieve a response rate of 13 percent. One of the strengths of this study is the use of the Australian Bureau of Statistic's (ABS) Business Longitudinal Survey (BLS). These data were released by the ABS as a Confidentialised Unit Record File (CURF) on CD-ROM in December, 1999, and contains information on 9,732 Australian SMEs – business units employing fewer than 200 persons. The purpose of the BLS was to provide information on the growth and performance of Australian employing businesses and to identify selected economic and structural characteristics of these businesses

(Australian Bureau of Statistics, 2000). As highlighted in the previous chapter, there were two advantages with utilising the BLS for this study. Firstly, the longitudinal database enabled the examination of the existence and persistence of relationships between internationalisation and other variables over time. Secondly, the response rate of the firms sampled for the BLS exceeded 90 percent – much higher than that achieved in academic research (McMahon, 2001).

The BLS database was developed as follows:

The ABS Business Register was used as the population frame for the survey with approximately 13,000 business units being selected for inclusion in the 1994-95 survey. For the 1995-96 survey, a sub sample of the original selections for 1994-95 survey was selected and this was supplemented by a sample of new business units added to the ABS Business Register during 1995-96. The sample for the 1996-97 survey again consisted of two parts. The first part forms the longitudinal or continuing part of the sample and consists of all those remaining live businesses from the 1995-96 survey, while second part consists of a sample of new business units added to the ABS Business Register during 1996-97. In total, about 6,400 business units were included in each of the 1995-96 and 1996-97 surveys. (Australian Bureau of Statistics, 2000, p. 4)

The BLS is not a completely random sample. The original population was stratified by industry and business size. Then, in the second phase of the survey, the sample was further stratified by the innovation status, exporting status and growth status of the business. (Australian Bureau of Statistics, 2000, p. 19)

In the BLS, data were collected using self-administered, structured questionnaires predominantly containing closed questions. Copies of the questionnaire used in each of the four years are not included in the appendix, but are available from the ABS. The questionnaires were piloted prior to their use, and were progressively refined based on the knowledge gained in each year of the survey. The survey contained on-going questions as well as one-off questions in order to collect information pertaining to matters of interest to the Australian Federal government at the time of data collection. Imputation techniques, such as matching data with other ABS data files, were used in order to overcome the difficulties associated with missing data (McMahon, 2001). Steps were taken to ensure the confidentiality of firms sampled in the BLS, including the suppression of geographical details, limiting information on industrial classification, and classifying enterprise age in ranges. Also, all financial information was subject to perturbation, a process where some values of particular variables were varied slightly in order to provide further protection of confidentiality (Australian Bureau of Statistics, 2000).

This study was confined to the manufacturing SMEs contained in the BLS CURF, representing approximately 35 percent (3,411 firms) of all businesses contained in the file. As highlighted in the previous chapter, this study focused on the manufacturing sector because of its importance to the Australian economy, the concern over its ability to remain competitive in an increasingly competitive environment, and the fact that 99 percent of all manufacturing firms are SMEs (Australian Bureau of Statistics, 2002).

The current study also narrowed its focus by only considering those manufacturing SMEs that:

- *legally organised themselves as proprietary companies*: The focus upon incorporated SMEs was imposed for two reasons: Firstly, because incorporated firms are more likely to be growth oriented (Freedman & Godwin, 1994; Gray, 1992; Hakim, 1989; Hughes & Storey, 1994; Yellow Pages Australia, 1995); and as one of the main motivations for undertaking internationalisation strategies is firm growth (OECD, 1997), incorporated SMEs are more likely to internationalise. Secondly, interest in the performance of incorporated companies is not uncommon in SME research worldwide:

It would appear that, in so far as the issue is considered at all, the limited liability company is of more interest to the small business research community than are unincorporated firms;...limited liability companies and entrepreneurship have become equated, or at least associated. (Freedman & Godwin, 1994, p. 234)

In the BLS CURF, approximately 71 percent (2,413 firms) of manufacturing SMEs are proprietary companies.

- *operated in all four years of the BLS CURF, enabling the examination of the existence and persistence of relationships between internationalisation and other variables over time*: To ensure that firms included in the study were operational over the four-year period, firms that reported no assets and/or no employees and/or no sales in any year were excluded. In the BLS CURF, approximately 37 percent (891 firms) of proprietary manufacturing SMEs operated in all four years.

Finally, a question relating to networking with other businesses was asked in every BLS except for that conducted in 1994/95. Therefore, the current study focussed on the analysis of the data collected from the 1995/96, 1996/97 and the 1997/98 surveys.

### **3.3.2 Method of data analysis**

The most fundamental assumption underlying many statistical techniques is that the data are normally distributed (Hair, Anderson, Tatham & Black, 1998). Analysing non-normally distributed data with statistical techniques that assume normality may undermine the

validity and reliability of the results obtained. Therefore, in order to test whether the metric variables to be used in this study were normally distributed, two tests were used: the Kolmogorov-Smirnov test and the Shapiro-Wilks test. These tests indicated that all of the metric variables were non-normally distributed (refer to Appendix 1).

This study also incorporated several variables that were categorical in nature, and therefore did not satisfy the assumption of normality. Although the data could have been normalised by using various transformation statistical techniques, such action often creates difficulties when interpreting results (Hair et al., 1998). As a consequence, this study utilised chi-square and Mann-Whitney non-parametric statistical techniques because they do not require the normality assumption to be met. Logistic regression analysis was also used because it is robust when using non-normal data and categorical variables (Hair et al., 1998). As well as being robust when using non-normal data, these techniques are also resistant to extreme values or outliers as they emphasise the median as a measure of centrality (Johnsen & McMahon, 2003).

There are three primary objectives of the quantitative analysis. The first objective is to determine whether family business status significantly differentiates firms on their propensity for and degree of internationalisation, after controlling for the influence of other relevant variables (H1 and H2). The second objective is to determine whether internationalisation status and the degree of internationalisation, are associated with the financial performance of SMFEs, after controlling for the influence of other relevant variables (H3 and H4). The third objective is to determine whether there are significant differences in the managerial capabilities of SMFEs and non-SMFEs as they grow internationally (H5, H6 and H7). Logistic regression models were used to examine H1, H2, H3 and H4. A series of non-parametric statistical tests were used to examine H5, H6 and H7.

The purpose of using logistic regression was not to generate models useful for predicting internationalisation behaviour of SMEs but to determine whether family business status is a determining factor of the propensity for and degree of internationalisation. As a result, the discussion of the quantitative results focussed upon the significance and coefficient sign of the variables entered into the models, rather than the classification accuracy of the models.

Because family business status significantly differentiates firms on their propensity for and degree of internationalisation (see Chapter 4), differences between SMFEs and non-SMFEs were further explored by examining their growth profiles. This was in response to McMahon's (2001) call for further research to compare and contrast manufacturing SMEs



on different development pathways in terms of their ownership structures. In his study, McMahon discerned three relatively stable SME development pathways: low growth (traditional or lifestyle firms), moderate growth (capped growth firms) and high growth (entrepreneurial firms). Because a persistent significant relationship was found between growth profile and the variables exporter status and export intensity (McMahon, 2001b), significant differences in the propensity for and degree of the internationalisation of SMFES and non-SMFES may be partly explained by differences in their growth profiles<sup>11</sup>.

Due to its ease of use and supporting documentation, the software package *SPSS (Statistical Package for the Social Sciences)* for Windows (release 11) was used to conduct the non-parametric statistical tests and logistic regression analysis in this study.

### **3.3.3 Measurement of variables**

#### **Degree of internationalisation**

Based upon the hypotheses presented in Chapter 2, the degree of internationalisation of the firm is of interest. There is a lack of consensus over the measurement of internationalisation, particularly of large firms (Lewis & Minchev, 2001; Sullivan, 1996). However, as mentioned earlier, as exporting is considered the most common foreign market entry mode of SMEs (Leonidou & Katsikeas, 1996), the most common measurement of SME internationalisation is the ratio of export sales to total sales (e.g. Bell et al., 2001; e.g. Westhead et al., 2001). Accordingly, this study will measure the degree of internationalisation as export sales dollars as a percentage of total sales dollars.

As highlighted in Section 3.3.2, because export intensity and other variables in this study were not normally distributed, this study utilised logistic regression analysis. As a consequence, in order to test the hypotheses, the dependent variable ‘internationalisation’ needed to be converted into a categorical variable, that is, into the degree of internationalisation. For the purposes of this study, firms were grouped according to their degree of internationalisation as follows:

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<sup>11</sup> The assistance provided by Professor Richard McMahon (Flinders University of South Aust.), in having ‘cleaned up’ the BLS data and permitted access to his growth profile data is gratefully acknowledged. Further information on McMahon’s SME growth taxonomy can be found in McMahon (2001).

- *domestic (non-exporting firms)*: Firms that did not engage in exporting during the financial period (export sales dollars = 0) were classified as ‘domestic’ firms. This variable was generated for each of the three years included in this study.
- *moderate internationalisation (below-median export intensity)*: The median export intensity (export sales dollars/total sales dollars) was calculated using only those firms that were exporting in each respective year. Exporting firms with an export intensity less than the median export intensity were classified as having a moderate degree of internationalisation. This variable was generated for each of the three years included in this study.
- *high internationalisation (above-median export intensity)*: The median export intensity (export sales dollars/total sales dollars) was calculated using only those firms that were exporting in each year respectively. Exporting firms with an export intensity greater than the median export intensity were classified as having a high degree of internationalisation. This variable was generated for each of the three years included in this study.

#### **Family business status**

Firms which were majority family-owned (>50%) as well as having a family owner in management were classified as family businesses (SMFEs), while all other firms were classified as non-family businesses (non-SMFEs).

#### **Managerial capabilities**

As highlighted in Chapter 2, managerial capabilities were defined in terms of a firm’s management capacity, management expertise and management processes.

##### *Capacity*

- total number of full-time managers employed by the firm.

##### *Expertise*

- outsider/non-family manager: whether the firm employed a full time manager other than working owners (referred to as outside managers) (yes/no)
- management training: whether employees received management or professional training during the year (yes/no)

Professional training refers to further training for diploma/degree qualified employees or employees working towards a diploma/degree. These two variables were only included in the Year Three survey.

### *Processes*

- strategic plan: whether the firm had a documented formal strategic or business plan (yes/no)
- international expansion plan: whether the firm had an export market plan (yes/no)

### *Management control systems*

As stated previously, as the constructs used for ‘control systems’ are not explicitly outlined in the internationalisation literature, five measures were used to give an indication of the usage of commonly accepted management control techniques:

- regular income/expenditure reports (more than once per year) (yes/no)
- use of benchmarking (yes/no)
- use of total quality management (TQM), quality assurance (QA) and just-in-time inventory (JIT) systems (no/informally in place/formally in place).

These three variables were only available from the Year One survey.

### **Financial performance**

Based upon H3 and H4 that were presented in Chapter 2, the financial performance of the firm was of interest. Financial performance was measured using the variable ‘return on total assets’ (ROTA), which was defined as the ratio of earnings before interest and tax divided by total assets. Because logistic regression was used to compare the financial performance of SMFEs and non-SMFEs, firms were classified to one of two groups according to the median ROTA. Firms with an above-median ROTA were classified ‘1’ (above median financial performance) while firms with a below-median ROTA were classified ‘0’ (below median financial performance). This variable was generated in each year for each stage of internationalisation.

### **Control variables**

As stated in H1 to H4, the relationship between dependent and independent variables were examined while controlling for demographic and other relevant influences. As highlighted in Chapter 2, a firm’s growth intentions, networking activities, innovativeness, and its resources/capabilities can influence the degree of internationalisation. Prior research has used firm size as a proxy for the amount of resources available for internationalisation (Zahra, 2001). Also, the Stage Model Theory of internationalisation argues that knowledge and experience are associated with internationalisation (Johanson & Vahlne, 1977). Because older firms are more likely to accumulate greater knowledge and experience, it is

important to control for the influence of firm age. Therefore, the relationships between the propensity for and degree of internationalisation and family business status (H1 and H2) were examined while controlling for growth intentions, networking activities, innovativeness, and the age and size of the firm.

As in other studies (e.g. Brush & Chaganti, 1999), firm age and firm size were used as control variables when examining the relationship between internationalisation and financial performance (H3 and H4).

These control variables were measured in the following ways:

- *growth intentions*: To assess a firm's growth orientation, the survey question that asked firms whether they intended to increase production during the following three years was used. Firms that indicated their intention to increase production over the next three years were coded '1' while firms that did not were coded '0'. Because growth intentions influence behaviour in the following year and beyond, growth intentions in the year being analysed was based on the firm's growth orientation response in the preceding year. For example, when analysing the data for the 1995/96 financial year, firms with growth intentions were those that indicated growth intentions in the 1994/95 survey (that is, firms that indicated intentions to grow in 1995/96-1997/98).
- *networking*: To ascertain whether a firm had engaged in networking activities, the survey question asking whether the firm had engaged in any formal networking with other firms was used. Firms that had engaged in formal networking were coded '1' while firms that did not were coded '0'.
- *innovation*: Consistent with McMahon (2001), the extent of innovation activities (innovation commitment) was calculated by expressing the expenditure on research and development as a percentage of total sales in each of the three years of the survey.
- *firm size*: Consistent with previous SME internationalisation research (Dhanaraj & Beamish, 2003; Mittelstaedt, Harben & Ward, 2003; Moini, 1995; Zahra, 2001), total number of employees was used to measure firm size.
- *firm age*: The BLS measured firm age using an ordinal variable, reflecting age in two-yearly intervals up to thirty years, with a single category capturing firms greater than thirty years of age.

In order to protect the confidentiality of firms included in the database, the ABS did not disclose the specific sector within which each manufacturing firm was operating. As a consequence it was not possible to control for the type of manufacturing sector.

### **3.4 Research procedures – qualitative analysis**

#### **3.4.1 Scope and case selection**

Morse and Richards (2002) state that the scope of any sample is driven by two principles. Firstly, the sample may be purposively selected based upon its ability to address the questions being asked in the study. Secondly, the sampling strategy may change as the researcher increases his or her understanding of what they are researching. Morse and Richards (2002) argue that sampling design should not be set in stone but should be responsive to the needs of the research, that is, continually asking the question ‘what data sources will best enable me to answer the research questions being asked?’ To do so may require going outside the current sampling design to include negative cases, or choosing additional cases for comparison. Eisenhardt (1989) argues that case selection can be used to control for the influence of extraneous variables and helps define the boundaries for generalising from the research findings.

In the current study, in order to control for the effects of firm size and industry on the internationalisation process, cases were limited to Australian SMEs in the manufacturing sector for three reasons. Firstly, the manufacturing sector is the largest sector in the Australian economy (Australian Bureau of Statistics, 2003). Secondly, there is concern about the ability of the Australian manufacturing sector to become internationally competitive. Compared to manufacturers located throughout Asia, Australian manufacturers are not cost competitive. This is because their wage rates are substantially higher compared to their Asian neighbours (*The Economist*, 1996), and Australia’s small population limits their ability to generate economies of scale (Buxey, 2000). Finally, 99 percent of all manufacturing firms are SMEs (Australian Bureau of Statistics, 2002). The selection process ensured that Australian SMFES from both high (e.g. wine industry) and low export (e.g. furniture and publishing industries) intensive manufacturing industries were represented.

Consistent with the family firm definition outlined in the research procedures for the quantitative analysis, firms selected had to be majority family-owned with at least one family owner on the management board. The selection process resulted in a range of generational firms being selected (1<sup>st</sup>, 2<sup>nd</sup>, and 3<sup>rd</sup> + generations), which assisted in examining the influence of succession issues on the firm’s internationalisation process. Because the current study was concerned with the internationalisation process of SMFES, case firms selected had to be presently engaged in exporting their product to foreign markets.

An important issue in case study research is whether a single or a multiple case study research design should be utilised. The debate as to whether studies with two cases are better than those with one, or four better than two is unconstructive as it ignores the fact that both single and multiple case study designs have been used effectively to advance knowledge (Eisenhardt, 1991). Whether a single or multiple case study design should be employed will depend on the nature and objectives of the research. Because of the paucity of research on the internationalisation of family firms, together with the limited evidence that suggests these firms face unique challenges to growing internationally, a single family business case study would provide an opportunity to critically confirm, challenge or extend existing internationalisation theory. However, because the nature and extent of family involvement can vary considerably between family firms, studying a single case could risk developing an idiosyncratic theory with limited generalisability to other case settings. As a consequence, a multiple case study research design was adopted in this study, where the strengths of building theory from multiple cases 'arises from the juxtaposition of contradictory and paradoxical evidence' (Eisenhardt, 1989, p. 546). This is because the reconciliation of evidence between cases, data sources and existing literature increases the probability of developing new theoretical insights.

An important yet difficult issue to resolve is the number of cases that should be selected for a qualitative study. Eisenhardt (1989) argues that ideally, the researcher should add new cases until theoretical saturation has been reached where additional cases will add little to the study in terms of the acquisition of new knowledge. In practice, however, the number of cases selected is often influenced by pragmatic considerations, such as financial and time constraints (Carson, Gilmore, Perry & Gronhaug, 2001; Eisenhardt, 1989). As a consequence, it is not uncommon for researchers to determine the number of cases in advance. There is little consensus in academic literature as to what constitutes an acceptable minimum and maximum number of case studies. Eisenhardt (1989) recommends that researchers select between four and ten cases, as it may be difficult to generate complex theory with less than four, while greater than ten can result in 'death by data asphyxiation' (Pettigrew, 1990, p. 281). Miles and Huberman (1994) suggest that a study with more than fifteen cases can become unmanageable. Based on previous qualitative research, the minimum acceptable number of cases would appear to be around two to four, while the maximum ranges from ten to fifteen (Carson et al., 2001).

Because this study used a mixed method research design, time constraints were a limiting factor in the number of cases chosen. Based upon the guidelines given by Eisenhardt (1989), eight case studies were chosen for the qualitative analysis in this study, which when combined with the quantitative data analysis, were sufficient to generate a comprehensive theory on the internationalisation of SMFEs.

Several sampling strategies were used to obtain the eight case firms for this study. Theoretical sampling was primarily used to ensure that the case firms selected met the necessary conditions outlined above (within SME sector, high and low export intensity manufacturing sectors represented, family-owned and managed, different generational firms represented, internationally active). In conjunction with theoretical sampling, opportunistic, snowballing, and extreme case selection methods were also employed. An example of an opportunistic/snowballing sampling strategy used in the current study occurred when the researcher was asked to give a presentation at an industry association's annual conference. In return, the association assisted the researcher in making contact with a case that met the requirements outlined above. Extreme sampling was used to enable the comparison of SMFEs with low and high levels of internationalisation. Using this approach, two firms with low and high levels of internationalisation were represented in each of three manufacturing sectors (plastics sector, textiles, clothing and footwear sector and the wine sector).

Although the eight case firms selected were not included in the BLS, they nevertheless were representative of the firms selected from the BLS database for the quantitative analysis. Like the firms from the BLS database, the eight case firms were Australian SMEs in the manufacturing sector, were legally organised as proprietary companies, and operated in all four years of the BLS.

### **3.4.2 Data collection methods**

Morse and Richards (2002) argue that ethnographic research requires the collection of data from multiple sources such as observational data, interviews, researcher's ongoing written theoretical notes, and any other data that may be relevant such as archival data. Yin (2003) highlights that data sources for the case study approach can include documentation, archival records, interviews, observation (of research site and of participants), and physical artefacts. Similarly, Eisenhardt (1989) argues that the case study method often includes a

combination of data collection methods such as archives, interviews, questionnaires, and observations. Often referred to as data triangulation, the use of multiple sources of data is useful because it provides stronger substantiation of a study's overall conclusions (Eisenhardt, 1989). In the current study, data were collected from interviews, observation, field notes, questionnaires, supporting documentation, and archival records of each case firm as discussed below.

### **Interviews**

The interviews of individuals within each firm included in the current study formed the main source of qualitative data. The number and type of managers interviewed varied from firm to firm, largely because management structures varied. Compared to smaller SMFEs, the larger SMFEs (100-200 employees) tended to have active boards of directors, and larger management teams with more well defined organisational structures. The driving principle in the interview selection process was to interview the appropriate number and type of managers to ensure sufficient information was gathered on the firm's internationalisation process.

Because the effect of family involvement on the firm's internationalisation was of primary interest, principles of 360 degree interviewing were used where a range of views were sought from managers within each firm. As a consequence, where possible, family and non-family managers, and executive and non-executive directors were selected from each firm. This was not possible in all firms, as some had no active board of directors, and/or family members occupied all of the management positions. Nevertheless, the interview selection process ensured that the Chief Executive Officer (CEO) of each firm was interviewed, and where possible, the accountant and the sales/marketing manager because of their knowledge of the business.

A small number of interviews were also conducted with individuals who worked closely with SMFEs, such as those who provided business advice. The purpose of these interviews was to ensure that the researcher had a broad understanding of the issues surrounding the internationalisation of SMFEs.

### **Observation**

In order to maximise the opportunities to observe the case 'site', where possible, interviews were conducted at the firm's location (field visits) and spread out over several days. Field visits enabled the researcher to get an overall 'feel' of the firm itself, including an



opportunity to observe the physical condition and appearance of the premises, and manufacturing and office equipment, how organised the firm 'appeared', and employees. In each case study, the researcher was given a tour of the case site by one of the owners. This provided the opportunity to informally observe the manner in which employees of the firm related to one of the family owners.

Observations of the case sites were found to be a rich source of complementary data. For example, in one firm, the issue of the retired father's unwillingness to 'let go' that was raised during an interview was supported by the observation that he still had his desk physically located in the office of his son, who had succeeded him as the CEO. Similarly, a firm's primary objective to pass the firm onto the next generation, as indicated by the profiling questionnaire, was supported by the large framed photos of past and present family members who had served in the business. Under each photo, it stated their years of service to the company, like a badge of honour.

#### **Field notes**

Field notes of each case were made to record the researcher's impressions, thoughts and informal conversations collected throughout the qualitative stage of the research process. Field notes were written immediately following interviews and field visits, summarising the key issues raised in each interview, impressions gained from the interview and case site visit, and issues to follow up at a later date. These notes were also used to record information gained from site tours. Field notes were also used to record impressions gained from telephone conversations and emails from participants, and were found to be another rich source of complementary data. For example, through interviews it was identified that one firm was extremely effective in developing intimate working relationships with other parties, such as its international distributors. This issue was supported by impressions recorded in the case's field notes, which stated that it was a pleasure dealing with this firm as all participants were very professional, but friendly, and more than happy to help and be generous with their time.

In addition to the field notes generated for each case, memos were generated to record the researcher's thoughts, reflections and learning outcomes from the quantitative and qualitative analyses. This log played an important role in addressing the research issues.

### **Questionnaire**

A participant from each case was asked to complete a profiling questionnaire (refer to Section 1 of the Business Profiling Questionnaire and Interview Guide contained in Appendix 2) in order to collect data on specific characteristics of the firm. These characteristics included the firm's size, ownership and management structure, management practices, degree of internationalisation and growth, objectives, sources of finance, and commitment to innovation. In all but one of the cases, the CEO of the firm completed the profiling questionnaire. In the other case, all three brothers shared the management of the firm and so the brother who was perceived (by the researcher) as the most knowledgeable was approached to complete the questionnaire.

### **Documentation and archival records**

During an interview, each participant was asked whether there were any supporting documentation or records that they thought might be relevant to the investigation. Although some firms did respond positively by providing documents such as the firm's strategic business plan, financial information, or a book on the history of the family business, most documentation was obtained from their websites and Australian newspapers. Given the ubiquity of the internet, it was not surprising to find that most firms published considerable amounts of firm-related information on their websites. For example, one firm presented extensive information of the firm's strategic intent, history, experience, products, capabilities, business alliances, and research and development activities.

The *LexisNexus* newspaper database was also used to search for newspaper articles dealing with any of the case firms published in Australian newspapers. The number of newspaper articles published on each firm varied considerably, and based on other data collected, this variation was partly due to how media 'savvy' the firm was. Some firms were extremely effective in utilising the public media to market their firm and products, regardless of their size or age. While it is recognised that that the above sources of documentation and records cannot be assumed to be objective data because of their likely bias towards presenting a favourable impression of the firm to outsiders (that is, utilised as a marketing tool), such data were useful. Newspaper articles and websites could be used to corroborate or provide a counterpoint to information from other data sources. Such data were collected unobtrusively and often provided a broad coverage of events within a firm (see Yin, 2003).

### 3.4.3 The research process

#### Design of interview guide

Based on the literature reviewed in Chapter 2, an interview guide was developed, which covered a range of issues relating to the internationalisation process of the firm. Issues included the participant's role in the organisation, his or her historical understanding of the firm's internationalisation process and factors that influenced this process, the firm's EO and managerial capabilities, and the effect of internationalisation on the firm.

The first draft of the interview guide was tested in the first firm selected for the study, and went through several minor amendments (such as order of questions and rewording of questions) based on the feedback obtained from each successive interview. A copy of the interview guide is contained in Appendix 2. As shown in Table 3.3, the purpose of the interview guide was to ensure that topics relating to three of the research issues were consistently raised with each participant.

**Table 3.3 Framework for the qualitative study of the internationalisation process of SMFEs**

Focus of interview	Topics for the interview process	Section of interview guide
RI #2: <i>Effect of internationalisation on the firm</i>	<ul style="list-style-type: none"> <li>○ Financial performance?</li> <li>○ Business processes?</li> <li>○ Management?</li> <li>○ Family?</li> <li>○ Ownership?</li> </ul>	5, 7
RI #3: <i>Internationalisation behaviour of SMFEs</i>	<ul style="list-style-type: none"> <li>○ Trigger and motivation for internationalisation</li> <li>○ Key players involved</li> <li>○ Degree of internationalisation</li> <li>○ Internationalisation strategies employed</li> <li>○ Steps in the internationalisation process</li> <li>○ Countries targeted</li> </ul>	3
RI # 4: <i>Influences on internationalisation process</i>	<ul style="list-style-type: none"> <li>○ Role of strategic management process</li> <li>○ Role of firm resources &amp; capabilities</li> </ul>	2, 4, 6, 7

#### Negotiating access to organisations

Using the case selection guidelines outlined under 3.4.1, a number of firms were identified as being potentially suitable for this study using several sampling strategies. In most cases, the CEO of each firm was contacted by telephone to outline the purpose of this study, to confirm whether the firm satisfied the case selection guidelines, and to ascertain the family's willingness to participate in the study. In one case, however, firm access was negotiated through the chairman, whom the researcher met at a family business seminar.

Most, but not all, CEOs contacted were willing to be involved in the study., The CEO of one SMFE was unwilling to participate because ‘one of the benefits of being privately-owned is privacy, and we wish it to remain that way’. The initial interview of the CEO from each participating firm was used to negotiate interviews with other appropriate individuals within that firm.

#### **Gaining consent and conducting interviews**

Prior to the interview, each participant was sent an introductory letter (by email or post), which gave a brief overview of the purpose of the study (see Appendix 3). This letter included the statement that any information made available to the researcher would be treated as strictly confidential. This was to encourage participants to be open as possible when answering the questions, as well as to protect their interests. Interviews were conducted in a semi-structured manner so that they were flexible to the issues raised. While questions were generally asked in a particular order, this order was partly responsive to issues raised by the participants.

#### **Digital recording and transcription of interviews**

With the participants’ permission, each interview was taped using a digital recorder, so that the researcher could concentrate on the responses. The key advantage of digital voice recorders over tape recorders is that the recorded interviews can be stored, archived and transmitted electronically. After each interview, the corresponding digital file was forwarded to a transcriber for transcription. The same transcriber was used to transcribe all the study’s interviews, and had agreed to ensure the confidentiality of all data. Once an interview had been transcribed, the researcher reviewed the transcription with the recording of the interview to verify its accuracy.

### **3.4.4 Coding of data**

#### **Use of NVivo software**

Undertaking qualitative research has been made easier with the development of specialised qualitative research software, such as the *NVivo* software, which has been used in this study. *NVivo* did not replace the researcher’s role in analysing and interpreting qualitative data. However, it did assist the researcher in storing and managing large quantities of data, such as transcribed interviews, field notes, and newspaper articles. *NVivo* was a particularly useful tool for ‘thinking up’ from the data, that is, in linking data with emerging concepts and themes, exploring linkages between concepts within each case and across cases, and developing the overall conclusions of the study.

### **Coding procedures and strategies**

In this study, two approaches to ‘coding up’ from the qualitative data were used (Morse & Richards, 2002): *descriptive coding and topic coding*.

- Descriptive coding was used to index attributes known about the data, such as the participant’s position in the firm, industry that the firm operated within, and data type.
- Topic coding was used to index all data that related to a particular topic or issue, such as ‘inhibitors to internationalisation’, for later exploring, defining, refining, expanding and combining with other topics and issues.

Because constructs developed from the coding process are used for theory building, it is critical that they are developed and used in a logical and consistent manner. As a consequence, a definition for each construct was developed and refined through an ongoing comparison with the data coded to that construct. This constant comparison between the construct definition and the accumulation of data from different sources resulted in the convergence of well-defined constructs (Eisenhardt, 1989).

Consistent with the advice given by Morse and Richards (2002), data were coded as information was acquired so as to avoid coding in large blocks, and the coding process was seen as an opportunity for reflection, where the researcher’s thoughts, reflections and learning outcomes were recorded in memos.

#### **3.4.5 Data analysis**

As the data were generated, the interviews, field notes, supporting documentation and archival records of each firm were coded to pre-defined nodes such as ‘influences on internationalisation process’ and ‘effect of internationalisation’ before the next firm was surveyed. During this process, new nodes were created to capture emergent topics that were relevant to the study’s research issues, such as the influence of ‘network relationships’ and ‘family-related issues’ on the internationalisation process. Issues that emerged from the coding of each case were summarised in a ‘thesis thoughts’ document. Issues that required further clarification were followed up with the participants, or through the collection of additional data (such as interviewing another manager within the firm). Learning outcomes from each case were compared and contrasted with those of other firms to identify similarities and explore differences. For example, reasons why succession was the trigger for internationalisation in three firms, but was a trigger for de-internationalisation in another were explored.

During the coding process, the node structure continually changed to reflect the growing understanding of issues relating to the study's research issues. For example, relevant family-related issues were further coded into sub-nodes to identify issues associated with 'ownership', 'succession' and 'change'. Through this process of continually refining the node structure, a theoretical structure of the study began to emerge. A theoretical structure built on a resource-based perspective was found to be the most useful for examining and answering the study's research issues. As a consequence, many of the nodes were grouped according to firm resources (financial, physical, human and organisational), and factors that influenced the configuring and exploitation of those resources in the international marketplace, such as a firm's strategic management process (vision, objectives, strategy and performance) and family-related issues (e.g. ownership, succession and conflict). A total of 230 nodes was created and an overview of the study's node structure can be found in Appendix 4. The outcomes of this process are reflected in the study's integrative model of the internationalisation of SMFEs, which is presented in Chapter 7.

#### **3.4.6 Criteria used to judge validity and reliability of qualitative case study analysis within the critical realism paradigm**

As highlighted in this chapter, the current study utilised a mixed method research design, combining quantitative analysis with qualitative case study analysis, within the critical realism research paradigm. As highlighted in Table 3.4, one of the challenges presented by mixed method designs is reconciling the different terminology used for assessing the validity and reliability of different research methods. Table 3.4 contrasts the terminology used by quantitative (column [i]), case study (column [ii]), qualitative (columns [iii-iv]), and mixed (column [v]) research methods when discussing the validity and reliability of research.

The current study adopted the position of Tashakkori and Teddlie (2003), who argue that terminology used in mixed method research designs should utilise terms that can be applied across all the methods employed within the study. Using the guidelines and terminology suggested by Tashakkori and Teddlie (2003), the terminology used for assessing the validity and reliability of this study is presented in Table 3.4 (column [vi]), and is discussed below. These terms were developed by adopting terms that were similar across different methods (ontological position, epistemological appropriateness, transferability), borrowing terms proposed by Tashakkori and Teddlie (Tashakkori & Teddlie, 2003) for mixed methods research (data quality, interpretive rigor, and design quality), and developing totally new terms (pragmatic relevance).

**Table 3.4 Criteria used to judge the quality of research**

[ i ] Criteria for quantitative research	[ ii ] Criteria for case study research	[ iii ] Criteria for qualitative research	[ iv ] Criteria for qualitative research in critical realism paradigm	[ v ] Criteria for mixed method research designs	[ vi ] Terms to be used in this study
(Neuman, 2000)	Yin (2003)	Miles & Huberman (1994)	Healy & Perry (2000)	Tashakkori, & Teddlie(2003)	
ontological appropriateness	–		ontological appropriateness	–	<i>ontological appropriateness</i>
epistemological position	–	objectivity/confirmability	epistemological position	–	<i>epistemological position</i>
construct validity	construct validity		construct validity	data quality	<i>data quality</i>
internal validity	internal validity	internal validity/credibility/authenticity	contingent validity	inference quality: interpretive rigor	<i>interpretive rigor</i>
reliability	reliability	reliability/dependability/auditability	methodological trustworthiness	inference quality: design quality	<i>design quality</i>
external validity/statistical generalisability	external validity	external validity/transferability/fittingness	analytic generalisation	inference transferability	<i>transferability</i>
–	–	utilisation/application/action orientation	–	–	<i>pragmatic relevance</i>

### **Ontological appropriateness**

Ontological appropriateness refers to the selection of a research paradigm that is appropriate for the questions being asked. This issue was addressed in 3.2 of this chapter, which argued that the critical realism paradigm was the most appropriate paradigm to address the research issues presented in Chapter 2.

### **Epistemological position**

As outlined under 3.2, the epistemological position under the critical realism paradigm is one in which the researcher is conscious of the influence of his or her values and the participants' values upon the research process itself. Healy and Perry (2000) argue that differences in perceptions of reality can be controlled for through data triangulation. Using several data sources, a participant's perceptions of realism can be triangulated with other perceptions in order to develop a more informed understanding of reality (underlying structures and mechanisms). As a consequence, this study utilised the triangulation of

multiple data sources (outlined in 3.4.2) in order to develop a more informed understanding of how the underlying structures and mechanisms within SMFEs influence their internationalisation process. For example, throughout this study a participant's perceptions were compared to that of others from the same firm (360 degree interviewing) as well as to firm-specific qualitative data such as newspaper articles. This gave the researcher confidence in the overall conclusions of the study.

Miles and Huberman (1994) argue that the influence of values on the research process can be controlled for by design quality, data quality and interpretive rigor (discussed below), and by stating explicitly sources of bias that may exist. Although this study is supported by a scholarship from the Australian Research Council and the South Australian Chapter of FBA (FBA[SA]), the researcher does not believe that this has influenced the manner in which he has carried out, nor the outcomes of, his research.

#### **Data quality**

Often referred to as construct validity (Healy & Perry, 2000; Neuman, 2000; Yin, 2003), data quality refers to whether data meets the minimum criteria to be acceptable/trustworthy, and adequately represents the theoretical phenomena/constructs under study (Tashakkori & Teddlie, 2003). This is important in qualitative case study research, because the researcher is concerned with creating 'a tight fit between his or her understanding, ideas, and statements about the social world and what is actually occurring in it' (Neuman, 2000, p. 171).

One important strategy for achieving a high degree of data quality is through the use of data triangulation (Eisenhardt, 1989; Yin, 2003). As highlighted previously, this study utilised the triangulation of multiple data sources (outlined in 3.4.2) in order to identify the underlying structures and mechanisms that influence the internationalisation process of SMFEs. To increase the quality of data collected from the interviews, the interview guide was developed and tested (see Section 3.4.3) before being used with all participants involved in the study (Healy & Perry, 2000). Several participants were interviewed within each case firm in order to also increase the quality of data collected from interviews. To ensure that constructs were consistently and logically developed in this study, comprehensive coding guidelines were used, as outlined in 3.4.4 of this chapter.



### **Design quality**

Often referred to as reliability (Miles & Huberman, 1994; Neuman, 2000; Yin, 2003), design quality refers to whether the research method used is appropriate for answering the research issues and questions (Tashakkori & Teddlie, 2003). Section 3.2 of this chapter presented a comprehensive explanation as to how the mixed research design is appropriate for answering the study's research issues. Design quality also refers to methodological rigor, that is, whether the research procedures, such as the data collection or coding procedures, can be repeated with similar results. Methodological rigor was achieved in this exploratory study by:

- providing a comprehensive coverage of the research procedures carried out in this study, such as case selection and coding procedures, which are outlined in this chapter
- creating a case study database, where all the data collected (interview transcripts, field notes, documentation and archival records), results of the statistical analysis, and coding of the qualitative data, are stored electronically and available for critical examination, if required (Yin, 2003)
- the use of matrices and quotations taken directly from the case study database (Healy & Perry, 2000; Yin, 2003), which were presented in Chapters 5 and 6. (To distinguish them from the researcher's discussion and quotes from the relevant literature, quotations have been framed in boxes).

### **Interpretive rigor**

Often referred to as internal validity (Miles & Huberman, 1994; Neuman, 2000; Yin, 2003), interpretive rigor refers to standards used to evaluate the accuracy, credibility or authenticity of the findings of a study (Tashakkori & Teddlie, 2003). Common standards used to evaluate the interpretive rigor of a study include:

- *theoretical consistency*: the degree to which the findings are consistent with the current state of knowledge and theory (Eisenhardt, 1989; Tashakkori & Teddlie, 2003)  
In this study, the findings were compared and contrasted with the literature introduced in Chapter 2. Differences between the study's findings and existing literature provided an opportunity for deeper insight and additions to existing internationalisation theory (Eisenhardt, 1989).
- *methodological triangulation*: the degree to which the findings from each research method used in the study are consistent with each other (Tashakkori & Teddlie, 2003)  
Comparing and contrasting the findings from the quantitative and qualitative case study analyses enhanced the interpretive rigor of this study, which was used to generate the study's overall conclusions.

- *interpretive agreement*: the degree to which others agree with the study's findings (Miles & Huberman, 1994; Tashakkori & Teddlie, 2003)

The study's findings were presented in a range of different forums, such as academic and business conferences, the media, and directly to the case study firms. This enabled the degree to which others agreed with the conclusions to be ascertained.

- *interpretive distinctiveness*: degree to which the conclusions seem plausible and are distinctly different to other possible interpretations of the results (Miles & Huberman, 1994; Tashakkori & Teddlie, 2003)

Presenting the findings of the study to a range of audiences, as outlined under 'interpretive agreement' above, enabled the plausibility and possible alternative interpretations of the results to be assessed.

### **Transferability**

Often referred to as external validity (Miles & Huberman, 1994; Neuman, 2000; Yin, 2003), transferability refers to whether a study's conclusions are transferable beyond the particular context of the study (Tashakkori & Teddlie, 2003). The degree to which the conclusions of the present study are consistent with existing knowledge and theory influences their transferability to other contexts (Eisenhardt, 1989). One of the advantages of a mixed method research design is that the conclusions of the investigation are more likely to be transferable to other contexts than those generated by investigations using a single research method.

### **Pragmatic relevance**

As highlighted by Miles and Huberman (1994), assessing the validity and reliability of a particular study should also include assessing what implications the study has for its participants and its consumers. This is particularly important as FBA(SA) is supporting this study and therefore interested in the relevance of the outcomes of the study for its members. In order to ensure that the study was of practical relevance to the participants and consumers, the following actions were taken:

- A report was generated and forwarded to each case study firm involved in the study. This report was written in a non-academic style, and outlined the findings of the study that were considered relevant to the firm.
- To ensure that pragmatic relevance was always in the forefront of his mind, where possible, the researcher presented his findings to non-academic audiences throughout the duration of the study. This included giving presentations at FBA (SA) seminars, at

FBA's 2005 national conference and at an Australasian manufacturer association's 2004 annual conference, being interviewed on local radio, and publishing findings in local business magazines and national newspapers.

In addition to the above actions, without prompting, several participants communicated to the researcher how much they valued being part of the study. They found the interview process an opportunity to reflect on where the firm was currently positioned, and what issues might need to be discussed in order for the firm to grow successfully in the future.

### **3.5 Conclusion**

The purpose of this chapter was to outline the research methodology and procedures employed in the current study. In this chapter, justification was given for the use of both quantitative and qualitative research methods under the critical realism research paradigm. With regard to the quantitative research design, data from the BLS were used to test the hypotheses presented in Chapter 2, using non-parametric and logistic regression statistical techniques. The outcomes of the quantitative analysis are presented in the following chapter.

With regard to the qualitative research design, justification for, and the method of, selecting and collecting data from the eight case study firms was outlined, together with how these data were coded and analysed using the *NVivo* software package. The steps taken to ensure the validity and reliability of the study were outlined, and the outcomes of the qualitative analysis are presented in Chapters 5 and 6.

## **Quantitative analysis & discussion**

### **4.1 Introduction**

The purpose of this chapter is to analyse and discuss the results obtained from the examination of the hypotheses that were summarised in Table 2.5 of Chapter 2. As highlighted in the previous chapter, the quantitative component of this study utilised a longitudinal database of Australian SMEs as it enabled the examination of the existence *and* persistence of relationships between variables of interest over time. As a consequence, in this chapter the results are reported for *multiple* years (Years 1, 2 and 3) as opposed to a single year. In Section 4.2, the characteristics of the firms sampled are presented and discussed. Section 4.3 examines the propensity of SMFEs and non-SMFEs to internationalise (H1), and their degree of internationalisation (H2). It concludes with an examination of the differences between SMFEs and non-SMFEs. Section 4.4 examines the effect of internationalisation status (H3) and the degree of internationalisation (H4) on financial performance. Section 4.5 compares and contrasts the managerial capabilities of SMFEs and non-SMFEs according to their degree of internationalisation (H5, H6A-B, H7A-C). In Section 4.6 the chapter concludes with a summary of the conclusions of the quantitative analysis.

### **4.2 Characteristics of firms sampled**

Tables 4.1 and 4.4 provide descriptive information for the 871 manufacturing firms contained in the BLS that were operating in all financial years from 1995/96 to 1997/98 (Years 1 to 3 respectively). Table 4.1 displays the frequency distributions of the dichotomous variables while Table 4.4 displays the mean, median, standard deviation and range of the metric variables used to compare the propensity for and degree of internationalisation of SMFEs and non-SMFEs.

Less than half (around 40 percent) of the firms were actively selling goods overseas (referred to as ‘internationalised’ firms) in each year (Table 4.1). Consequently, the median degree of internationalisation in all three years was zero while the mean degree of internationalisation was a mere 6 percent and ranged from 0 to 100 percent (see Table 4.4).

In the first year, 54 percent of firms sampled indicated growth intentions, while only 50 percent and 41 percent of firms indicated growth intentions in the second and third year respectively (Table 4.1). In all three years, only a small number of firms (around 20 percent) were engaged in formal networking with other firms. Finally, of all the firms included in the sample, over 67 percent were family businesses (referred to as SMFEs), which is consistent with percentages reported in a recent Australian study (Smyrnios & Walker, 2003).

**Table 4.1 Frequency distributions of dichotomous variables**

	Year 1	Year 2	Year 3
	#	#	#
<b>Internationalised firms</b>	361	346	358
<i>% of all firms (n = 871)</i>	41.4%	39.7%	41.1%
<b>Family businesses</b>	611	589	588
<i>% of all firms (n = 871)</i>	70.1%	67.6%	67.5%
<b>Growth intentions</b>	473	432	361
<i>% of all firms (n = 871)</i>	54.3%	49.6%	41.4%
<b>Networking with other firms</b>	178	180	182
<i>% of all firms (n = 871)</i>	20.4%	20.7%	20.9%

As stated in Chapter 3, a family business was defined as one that was majority family-owned with at least one family owner on the management board. Examining the ownership structure of SMFEs in the sample revealed that over 90 percent are 100 percent family-owned (Table 4.2).

**Table 4.2 Ownership structure of family businesses**

	Year 1		Year 2		Year 3	
	Frequency	%	Frequency	%	Frequency	%
<b>50 - 99 percent</b>	50	8.2	59	10.0	51	8.7
<b>100 percent</b>	561	91.8	530	90.0	537	91.3
<b>Total</b>	611	100	589	100	588	100

Over the three survey years, approximately 55 percent of SMFEs were operated by the first generation, around 35 percent by the second generation and 10 percent by third and fourth generation family members<sup>12</sup> (Table 4.3).

**Table 4.3 Relative frequency distributions of generation operating the family business**

	Year 1		Year 2		Year 3	
	Frequency	%	Frequency	%	Frequency	%
<b>1st Generation</b>	199	55.8	192	55.7	189	55.9
<b>2nd Generation</b>	124	34.7	115	33.3	116	34.3
<b>3rd - 4th Generation</b>	34	9.5	38	11.0	33	9.8
<b>Total</b>	357	100	345	100	338	100

As highlighted in Table 4.4, the median value for firm age was eight in Year 3, which corresponds with an age between fourteen and sixteen years<sup>13</sup>. The firm age variable ranged from a value of two (two years to less than four years old) to sixteen (thirty or more years old).

**Table 4.4 Descriptive statistics of the metric variables**

	Year 1			Year 2			Year 3		
	Mean	Median	Std dev.	Mean	Median	Std dev.	Mean	Median	Std dev.
<b>Degree of Internationalisation</b>	6.19	0	15.52	6.17	0	15.67	6.03	0	15.34
<i>Range</i>	0 → 100			0 → 100			0 → 100		
<b>Firm Age</b>	8.03	7	4.64	8.44	7	4.52	8.91	8	4.43
<i>Range</i>	1 → 16			1 → 16			2 → 16		
<b>Firm Size</b>	33.12	23	32.60	32.89	23	32.50	32.78	23	33.48
<i>Range</i>	1 → 180			1 → 165			1 → 176		
<b>Innovation commitment</b>	1.07	0	5.72	0.86	0	5.53	0.91	0	4.68
<i>Range</i>	0 → 126.5			0 → 123.1			0 → 79.7		

**Key for firm age (median):**  
 1 = less than 2 years old  
 7 = 12 years to less than 14 years  
 8 = 14 years to less than 16 years  
 16 = 30 or more years old

<sup>12</sup> There was a limitation in the manner the BLS collected data on the generation operating the business. Because the BLS did not require all family-owned businesses to indicate the generation operating the business, of the ~70% of firms that were SMFEs, only ~58% disclosed this information. Nevertheless, the percentage of firms that were 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> + generation operated are similar to that reported by Smyrniotis and Walker (Smyrniotis & Walker, 2003).

<sup>13</sup> The information regarding the average age of the firms sampled needs to be interpreted with caution. As stated in the previous chapter, the BLS measured firm age using an ordinal variable, reflecting age in two-yearly intervals up to thirty years, with a single category capturing firms greater than thirty years of age. Because age is an ordinal variable, it is more appropriate to utilise the median when discussing the characteristics of the firms sampled.

Over the three-year period, the mean size of the firms sampled remained relatively constant at around thirty-three employees. During this period, firm size ranged from one employee up to 180 employees (in Year 1). In all three years, the mean level of innovation commitment was low, being slightly above 1 percent in the first year, and below 1 percent for the other two years. Innovation commitment varied considerably, ranging from a minimum of zero percent in all three years to a maximum of over 120 percent in the first two years and around 80 percent in the final year.

### **4.3 Internationalisation of SMFEs and non-SMFEs contrasted**

#### **4.3.1 Characteristics of internationalised and domestic firms**

The characteristics of internationalised and domestic (i.e. non-exporting) firms included in the sample were examined. In examining H1, comparison of the dichotomous variables of internationalised and domestic firms was carried out (Table 4.5), as was comparison of the metric variables of internationalised and domestic firms (Table 4.6).

Table 4.5 highlights that, over the three years, a greater proportion of domestic firms fell into the classification of 'family business' when compared to internationalised firms. In each of the three years, around 59 percent of internationalised firms were family businesses, which compares with at least 73 percent of domestic firms. The chi-square test highlighted that the difference in the number of internationalised and domestic firms classified as family businesses was highly significant ( $p < 0.001$ ) in all three years. This suggests that SMFEs are more likely to be domestic firms when compared to their non-family counterparts.

Over the three years, a greater proportion of internationalised firms exhibited growth intentions compared to domestic firms. Over the three year period, the proportion of internationalised firms with growth intentions varied from a low of 49 percent (Year 3) to approximately 64 percent (Year 1). The proportion of domestic firms with growth intentions varied from a low of around 36 percent (Year 3) to approximately 48 percent (Year 1). The chi-square test highlighted that the difference in the number of internationalised and domestic firms exhibiting growth intentions was highly significant ( $p < 0.001$ ) in all three years. This suggests that, compared to domestic firms, internationalised firms are more likely to exhibit growth intentions.

Over the three years, a greater proportion of internationalised firms was involved in networking activities compared to domestic firms. In each of the three years, the proportion of internationalised firms engaged in networking was around 27 percent or greater, compared to less than 17 percent for domestic firms. The chi-square test highlighted that the difference in the number of internationalised and domestic firms engaged in network activities was highly significant ( $p < 0.001$ ) in all three years. This suggests that, compared to domestic firms, internationalised firms are more likely to engage in networking activities with other businesses.

**Table 4.5 Comparison of dichotomous variables of internationalised and domestic firms**

Internationalisation status	Year 1		Year 2		Year 3	
	Internat. Firms	Domestic	Internat. Firms	Domestic	Internat. Firms	Domestic
<b>Family Business Status</b> Yes	<b>213</b>	<b>398</b>	<b>201</b>	<b>388</b>	<b>212</b>	<b>376</b>
% of Internat. Firms; Domestic Firms	59.0%	78.0%	58.1%	73.9%	59.2%	73.3%
Chi square statistic	36.581		23.817		19.048	
df	1		1		1	
<b>Sig. (2 tailed)</b>	<b>0.000</b>		<b>0.000</b>		<b>0.000</b>	
<b>Growth intentions</b> Yes	<b>230</b>	<b>243</b>	<b>191</b>	<b>241</b>	<b>177</b>	<b>184</b>
% of Internat. Firms; Domestic Firms	63.7%	47.6%	55.2%	45.9%	49.4%	35.9%
Chi square statistic	21.984		7.212		16.008	
df	1		1		1	
<b>Sig. (2 tailed)</b>	<b>0.000</b>		<b>0.008</b>		<b>0.000</b>	
<b>Networking with other firms</b> Yes	<b>97</b>	<b>81</b>	<b>93</b>	<b>87</b>	<b>104</b>	<b>78</b>
% of Internat. Firms; Domestic Firms	26.9%	15.9%	26.9%	16.6%	29.1%	15.2%
Chi square statistic	15.694		13.514		24.454	
df	1		1		1	
<b>Sig. (2 tailed)</b>	<b>0.000</b>		<b>0.000</b>		<b>0.000</b>	

In summary, based upon the comparison of internationalised and domestic firms, internationalised firms are less likely to be family businesses, but are more likely to have growth intentions and be involved in networking with other businesses.

As Table 4.6 highlights, in each of the three years, internationalised firms were older than domestic firms. Over the three years, the median age value of internationalised firms ranged from eight to nine (fourteen to eighteen years), which compares with a range from six to seven (ten to fourteen years) for domestic firms. The Mann-Whitney test highlighted that the difference in age of internationalised and domestic firms was significant ( $p < 0.001$ ) in all three years. This suggests that, compared to domestic firms, internationalised firms are likely to be older.

In each of the three years, internationalised firms were larger in size than domestic firms. The mean size of internationalised firms was around forty-three employees, while the mean



size of domestic firms was around twenty-six employees. The Mann-Whitney test highlighted that the difference in size of internationalised and domestic firms was significant ( $p < 0.001$ ) in all three years. This suggests that, compared to domestic firms, internationalised firms are likely to be larger in size.

In each of the three years, the innovation commitment of internationalised firms was greater than that of domestic firms. The mean innovation commitment of internationalised firms was around 1.7 percent, compared with less than 0.65 percent for domestic firms. The Mann-Whitney test highlighted that the difference in innovation commitment of internationalised and domestic firms was significant ( $p < 0.001$ ) in all three years. This suggests that, compared to domestic firms, internationalised firms are likely to have a larger innovation commitment.

**Table 4.6 Comparison of metric variables of internationalised and domestic firms**

Internationalisation status	Year 1		Year 2		Year 3	
	Internat. Firms	Domestic	Internat. Firms	Domestic	Internat. Firms	Domestic
<b>Firm age (median)</b>	<b>8.0</b>	<b>6.0</b>	<b>8.0</b>	<b>6.0</b>	<b>9.0</b>	<b>7.0</b>
Mann-Whitney Z statistic	-6.149		-5.087		-5.716	
<b>Sig. (2 tailed)</b>	<b>0.000</b>		<b>0.000</b>		<b>0.000</b>	
<b>Firm size</b>	<b>43.63</b>	<b>25.68</b>	<b>43.20</b>	<b>26.10</b>	<b>42.23</b>	<b>26.19</b>
Mann-Whitney Z statistic	-9.747		-9.292		-9.31	
<b>Sig. (2 tailed)</b>	<b>0.000</b>		<b>0.000</b>		<b>0.000</b>	
<b>Innovation commitment</b>	<b>1.69</b>	<b>0.63</b>	<b>1.63</b>	<b>0.36</b>	<b>1.71</b>	<b>0.36</b>
Mann-Whitney Z statistic	-7.581		-7.127		-7.991	
<b>Sig. (2 tailed)</b>	<b>0.000</b>		<b>0.000</b>		<b>0.000</b>	

**Key for firm age (median):**  
 6 = 10 years to less than 12 years  
 7 = 12 years to less than 14 years  
 8 = 14 years to less than 16 years  
 9 = 16 years to less than 18 years

In summary, based upon the comparison of internationalised and domestic firms, internationalised firms are likely to be older, larger in size, and have a greater commitment to innovation.

### 4.3.2 Propensity to internationalise

As stated in Chapter 2, the purpose of H1 is to examine the relationship between family business status and the propensity to internationalise:

H1: *After controlling for demographic and other relevant influences, there is a statistically significant difference in the propensity of SMFEs and non-SMFEs to internationalise.*

As noted in Section 4.3.1, a statistically significant relationship was found between internationalisation status and family businesses status in all three years of the BLS, providing support for H1. However, logistic regression analysis was used to further test the relationship between family business status and propensity to internationalise, while controlling for other influences. As described in Chapter 3, five control variables were entered into the logistic regression models: growth intentions, networking with other firms, innovation commitment, firm size and firm age. Table 4.7 summarises the coefficient details in the logistic regression modelling of the dependent variable internationalisation status.

**Table 4.7 Coefficient details in logistic regression modelling of internationalisation status**

Independent Variable	Year 1	Year 2	Year 3
Family business status	- 0.662 ***	- 0.495 ***	- 0.465 ***
Innovation commitment	0.496 **	0.134 ***	0.111 ***
Networking with other firms	0.481***	0.401 **	0.652 ***
Growth intentions	0.496 ***	0.276 *	0.385 **
Firm age	0.082 ***	0.062 ***	0.074 ***
Firm size (# of employees)	0.011***	0.013***	0.010 ***

\* indicates statistical significance at the 10% level

\*\* indicates statistical significance at the 5% level

\*\*\* indicates statistical significance at the 1% level

Controlling for the influence of other variables, the results indicate that in each of the three years a highly significant ( $p < 0.01$ ) and negative relationship existed between the variables family business status and internationalisation status. Because this relationship was highly significant ( $p < 0.01$ ) in all three years, these results provide conclusive support for H1. That is, in this Australian sample, SMFEs and non-SMFEs do differ in their propensity to internationalise where SMFEs are less likely to internationalise their operations.

With regard to the other variables included in the logistic regression model, firm age and firm size were highly and positively significantly associated ( $p < 0.01$ ) with internationalisation status. The variable innovation commitment was highly and positively

significantly associated ( $p < 0.05$  in Year 1,  $p < 0.01$  in Years 2 and 3) with internationalisation status. The variable networking was highly and positively significantly associated ( $p < 0.01$  in Years 1 and 3,  $p < 0.05$  in Year 2) with internationalisation status. The variable growth intentions was positively significantly associated ( $p < 0.01$  in Year 1,  $p < 0.10$  in Year 2,  $P < 0.05$  in Year 3) with internationalisation status.

These results provide further support for the resource-based and network perspectives of internationalisation, and suggest that older and larger firms, with a commitment to growth, innovation and networking with other businesses, are more likely to internationalise their operations.

### **4.3.3 Characteristics of moderately and highly internationalised firms**

The characteristics of internationalised firms were considered according to their degree of internationalisation. As outlined in Chapter 3, internationalised firms were classified into one of two groups according to their degree of internationalisation. Those firms with an export intensity below that of the median export intensity for all internationalised firms were classified as having a 'moderate' degree of internationalisation. Firms with an export intensity above this median were classified as having a 'high' degree of internationalisation. Dichotomous variables of moderately and highly internationalised firms were used to examine H2 (Table 4.8), along with metric variables (Table 4.9).

Table 4.8 highlights that, over the three years, a greater proportion of moderately internationalised firms were classified as family businesses compared to highly internationalised firms. Over the three-year period, the proportion of highly internationalised firms that were family businesses varied from 54 percent (Year 1) to approximately 58 percent (Year 3). The proportion of moderately internationalised firms that were family businesses varied from a low of 60 percent (Year 2) to approximately 63 percent (Year 1).

The chi-square test highlighted that the difference in the number of moderately and highly internationalised firms classified as family businesses was only moderately significant ( $p < 0.1$ ) in Year 1. Overall, this suggests that there is no persistent significant relationship between family business status and the degree of internationalisation.

Over the three years, the proportion of moderately and highly internationalised firms that exhibited growth intentions varied considerably. The proportion of moderately and highly

internationalised firms that exhibited growth intentions was similar in Year 1. However, compared to moderately internationalised firms, the proportion of highly internationalised firms with growth intentions was greater in Year 2 but smaller in Year 3. The chi-square test highlighted that the difference in the number of moderately and highly internationalised firms exhibiting growth intentions was not significant ( $p > 0.1$ ) in all three years. This suggests that there is no significant difference in the proportion of moderately and highly internationalised firms that exhibit growth intentions.

Over the three years, a greater proportion of highly internationalised firms was involved in networking activities compared to moderately internationalised firms. In each of the three years, the proportion of highly internationalised firms engaged in networking was around 30 percent or greater, compared to less than 28 percent for moderately internationalised firms. The chi-square test highlighted that the difference in the number of moderately and highly internationalised firms engaged in network activities was only significant ( $p < 0.01$ ) in one of the three years (Year 2). Overall, this suggests that, there is no persistent significant difference in the proportion of moderately and highly internationalised firms engaged in networking activities.

**Table 4.8 Comparison of dichotomous variables of moderately and highly internationalised firms**

Degree of Internationalisation		Year 1		Year 2		Year 3	
		Mod.	High	Mod.	High	Mod.	High
<b>Family Business Status</b>	<b>Yes</b>	<b>114</b>	<b>99</b>	<b>104</b>	<b>97</b>	<b>108</b>	<b>104</b>
% of Below Med. Firms; Above Med. Firms		63.3%	54.7%	60.1%	56.1%	60.3%	58.1%
Chi square statistic		2.783		0.582		0.185	
df		1		1		1	
<b>Sig. (2 tailed)</b>		<b>0.095</b>		<b>0.446</b>		<b>0.667</b>	
<b>Growth intentions</b>	<b>Yes</b>	<b>115</b>	<b>115</b>	<b>90</b>	<b>101</b>	<b>93</b>	<b>84</b>
% of Below Med. Firms; Above Med. Firms		63.9%	63.5%	52.0%	58.4%	52.0%	46.9%
Chi square statistic		0.005		1.414		0.905	
df		1		1		1	
<b>Sig. (2 tailed)</b>		<b>1.000</b>		<b>0.280</b>		<b>0.398</b>	
<b>Networking with other firms</b>	<b>Yes</b>	<b>43</b>	<b>54</b>	<b>35</b>	<b>58</b>	<b>49</b>	<b>55</b>
% of Below Med. Firms; Above Med. Firms		23.9%	29.8%	20.2%	33.5%	27.4%	30.7%
Chi square statistic		1.623		7.779		<b>0.488</b>	
df		1		1		1	
<b>Sig. (2 tailed)</b>		<b>0.235</b>		<b>0.007</b>		<b>0.561</b>	

In summary, among moderately and highly internationalised firms, there was no persistent significant difference in the proportion that was classified as family businesses. Also, there was no persistent significant difference in the proportion of moderately and highly internationalised firms that exhibited growth intentions or were engaged in networking activities.

As Table 4.9 highlights, in each of the three years, moderately internationalised firms were older than highly internationalised firms. The median age value of moderately internationalised firms was ten (eighteen to twenty years) while the median age value of highly internationalised firms ranged from eight to nine (fourteen to eighteen years). The Mann-Whitney test highlighted that the difference in age of moderately and highly internationalised firms was significant ( $p < 0.001$ ) in only Year 2. Overall, this suggests that there is no persistent significant difference in age of moderately and highly internationalised firms.

**Table 4.9 Comparison of metric variables of moderately and highly internationalised firms**

Degree of Internationalisation	Year 1		Year 2		Year 3	
	Mod.	High	Mod.	High	Mod.	High
<b>Firm age (median)</b>	<b>10.0</b>	<b>8.0</b>	<b>10.0</b>	<b>8.0</b>	<b>10.0</b>	<b>9.0</b>
Mann-Whitney Z statistic	-1.420		-1.839		-1.331	
<b>Sig. (2 tailed)</b>	<b>0.156</b>		<b>0.066</b>		<b>0.183</b>	
<b>Firm size</b>	<b>44.93</b>	<b>42.35</b>	<b>46.26</b>	<b>40.14</b>	<b>43.84</b>	<b>40.62</b>
Mann-Whitney Z statistic	-0.588		-1.588		-0.884	
<b>Sig. (2 tailed)</b>	<b>0.557</b>		<b>0.112</b>		<b>0.377</b>	
<b>Innovation commitment</b>	<b>0.75</b>	<b>2.63</b>	<b>0.60</b>	<b>2.66</b>	<b>0.89</b>	<b>2.52</b>
Mann-Whitney Z statistic	-2.920		-1.286		-1.318	
<b>Sig. (2 tailed)</b>	<b>0.004</b>		<b>0.199</b>		<b>0.188</b>	

**Key for firm age (median):**  
 8 = 14 years to less than 16 years  
 9 = 16 years to less than 18 years  
 10 = 18 years to less than 20 years

In each of the three years, moderately internationalised firms were larger in size than highly internationalised firms. The mean size of moderately internationalised firms ranged from around forty-four employees (Year 3) to forty-six employees (Year 2). The mean size of highly internationalised firms ranged from around forty employees (Year 2) to 42 employees (Year 1). The Mann-Whitney test highlighted that the difference in size of moderately and highly internationalised firms was not significant ( $p > 0.1$ ) in any year. This suggests that there is no significant difference in the size of moderately and highly internationalised firms.

In each of the three years, the innovation commitment of highly internationalised firms was greater than that of moderately internationalised firms. In all three years, the mean innovation commitment of highly internationalised firms was greater than 2.5 percent, compared with less than 0.9 percent for moderately internationalised firms. The Mann-Whitney test highlighted that the difference in innovation commitment of moderately and highly internationalised firms was only significant ( $p < 0.01$ ) in one of the three years (Year 1). Overall, this suggests that there is no persistent significant difference in the innovation commitment of moderately and highly internationalised firms.

In summary, there was no persistent significant difference in the age, size and innovation commitment of moderately and highly internationalised firms.

#### **4.3.4 Degree of internationalisation**

As stated in Chapter 2, the purpose of H2 is to examine the relationship between family business status and the degree of internationalisation:

*H2: After controlling for demographic and other relevant influences, there is a statistically significant difference in the degree of internationalisation of SMFEs and non-SMFEs.*

As highlighted in Section 4.3.3, a moderately statistically significant negative relationship was found between the degree of internationalisation and family businesses status only in Year 1, providing limited support for H2. However, logistic regression analysis was used to further test the relationship between family business status and the degree of internationalisation while controlling for other influences. As described in Chapter 3, five control variables were entered into the logistic regression models: growth intentions, networking with other firms, innovation commitment, firm size and firm age. Table 4.10 summarises the coefficient details in the logistic regression modelling of the dependent variable degree of internationalisation.

Controlling for the influence of other variables, the results indicate that there was a moderately statistically significant ( $p < 0.1$ ) negative relationship between the variables family business status and the degree of internationalisation in Year 1 only. As a consequence, these results only provide support for H2 in one of the three years. However, a persistent negative relationship existed over the three years and overall suggests that the degree of internationalisation of internationally active SMFEs was less than that of non-SMFEs.

With regard to the other variables included in the logistic regression model, innovation commitment was positively and significantly associated ( $p < 0.05$ ) with the degree of internationalisation. Because this relationship was significant ( $p < 0.05$ ) and persistent over time, these results provide conclusive support for the positive relationship between innovation commitment and the degree of internationalisation.

**Table 4.10 Coefficient details in logistic regression modelling of the degree of internationalisation**

Independent Variable	Year 1	Year 2	Year 3
Family business status	- 0.450 *	- 0.253	- 0.123
Innovation commitment	0.108 **	0.118 **	0.062 **
Networking with other firms	0.200	0.625 **	0.165
Growth intentions	- 0.140	0.090	- 0.301
Firm age	- 0.021	- 0.026	- 0.031
Firm size (# of employees)	- 0.003	- 0.005	- 0.002

\* indicates statistical significance at the 10% level

\*\* indicates statistical significance at the 5% level

\*\*\* indicates statistical significance at the 1% level

The networking variable was positively and significantly ( $p < 0.05$ ) associated with the degree of internationalisation in Year 2. In the other two years, no significant relationship existed between these variables. However, a persistent positive relationship existed over the three years and overall suggests that there is a positive relationship between networking and the degree of internationalisation. All other independent variables included in the model were not significant, suggesting that the degree of internationalisation is not influenced by a firm's growth intentions, age or size.

#### **4.3.5 Exploring the differences between SMFEs and non-SMFEs**

The results outlined in Section 4.3.2 provide conclusive support that SMFEs are less likely to internationalise compared to their non-family counterparts. Section 4.3.4 also provides some support that the degree to which SMFEs internationalise is less than that of their non-family counterparts. To examine these findings further, the innovation commitment, networking activities, growth intentions, age and size of SMFEs and non-SMFEs were compared and contrasted. In addition, the differences in growth profiles of SMFEs and non-SMFEs were also examined.

The relative frequency distributions of the dichotomous variables reveal that the proportion of SMFEs engaged in networking with other firms was around 18 percent in each of the three years (Table 4.11). This is a smaller proportion than among non-SMFEs, around 27 percent of which were engaged in networking in each of the three years. A chi-square test highlighted that the difference in the proportion of SMFEs and non-SMFEs networking was highly significant ( $p < 0.01$ ) in all three years, suggesting that SMFEs are less likely to network with other firms.

**Table 4.11 Relative frequency distribution of networking, growth intentions and growth pathway**

		Year 1		Year 2		Year 3	
		SMFEs	Non-SMFEs	SMFEs	Non-SMFEs	SMFEs	Non-SMFEs
<b>Networking with other firms</b>	<b>Yes</b>	<b>106</b>	<b>72</b>	<b>105</b>	<b>75</b>	<b>106</b>	<b>76</b>
	% of SMFEs; % of non-SMFEs	17.3%	27.7%	17.8%	26.6%	18.0%	26.9%
	<b>No</b>	<b>505</b>	<b>188</b>	<b>484</b>	<b>207</b>	<b>482</b>	<b>207</b>
	% of SMFEs; % of non-SMFEs	82.7%	72.3%	82.2%	73.4%	82.0%	73.1%
	Chi square statistic	12.00		8.944		9.008	
	df	1		1		1	
	<b>Sig. (2 tailed)</b>	<b>0.001</b>		<b>0.003</b>		<b>0.003</b>	
<b>Growth intentions</b>	<b>Yes</b>	<b>318</b>	<b>155</b>	<b>286</b>	<b>146</b>	<b>236</b>	<b>125</b>
	% of SMFEs; % of non-SMFEs	52.0%	59.6%	48.6%	51.8%	40.1%	44.2%
	<b>No</b>	<b>293</b>	<b>105</b>	<b>303</b>	<b>136</b>	<b>352</b>	<b>158</b>
	% of SMFEs; % of non-SMFEs	48.0%	40.4%	51.4%	48.2%	59.9%	55.8%
	Chi square statistic	4.211		0.789		1.281	
	df	1		1		1	
	<b>Sig. (2 tailed)</b>	<b>0.040</b>		<b>0.374</b>		<b>0.258</b>	
<b>Growth pathway</b>	<b>Low</b>	<b>487</b>	<b>142</b>	<b>468</b>	<b>161</b>	<b>456</b>	<b>173</b>
	% of SMFEs; % of non-SMFEs	79.7%	54.6%	79.5%	57.1%	77.6%	61.1%
	<b>Moderate</b>	<b>112</b>	<b>91</b>	<b>111</b>	<b>92</b>	<b>120</b>	<b>83</b>
	% of SMFEs; % of non-SMFEs	18.3%	35.0%	18.8%	32.6%	20.4%	29.3%
	<b>High</b>	<b>12</b>	<b>27</b>	<b>10</b>	<b>29</b>	<b>12</b>	<b>27</b>
	% of SMFEs; % of non-SMFEs	2.0%	10.4%	1.7%	10.3%	2.0%	9.5%
	Chi square statistic	66.527		60.137		37.655	
	df	2		2		2	
	<b>Sig. (2 tailed)</b>	<b>0.000</b>		<b>0.000</b>		<b>0.000</b>	

In each of the three years the proportion of SMFEs with growth intentions was less than that of non-SMFEs. A chi-square test highlighted that the difference in growth intentions between SMFEs and non-SMFEs was only significant ( $p < 0.05$ ) in one of the three years (Year 1). Overall, this suggests that there is no marked difference in the growth intentions of SMFEs and non-SMFEs.



A comparison of the growth profiles of SMFEs and non-SMFEs revealed that over the three years, a greater proportion of SMFEs was characterised as low growth (lifestyle/traditional) firms, while a greater proportion of non-SMFEs was characterised as moderate growth (capped growth) firms and high growth (entrepreneurial) firms. A chi-square test highlighted that the difference in growth profiles between SMFEs and non-SMFEs was highly significant ( $p < 0.01$ ) in all three years, suggesting that compared to non-SMEs, SMFEs are more likely to exhibit growth profiles similar to that of lifestyle/traditional firms.

Analysis of mean values of the metric variables – innovation commitment, firm age and firm size (Table 4.12) – revealed that in each of the three years, the innovation commitment of SMFEs was lower than that of non-SMFEs. A Mann-Whitney test highlighted that the difference in innovation commitment between SMFEs and non-SMFEs was highly significant ( $p < 0.01$ ) in one of the three years, but not significant in the other two ( $p > 0.10$ ). Overall, this suggests that there is no marked difference in the innovation commitment of SMFEs and non-SMFEs.

The median age of non-SMFEs was greater than that of SMFEs in Years 2 and 3, and similar in Year 1. However, the Mann-Whitney test revealed that the difference in age between SMFEs and non-SMFEs was not significant ( $p > 0.10$ ) in any of the three years. In each of the three years, SMFEs were smaller in size when compared to non-SMFEs. A Mann-Whitney test highlighted that the difference in size between SMFEs and non-SMFEs was highly significant ( $p < 0.01$ ) in all three years. This suggests that SMFEs are likely to be smaller in size than their non-family counterparts.

**Table 4.12 Mean values for innovation commitment, firm age and firm size**

	Year 1		Year 2		Year 3	
	SMFEs	Non-SMFEs	SMFEs	Non-SMFEs	SMFEs	Non-SMFEs
<b>Innovation commitment</b>	<b>1.047</b>	<b>1.124</b>	<b>0.736</b>	<b>1.133</b>	<b>0.903</b>	<b>0.937</b>
Mann-Whitney Z statistic	-3.134		-1.114		-1.588	
<b>Sig. (2 tailed)</b>	<b>0.002</b>		<b>0.265</b>		<b>0.112</b>	
<b>Firm age (median)</b>	<b>7.0</b>	<b>7.0</b>	<b>7.0</b>	<b>8.0</b>	<b>8.0</b>	<b>9.0</b>
Mann-Whitney Z statistic	-0.490		-0.859		-1.480	
<b>Sig. (2 tailed)</b>	<b>0.624</b>		<b>0.390</b>		<b>0.139</b>	
<b>Firm size (# of employees)</b>	<b>26.6</b>	<b>48.5</b>	<b>26.8</b>	<b>45.5</b>	<b>28.0</b>	<b>42.6</b>
Mann-Whitney Z statistic	-10.335		-8.647		-6.918	
<b>Sig. (2 tailed)</b>	<b>0.000</b>		<b>0.000</b>		<b>0.000</b>	

**Key for firm age (median):**  
7 = 12 years to less than 14 years  
8 = 14 years to less than 16 years  
9 = 16 years to less than 18 years

#### **4.4 Effect of internationalisation on financial performance**

As stated in Chapter 2, research issue two is concerned with investigating the effect that internationalisation has on SMFEs. This section examines whether internationalisation status and the degree of internationalisation have an effect on the financial performance of SMFEs.

##### **4.4.1 Internationalisation status and financial performance**

The purpose of H3 is to examine whether the financial performance of SMFEs that have internationalised (regardless of the degree of internationalisation) is superior to that of SMFEs that focus solely on the domestic marketplace:

*H3: After controlling for demographic and other relevant influences, there is a statistically significant difference in the financial performance of SMFEs according to whether they have internationalised.*

As described in Chapter 3, two control variables were entered into the logistic regression model: firm age and firm size. Table 4.13 summarises the coefficient details in the logistic regression modelling of the effect of internationalisation status on the ROTA of SMFEs. Controlling for the influence of the age and size of each firm, the results indicated that there was a statistically significant ( $p < 0.05$ ) positive relationship between the variables internationalisation status and ROTA in Year 2 only. As a consequence, these results only provide support for H3 in one of the three years. However, a persistent positive relationship between internationalisation status and ROTA existed over the three years, suggesting that internationalisation status is positively associated with the financial performance of SMFEs.

**Table 4.13 Coefficient details in logistic regression modelling of ROTA**

Independent Variable	Year 1	Year 2	Year 3
<b>Internationalisation status</b>	0.258	0.395 **	0.140
<b>Firm age</b>	- 0.040 **	- 0.019	- 0.020
<b>Firm size (# of employees)</b>	0.002	- 0.001	- 0.004

\* indicates statistical significance at the 10% level

\*\* indicates statistical significance at the 5% level

\*\*\* indicates statistical significance at the 1% level

#### 4.4.2 Degree of internationalisation and financial performance

The purpose of H4 was to examine whether the financial performance of SMFEs that have internationalised is influenced by their degree of internationalisation:

H4: *After controlling for demographic and other relevant influences, there is a statistically significant difference in the financial performance of internationalised SMFEs according to their degree of internationalisation.*

As described in Chapter 3, two control variables were entered into the logistic regression model: firm age and firm size. Table 4.14 summarises the coefficient details in the logistic regression modelling of the effect of the degree of internationalisation on the ROTA of SMFEs. Controlling for the influence of the age and size of each firm, the results indicated that there was no statistically significant relationship between the degree of internationalisation and ROTA in any year. As a consequence, this provides no support for H4. The results suggest that the degree of internationalisation does not have a marked bearing on the ROTA of SMFEs.

**Table 4.14 Coefficient details in logistic regression modelling of ROTA**

Independent Variable	Year 1	Year 2	Year 3
<b>Degree of Internationalisation</b>	0.000	- 0.012	- 0.002
<b>Firm age</b>	- 0.031	- 0.016	- 0.013
<b>Firm size (# of employees)</b>	- 0.001	- 0.003	0.002

\* indicates statistical significance at the 10% level

\*\* indicates statistical significance at the 5% level

\*\*\* indicates statistical significance at the 1% level

#### **4.4.3 The financial benefits of internationalisation**

Although there was limited support for the positive association between venturing into the international marketplace and financial performance, the degree to which an SMFE expands internationally had no observable effect on financial performance. This suggests that, compared to SMFEs that solely focus on the domestic marketplace, there are some financial benefits to be obtained by SMFEs that are active in the international marketplace, regardless of the degree of their international involvement.

#### **4.5 Management capabilities of SMFEs and non-SMFEs contrasted**

As stated in Chapter 2, the purpose of H5, H6A-B and H7A-C was to compare and contrast the managerial capabilities (managerial capacity, managerial expertise and managerial processes) of SMFEs and non-SMFEs as they internationalise.

##### **4.5.1 Managerial capacity**

The purpose of H5 was to compare the size of the management teams of SMFEs and non-SMFEs as they internationalise.

*H5: There is a statistically significant difference in the management team size of SMFEs and non-SMFEs according to their degree of internationalisation.*

Table 4.15 displays the mean number of full-time managers (management team size) employed by SMFEs and non-SMFEs according to the degree of internationalisation in each year. The Kruskal-Wallis statistic indicated that the difference between the management team size and the degree of internationalisation was statistically significant for both SMFEs and non-SMFEs in all three years.

With regard to non-SMFEs, there was a clear positive association between the management team size and the degree of internationalisation in two of the years (Years 1 and 3). However, no such relationship existed with SMFEs in any year. When comparing SMFEs and non-SMFEs within each level of internationalisation, Table 4.15 clearly shows that the management team size of SMFEs was smaller compared to non-SMFEs at all three levels and this difference became more pronounced and statistically significant (Mann-Whitney statistic) at the moderate and high levels of internationalisation. Overall, this suggests that the management teams of SMFEs are likely to be significantly smaller compared to non-SMFEs at moderate and high levels of internationalisation, providing support for H5.

**Table 4.15 Mean number of full time managers**

Degree of Internationalisation		Domestic	Moderate	High	Kruskal-Wallis		
					Statistic	df	Sig. (2 tailed)
Year 1	SMFEs	3.49	5.28	4.37	54.019	2	0.000
	Non-SMFEs	4.10	5.98	6.29	39.430	2	0.000
Mann-Whitney Z statistic		-1.623	-2.199	-3.932			
Sig. (2 tailed)		0.105	0.028	0.000			
Year 2	SMFEs	3.62	5.46	4.65	44.165	2	0.000
	Non-SMFEs	3.63	6.60	6.41	50.733	2	0.000
Mann-Whitney Z statistic		-0.093	-1.397	-3.709			
Sig. (2 tailed)		0.926	0.163	0.000			
Year 3	SMFEs	3.62	5.03	5.03	44.024	2	0.000
	Non-SMFEs	3.76	6.03	6.29	36.207	2	0.000
Mann-Whitney Z statistic		-0.314	-1.695	-2.008			
Sig. (2 tailed)		0.753	0.090	0.045			

#### 4.5.2 Managerial expertise

The purpose of H6A and H6B was to compare the managerial expertise of SMFEs and non-SMFEs as they internationalise.

H6A: *There is a statistically significant difference in the propensity for SMFEs and non-SMFEs to appoint an outsider to the management team according to their degree of internationalisation.*

H6B: *There is a statistically significant difference in the propensity for the management team of SMFEs and non-SMFEs to receive training according to their degree of internationalisation.*

Table 4.16 displays the percentage of SMFEs and non-SMFEs employing full time managers other than the working owners (outside managers) according to the degree of internationalisation in each year. The chi-square statistic indicated that the difference between the proportion of firms employing outside managers and the degree of internationalisation was significant for both SMFEs and non-SMFEs in all three years. With regard to non-SMFEs, there was a clear positive association between the employing of outside managers and the degree of internationalisation in two of the years (Years 2 and 3). However, with SMFEs such a relationship existed in only one year (Year 3).

When comparing SMFEs and non-SMFEs within each level of internationalisation, Table 4.16 clearly shows that a smaller proportion of SMFEs employed outside managers in all three levels in each year, which was statistically significant (chi-square statistic) in all years except in Year 3 for moderately internationalised firms. Overall, these results provide support for H6A, that is, compared to non-SMFEs, SMFEs are less likely to employ an outside manager as they internationalise.

**Table 4.16 Percentage (number) of firms employing outside managers**

Degree of Internationalisation		Domestic	Moderate	High	Chi Square		
					Statistic	df	Sig.
Year 1	SMFEs	39.2% (156)	72.8% (83)	62.6% (62)	48.493	2	0.000
	Non-SMFEs	75.0% (84)	93.9% (62)	93.9% (77)	18.696	2	0.000
	Chi Square statistic	44.974	11.917	24.620			
	df Sig.	1 0.000	1 0.010	1 0.000			
Year 2	SMFEs	47.9% (186)	74.0% (77)	71.1% (69)	33.013	2	0.000
	Non-SMFEs	64.2% (88)	94.2% (65)	97.4% (74)	45.116	2	0.000
	Chi Square statistic	10.775	11.467	20.461			
	df Sig.	1 0.001	1 0.010	1 0.000			
Year 3	SMFEs	49.2% (185)	74.1% (80)	75.0% (78)	35.794	2	0.000
	Non-SMFEs	65.7% (90)	85.9% (61)	96.0% (72)	29.520	2	0.000
	Chi Square statistic	10.981	3.592	14.155			
	df Sig.	1 0.001	1 0.640	1 0.000			

Table 4.17 displays the percentage of SMFEs and non-SMFEs that had some or all of their employees undertake management and professional training (only available in Year 3). The chi-square statistic indicated that the difference between the proportion of firms utilising management and professional training and the degree of internationalisation was statistically significant for both SMFEs and non-SMFEs. With regard to non-SMFEs, there was a clear positive association between utilising management and professional training and the degree of internationalisation; no such relationship existed with SMFEs. When comparing SMFEs and non-SMFEs within each level of internationalisation, it can be seen that a smaller proportion of SMFEs utilised management and professional training when compared to non-SMFEs.

The chi-square statistic indicated that the difference in management training was significant at the high level of internationalisation while the difference in professional training was significant at all levels of internationalisation. This suggests that SMFEs are significantly less likely to engage in management training at high levels of internationalisation, and professional training at all levels of internationalisation. Overall, these results provide support for H6B, that is, compared to non-SMFEs, managers of SMFEs are less likely to receive training as they internationalise.

**Table 4.17 Percentage (number) of firms that utilised training**

MANAGEMENT TRAINING		Domestic	Moderate	High	Chi Square		
					Statistic	df	Sig.
Year 3	SMFEs	20.5% (77)	37.0% (40)	25.0% (26)	12.53	2	0.002
	Non-SMFEs	25.5% (35)	46.5% (33)	56.0% (42)	21.226	2	0.000
	Chi Square statistic df Sig.	1.512 1 0.228	1.581 1 0.218	17.776 1 0.000			
PROFESSIONAL TRAINING		Domestic	Moderate- internationalism	High- internationalism	Chi Square		
					Statistic	df	Sig.
Year 3	SMFEs	12.2% (46)	22.2% (24)	20.2% (21)	8.547	2	0.014
	Non-SMFEs	21.9% (30)	43.7% (31)	46.7% (35)	17.594	2	0.000
	Chi Square statistic df Sig.	7.431 1 0.008	9.251 1 0.003	14.207 1 0.000			

### 4.5.3 Managerial processes

The purpose of H7A, H7B and H7C was to compare the managerial processes of SMFEs and non-SMFEs as they internationalise:

H7A: *There is a statistically significant difference in the propensity for SMFEs and non-SMFEs to develop a strategic plan according to their degree of internationalisation.*

H7B: *There is a statistically significant difference in the propensity for SMFEs and non-SMFEs to develop an international expansion plan according to their degree of internationalisation.*

H7C: *There is a statistically significant difference in the propensity for SMFEs and non-SMFEs to utilise formal control systems according to their degree of internationalisation.*

Table 4.18 displays the percentage of SMFEs and non-SMFEs utilising a formal strategic or business plan according to the degree of internationalisation in each year. The chi-square statistic indicated that the difference between the proportion of firms utilising strategic planning and the degree of internationalisation was statistically significant for both SMFEs and non-SMFEs in all three years. With regard to non-SMFEs, there was a clear positive association between the utilisation of strategic plans and the degree of internationalisation in all three years. However, with SMFEs such a relationship existed only in Year 1.

**Table 4.18 Percentage (number) of firms with a formal strategic or business plan**

Degree of Internationalisation		Domestic	Moderate	High	Chi Square		
					Statistic	df	Sig.
Year 1	SMFEs	28.1% (112)	40.4% (46)	44.4% (44)	12.888	2	0.002
	Non-SMFEs	40.2% (45)	54.5% (36)	69.5% (57)	16.432	2	0.000
	Chi Square statistic	5.944	3.396	11.427			
	df Sig.	1 0.016	1 0.087	1 0.001			
Year 2	SMFEs	25.0% (97)	42.3% (44)	42.3% (41)	18.535	2	0.000
	Non-SMFEs	32.1% (44)	55.1% (38)	69.7% (53)	29.621	2	0.000
	Chi Square statistic	2.611	2.711	12.959			
	df Sig.	1 0.117	1 0.120	1 0.000			
Year 3	SMFEs	25.0% (94)	46.3% (50)	34.6% (36)	18.867	2	0.000
	Non-SMFEs	36.5% (50)	50.7% (36)	62.7% (47)	13.849	2	0.001
	Chi Square statistic	6.573	0.333	13.788			
	df Sig.	1 0.011	1 0.647	1 0.000			

When comparing SMFEs and non-SMFEs within each level of internationalisation, it was evident that a smaller proportion of SMFEs utilised strategic plans when compared to non-SMFEs at all three levels. The chi-square statistic indicated that this difference was statistically significant at the domestic level (in Years 1 and 3), moderate level (Year 1) and high level of internationalisation (all three years). Overall, these results provide support for H7A, that is, compared to non-SMFEs, SMFEs are less likely to develop a strategic plan as they internationalise.

Table 4.19 shows the percentage of SMFEs and non-SMFEs utilising export planning according to the degree of internationalisation in each year. The chi-square statistic indicated that the difference between the proportion of firms utilising export planning and the degree of internationalisation was significant for both SMFEs and non-SMFEs in all three years. With regard to SMFEs and non-SMFEs, there was a clear positive association between the utilisation of export planning and the degree of internationalisation in all three years. When comparing SMFEs and non-SMFEs within each level of internationalisation, Table 4.19 shows that the difference in usage of export plans was only statistically significant (chi-square statistic) at high levels of internationalisation in Year 3 only. Overall, these results provide little support for H7B, that is, there is no significant difference in the proportion of SMFEs and non-SMFEs utilising export planning as they internationalise.



**Table 4.19 Percentage (number) of Firms with an export plan**

Degree of Internationalisation		Domestic	Moderate	High	Chi Square		
					Statistic	df	Sig.
Year 1	SMFEs	8.3% (33)	36.8% (42)	58.6% (58)	136.463	2	0.000
	Non-SMFEs	12.5% (14)	31.8% (21)	67.1% (55)	62.599	2	0.000
	Chi Square statistic df Sig.	1.850 1 0.195	0.464 1 0.521	1.377 1 0.281			
Year 2	SMFEs	5.2% (20)	28.8% (30)	52.6% (51)	135.001	2	0.000
	Non-SMFEs	8.0% (11)	30.4% (21)	59.2% (45)	64.961	2	0.000
	Chi Square statistic df Sig.	1.506 1 0.290	0.050 1 0.866	0.759 1 0.442			
Year 3	SMFEs	4.3% (16)	34.3% (37)	47.1% (49)	130.770	2	0.000
	Non-SMFEs	5.8% (8)	29.6% (21)	68.0% (51)	92.436	2	0.000
	Chi Square statistic df Sig.	0.565 1 0.480	0.429 1 0.520	7.709 1 0.004			

Table 4.20 displays the percentage of SMFEs and non-SMFEs utilising regular income/expenditure reports according to the degree of internationalisation in each year. The chi-square statistic indicated that the difference between the proportion of firms utilising regular reporting and the degree of internationalisation was highly significant for SMFEs in all three years and significant for non-SMFEs in two years (Years 2 and 3). With the exception of Year 1, there was a clear positive association between the proportion of non-SMFEs utilising regular reporting and degree of internationalisation; no such relationship existed with SMFEs in any year.

When comparing SMFEs and non-SMFEs within each level of internationalisation, a smaller proportion of SMFEs utilised regular reporting when compared to non-SMFEs in the domestic and high levels of internationalisation. The chi-square statistic indicated that this difference was predominantly statistically significant at the high level of internationalisation (all three years). Overall, this suggests that SMFEs are significantly less likely to utilise regular reporting at high levels of internationalisation when compared to non-SMFEs.

**Table 4.20 Percentage (number) of firms utilising regular income/expenditure reports**

Degree of Internationalisation		Domestic	Moderate	High	Chi Square		
					Statistic	df	Sig.
Year 1	SMFEs	<b>70.9%</b> (282)	<b>84.2%</b> (96)	<b>77.8%</b> (77)	8.995	2	<b>0.011</b>
	Non-SMFEs	<b>88.4%</b> (99)	<b>86.4%</b> (57)	<b>90.2%</b> (74)	0.540	2	<b>0.777</b>
	Chi Square statistic df Sig.	14.228 1 <b>0.000</b>	0.152 1 <b>0.829</b>	5.041 1 <b>0.028</b>			
Year 2	SMFEs	<b>69.1%</b> (268)	<b>86.5%</b> (90)	<b>76.3%</b> (74)	13.313	2	<b>0.001</b>
	Non-SMFEs	<b>75.2%</b> (103)	<b>85.5%</b> (59)	<b>88.2%</b> (67)	6.500	2	<b>0.039</b>
	Chi Square statistic df Sig.	1.824 1 <b>0.191</b>	0.037 1 <b>1.000</b>	3.982 1 <b>0.051</b>			
Year 3	SMFEs	<b>66.0%</b> (248)	<b>81.5%</b> (88)	<b>65.4%</b> (68)	10.053	2	<b>0.006</b>
	Non-SMFEs	<b>72.3%</b> (99)	<b>80.3%</b> (57)	<b>90.7%</b> (68)	10.021	2	<b>0.006</b>
	Chi Square statistic df Sig.	1.824 1 <b>0.201</b>	0.040 1 <b>0.848</b>	15.260 1 <b>0.000</b>			

Table 4.21 displays the percentage of SMFEs and non-SMFEs utilising benchmarking according to the degree of internationalisation in each year. The chi-square statistic indicated that the difference between the proportion of firms utilising benchmarking and the degree of internationalisation was statistically significant for SMFEs (all three years) and non-SMFEs (Years 1 and 3). With the exception of non-SMFEs in Year 2, there was no clear association between the proportion of SMFEs and non-SMFEs utilising benchmarking and the degree of internationalisation. This suggests that there is no linear association between benchmarking and the degree of internationalisation.

When comparing SMFEs and non-SMFEs within each level of internationalisation, Table 4.21 shows that a smaller proportion of SMFEs utilise benchmarking when compared to non-SMFEs. However, the chi-square statistic indicated that this difference was only statistically significant at the domestic level and the high level of internationalisation in Year 2. Overall, this suggests that there is no significant difference in the proportion of SMFEs and non-SMFEs utilising benchmarking as they internationalise.

**Table 4.21 Percentage (number) of firms utilising benchmarking**

Degree of Internationalisation		Domestic	Moderate	High	Chi Square		
					Statistic	df	Sig.
Year 1	SMFEs	13.8% (55)	23.7% (27)	22.2% (22)	8.369	2	0.015
	Non-SMFEs	19.6% (22)	31.8% (21)	31.7% (26)	4.799	2	0.091
	Chi Square statistic df Sig.	2.313 1 0.136	1.414 1 0.294	2.071 1 0.177			
Year 2	SMFEs	12.4% (48)	24.0% (25)	17.5% (17)	9.077	2	0.011
	Non-SMFEs	20.4% (28)	24.6% (17)	28.9% (22)	1.993	2	0.379
	Chi Square statistic df Sig.	5.322 1 0.024	0.008 1 1.000	3.184 1 0.099			
Year 3	SMFEs	12.5% (47)	22.2% (24)	17.3% (18)	6.638	2	0.037
	Non-SMFEs	18.2% (25)	33.8% (24)	26.7% (20)	6.426	2	0.038
	Chi Square statistic df Sig.	2.750 1 0.114	2.927 1 0.120	2.282 1 0.142			

Table 4.22 displays the degree to which SMFEs and non-SMFEs have implemented the business improvement management techniques TQM, QA and JIT according to the degree of internationalisation (only available in Year 1). With regard to TQM and QA, the chi-square statistic indicated that the degree of implementation and the degree of internationalisation was highly significantly different for both SMFEs and non-SMFEs. With regard to non-SMFEs, there was a clear positive association between the degree of TQM, QA and JIT implementation and the degree of internationalisation. However, with SMFEs no such relationship existed.

When comparing SMFEs and non-SMFEs within each level of internationalisation, this table clearly shows that, with the exception of JIT at the moderate level, SMFEs were implementing TQM, QA and JIT to a lesser extent when compared to non-SMFEs. TQM was significantly different at the high level, suggesting that the extent to which SMFEs had implemented TQM was lower than non-SMFEs at high degrees of internationalisation. QA was significantly different at the domestic level and high level, suggesting that the extent to which SMFEs had implemented QA was lower than non-SMFEs at the domestic and high levels of internationalisation. With regard to JIT, no significant differences were found, suggesting that there is no significant difference in the extent to which SMFEs and non-SMFEs have implemented JIT.

**Table 4.22 Mean usage of business improvement management techniques**

TOTAL QUALITY MANAGEMENT		Domestic	Moderate	High	Chi Square		
					Statistic	df	Sig.
Year 1	SMFEs	0.3367	0.5877	0.3838	10.876	2	0.004
	Non-SMFEs	0.3661	0.6667	0.8415	20.1	2	0.000
Mann-Whitney Z statistic		-0.287	-0.665	-4.064			
Sig. (2 tailed)		0.775	0.529	0.000			
QUALITY ASSURANCE		Domestic	Moderate-internationalism	High-internationalism	Chi Square		
					Statistic	df	Sig.
Year 1	SMFEs	0.7387	1.0526	1.0000	15.835	2	0.000
	Non-SMFEs	0.9821	1.2727	1.2805	7.501	2	0.024
Mann-Whitney Z statistic		-2.66	-1.606	-2.248			
Sig. (2 tailed)		0.008	0.112	0.024			
JUST IN TIME INVENTORY SYSTEM		Domestic	Moderate-internationalism	High-internationalism	Chi Square		
					Statistic	df	Sig.
Year 1	SMFEs	0.1709	0.3246	0.2323	10.322	2	0.006
	Non-SMFEs	0.2143	0.2424	0.2561	0.132	2	0.936
Mann-Whitney Z statistic		-1.48	-1.088	-0.425			
Sig. (2 tailed)		0.14	0.293	0.695			

Overall, the results presented in Tables 4.20 to 4.22 provide mixed results with regard to management control systems. Although there appears to be little difference in the usage of benchmarking and JIT as they grow internationally, significant differences appear between SMFEs and non-SMFEs with regard to regular reporting, TQM and QA at high levels of internationalisation. This provides some support for H7C, in that, compared to non-SMFEs, SMFEs are less likely to utilise some management control systems as they internationalise.

#### 4.5.4 Exploring the differences in management capabilities

With regard to non-SMFEs, these results provide support for the association between managerial capabilities of the firm and internationalisation. Specifically, the management capacity (management team size), management expertise (use of outside managers, training) and adoption of management processes (strategic planning, export planning, financial reporting, TQM, QA) of non-SMFEs increased with the degree of internationalisation. However, with regard to SMFEs, this association between managerial capabilities and internationalisation was not evident. The management capacity (management team size), management expertise (use of outside managers and training) and adoption of management processes (strategic planning, financial reporting, TQM and QA) of SMFEs with a moderate level of internationalisation were greater than that of domestic SMFEs. However, unlike with non-SMFEs, there was little difference in the managerial

capabilities of SMFEs at moderate and high levels of internationalisation. There were two exceptions to this finding. Firstly, the use of export planning by both SMFEs and non-SMFEs increased according to the degree of internationalisation. Secondly, overall the results suggest that there is no support for the association between benchmarking and the degree of internationalisation for both SMFEs and non-SMFEs.

A comparison of the managerial capabilities of SMFEs and non-SMFEs according to their degree of internationalisation highlights that the differences in the management capacity (management team size), expertise (use of outside managers, management and professional training) and processes (strategic planning, financial reporting, TQM, QA) were most evident at a high degree of internationalisation. This is largely due to the fact that, unlike non-SMFEs, there was little difference in the managerial capabilities of SMFEs at moderate and high degrees of internationalisation. However, there were also significant differences in the managerial capabilities of SMFEs and non-SMFEs at the domestic and moderate degrees of internationalisation. For example, with regard to management capacity, the management team size of SMFEs was significantly less than their non-family counterparts at moderate degrees of internationalisation. With regard to management expertise, SMFEs were significantly less likely to employ an outside manager or utilise professional training at the domestic and the moderate degree of internationalisation when compared to their non-family counterparts. Finally, with regard to management process, domestic SMFEs were significantly less likely to develop strategic plans or utilise QA when compared to their non-family counterparts.

Overall, these results suggest that compared to their non-family counterparts, SMFEs grow internationally with less managerial capabilities.

#### ***4.6 Summary of results of hypothesis testing***

As highlighted in Table 4.3, which summarises the results of the hypothesis testing, H1 was supported, as there was a persistent statistically significant negative association between the variables 'family business status' and 'internationalisation status'. Some support was found for H2, as there was a statistically significant negative association between the variables 'family business status' and the 'degree of internationalisation' in one of the three years. Although this relationship was not statistically significant in the other two years, a persistent negative relationship between these two variables was found.

Overall, these results suggest that, compared to non-SMFEs, SMFEs are less likely to venture into the international marketplace. Those that do, do so to a lesser degree when compared to non-SMFEs. Further analysis into the differences between SMFEs and non-SMFEs identified several statistically significant differences. SMFEs were less likely to engage in networking with other businesses, more likely to exhibit growth profiles typical of lifestyle/traditional firms, and to be smaller in size. These differences may explain why the internationalisation of SMFEs lags behind that of non-SMFEs. Firstly, they may lack the networks required for international expansion. Secondly, the traditions of the firm or lifestyle ambitions of owners may foster a preoccupation with the domestic marketplace. Finally, because of their smaller size, they may lack the resources required to develop globally relevant capabilities.

With regard to the effect of internationalisation on financial performance, H3 was supported, as there was a statistically significant positive association between the variables 'internationalisation status' and ROTA in one of the three years. Although this relationship was not statistically significant in the other two years, a persistent positive relationship between these two variables was found. This suggests that the ROTA of internationally active SMFEs is superior to that of SMFEs which solely focus on the domestic marketplace. No support was found for H4, and suggests that the degree to which SMFEs internationalise has no effect on their ROTA.

With regard to managerial capabilities, support was found for H5, H6A, H6B and H7A. the management capacity (management team size), expertise (use of outside managers, management and professional training) and processes (strategic planning) of SMFEs were found to be statistically significantly less than that of non-SMFEs as they grow internationally. These differences were most evident at a high degree of internationalisation. No support was found for H7B; that is, there was no significant difference in the proportion of SMFEs and non-SMFEs utilising export planning as they internationalise. Mixed support was found for H7C. Although significant differences were found between SMFEs and non-SMFEs with regard to regular reporting, TQM and QA at high levels of internationalisation, there were little differences in the usage of benchmarking and JIT as they grew internationally. This suggests that, compared to non-SMFEs, SMFEs are less likely to utilise *some* management control systems as they internationalise.

**Table 4.23 Summary of results from the hypothesis testing**

Research issue	Hypotheses	Supported/Not supported
RI #1	H1: After controlling for demographic and other relevant influences, there is a statistically significant difference in the propensity of SMFEs and non-SMFEs to internationalise.	supported
	H2: After controlling for demographic and other relevant influences, there is a statistically significant difference in the degree of internationalisation of SMFEs and non-SMFEs.	supported
RI #2	H3: After controlling for demographic and other relevant influences, there is a statistically significant difference in the financial performance of SMFEs according to whether they have internationalised.	supported
	H4: After controlling for demographic and other relevant influences, there is a statistically significant difference in the financial performance of internationalised SMFEs according to their degree of internationalisation.	not supported
RI #4	H5: there is a statistically significant difference in the management team size of SMFEs and non-SMFEs according to their degree of internationalisation.	supported
	H6A: There is a statistically significant difference in the propensity for SMFEs and non-SMFEs to appoint an outsider to the management team according to their degree of internationalisation.	supported
	H6B: There is a statistically significant difference in the propensity for the management team of SMFEs and non-SMFEs to receive training according to their degree of internationalisation.	supported
	H7A: There is a statistically significant difference in the propensity for SMFEs and non-SMFEs to develop a strategic plan according to their degree of internationalisation.	supported
	H7B: There is a statistically significant difference in the propensity for SMFEs and non-SMFEs to develop an international expansion plan according to their degree of internationalisation.	not supported
	H7C: There is a statistically significant difference in the propensity for SMFEs and non-SMFEs to utilise formal control systems according to their degree of internationalisation.	mixed <sup>14</sup> support

The findings from the quantitative analysis are explored further in the discussion of the qualitative analysis. Specifically, the effects of internationalisation (financial and non-financial) on SMFEs are examined further in Chapter 5. Influences on an SMFE's propensity for and degree of internationalisation will be explored in Chapters 5 and 6. Factors that influence the ability of SMFEs to develop the requisite managerial capabilities, as well as the effect of growing internationally with limited managerial capabilities, will be explored in Chapter 6.

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<sup>14</sup> Formal control systems examined included use of regular income/expenditure reports, benchmarking, TQM, QA and JIT. Significant differences appeared between SMFEs and non-SMFEs with regard to regular reporting, TQM and QA at high levels of internationalisation. No significant differences found between SMFEs and non-SMFEs with regard to benchmarking and JIT.

## **Qualitative analysis (Part I) – An examination of the internationalisation process of family firms and its effects**

### ***5.1 Introduction***

The purpose of this chapter is to present the qualitative findings of research issues two and three, using the case firms profiled in Section 5.2. Section 5.3 describes the internationalisation process of the case firms from their establishment to present, while Section 5.4 discusses the findings pertaining to research issue three, which is concerned with identifying the internationalisation behaviour of SMFEs. Specifically, this section examines their internationalisation behaviour from a Stage Model Theory perspective (traditional, born global, born-again global pathways to internationalisation). Section 5.5 delves more deeply into quantitative findings relating to research issue two, where financial and non-financial outcomes associated with the internationalisation of the eight case firms are examined and discussed.

### ***5.2 Characteristics of case firms***

Table 5.1 outlines the general characteristics of the family business case firms, including the manufacturing sectors represented, size, ownership and management characteristics, and the data sources utilised as part of the qualitative phase of the study. Eight cases were studied. Ten family businesses were initially approached to ascertain their willingness to be involved in this study. The managing director of one of the family businesses declined the offer ‘as we are privately owned and wish to enjoy the privacy that goes with that privilege’ (2003, personal communication, 21st May), while another case only provided limited access to its management team and was therefore excluded from the study.

In order to protect the confidentiality of the cases and the participants, certain identifying characteristics have been suppressed, presented in general terms, or modified. For example, each case firm has been assigned a fictitious name and particular firm innovations are discussed in general terms, nor is the geographical location (Australian state) of the cases disclosed.



**Table 5.1 Characteristics of case firms**

Case	Manufac. Sector	Size		Ownership & management			Case data sources			
		# of employees	Gross annual sales	% family owned	Generation with ownership	Generation with management	Participants interviewed		Field visits	Documents
							Family	Non-family		
Bookworks	Publishing	8	\$1m - \$5m	100	1st	1st	2	1	3	7
Starmould	Plastics	12	\$1m - \$5m	100	2nd	2nd	3	1	3	10
Classic Wines	Wine	23	\$6m - \$9m	100	3rd	3rd/4th	4	3	3	10
Woodcraft	Furniture	24	\$1m - \$5m	100	2nd	1st/2nd	2	-	2	7
Polypro	Plastics	30	\$1m - \$5m	100	2nd	2nd	4	1	3	5
Newline	Textiles, clothing & footwear	31	\$1m - \$5m	100	2nd	1st/2nd	2	2	3	4
Longwear	Textiles, clothing & footwear	87	\$10m - \$19m	100	3rd	3rd	1	2	2	10
Pioneer Wines	Wine	166	\$20m - \$49m	100	4th	4th/5th	2	4	3	29
							20	14	22	82

### **5.2.1 Manufacturing sectors represented**

As discussed in Chapter 3, as the current study was exploratory in nature, cases were selected to ensure family businesses were represented from Australian manufacturing sectors with different export intensities. Four cases were selected from relatively high export intensity sectors (Wine: Classic Wines, Pioneer Wines; TCF: Longwear and Newline), two from a relatively moderate export intensity sector (Plastics: Starmould and Polypro), and two from relatively low export intensity sectors (Publishing: Bookworks; Furniture: Woodcraft).<sup>15</sup>

### **5.2.2 Business size**

The number of equivalent full-time people employed by the case firms ranged from eight to 166. The gross annual sales of the eight cases ranged from AUD\$1 to 5 million up to AUD\$20 to 49 million, with most of the cases contained in the former range.

### **5.2.3 Ownership and management**

As highlighted in Table 5.1, all of the eight family business cases were wholly family-owned. First, second, third and fourth generation-owned family businesses were represented across the eight case firms, with half of the cases being owned by the second generation. With regard to the generation responsible for managing the business, first, second, third, fourth, and fifth generation family members were represented across the eight case firms. Four of the case firms had multiple generations involved in the management of the business.

### **5.2.4 Sources of qualitative data**

In total, thirty-four interviews were conducted, consisting of twenty interviews of family members, and fourteen of non-family members. The number of participants interviewed per case varied from two (Woodcraft) to seven (Classic Wines), and some participants were interviewed more than once. During the course of this study, the second generation owners of Starmould sold their business to another family business. As a consequence, family members from both families (previous and current owners) were interviewed as part of this study. The characteristics of Starmould presented in this chapter are based upon information provided by both the previous and current owners.

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<sup>15</sup> Classification of industry sector by export intensity is based upon the exporting information contained in an ABS survey of Australian manufacturers (Australian Bureau of Statistics, 2003). In 2002, Classic Wines, Pioneer Wines; Longwear and Newline operated in manufacturing sectors with an export intensity of around 30 percent. Starmould and Polypro operated in a manufacturing sector with an export intensity of around 20 percent. Bookworks and Woodcraft operated in manufacturing sectors with an export intensity of around 10 percent or less.

In addition to these thirty-four interviews, the CEO of one of Longwear's competitors (Bigweave) was interviewed in order to gain a better understanding of the internal and external challenges faced by Longwear in internationalising its operations. A number of informal interviews were also conducted with industry advisors. As outlined in Chapter 3, each participant was interviewed using the interview guide to ensure that certain key issues were consistently raised. On average, three field visits were made to each case location, which resulted in a total of twenty-two field visits to the eight cases during the qualitative phase of this study. In addition to the participant interviews and the field visits, other documentation relevant to the study was also collected, such as documents provided by the case firms (strategic business plans, financial and website information) and Australian newspaper articles on each case firm. In total, 82 documents were obtained as part of the qualitative phase of this study.

### ***5.3 The internationalisation process of SMFEs***

#### **5.3.1 Bookworks**

Bookworks Pty. Ltd. is a first generation family-owned and managed company operating in the publishing industry. Bookworks' very first steps into the international marketplace can be traced back to the late 1970s. As a result of one of the company's Australian agents moving overseas for personal reasons, Bookworks commenced selling its products into the New Zealand marketplace, eight years after its foundation. As a result of meeting overseas publishers during their three-month family holiday around the world in 1979, the family owners realised that they could influence literacy on the world stage through their business.

Their newly formed global vision led the founders to attending a government-sponsored seminar on exporting, where they formed the opinion that international expansion would be important for the growth and long-term survival of Bookworks. The founders decided to pursue international growth opportunities despite the fact that the company could not afford it and exhibited at regional trade fairs in 1980 and 1982 in an attempt to establish export markets. As the lack of sales following these trade events failed to discourage the founders, who decided to attend key international trade fairs in an effort to stimulate international growth. These efforts resulted in small sales to the UK, USA and New Zealand. The company's first major international sale occurred in 1983 to the UK as a result of the contacts made at the international trade fairs. Throughout the 1980s, Bookworks continued

to grow internationally, their success based largely on the development of innovative product lines and regular representation at international trade fairs. The returns from sales continued to be disappointing, however, particularly because of the significant resources expended in attending international trade fairs annually.

Nevertheless, the networks Bookworks developed through regular attendance at key trade fairs in Europe and North America, combined with the development of other innovative product lines, saw their international sales grow substantially in the 1990s, particularly in Scandinavia and the UK, until international sales represented 80 percent of the firm's total annual sales. Despite experiencing a sharp decline in its international sales in 2000 as a result of changing industrial conditions, Bookworks successfully negotiated an alliance with a family business based in North America in 2002, enabling the company to grow substantially into this geographical region. At the same time, the company enjoyed increasing success in the Asian marketplace, which has become its second most important foreign market.

Thus, from humble beginnings in the international marketplace in the late 1970s, Bookworks has prevailed. The company has produced products in eighteen different languages, which have been sold in over thirty countries, and represented up to 80 percent of the firm's total annual sales. Today, Bookworks regularly sells to ten foreign countries located throughout Europe and the Asia-Pacific region, as well as the USA. Overseas trade represent one-third of the firm's total annual sales. As part of its international involvement, Bookworks has also acts as a distributor for foreign companies and outsources production of particular projects to foreign companies.

The company used a myriad of methods to gain entry to foreign markets, including direct sales, sales through overseas agents, alliances with distributors and joint ventures, and licensing. In the early 1990s Bookworks decided to establish its own sales office in North America after the termination of a licensing arrangement with an American company. This sales office was shut down in the late 1990s, however, because of poor sales in North America combined with the significant resources required to keep the office functioning. The family owners are committed to ongoing international growth of Bookworks, particularly in Northern Europe and Asia.

### **5.3.2 Classic Wines**

Classic Wines Pty. Ltd. is a third generation family-owned and managed company operating in the wine industry. Classic Wine's very first steps into the international marketplace can be traced back to 1914 when the firm had limited opportunities to sell its wine in the domestic marketplace. While travelling overseas with his family, the first generation owner came into contact with Clancy and Co., a wine merchant company, and this culminated in an agreement for Classic Wines to supply bulk red wine to this company. This arrangement continued for fifty years, and represented up to 80 percent of Classic Wine's total sales until 1964, when Clancy and Co. was taken over by another firm.

Since the mid 1960s, with a growing demand from local companies, Classic Wines focussed on the domestic market and no sales were made to overseas markets. As the global demand for Australian wine increased in the 1990s, however, Classic Wines was approached by international wine agents and distributors. In 1994 the firm began selling bottled wine into the international marketplace. During the 1990s, Classic Wines also entered into a long-term arrangement to supply grapes to a global wine company with operations in Australia.

Today Classic Wines regularly sells bottled wine into eight foreign countries, including Canada, Germany, Japan, Malaysia, New Zealand, Singapore, Switzerland, UK, and the USA, and currently sells over half its grapes to a global wine company. Despite an overall negative sales growth over the last three years, Classic Wine's international sales have continued to grow, and currently represent 51 percent of the firm's gross sales.

The firm's main method of entry into foreign markets has been the use of both agents and distributors. The family business deals directly with its distributors in the UK and the USA, with sales to other countries being through international agents based here in Australia. The family owners are committed to the international growth of Classic Wines through its existing agents and distributors and by venturing into new markets in Asia.

### **5.3.3 Longwear**

Longwear Pty. Ltd. is a third generation family-owned and managed company operating in the textiles, clothing and footwear-manufacturing sector. Longwear first commenced selling its products into the international marketplace in 1980, seventy years after its foundation, as a result of being approached by an overseas retail store that specialised in Australiana.

Despite not actively looking to grow internationally, the number of countries that Longwear trades with has grown gradually over the last twenty years. By 2004, Longwear was trading with fourteen foreign countries, spread through North America, Europe, and the Asia-Pacific region. Most of the firm's international sales are made to the USA, Canada, Papua New Guinea, Scandinavia, and Germany. Despite the number of countries that it deals with, international sales only represent 3 percent of its gross annual sales.

Longwear's main method of entry into foreign markets has been a combination of direct sales through its website, and through distributors. Since 1980, Longwear has faced increased competitive pressures both domestically and internationally, largely due to reductions in import trade barriers, and higher labour costs relative to its Asian competitors. As a consequence, in order to survive and continue the tradition of being wholly Australian made, Longwear has focussed its attention on developing, producing and selling products for the domestic marketplace despite its competitors being internationally active.

As part of improving Longwear's competitiveness, every year the third generation family managing director attends a key international trade fair to gather ideas on ways to improve its production methods. While the company is more than happy to receive orders from overseas markets, at this point in time Longwear has no plans to stimulate growth in the international marketplace.

#### **5.3.4 Pioneer Wines**

Pioneer Wines Pty. Ltd. is a fourth generation family-owned and fourth and fifth generation family-managed company operating in the wine industry. Four years after emigrating from the United Kingdom in the late 1800s and establishing Pioneer Wines in Australia, the founder commenced selling produce overseas. Using his contacts and knowledge of the UK market, he successfully arranged the sale of bulk wine to UK wine merchants. From this initial step, Pioneer's sales of bulk wine to the UK steadily grew.

Favourable trade arrangements between Australia and the UK, combined with the introduction of an export bounty by the Australian government in 1924, created attractive growth opportunities in the UK market. The second generation family managing director made the decision to establish a sales office in the UK in the 1930s, and by the 1960s, up to 85 percent of the firm's annual sales were made to the UK market. However, the combination of the removal of the export bounty in 1955, together with the UK developing closer ties with other European countries in the 1960s-70s, resulted in the firm's foreign

sales plummeting to 1 percent of total sales in the 1970s. In order to avoid financial ruin, Pioneer embarked on an aggressive cost cutting exercise, and turned its focus away from international markets towards the domestic marketplace. Pioneer's UK sales office was closed down in the late 1960s and the third generation family managing director vowed that never again would he allow the company to be so dominated by one market or one customer.

The domestic market focus changed in the late 1980s, when the then family managing director stepped down and was succeeded by a fourth generation family member. The new family managing director realised the importance of developing a customer orientation and the need to take advantage of the opportunities created by the upsurge in global demand for Australian wine. Hence, as a result of an abundant wine supply, difficulties experienced in growing domestic sales, the growing global demand for Australian wine and the drive of a long-standing non-family employee, Pioneer Wines developed a global vision and aggressively pursued international growth opportunities once again in 1989.

Starting from a base of international sales of 1 percent from five countries, by 2004 Pioneer Wines has truly become a successful international winery, with international sales across thirty countries constituting 40 percent of its total sales. Recently, Pioneer Wines was presented with an export achievement award in recognition of its international success. The firm also acts as a distributor for a handful of foreign wine companies, and manufactures foreign wine products under licence. The UK market continues to be a key market for the company, constituting up to 70 percent of its international sales.

Although a portion of its UK sales is made directly to retailers, the company's main method of entry into foreign markets has been through alliances with overseas distributors. Because of the challenges associated with realising the untapped potential in the North American market, the company established a sales office in that market in 1999. Although the owners are committed to strengthening the firm's position in an increasingly competitive domestic market, Pioneer Wines' greatest growth opportunities exist in overseas markets. As part of its current ten-year plan, Pioneer Wines is committed to doubling its international sales through its current markets, particularly in North America, and new markets in Asia, which offer significant growth opportunities. The firm has recently successfully negotiated a contract to supply significant volumes of wine to a multigenerational family-owned and managed winery in North America.

### **5.3.5 Polypro**

Polypro Pty. Ltd. is a second generation family-owned and managed company operating in the plastics industry. Polypro's first steps into the international marketplace occurred in 1996 when a multinational company acquired one of its key domestic customers. As a result of this, Polypro commenced supplying that multinational company's manufacturing plant in South America. However, the arrangement soon came under pressure because of the high import duties and freight costs. In response to this, Polypro established a manufacturing plant in South America through a joint venture arrangement with a South American family business in 2001. However, for a range of reasons, the joint venture failed and is currently being resolved in the courts.

In the early 1990s, Polypro entered a joint venture with a number of Australian organisations, with the focus on developing a particular product. This venture resulted in an award winning, internationally recognised, innovative product that created interest in both Australian and overseas markets. Orders were received from Papua New Guinea in 1999, New Zealand in 2000, Fiji and South Africa in 2002, and Solomon Islands and Nauru in 2003.

Today Polypro regularly sells its products overseas. Overseas trade represents around 15 percent of the firm's gross annual sales. The company has used a range of foreign market entry methods, including direct sales, joint ventures, licensing, and the use of agents. Although Polypro has experienced substantial growth in the domestic marketplace since 2004, it is also committed to further international growth. The family is passionate in their belief that purchasers benefit from the use of their products and keen to promote them widely. However, differences of opinion exist within the management team as to how aggressively the company should pursue international expansion. Polypro is hoping to recommence supplying the South American plant through a licensing agreement with another manufacturer in the near future. There are also plans to sell the joint venture product into other markets, such as India, through licensing agreements with manufacturers based in those countries.



### **5.3.6 Newline**

Newline Pty. Ltd. is a second generation family-owned, and first and second generation family-managed company operating in the textiles, clothing and footwear manufacturing sector. Four years after being established in Australia, Newline commenced selling its products to New Zealand through a distributor the owners met at a national trade fair. Based upon the success achieved in the New Zealand market, combined with the limited size of the Australian market and the need to keep abreast of international trends to remain competitive, Newline actively pursued further international expansion in the 1990s.

Expansion was primarily driven by one of the second generation family members, who joined Newline in 1990 and progressively took over from his father as the managing director. The company unsuccessfully tried to enter the Japanese market, but later through one of its domestic customers, successfully entered the Canadian market through a distributor in 1998.

This step acted as a catalyst for notable growth into Europe (Sweden, Poland and Bulgaria) and North and South America (USA, Chile and Venezuela) from 2001 to 2004. In this period, Newline's international sales increased from 10 percent to 20 percent of gross annual sales, and the number of foreign markets with which it trades expanded from three to eight. Of these markets, New Zealand and Canada continue to be key markets for the company, generating most of its international sales.

Newline's main method of entry into foreign markets has been through alliances with overseas distributors. However, because of the challenges associated with the realising the untapped potential in the North American market, the company has used a logistics company in the US since 2003 to perform a sales office role. Newline is aiming to dramatically increase its international growth over the next five years through a staged approach, and the establishment of a manufacturing plant overseas in the medium to long-term. Newline is currently focussing on growing in the US market while maintaining its alliances with its distributors in other countries. In addition, the firm is pursuing new alliances with distributors in new markets by exhibiting at key international trade fairs. In the medium to long-term, Newline will focus on growing throughout Europe, as well as establishing manufacturing plants in major markets in order to improve its product margins.

### **5.3.7 Starmould**

Starmould Pty. Ltd. is a second generation family-owned and managed company operating in the plastics industry. Starmould began selling its products into the international marketplace around the mid-1970s, 25 years after it was first established. The first small orders were initiated by overseas buyers from the UK, Africa, and the Pacific Islands, and occurred during a time when the company was not actively looking to grow internationally. Although the founding family member had developed an innovative product in the late 1970s that provided the potential to grow significantly in both the domestic and international marketplace, international growth was only proactively pursued in the 1980s, after the company was well established in the domestic marketplace. At this point management of the business was transferred to second generation family members who, unlike the founder, believed that an international growth strategy was critical for Starmould's further growth and survival.

Since 1983, Starmould has been represented at key international trade fairs every year, from 1983 as a visitor, and from 1998 until today as an exhibitor. This decision and commitment to be represented at trade fairs enabled the firm to develop the international contacts necessary to drive the international growth of the company. For example, as a consequence of a second generation family member attending his first international trade fair in 1983, Starmould entered into an alliance with distributors that led to substantial ongoing sales growth into the UK and the USA. Similarly, through attending a trade fair in 1994, Starmould entered into an alliance with a distributor in Sweden, which is now responsible for over 40 percent of the company's international sales.

The alliance with the Swedish distributor was particularly timely for Starmould as its sales to the USA evaporated due to a falling out with its US distributor. In 1995, Starmould appointed a non-family manager with extensive international sales and marketing experience, who was instrumental in bringing about necessary changes to critical areas of the business. Since 1995, Starmould's international sales have grown exponentially. It took twenty years for Starmould to achieve one million dollars in international sales (1975-1995), four years to achieve its second million (1996 to 1999), two years to achieve its third million (2000 to 2001), and a little over one year to achieve its fourth million (2002/2003).

By 2004 Starmould had truly become a successful international business. Not only has the firm saturated the domestic marketplace, it also sells to twenty-six countries, located

throughout Europe, America, Africa, the Middle-East, and the Asia-Pacific region, constituting 35 percent of its total annual sales. Western Europe and North America continue to be key markets for the company, constituting up to 70 percent of its international sales.

Although a portion of its sales is made directly to retailers, because of its size, the company's main method of entry into foreign markets has been through alliances with overseas distributors. In the early 1990s, in order to circumvent the excessive import duties in Asia, the owners investigated the possibility of establishing a manufacturing plant in Malaysia through a joint venture. However, negotiations with a Malaysian manufacturer were unsuccessful, and plans for an overseas plant were abandoned. Although Starmould was purchased by another family business during this study, the new owners remain committed to further international growth, which they believe can be achieved by working more effectively with the firm's current distributors.

### **5.3.8 Woodcraft**

Woodcraft Pty Ltd is a second generation, family-owned and first and second generation, family-managed company operating in the furniture industry. Woodcraft's first steps into the international marketplace can be traced back to the early 1990s, when the Australian economy was in recession. In an effort to increase sales and ensure the company's survival, the founder approached Austrade for advice on how to export. Through exhibiting at an Australian trade fair, the founder made contact with an internationally renowned designer, which resulted in the formation of a joint venture to design and manufacture a new product range specifically for the Japanese market.

With support from Austrade, Woodcraft exhibited this range in Japan in 1996 where it received promising reviews. Because of his knowledge of the market, the designer successfully negotiated for a Japanese distributor to purchase three container loads of product per year from Woodcraft. However, because of the Asian economic crisis in the late 1990s, Woodcraft sold its first, and only, container load through its distributor into the Japanese marketplace in 1998.

As a result of the contacts made at the Japanese trade fair in 1996 and its reputation, Woodcraft was invited to be part of a joint venture with four other Australian manufacturers in 1998 for the purpose of exporting to the UK. However, the family declined and decided

to focus on growing in the domestic market. Informed by a university degree in marketing, one of the second generation family managers took stock of Woodcraft's ongoing difficulties in selling its products through domestic retailers and realised that many problems could be overcome if the company operated its own retail outlet. Consequently, the firm established a local retail store in 1999. This strategic move proved very successful. Now 75 percent of Woodcraft's domestic sales are made through its retail store while the remaining 25 percent take place through interstate retailers.

Because of its domestic focus, Woodcraft has only made a small amount of international sales, solely through its website to countries such as Canada, England, French Caledonia, Israel, New Zealand, and the USA. In 2002 and 2003 Woodcraft made sales into three foreign countries, representing less than 1 percent of its annual turnover, while in 2004, none were made to foreign markets.

Although Woodcraft is not selling its products offshore at this point in time, it does have arrangements with manufacturers from Italy, Norway, and the USA to act as a distributor for their products in Australia. With regard to the future, Woodcraft is not actively looking to grow internationally, primarily because it is inundated with demand from the domestic marketplace. However, as a result of his international travels in 2002, the founding family member has had discussions with another family business in the UK about the possibility of a joint venture at some future point in time.

#### ***5.4 Analysis of the internationalisation process of the SMEs***

The internationalisation behaviour of the eight family firms participating in the current study was analysed, and the firms compared. Table 5.2 summarises the trigger, motivation, pattern and pace of the internationalisation of each firm. Table 5.3 summarises the market entry, strategies, and financing of the internationalisation of each firm. Aspects of each firm's internationalisation behaviour are compared and contrasted to those of traditional, born global or born-again global pathways to internationalisation. The outcomes of this analysis are summarised in Table 5.4.

##### **5.4.1 Trigger and motivation**

As Table 5.2 highlights, all of the case firms' first steps into the international marketplace were a reaction to particular circumstances. These included unsolicited orders (Bookworks, Starmould, Newline and Longwear), adverse domestic market conditions (Classic Wines,

Woodcraft and Pioneer Wines) and customer takeover (Polypro). At the time of the current study, the international involvement of three firms continued to be reactive and responsive to factors outside the business such as unsolicited orders (Classic Wines, Woodcraft and Longwear).

The other five firms had experienced periods of dedicated international growth as a result of a sudden change in focus from a domestic to a global orientation. This change in focus was brought about by critical events within each firms' history. In the case of Bookworks, an overseas family holiday was instrumental for the family owners in developing a global vision for the business. In the case of Polypro, the takeover of one of its key domestic customers by a multinational company was the trigger that led the family owners to develop a global orientation. However, because of the financial losses and family strain associated with a failed joint venture with a foreign manufacturer, the family managers of Polypro were divided over whether to proactively pursue further internationalisation.

**Table 5.2 Trigger/motivation, pattern and pace of internationalisation**

<b>Case firm issue</b>	<b>Bookworks</b>	<b>Starmould</b>	<b>Classic Wines</b>	<b>Woodcraft</b>
<b>Trigger/motivation</b>	<ul style="list-style-type: none"> <li>○ Initially reactive (agent moving overseas resulting in unsolicited orders);</li> <li>○ Subsequently proactive (global vision &amp; future growth &amp; survival).</li> </ul>	<ul style="list-style-type: none"> <li>○ Initially reactive (unsolicited orders);</li> <li>○ Subsequently proactive (succession, global vision, appointment of key manager, saturation of domestic market, future growth, survival &amp; saleability).</li> </ul>	<ul style="list-style-type: none"> <li>○ Initially reactive (limited domestic opportunities);</li> <li>○ Subsequently reactive (production mindset, unsolicited orders).</li> </ul>	<ul style="list-style-type: none"> <li>○ Initially reactive (limited domestic opportunities, survival);</li> <li>○ Subsequently reactive (negative experience, customer orientation, greater domestic opportunities).</li> </ul>
<b>Internationalisation patterns</b>	<ul style="list-style-type: none"> <li>○ Incremental;</li> <li>○ Domestic market first then international;</li> <li>○ Initially psychically close countries;</li> <li>○ Strong evidence of global networks, developed via trade fairs.</li> </ul>	<ul style="list-style-type: none"> <li>○ Exponential;</li> <li>○ 'Epoch' of domestic market orientation followed by gradual then rapid internationalisation;</li> <li>○ Initially psychically close countries;</li> <li>○ Strong evidence of global networks, developed via trade fairs.</li> </ul>	<ul style="list-style-type: none"> <li>○ Incremental;</li> <li>○ 'Epochs' of domestic market orientation followed by gradual internationalisation;</li> <li>○ Initially psychically close countries;</li> <li>○ Limited evidence of global networks and highly reliant upon agents.</li> </ul>	<ul style="list-style-type: none"> <li>○ Incremental;</li> <li>○ 'Epoch' of domestic market orientation followed by 'epoch' of gradual internationalisation, followed by domestic market orientation while being a local distributor for foreign firms;</li> <li>○ Initially psychically distant countries;</li> <li>○ Limited evidence of global networks, developed via trade fairs &amp; industry associations.</li> </ul>
<b>Pace of internationalisation</b>	<ul style="list-style-type: none"> <li>○ Commenced 8 yrs. after establishment;</li> <li>○ Gradual international growth, with 'epochs' of dramatic international growth;</li> <li>○ In 2004, 32% of sales to 10 foreign countries.</li> </ul>	<ul style="list-style-type: none"> <li>○ Commenced 25 yrs. after establishment;</li> <li>○ Initially minimal growth (1st 20 years) followed by exponential international growth;</li> <li>○ In 2004, 35% of sales to 26 foreign countries.</li> </ul>	<ul style="list-style-type: none"> <li>○ Commenced 22 yrs. after est.;</li> <li>○ Gradual international growth for 50 yrs., followed by 'epoch' of domestic market orientation for 29 yrs; again followed by gradual international growth;</li> <li>○ In 2004, 51% of sales to 9 foreign countries.</li> </ul>	<ul style="list-style-type: none"> <li>○ Commenced 24 yrs. after establishment;</li> <li>○ Minimal international growth, which ceased 6 years later;</li> <li>○ In 2004, 0% of sales to 0 foreign countries (in 2002-03, 1% to 3 foreign countries).</li> </ul>

**Table 5.2 Trigger/motivation, pattern and pace of internationalisation (continued)**

<b>Case firm Issue</b>	<b>Polypro</b>	<b>Newline</b>	<b>Longwear</b>	<b>Pioneer Wines</b>
<b>Trigger/motivation</b>	<ul style="list-style-type: none"> <li>○ Initially reactive (takeover of key customer by multinational);</li> <li>○ Subsequently both proactive and reactive (limited domestic growth opportunities, vision, mixed commitment in mgmt. team).</li> </ul>	<ul style="list-style-type: none"> <li>○ Initially reactive (unsolicited orders);</li> <li>○ Subsequently proactive (succession, vision, future growth &amp; survival).</li> </ul>	<ul style="list-style-type: none"> <li>○ Initially and subsequently reactive (unsolicited orders, focus on domestic market, vision to continue tradition of being a local producer).</li> </ul>	<ul style="list-style-type: none"> <li>○ Initially reactive (limited growth opportunities); then reactive (unfavourable trade policies, focus on domestic market); then proactive (succession/long-term non-family member, vision, customer orientation, limited domestic growth opportunities).</li> </ul>
<b>Internationalisation patterns</b>	<ul style="list-style-type: none"> <li>○ Incremental;</li> <li>○ Domestic market first then international;</li> <li>○ Initially psychically distant countries;</li> <li>○ Strong evidence of global networks, developed via trade shows and industry associations.</li> </ul>	<ul style="list-style-type: none"> <li>○ Incremental;</li> <li>○ Domestic market first then international;</li> <li>○ Initially psychically close &amp; distant countries;</li> <li>○ Strong evidence of global networks, developed via trade fairs.</li> </ul>	<ul style="list-style-type: none"> <li>○ Static;</li> <li>○ Domestic market first then international;</li> <li>○ Initially psychically close countries;</li> <li>○ Limited evidence of global networks.</li> </ul>	<ul style="list-style-type: none"> <li>○ Exponential;</li> <li>○ 'Epochs' of domestic market orientation followed by gradual/rapid internationalisation &amp; act as a local distributor for foreign firms and manufacture products of foreign firms under license;;</li> <li>○ Initially psychically close countries &amp; several countries at once;</li> <li>○ Strong evidence of global networks, developed via trade fairs.</li> </ul>
<b>Pace of internationalisation</b>	<ul style="list-style-type: none"> <li>○ Commenced 4 yrs. after establishment;</li> <li>○ Gradual international growth;</li> <li>○ In 2004, 15% of sales to 4 foreign countries.</li> </ul>	<ul style="list-style-type: none"> <li>○ Commenced 14 yrs. after establishment;</li> <li>○ Gradual international growth;</li> <li>○ In 2004, 19% of sales to 8 foreign countries.</li> </ul>	<ul style="list-style-type: none"> <li>○ Commenced 70 yrs. after establishment;</li> <li>○ Minimal international growth;</li> <li>○ In 2004, 3% of sales to 14 foreign countries.</li> </ul>	<ul style="list-style-type: none"> <li>○ Commenced 4 yrs. after establishment;</li> <li>○ Gradual international growth for 80 yrs., followed by 'epoch' of domestic market orientation for 20 years; followed by rapid international growth;</li> <li>○ In 2004, 37% of sales to 29 foreign countries.</li> </ul>

Succession to the next generation was critical for Starmould, Newline and Pioneer Wines in changing from a domestic to a global orientation and dedicated international growth. In each case, the next generation was committed to the internationalisation of the firm, unlike the generation before it. In the case of Starmould and Newline, the next generation actively pursued internationalisation. In Pioneer Wines case, it was a long-term non-family employee and not the successor who triggered the firm's resumption of activity in international markets. The successor, however, as the new family CEO proved considerably more open to internationalisation than his predecessor. In these three firms, succession was also a catalyst for developing the organisational capabilities that were essential for successful international growth, such as the appointment of managers who were instrumental in developing each firm's marketing capabilities.

Succession did not always result in a commitment to the internationalisation of the firm, however. In the case of Woodcraft, succession to the next generation brought about the return to a domestic orientation. The next generation family CEO did not share his father's belief in internationalisation, and his success in developing the firm's marketing capabilities resulted in strong domestic sales growth, reducing the need to grow internationally for survival.

The most common motivations for the firms to internationalise their operations were that it presented growth opportunities not available to them in the domestic marketplace, and it was a way to enhance the competitiveness and therefore their survival. Internationalisation was also perceived to be one way to maximise the value of the business for future sale (Starmould). The firms that developed a global orientation and dedication to international growth were also motivated by the desire to exploit their newly realised, developed or acquired capabilities in the international marketplace.

In summary, the trigger and motivation for internationalisation of three of the firms (Classic Wines, Woodcraft and Longwear) was similar to that of traditional firms, where the trigger for internationalisation was a reaction to adverse domestic market conditions and unsolicited orders. Their main motivation for international activity was the need to grow their businesses in order to survive.



The other five firms, on the other hand, exhibited characteristics similar to those of born-again global firms, where a critical event in the history of each firm led to a sudden change in focus from a domestic to a global orientation. In addition to growth and survival, these five firms were also motivated to exploit their capabilities in the international marketplace by their belief in what they could achieve.

#### **5.4.2 Pattern and pace of internationalisation**

Table 5.2 highlights the patterns and pace of internationalisation of the eight family case firms. Based on the qualitative analysis of their patterns and pace of internationalisation, the eight family firms were grouped into one of three internationalisation patterns: *static*, *incremental* and *rapid*. The firms' patterns are identified below.

Five of the case firms (Bookworks, Classic Wines, Woodcraft, Polypro, and Newline) exhibited an *incremental* pattern of internationalisation; that is, after establishment each firm initially focussed on the domestic marketplace for a period of time (four to twenty-four years) prior to internationalising their operations. Initially these firms focused on psychically close countries and the pace of their international growth was gradual. Newline entered both psychically close and distant countries initially, but subsequently focussed on psychically close countries after a failed attempt to enter into the Japanese market. Because Polypro's initial steps into the international marketplace were customer driven, the firm initially focussed on supplying a manufacturing firm based in a psychically distant country through a joint venture with another family business located in that country. However, because of language and cultural differences, the joint venture failed. As a consequence, when Polypro looked for new markets, it chose psychically close countries:

So yes, we now are drawn to English speaking countries, either as their primary or their secondary language, but the people we are looking at doing business must be fluent in that way. (Proctor, Polypro's family manager of production)

Woodcraft initially targeted a psychically distant country largely due to the influence of its joint venture partner, and subsequently sold its products to psychically closer countries through its website. Woodcraft was different from the other firms that exhibited *incremental* internationalisation patterns. Although it continued to act as a distributor for foreign companies, Woodcraft ceased its pursuit of international expansion.

Classic Wines was also different in that it experienced ‘epochs’ of *incremental* internationalisation. The firm’s first ‘epoch’ of *incremental* internationalisation began twenty-two years after establishment and ceased after its main overseas customer was taken over by another company. The firm’s second ‘epoch’ of *incremental* internationalisation commenced twenty-nine years later, largely due to an upsurge in global demand. Although the internationalisation intensity of Classic Wines was half of its annual sales (refer to Table 5.2), the firm’s second ‘epoch’ of internationalisation was gradual rather than exponential. Classic Wines’ internationalisation intensity figure was artificially high because the company recently experienced declining domestic sales. The scope of internationalisation was similar to that of other firms exhibiting an *incremental* pattern.

Longwear exhibited a pattern of internationalisation similar to that of *incremental* internationalisation as it initially sold its products in the domestic marketplace for seventy years before internationalisation to psychically close countries. However, because the owners never proactively pursued internationalisation, its pattern was different to the *incremental* pattern in that its pace of internationalisation remained static after its first steps into the international marketplace.

Starmould and Pioneer Wines also exhibited patterns of internationalisation similar to that of the *incremental* internationalisation as they both initially sold their products in the domestic marketplace for a period of time (twenty-five and four years respectively) before becoming internationally active in psychically close countries. The internationalisation patterns of these two firms were different from both *static* and *incremental* patterns, however, because they both experienced *rapid* as opposed to *incremental* internationalisation as a result of critical events.

In Starmould’s case, succession to the next generation combined with the appointment of a non-family manager experienced in international sales and marketing, led to exponential international growth with over one third of its sales now being made to over twenty-five countries (see Table 5.2). Pioneer Wines’, on the other hand, experienced two ‘epochs’ of internationalisation, the first being *incremental* and the second being *rapid*. The firm’s ‘epoch’ of *incremental* internationalisation began four years after establishment and ceased due to unfavourable trade policies. The firm’s ‘epoch’ of *rapid* internationalisation began twenty years later, largely due to the critical events highlighted under 6.3.1, including

changes brought about by succession to the next generation, the drive of a long-term non-family manager, and growing global demand. Within a short period of time, the degree of internationalisation of Pioneer Wines grew from 1 percent of annual sales to five countries, to 40 percent of sales in over twenty-five countries. In addition to this, the firm became a local distributor for foreign firms and began manufacturing selected products of foreign firms under license.

All but two of the firms (Classic Wines and Longwear) developed strong networks with customers and others in their industry, predominantly through active involvement in industry associations and regular attendance at local and international trade fairs.

In summary, the internationalisation pattern and pace of two of the firms (Starmould and Pioneer Wines) were similar to that of born-again global firms. Each firm experienced an epoch of domestic market orientation, followed by dedicated and rapid internationalisation after critical incidents in their history. At least 35 percent of their gross sales were made to more than twenty-five different foreign countries. They also exhibited strong evidence of networks developed through international trade fairs. The other six firms exhibited characteristics typical to those of traditional firms. They focused initially on the domestic market before gradually expanding into the international marketplace. In addition, they focused largely on a limited number of psychically close countries.

#### **5.4.3 Method of entry into foreign markets**

Table 5.3 highlights that a myriad of entry methods into foreign markets have been used by the firms, including direct to customers (end users), via agents, distributors, joint ventures, licensing, and foreign sales offices. Although two firms established sales offices overseas in the past, most of the firms relied upon agents and/or distributors when selling their product into foreign markets. Pioneer Wines closed down its UK sales office in the 1960s as a result of plummeting sales in that market. However, like Bookworks, it established a sales office in North America because of the importance and uniqueness of the market, to overcome the problems encountered with its North American distributors and to improve customer service.

Bookworks, however, closed its North American sales office after five years of limited success, as well as the difficulties encountered by the founder in managing the office from Australia. Because of their size, most of the case firms did not have the financial and human

resources, sales and marketing expertise, or the foreign market share required to establish a sales office in each strategically important foreign market. Rather the firms relied on the capabilities of agents and distributors, such as their market knowledge, sales and marketing expertise, and distribution channels, to grow their sales internationally. Because of the costs and risks involved, Newline contracted a logistics company to perform a sales office role rather than establishing its own sales office.

Although agents and distributors were the most common entry method, several firms either used or contemplated using more complex market entry methods such as joint ventures or licensing. Joint ventures were established to circumvent excessive import duties or to access capabilities not available to the firm, such as low-cost production, local market knowledge and distribution networks. Only Bookworks, however, continued to successfully use joint ventures as a means to enter foreign markets during the course of the current study. Polypro ceased using joint ventures as a result of the joint venture partner breaching the terms of their agreement, combined with the strain of overseas travel on family members (discussed under 6.4 of this chapter), and the flow on effect on domestic sales. It's not surprising that in the case of Polypro, that the owners' preferred method of foreign market entry has become licensing, which is perceived as less risky and less demanding on both the family and the business.

Similarly, Starmould rejected an opportunity for a joint venture relationship with an overseas manufacturer because of the lack of trust in the venture partner, lifestyle issues, and the family owners' preoccupation with the need to have total control over the operations. The owners of Pioneer Wines also avoided using joint ventures for foreign market entry because they 'liked to have total control, be masters of their own destiny and have no one else involved' (Ralph, Pioneer Wines' non-family director of sales and marketing).

These findings provide empirical evidence for observations offered in the literature (Harris et al., 1994): the family's lifestyle objectives, preference for control, attitude towards risk-taking, and family harmony influence the foreign market entry method selected. Because of the influence of the family, direct exporting, use of agents, distributors or licensing were favoured over other entry methods such as joint ventures.

**Table 5.3 Entry method, strategies and finance source for internationalisation**

Case firm Issue	Bookworks	Starmould	Classic Wines	Woodcraft
<b>Method of entry into foreign markets</b>	<ul style="list-style-type: none"> <li>○ Myriad, including direct to customers, via agents, distributors, joint ventures, licensing, and foreign sales office.</li> <li>○ Selection of partners based on shared long-term vision, trust &amp; personal relationships.</li> <li>○ Predominantly trade with family businesses internationally.</li> </ul>	<ul style="list-style-type: none"> <li>○ Direct to customers and via distributors.</li> <li>○ Considered JV with foreign firm to establish overseas manufacturing plant;</li> <li>○ Preference for total control;</li> <li>○ Selection of partners based upon shared long-term vision, trust &amp; personal relationships.</li> <li>○ Trade with both family &amp; non-family businesses internationally.</li> </ul>	<ul style="list-style-type: none"> <li>○ Use of both agents and distributors;</li> <li>○ Highly reliant on agents to drive further internationalisation.</li> <li>○ Predominantly trade with family businesses internationally.</li> </ul>	<ul style="list-style-type: none"> <li>○ Apart from one joint venture that involved the use of a foreign distributor, mainly direct to customers via website.</li> <li>○ Some support for a JV with foreign firm in the future.</li> </ul>
<b>International strategies</b>	<ul style="list-style-type: none"> <li>○ Initially ad-hoc &amp; opportunistic, reactive to particular circumstances; Subsequently more structured/planned.</li> <li>○ Use, &amp; adaptation, of existing products for foreign markets.</li> </ul>	<ul style="list-style-type: none"> <li>○ Initially ad-hoc &amp; opportunistic, reactive to particular circumstances; Subsequently more structured/planned.</li> <li>○ Use, &amp; adaptation, of existing products, &amp; importing new product lines, for foreign markets.</li> </ul>	<ul style="list-style-type: none"> <li>○ Initially rudimentary; Subsequently – although some evidence of planning, still predominantly unstructured/unplanned.</li> <li>○ Use of existing, &amp; development of new, products for foreign markets.</li> </ul>	<ul style="list-style-type: none"> <li>○ Initially structured/planned; Subsequently unplanned &amp; opportunistic.</li> <li>○ Initially development of new products for foreign markets; Subsequently use of existing products for foreign markets.</li> </ul>
<b>Method of financing internationalisation</b>	<ul style="list-style-type: none"> <li>○ Internally generated funds, shareholder funds (e.g. proceeds from sale of personal assets), bank finance &amp; govt. grants.</li> </ul>	<ul style="list-style-type: none"> <li>○ Internally generated funds (cash flow &amp; retained profits), shareholder funds (reinvestment of dividends) &amp; govt. grants.</li> </ul>	<ul style="list-style-type: none"> <li>○ Internally generated funds (cash flow &amp; retained profits), particularly funds generated from long-term arrangement in supplying local multinational.</li> </ul>	<ul style="list-style-type: none"> <li>○ Predominantly through internally generated funds (retained profits) &amp; govt. grants.</li> </ul>

**Table 5.3 Entry method, strategies and finance source for internationalisation (continued)**

<b>Case firm Issue</b>	<b>Polypro</b>	<b>Newline</b>	<b>Longwear</b>	<b>Pioneer Wines</b>
<b>Method of entry into foreign markets</b>	<ul style="list-style-type: none"> <li>○ Myriad, including direct to customers, via agents, a joint venture, and licensing;</li> <li>○ Selection of partners based on shared values, trust &amp; personal relationships.</li> <li>○ Trade through family &amp; non-family businesses internationally.</li> </ul>	<ul style="list-style-type: none"> <li>○ Distributors and a logistic firm that provides sales support.</li> <li>○ Plans to establish overseas manufacturing plant in medium to long-term, possibly through a joint venture.</li> <li>○ Selection of partners based upon long-term vision, based on personal relationships.</li> <li>○ Trade with both family &amp; non-family businesses internationally.</li> </ul>	<ul style="list-style-type: none"> <li>○ Direct to customers, via website, and distributors.</li> </ul>	<ul style="list-style-type: none"> <li>○ Direct to customers, via distributors and foreign sales office.</li> <li>○ Preference for total control;</li> <li>○ Selection of partners based upon shared values and long-term vision, trust, long-term orientation, &amp; personal relationships.</li> <li>○ Trade solely with family businesses internationally.</li> </ul>
<b>International strategies</b>	<ul style="list-style-type: none"> <li>○ Initially ad-hoc &amp; opportunistic, reactive to particular circumstances; Subsequently still unstructured/loosely planned.</li> <li>○ Use of existing products for foreign markets.</li> </ul>	<ul style="list-style-type: none"> <li>○ Initially ad-hoc &amp; opportunistic, reactive to particular circumstances; Subsequently more structured/planned.</li> <li>○ Use &amp; adaptation of existing, &amp; development of new, products for foreign markets.</li> </ul>	<ul style="list-style-type: none"> <li>○ Initially ad-hoc &amp; opportunistic, reactive to particular circumstances; Subsequently unstructured/unplanned;</li> <li>○ Use of existing products for foreign markets.</li> </ul>	<ul style="list-style-type: none"> <li>○ Initially rudimentary; Subsequently more structured/planned;</li> <li>○ Use &amp; adaptation of existing, &amp; development of new, products for foreign markets.</li> </ul>
<b>Method of financing internalisation</b>	<ul style="list-style-type: none"> <li>○ Bank finance.</li> </ul>	<ul style="list-style-type: none"> <li>○ Internally generated funds (retained profits), bank finance, &amp; govt. &amp; industry grants.</li> </ul>	<ul style="list-style-type: none"> <li>○ Internally generated funds (retained profits).</li> </ul>	<ul style="list-style-type: none"> <li>○ Internally generated funds (retained profits), shareholder funds (reinvestment of dividends), bank finance &amp; govt. grants.</li> </ul>

As Table 5.3 highlights, regardless of the type of foreign entry method adopted, a number of factors influenced the selection of trading partners (such as distributors) by the five firms proactively pursuing internationalisation. In addition to selecting trading partners based on factors such as market position, service and price, other factors such as sharing a common long-term vision towards business, having common values, and developing personal relationships based upon trust were also important. As two non-family managers commented:

First of all they've got to realise that it is about trust and they should find partners that they can trust. So finding people like themselves I suppose...having the longevity, having the financial ability, having the desire, having the commitment. (Bosworth, Bookworks' non-family manager of marketing)

And there were other people that thought we were the ultimate winery for them but when I looked at them I either didn't like their financials or I just maybe didn't even like the people. And unless it is a very friendly and close relationship it's not going to survive. And I was looking for something that would be long-term rather than short term. (Roger, Pioneer Wines' non-family manager of North American office)

Because the case firms emphasised shared values and vision, trust and relationships when selecting overseas partners, many predominantly dealt with other family businesses when entering foreign markets:

I don't care where you are in the world...it is still a family. We all have the same things in common, to a degree. But underneath it all that's there. That gives, maybe naively I don't know, but maybe more confidence in dealing family to family, because that's what we do, deal family to family. You expect the similar sort of values and reasoning to be behind what they do. There is that sort of innate trust in the family, which you may not have in a faceless business: who are you, where you've come from?... It's not that we don't deal with businesses that aren't family but we kind of tend to steer towards them. (Peter, Polypro's family manager of product lines)

The most successful ones, the most successful long-term ones with the best business and trust relationship are small family businesses, or large family businesses. (Baldric, Bookworks' family CEO)

As was the case with Classic Wines and Pioneer Wines, family businesses are often approached by other family businesses located overseas because they share similar qualities. As stated by a family owner of Classic Wines' North American family-owned distributor:

We wanted high quality operations, preferably family-owned operations with a reputation for quality and honesty and integrity and taking a long-term approach. (Curtis, family manager of family-owned North American wine distribution company)

In summary, family involvement was found to influence the foreign market entry methods used by family firms as well as the agents and distributors with which they traded. The foreign entry method of five of the firms (Starmould, Classic Wines, Woodcraft, Newline and Longwear) was similar to that of traditional firms in that they used agents and distributors, as well as direct sales to customers, as their main methods of entry into foreign markets. The other three firms exhibited characteristics similar to that of born-again global firms because, in addition to the use of agents, distributors and direct sales, these firms used more advanced foreign market entry methods such as licensing and joint ventures.

#### **5.4.4 International strategies**

As Table 5.3 highlights, five firms did not have structured/planned international strategies when they first entered the international marketplace. Rather, their international growth strategies were ad-hoc and opportunistic and reactive to particular circumstances such as unsolicited orders or a key supplier being bought out by a multinational firm. Three firms (Classic Wines, Woodcraft, and Pioneer Wineries) did exhibit some characteristics of planned international strategies. For example, the owners of Woodcraft determined what market to initially target, how to enter that market, as well as planning the development of products specifically for that marketplace. Because of the age of the companies, the working family members of Classic Wines and Pioneer Wines were not able to recall how planned their firms' international strategies were when they first entered the international marketplace. However, they surmised that the founders exercised some planning in that they were purposeful with regard to what foreign market to target first, as well as how to enter those markets, and with what products.

Subsequent to their first steps into the international marketplace, five of the firms (Bookworks, Starmould, Classic Wines, Newline and Pioneer Wines) developed international growth plans. These firms had export market plans in place, although some did not appear to be as comprehensive as others. For example, Classic Wines was very dependent on its agents and distributors to drive its international growth further, as the family owners perceived themselves to be producers of wine, not marketers. As a consequence, its international expansion remained reactive to new opportunities.



Woodcraft, Longwear and Polypro, however, did not develop detailed international growth strategies subsequent to their first steps into the international marketplace and did not have an export market plan in place. The international growth strategies of Woodcraft and Longwear remained unplanned and opportunistic, focussed on growth in the domestic marketplace as opposed to the international marketplace. The international growth strategies of Polypro were unstructured and loosely planned, predominantly because the family managers were divided over whether to proactively pursue further internationalisation.

With regard to the type of products sold internationally, most firms either use their existing product range and/or adapt them to suit needs specific to foreign markets. Four firms developed new product lines specifically for the international marketplace. Classic Wines developed a higher quality product line on the advice of its North American agents. Woodcraft developed an innovative product range in conjunction with an internationally renowned designer, specifically for the Japanese market. One of Newline's core capabilities was its ability to solve problems encountered by its overseas customers through developing innovative product lines. A key factor in the rapid international growth of Pioneer Wines was its ability to change quickly to make products that were in strong demand in the global marketplace. Rather than investing in new machinery to produce new product lines for the international marketplace, Starmould imported complementary product lines in order to meet the needs of its international customers.

In summary, the international strategies of four of the firms (Classic Wines, Woodcraft, Polypro and Longwear) exhibited characteristics similar to those of traditional firms. Although they developed new products lines for overseas markets, the international expansion of these four firms was a result of serendipitous circumstances rather than a purposive plan. The international strategies of the other four firms exhibited characteristics similar to those of born-again global firms in that they developed detailed international growth plans subsequent to the critical event that led them to become globally oriented. These firms developed new product lines and/or adapted their existing range for the international marketplace.

#### 5.4.5 Method of financing internationalisation

As Table 5.3 highlights, the sources of finance for international growth strategies included internally generated funds (e.g. retained profits), shareholder funds (e.g. capital contributions and reinvestment of dividends by owners), bank finance (e.g. bank overdraft), and grants (government and industry). Internally generated funds (such as retained earnings) were the most popular source of finance for international growth strategies, largely due to each firm's aversion to debt.

Starmould, Newline, and Pioneer Wines all had product lines that enjoyed substantial success in the domestic marketplace, enabling them to accumulate profits to invest in international growth strategies. Classic Wines, however, generated funds required for international expansion through entering a long-term arrangement to supply an Australian multinational wine company. Bookworks, Polypro, and Newline also used debt to finance international growth because of their inability to generate sufficient surpluses from domestic activities. This was largely due to limited opportunities in the domestic marketplace combined with entering the international marketplace not long after their establishment. In recent years, Pioneer Wines have become more reliant upon debt as a result of a change in attitude towards debt combined with the strain dramatic international growth placed upon its finances:

In the company's history the family are completely against owing money and borrowing money and it is only in recent times and through adopting the disciplines of a public company in terms of our accounting that we've convinced the family and our bankers that this is the way to go.  
(Raymond, non-family finance manager of Pioneer Wines)

Five of the firms indicated that grants, such as the Federal government's Export Market Development Grant, were an important source of finance when initiating (or reinitiating in Pioneer Wines' case) international growth strategies.

In summary, all but one firm (Polypro) primarily relied on internally generated funds from their domestic activities and five relied on government grants to fund internationalisation-related strategies. As a consequence, the financing activities of these seven firms (Bookworks, Starmould, Classic Wines, Woodcraft, Newline, Longwear and Pioneer Wines) exhibited characteristics similar to that of traditional firms. Polypro was different from the others in that its primary source of finance was bank finance and the firm therefore exhibits characteristics more akin to born-again global firms than traditional or born global firms.

#### 5.4.6 Traditional, born global or born-again global pathways to internationalisation?

Table 5.4 summarises the comparison of the aspects of each family firms' internationalisation behaviour with that of traditional, born global or born-again global firms. As is evident from the table, none of the firms exhibited characteristics of born global firms in that none was established with an aggressive global vision nor did any commence selling to foreign markets within two years of establishment. All six aspects of the internationalisation behaviour of Classic Wines, Woodcraft and Longwear were similar to that of traditional firms and therefore were classified as traditional international firms. Their first steps were unplanned and reactive to external events, consisted of gradual *incremental* stages of international growth, focused initially on psychically close countries, sold existing and modified product lines through agents and distributors, and financed out of internally generated funds. Although aspects of the internationalisation behaviour of Bookworks, Polypro and Newline were similar to the activities of born-again global firms, they did not experience the telltale characteristics of such firms: dedicated and rapid internationalisation to several markets at once. As a consequence, the internationalisation behaviour of these firms was more akin to traditional firms than to born-again global firms, and they have been classified accordingly in Table 5.4. Of these six firms, Longwear and Woodcraft could be classified as the 'reluctant' international firms. In the past three years, they have sold product overseas *despite* a lack of commitment to internationalisation. The other four firms were committed to the further internationalisation of the business.

Starmould and Pioneer Wines, however, exhibited an internationalisation behaviour that was similar to that of born-again global firms in that they were well-established firms that had focussed on the domestic marketplace for a period of time, and then suddenly embraced rapid and dedicated internationalisation as a result of 'critical incidents' within the firm. The 'critical incidents' in both firms were succession to the next generation combined with the employment of a non-family manager with the requisite management expertise. The born-again global internationalisation pathway experienced by Pioneer Wines has been highlighted in the Australian media: 'Historic family company Pioneer Wines, for so long the sleeping giant of the wine industry, has at last been roused from its slumber' (Pioneer Wines, secondary documentation).

**Table 5.4 Classification of family firm’s internationalisation pathway by behaviour**

<b>Pathway</b> <b>Behaviour</b>	<b>Traditional</b>	<b>Born global firms</b>	<b>Born-again global firms</b>
Trigger/motivation	Classic Wines, Woodcraft, Longwear		Bookworks, Starmould, Polypro, Newline, Pioneer Wines
Expansion patterns	Bookworks, Classic Wines, Woodcraft, Polypro, Newline, Longwear		Starmould, Pioneer Wines
Pace	Bookworks, Classic Wines, Woodcraft, Polypro, Newline, Longwear		Starmould, Pioneer Wines
Method of entry into foreign markets	Starmould, Classic Wines, Woodcraft, Newline, Longwear		Bookworks, Polypro, Pioneer Wines
International strategies	Classic Wines, Woodcraft, Polypro, Longwear		Bookworks, Starmould, Newline, Pioneer Wines
Financing	Bookworks, Starmould, Classic Wines, Woodcraft, Newline, Longwear, Pioneer Wines		Polypro
Overall classification	Bookworks, Classic Wines, Woodcraft, Polypro, Newline, Longwear		Starmould, Pioneer Wines

## **5.5 Effect of internationalisation on SMFEs**

In Chapter 4, analysis of the family firms contained in the BLS indicated that the ROTA of internationally active SMFEs is superior to that of SMFEs which solely focus on the domestic marketplace. This section examines the outcomes (financial and non-financial) associated with the internationalisation of the eight family firm cases, as perceived by the participants interviewed as part of this study. These findings are summarised in Table 5.5.

### **5.5.1 Financial outcomes**

Table 5.5 highlights that a number of financial benefits accrued to the eight family firm cases as a result of internationalisation. Although four firms reported an increase in financial performance as a direct result of internationalisation, two firms (Newline and Polypro) experienced mixed effects while two firms (Woodcraft and Longwear) experienced no increase in financial performance. With regard to Newline, the owners had recently committed significant financial resources to building the firm’s production capacity and its North American market but had yet to realise any significant financial returns. Although Polypro had benefited financially from its international activities, it experienced substantial financial losses associated with a failed joint venture in South America. However, the firm continued to benefit financially from its other international activities.

This suggests that although there may be positive financial returns from internationalisation in the long-term, there may be periods, particularly in the early stages of a firm's internationalisation process, where there are no or limited financial returns. This finding may offer an explanation as to why a significant positive association between internationalisation status and ROTA was only found in one of the three years of the BLS (as reported in Chapter 4).

**Table 5.5 Perceived positive and negative outcomes associated with the internationalisation of the family firm**

Effects of internationalisation	Bookworks	Starmould	Newline	Pioneer Wines	Classic Wines	Polypro	Woodcraft	Longwear
<b>Financial:</b>								
Financial performance	+	+	+/-	+	+	+/-		
Sales growth	+	+	+	+	+	+		+
Survival	+/-	+	+	+/-	+			
Risk management	+/-	+		+/-	+			
Increased value of firm		+						
Financial resources	-		-					
Domestic market share						-		
Losses from competitor imitation		-						
<b>Non-Financial:</b>								
Knowledge/experience	+		+	+	+	+		
Managerial capabilities								
– Capacity	+	+	+	+	+	+		
– Expertise	+	+	+	+		+		
– Processes	+	+	+	+				
Production capabilities								
– Capacity		+	+	+				
– Cost competitiveness	+	+						
– Product development	+		+	+	+			
– Quality			+	+				
Brand image/reputation	+	+		+				
Global perspective	+	+		+				
Enjoyment/satisfaction	+	+		+		+	+	+
Overall Competitiveness	+	+	+	+				
Strain on family/management	-	-	-	-	-	-		
Conflict	-	-		-	-			

KEY: + positive outcomes  
 - negative outcomes  
 +/- mixed outcomes

Internationalisation enabled seven of the firms to grow their overall sales. As highlighted earlier in this chapter (Section 5.4.2), two firms experienced exponential international growth. Growing internationally into several different markets enabled four of the firms to reduce the risks associated with being reliant upon one market:

In an oversupplied domestic market, it gives a great opportunity to not have all eggs in the one basket, particularly even if the export countries, some countries are going through difficult economic times, and other countries are still developing and progressing. (Connor, Classic Wines' family managing director)

This ability to spread the risk of having 'all the eggs in one basket' by selling into several different overseas markets, and being more competitive as a result of their international activities, has ensured the financial survival of many of the firms:

Well if he hadn't been selling products overseas we would...have been rolled over by a competitor years ago. (Salvador, Starmould's non-family manager of sales and marketing)

The irony is that although the managers of Bookworks and Pioneer Wines attributed the firms' financial survival to internationalisation, the same process also nearly resulted in their financial demise when their international growth was predominantly to one foreign country:

At that time Pioneer Wines nearly went bankrupt because of the dramatic fall in [overseas] sales. So they tightened the belt, cut costs all over the place, they closed the UK operation down and...the company just managed to stay financially afloat. As a consequence Richard [current family CEO], more so his father at the time, decided they would never again to allow themselves to be so dominated by one market or one customer. (Ralph, Pioneer Wines' non-family director of sales and marketing)

The experience of these two cases highlights the challenges faced by young and/or inexperienced international firms where they may grow internationally in an incremental fashion, initially and subsequently focussing on a single psychically close foreign market. As a result of near financial bankruptcy, both Bookworks and Pioneer Wines subsequently pursued international growth into a number of foreign countries (ten and twenty-nine countries respectively). This enabled them to manage business risk and ensure their financial survival.

In addition to the financial benefits of performance, sales growth, risk management and survival, internationalisation was also found to benefit family firms in other less obvious ways, such as enabling the owners to maximise the sale value of their family business:

If Starmould had not gone into exporting when we did, the cheque we received would not have been anywhere the amount it was. (Starmould, supplementary documentation)

However, four firms also experienced negative financial outcomes associated with internationalisation, including the strain placed on limited financial resources, loss of domestic market share, and losses associated with competitor imitations of a firm's product lines.

With regard to financial strain, two firms (Bookworks and Newline) indicated that financing international growth at times placed a substantial demand on the owners' personal financial resources, as well as on the finances of the firm. For example, the owners of Bookworks had to sell personal assets, such as the family home, to fund internationalisation, which in turn placed strain on the family. The financial strain was often the result of a timing issue where the investment in international growth activities preceded the realisation of international sales:

There has been a drain on finances as a result of this expansion particularly what we're doing in North America and we had two major trade shows one in the States, one in Europe within six months, so all those things cause some stresses. (Neil, Newline's family CEO)

Although Starmould and Pioneer Wines followed a born-again global pathway to internationalisation (discussed earlier under Section 5.4.6), none of the managers reported financial strain associated with rapid international growth. This was largely because of their strong domestic base, which enabled them to generate sufficient retained earnings to fund growth. In the case of Pioneer Wines, lack of financial strain was also due to the family owners' willingness to borrow substantially from lending institutions, as well as having a strong asset base, which had been accumulated by four generations of diligent family stewardship.

Internationalisation was found to adversely affect the performance of one family firm in its domestic market, largely because it lacked the managerial capacity to cover the loss of key managers who spent considerable periods of time overseas on international growth related activities:

Like my being away, I was over there for three months in one stint. It definitely affects the day-to-day, because you take your eye off the ball basically. You're focussing on getting that, that and that happening. And what it does to you is take your eye off the ball. So basically you're not looking after what's happening at home. You tend to lose market share or something happens and you suffer here. (Parkin, Polypro's family manager of product development)

Because attendance at international trade shows and visits to key overseas customers by family members were considered vital (discussed further in Chapter 6), internationalisation placed significant strain on both the family and management (discussed further under Section 5.5.2). This can particularly be an issue for SMFEs since their managerial capabilities lag behind their non-family counterparts as they grow internationally, as found in the quantitative analysis. This issue is not limited to SMFEs, as the manager of a large family business reported in a recent discussion:

We could say that whatever was done overseas was at the expense of the local market, because we certainly weren't resourced anymore to enable it to occur. (Barry, Bigweave's non-family CEO)

One of the negative outcomes associated with internationalisation is that it can increase the risk of having your product copied by your foreign competitors. This was the case with Starmould where one of its overseas distributors, which also happened to be a family business, copied its product and consequently acquired a large market share in that country.

### **5.5.2 Non-financial outcomes**

The case firms experienced a number of non-financial outcomes associated with internationalisation. As discussed below, internationalisation provided the opportunity for SMFEs to acquire the expertise, capabilities and reputation required to survive and prosper in an increasingly competitive world. However, internationalisation placed substantial strain on both the family and management, and generated conflict between family members and/or family members and employees.

Five of the firms reported that internationalisation enabled management to acquire invaluable industry and market knowledge. Such knowledge and experience had positive effects on other areas of the business such as the development of their production and managerial capabilities. For example, Pioneer Wines was able to acquire knowledge on production techniques, different product varieties, and marketing strategies from other family wineries located overseas:



Also the global travel part means that we visit other wineries when we're going to other trade shows in France and Germany and America or wherever. You take the time...to have a look at other companies when you can and to see what they're doing and they're more than happy to share it with you, particularly if they're another family company. I mean the public ones generally don't want to. But yeah if you come into contact with other family companies you tell them of your heritage and pedigree and they're more than happy to share it...We've learnt a hell of a lot from how they [a fifth generation family winery] do things in Chile. Totally different environment but the firm is trading in the same global marketplace at similar prices to ours and we've been able to learn a great deal from them and how they run their company. (Ralph, Pioneer Wines' non-family director of sales and marketing)

With regard to Polypro, the financial losses associated with the failed joint venture proved to be beneficial in other ways. The managers believed that they were much more competent in their roles as a result of the lessons learnt from this experience. Firstly, they became much more wary about bestowing their trust. The financial losses associated with the joint venture occurred mainly because the brothers were too trusting of others: the firm began trading with a foreign family business through a joint venture before legal documentation was in place. Subsequently, family members became much more professional when negotiating business arrangements:

Where we have been rather trusting in the past, it has [the failure of the joint venture] really given us the ability to ask the hard questions up front. So if there is one thing I can say that's fantastic out of that is that ability to almost be blunt in some dealings with people. So that has been one of the fantastic things that's helped us in so many domestic deals as well as all the other deals with other English speaking people that we're dealing with, that the South American experience has taught us. (Proctor, Polypro's family manager of production)

Secondly, the managers of Polypro became more selective in obtaining expert advice. They ceased using their long-standing local external accountant who did not have the requisite skills for international business and recruited one of the big four accounting firms. Thirdly, experience, good and bad, increased their proficiency in conducting business internationally. As stated by one of the family managers:

Well from a business perspective, really the upside has taught us a hell of a lot. How to actually go about it...If the key personnel is going to do it make sure you replace them as part of the budget...It is just possible that we have learnt so much from what we did in South America that if we had to do it somewhere else we could do it on our ear...Like the South African joint venture we did over there, it was so much smoother and easier and more professionally done. (Parkin, Polypro's family manager of product development)

The positive learning outcomes experienced are consistent with McGrath (1995) who argues that venture failures can generate useful learning that otherwise would not be available to the firm.

As the firms internationalised their operations, they had to develop the requisite capabilities, an issue which is discussed in the following chapter when the factors that influenced the internationalisation process are examined. Several respondents indicated that one of the benefits of internationalisation was that it required the firms to enhance their production and managerial capabilities. With regard to managerial capabilities, most of the firms appointed outside managers in order to increase the managerial capacity and expertise (in management, sales and marketing) required for internationalisation. Managerial expertise was also developed through training:

As the business has grown management expertise has had to grow so we have kept up with training over the years, to the point of doing an MBA. And that training was done as the need was perceived. (Baldrice, Bookworks' family CEO)

Four firms also adopted managerial processes such as a formal strategic planning process, product costing systems, regular financial reporting and quality assurance programs as a consequence of internationalisation. Many of the managers of these firms described their businesses as being more professionally managed as a result of internationalisation. For example, one family CEO commented that that the firm was:

Very much more [a] professional business. That sounds very glib. I try to run the business as a professional business, not just because of the family, I do it because it is a way of life...it has got to be a professionally run and managed show. You've got to have the right people sitting in the right seats. The laws of the land don't allow it to be a game anymore. We've got to do it right...You've got to have...the game breakers in key positions. Those people who will really make a difference in the right spots. Turn the game from a mess into something you're actually going to win. And today, sales and marketing is the critical area for that. Absolutely critical. And behind the scenes, you've got to break that up with human resources, accounting and measuring function, and in our case the production and vineyard function. It has all got to be there. (Richard, Pioneer Wines' family CEO)

This finding is consistent with the findings presented in Chapter 4, where managerial capacity, managerial expertise and managerial processes were positively associated with the degree of internationalisation.

With regard to production capabilities, internationalisation required firms to increase their production capacity, to adopt more cost competitive production methods, develop the ability to produce a range of different product lines and/or increase the quality of their existing product lines. For Starmould, Newline and Pioneer Wines increasing their productive capabilities required significant investment in new infrastructure:

But keeping up with the growth and new orders meant investment in new moulding equipment that allowed the company to stay competitive.  
(Starmould, supplementary documentation)

With regard to other positive outcomes associated with internationalisation, three firms reported enhancements to their brand image and reputation, both domestically and internationally, as a result of receiving export awards, undertaking international networking activities and acquiring managerial expertise in the areas of sales and marketing. Managers of three firms indicated that internationalisation had brought a change in mindset within the firm: planning and decision making were now made from a global perspective as opposed to a domestic one:

On the marketing side, our marketing arm has to understand that it is marketing and branding for the global market, not just for Australia. These days when we launch new brands, we design them to work globally and then if need be we will tailor them for Australia. Whereas in Richard's [current family CEO] day and in his father's day we made things for Australia and then we tried to make people around the world buy what we sell. And it just doesn't work that way anymore. (Roger, Pioneer Wines' non-family manager of North American office)

As was found by the family members of six of the firms, being able to compete and grow in the global marketplace can be personally very rewarding:

International involvement obviously gives you a sense of being able to achieve something and not just in your backdoor patch here and you're able to take what you have here and develop that as a group and taking to an international marketplace and gain an acceptance and growth. That makes people here feel rewarded, there is no doubt about that. Take South Africa for example...we're going to do this on a large scale for the slum areas...In that we can actually change people's lives elsewhere on a potentially larger scale than what we can do from here. There's a lot to be said for that. (Peter, Polypro's family manager of product lines)

Four of the firms were in a stronger competitive position, both domestically and internationally, as a result of internationalisation. Newline found that the changes brought about by internationalisation, such as the development of new innovative product lines,

enabled them to successfully fight off the entry of a multinational competitor in the domestic marketplace. Others found that competing internationally forced them to operate at world's best practice:

Export markets give us a scale of operations that enable us to compete with the multinationals...It made us perform at our best...One of the reasons for going to the world is we force our authors and illustrators to compete on a world scene, not a national standard. Therefore they have to be better and that makes us better in our domestic market. (Baldrice, Bookwork's family CEO)

If we had stayed just with our domestic focus with the old regime and structure that we had we would become very uncompetitive and we would have slipped away...By really pushing ourselves to get up to speed with the hardest and toughest qualifications demanded by some of the biggest wine customers in the world, which has been costly, time consuming, demanding and stressful, it has made every other bit of business around the globe easy because if you can make it in New York you can make it anywhere in the world. Rather than saying that's too hard, we'll stick here at home, we've pushed and pushed and driven ourselves to make sure that we can do business with them, the biggest and toughest in the world. So we are competitive and we're ready to roll. (Ralph, Pioneer Wines' non-family director of sales and marketing)

The clear, positive message from these eight family firms is that internationalisation provides the opportunity for family businesses to acquire the knowledge and experience, global perspective, capabilities and reputation to survive and prosper in an increasingly competitive world.

The main negative non-financial outcomes associated with internationalisation that emerged included the strain placed on both the family and management, and the conflict that internationalisation generated between family members and/or family members and employees. For reasons that are discussed in the next chapter, many of the firms found that it was important to send a family manager overseas for trade fairs and negotiating business with key customers rather than to delegate the task to a non-family manager. As a consequence, more often than not, family members often spent considerable time travelling overseas each year, something that many of them loathed:

Bloody aeroplanes. I got sick of travel, I got sick of being on my own in hotel rooms, got sick of sitting on the aircraft. As blasé as it sounds, business class was another bloody day at the office for me. (Sean, Starmould's family managing director)

The demands of international travel not only placed strain on the family managers, but also on their family members, as well as on the management of the business as a whole. As highlighted earlier under Section 5.5.1, one firm reported a loss in domestic market share as a result of managers taking their ‘eye off the ball’ while being overseas. Again, this is particularly an issue for family firms, as it was reported in the quantitative analysis that they have smaller management teams compared to their non-family counterparts. Although Newline did not experience any loss in domestic market share as a result of its international activities, having Neil (family CEO) spend time overseas created complications within the firm:

That’s again another reason to look at employing more people...when I’m away... people are under more stress because I’m not here, so a few things go wrong. I’m conscious of that, I want to address that issue. But also I’m conscious of needing time for myself and for my family and it makes it doubly complicated. (Neil, Newline’s family CEO)

Many of the participants reflected on the strain that the frequent international travel placed on the family unit back home. Many family members did not appreciate the effect that prolonged time away from the family unit had on family life:

Dad always travelled when it was necessary. He hated it because he left Mum and he left us. Family comes first for him. I think the challenge would be whether or not it allows there to be a sixth generation [that is, to have and raise children] if I’m overseas five to six months of the year, but that’s changing as well...Dad doesn’t like travel, its very funny. (Rowena, Pioneer Wines’ family manager of exports)

The strain from international travel can be particularly severe on the family unit where family managers are married with young children. As demonstrated in Polypro, in addition to the effect on the business itself, the strain placed on a young family almost resulted in divorce:

When Parkin [Polypro’s family manager of product development] was in South America the first time I felt it was too much on his family...And I felt that was too much of a strain, having him over there for three months. On her. (his wife), and also the company’s sales suffered as well... That’s the difficult part of quantifying it. How much it cost us. We can count how much it [the failed venture] exactly cost us [financially] but we can’t count the opportunity costs. (Phoebe, Polypro’s family manager of finance)

One family managing director gave the following piece of advice to other family businesses contemplating international expansion:

The satisfaction of building an internationally competitive small business, family-owned business, is very, very gratifying...But at the same time, try to maintain the level of commitment, equal level of commitment, with your family. And that can be with people you're involved with in the business, not to mention the family that you've got at home. (Sean, Starmould's family managing director)

As discussed earlier in Section 5.4.3, the strain placed on the family and management influenced the preferred method of foreign market entry.

Internationalisation was found to be a trigger for conflict within the family firms. In three of the firms (Starmould, Pioneer Wines and Classic Wines), internationalisation itself was not the reason for conflict between family members, but the changes required to bring about each firm's international growth were. Important changes, such as moving from a 'production mindset' to a customer orientation (discussed further in Chapter 6), resulted in conflict for every firm as various family members sought to overcome an entrenched philosophy of 'if we build it, they [the customers] will come':

He [Richard's father] just wanted to produce great product, really efficiently with a great facility, push it out the gate and someone else worry about it...and in today's world that simply doesn't work. Today's is in the hands of the marketers, not the producers. The quality of a product is a given...success tomorrow is in the sales and marketing department. (Richard, Pioneer Wine's family CEO):

Any attempts made by Richard, the family CEO of Pioneer Wines, to bring about this change in mindset within the firm were met with strong opposition from his father, who ruled the business with an 'iron fist'. A key step in bringing about this change was the appointment of Ralph, Pioneer Wines' non-family director of sales and marketing:

Richard's father [the previous family CEO] said 'I don't like the boy [Ralph], he's got too many new fangled ideas'. [On succession to the next generation] Richard [the successor] embraced them and saw my ideas as the ideal strategy to get behind. Now he obviously had a conflict there with his father [over my appointment and ideas], which over time has sorted out. (Ralph, Pioneer Wines' non-family director of sales and marketing)

Similarly, Sean (Starmould's family managing director) encountered conflict with his father, Seymour, when he began promoting the firm's products overseas:

But Sean and his father [Seymour] didn't get on, and Seymour didn't understand. Again it comes back to this manufacturing. Because Ernie was ...only interested in that [manufacturing] side. They had no understanding of administration or had enough to get by but weren't marketers. Couldn't understand why Sean wanted to go overseas and sell product. (Salvador, Starmould's non-family manager of sales and marketing)

Although Pioneer Wines and Starmould eventually made a successful transition from a production mindset to a customer orientation, at the time of the current study the management of Classic Wines continued to struggle to make the transition:

They're [Claude and Connor, family executive directors] very experienced and knowledgeable, and very good for that [production] side of the business...But you know, they don't know anything about, or very little about sales and marketing. So its something that I believe needs to change and you only have to look at the success of other companies around the place that have put money into marketing...The reality is, it is a cultural thing and its very difficult for you know, for Claude and Connor to see or understand what the potential benefits might be of putting more resources into marketing. (Clare, Classic Wines' family general manager)

Internationalisation also created tension between the family owners and their non-family employees. In the case of Bookworks, the change in the orientation of the company from a domestic one to a global one was resisted by non-family managers. The lack of agreement regarding the company vision caused significant tension amongst the employees, and undermined the ability of the family owners to effectively control the business. Some employees resigned and the family owners were reluctant to attend an important international trade fair for fear of what might happen while one non-family manager, who was particularly opposed to the global vision, was in control of the business in their absence. In order to protect the viability of the business and to realise the global vision, on the advice of their consultants the family owners restructured the management team.

### **5.5.3 The benefits of long-term commitment to internationalisation**

Table 5.5 outlines the benefits experienced by four of the case firms (Bookworks, Starmould, Newline and Pioneer Wines) as a consequence of internationalisation. As noted in Section 5.4, these four firms were highly internationalised and were proactively pursuing further international expansion. Of the other four firms, which were not actively pursuing internationalisation at the time of the current study, two reported some benefits from

internationalisation (Classic Wines and Polypro), while two reported minimal benefits (Woodcraft and Longwear).

Two conclusions can be made based on this observation: that those firms that benefit from internationalisation are more likely to actively pursue internationalisation, or alternatively, those firms that actively pursue internationalisation are more likely to benefit from it. An examination of the internationalisation process, presented in Sections 5.3 and 5.4 of this chapter, suggests that the latter conclusion is true; that is, those firms that exhibit a long-term commitment to internationalisation are more likely to realise the associated benefits. In the context of the current study, for example:

- Both the owners of Bookworks and Starmould continued to invest significant resources (such as personal assets) towards internationalisation throughout the 1980s despite disappointing results. It was not until the 1990s that the owners started to realise the benefits from internationalisation.
- Polypro and Woodcraft were involved in financially costly failed joint ventures early in their internationalisation process. Polypro continued to pursue international growth (albeit passively) and eventually enjoyed the associated benefits, such as sales growth. In contrast, Woodcraft turned its attention to the domestic market, thereby limiting itself from realising any of the benefits of internationalisation.
- Although Longwear reported few benefits from its international involvement, one of its competitors (whose management was interviewed as part of this study) reported a number of benefits from dedicated international expansion, including sales growth, survival, knowledge/experience, and increases in its managerial capabilities. Hence even firms operating in industries that have been adversely affected by foreign imports, such as the TCF sector, can benefit from internationalisation if they have the commitment and resources.

## **5.6 Summary**

The purpose of this chapter was to determine whether the internationalisation behaviour of SMFEs is similar to that of traditional international firms (RI #3) as well as identifying the financial and non-financial outcomes associated with their internationalisation (RI #2).

With regard to RI #3, qualitative analysis suggests that SMFEs are not limited to following a traditional internationalisation pathway to internationalisation, as in certain circumstances they can experience a born-again global pathway to internationalisation. An examination of the internationalisation behaviour of the eight family firm cases revealed that most of the



firms followed a traditional pathway to internationalisation. Their first steps were unplanned and reactive to external events, consisted of gradual *incremental* stages of international growth, initially focussing on psychically close countries, selling existing and modified product lines. Their international activities were financed out of internally generated funds. Two of the firms, however, exhibited behaviour similar to that of the born-again global pathway to internationalisation. These firms focussed on the domestic marketplace for a period of time, and then suddenly embraced rapid and dedicated internationalisation as a result of 'critical incidents'. Succession to the next generation and the appointment of a manager with the requisite capabilities appeared to be critical events leading to rapid internationalisation, triggers not previously identified in the internationalisation literature related to SMEs. As to why succession and appointment of outside managers assisted the internationalisation of these firms is an issue that is explored in greater detail in the next chapter, which focuses on identifying those factors that facilitated and/or inhibited the internationalisation of the family firms.

The findings from the qualitative analysis challenge the relevance of a stage model view of internationalisation, and alternatively provide support for more holistic models of internationalisation such as Bell et al.'s (2003) integrative model of small firm internationalisation. Rather than consisting of a series of steps reflecting gradual increases in international activity, the internationalisation behaviour of the case firms demonstrated that family firms can experience periods of de-internationalisation in response to critical events (Classic Wines – loss of key customer; Woodcraft and Polypro – failed joint ventures; Pioneer Wines – change in government policy).

Alternatively, firms can experience periods of rapid, as opposed to gradual, internationalisation in response to critical events. Some of the firms' first steps into the international marketplace were to psychically distant countries rather than psychically close countries. In addition, contrary to stage models such as that of Johanson and Wiedersheim-Paul (1975), if the experience of the case firms is typical of other family firms, then most family firms are unlikely to progress readily from simple (direct exporting, agents and distributors) to more complex foreign market entry methods. Family-related issues, such as risk aversion, preference for family control and the pursuit of family harmony can all influence market entry.

With regard to RI #2, qualitative analysis suggests that SMFEs with a long-term commitment to internationalisation are more likely to realise the financial and non-financial benefits of internationalisation, such as improved overall competitiveness, financial performance, sales growth, and survivability. However, successful international growth requires SMFEs to build the requisite managerial capabilities to guard against the potential negatives of internationalisation, such as loss of domestic market share and the strain placed on working and non-working family members and non-family employees. Internationalisation often requires organisational change, which can give rise to conflict between family members. As a consequence, it is important that family firms pay particular attention to establishing mechanisms to ensure conflict between family members can be managed and resolved.

## **Qualitative analysis (Part II) – Influences on the internationalisation of family firms**

### ***6.1 Introduction***

In Chapter 4, quantitative analysis indicated that the propensity for and degree of internationalisation of SMFEs lags behind that of their non-family counterparts. In Chapter 5, it was reported that although most of the case firms followed a traditional pathway to internationalisation, two firms were able to follow a born-again global pathway to internationalisation. RI #4 is now considered in order to further understand these findings.

RI #4 was concerned with identifying factors that influence the internationalisation of SMFEs. This chapter focuses in particular on issues that influence an SMFE's commitment to internationalisation, as well as what (and how) firm resources (financial, physical, human and organisational) influence its ability to grow internationally. The conclusions of this chapter are discussed in Section 6.7.

Figures are presented to summarise the discussion of the main sections of this chapter. The primary purpose of these figures is to summarise the overall relationships between factors identified to have an (direct or indirect) influence on the internationalisation of SMFEs, rather than to be conclusive about the relative strength and direction (positive/negative) of those relationships.

### ***6.2 Commitment towards internationalisation***

Although successful international expansion requires the firm to develop the requisite resources to be internationally competitive, it also requires management to leverage those resources by developing, executing, and remaining committed to an appropriate international strategy. Failure to do so exposes a globally competitive domestic firm to opportunity costs in the form of unrealised financial and non-financial benefits associated with internationalisation (identified in Chapters 4 and 5).

One of the most significant influences on the internationalisation process revealed by qualitative analysis was the persistence with which the management of some of the case study firms maintained a commitment to internationalisation. In this section, factors identified as having an influence on the family's commitment to an internationalisation strategy are discussed, and summarised in Table 6.1.

### 6.2.1 Vision and objectives

As discussed in Chapter 5, the firm's vision proved to be a key influence on the family's commitment to internationalisation. The ongoing commitment to an internationalisation strategy by four firms (Bookworks, Starmould, Newline and Pioneer Wines) was largely due to the global vision of the family members. For example, the family owners of Bookworks were very passionate about developing and publishing innovative and enjoyable educational products to improve the literacy of children. It was this passion that informed the company vision to influence children's literacy on a global scale:

Well our vision is to influence the classroom environment for children and teachers worldwide. That's the official vision, that's what we do. (Baldrice, Bookworks' family CEO)

Similarly, the family of Pioneer Wines was driven by the vision of being wine makers on a global scale:

Part of our strategic intent is to be a global wine player, we are a long way short of that. (Rowena, Pioneer Wines' family manager of exports)

As was noted in Chapter 4, family businesses are less likely to venture into the international marketplace, which could be attributed to the family owners not having a global vision for their business:

Some people just don't have a need to go and conquer the world. So I suppose you need to look at their vision. I would be prepared to bet that more often those who are operating locally only probably don't have a company vision. Those who are operating globally probably do. (Baldrice, Bookworks' family CEO)

In order to realise the global vision, it is critical that there is widespread support for such a vision among family members as well as non-family managers. Lack of support hindered the successful implementation of an internationalisation strategy in four of the case firms (Bookworks, Pioneer Wines, Polypro and Starmould). For example, Richard, the current

family CEO of Pioneer Wines promoted a global vision that was strongly resisted by his father, who effectively controlled the board. At Bookworks non-family managers opposed the change towards a global vision:

What we had was a culture here of management not subscribing to the vision. To the extent where one in particular had his own ambition of what he personally would like to do. And this was a personal wish about where he wanted to be, not where the company should be. So it was a personal vision versus the company vision. (Baldrick, Bookworks' family CEO)

On the advice of their consultants, the family owners of Bookworks restructured the management team in order to realise their vision. In the case of Pioneer Wines, the family CEO employed an experienced non-family manager in order to bring about the change required to pursue a global vision.

As demonstrated in the Longwear case, a family firm's vision can limit its potential to grow internationally. Longwear's vision of being the best *Australian manufacturer* in its product range largely arose out of the family's strong commitment to its employees. Some of its staff were third generation employees and were treated like quasi-family members. To outsource production to cheaper overseas manufacturers would threaten their employment.

Although the firm adopted leading edge production technologies to reduce manufacturing costs, by remaining locally made, it limited its ability to reduce production costs and therefore sell its products internationally at a competitive price. The family CEO of Longwear identified the firm's inability to produce their products at a globally competitive price as the main inhibitor of their international growth<sup>16</sup>. Rather than follow the firm's competitors by outsourcing some (or all) of the firm's production to cheaper manufacturers in Asia, the family CEO was more concerned with achieving what was important to the family:

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<sup>16</sup> According to ABS (2003) Longwear operates in one of the most competitive manufacturing sectors, where 53 percent of the domestic market for textiles, clothing and footwear was satisfied by overseas manufacturers. As a consequence, Longwear's limited international growth may be predominantly due to the industry they operate in rather than firm-specific factors. To ascertain this, the CEO of one of their Australian family-owned competitors, which was selling around 15 percent of its sales into foreign markets in 2004, was interviewed. From this CEO's perspective the fact that Longwear was not actively pursuing international growth was due to reasons within the firm as opposed to industry-related factors as most other Australian firms in the industry were actively pursuing international growth.

Well, I don't know why you're living your life here on earth, but presumably you want to enjoy what you're doing. Now money doesn't necessarily make a lifestyle, nor does having everything provided for you either. I'm not sure what it is, I think it's something that you enjoy, and if you can get people to enjoy their work then their lifestyle is more enjoyable than if it's not. Now a lot of people I think equate enjoying work with the more money you get but in actual fact I don't think that applies. (Leopold, Longwear's family CEO)

Consistent with previous research that suggests firm growth is one of the main motivations for undertaking an internationalisation strategy (OECD, 1997), most case firms indicated that internationalisation was essential to achieving their growth objectives, as well their survival and desired financial return. Many of the firms experienced limited opportunities to grow in their domestic marketplace, either because they had saturated the domestic marketplace (e.g. Starmould), or were limited by factors specific to the domestic marketplace:

For our continued growth and development as a firm, expanding offshore is absolutely critical. Because the domestic market is a very mature market and the only way we can make serious strides in the domestic market is stealing trade from someone else which is extremely hard to do... Yes we're growth oriented, to not grow is to go backwards. We've got to keep on growing and developing. The best place to do that is in the export arena and that's not neglecting the domestic market, we keep chipping away at that because we lack presence in the domestic market. (Richard, Pioneer Wines' family CEO)

In addition to growth objectives, the desire to maximise the value of the business as part of their succession strategy (sell the business) was an important reason for the second generation owners of Starmould to aggressively pursue an international growth strategy<sup>17</sup>.

Although the financial objectives of the case firms were found to predominantly encourage the commitment to internationalisation, non-financial objectives were found have mixed effects. Polypro, for example, demonstrated how non-financial objectives can bring about a commitment to internationalisation. The firm's environmental objectives, as well as the objective 'to improve people's lot in life' (Peter, Polypro's family manager of product lines) led the firm to sell its products into less developed countries.

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<sup>17</sup> The owners sold their business to another family business during the course of this study.

Woodcraft, however, was a case that illustrated how a non-financial objective, such as providing employment to others in the local community (commitment to others), could have a mixed effect on the commitment to internationalisation. In the 1990s, providing employment motivated the founding owner of Woodcraft to pursue internationalisation. However as the firm grew, the same objective indirectly weakened the commitment to internationalisation. The family developed personal relationships with its employees, whom they have nurtured and developed over the years. When success resulted in pressure to relocate to larger premises and transfer operations to another town, the move was rejected in order to avoid displacing key employees. Consequently, the firm has had insufficient production capacity to actively pursue international growth (discussed further under Section 6.2.4):

If we turn over less and make more net profit at the end of the day, that's ideal. Why go and turn over more?. (Wilbur, Woodcraft's family general manager)

Furthermore, because he had a young family, the next generation manager was unwilling to sacrifice his lifestyle objectives for the sake of international growth:

I love travelling but I couldn't do it all the time. I wouldn't want to go. That's the thing. You've really got to consider...If I'm going to export to the UK then I've got to be there or somebody appointed has got to be there three or four times a year, if you really want to make it work to the point that it pays dividends. Am I prepared to do that? In my life right now, no. (Wilbur, Woodcraft's family general manager)

### **6.2.2 Long-term orientation**

Taking a long-term perspective towards international expansion was a key factor in facilitating the internationalisation of five of the firms. A long-term perspective allowed family firms to remain committed to internationalisation despite poor financial returns from doing so in the short-term:

It is a long-term thing, that's the first thing...where Sean (Starmould's family managing director) was very good, it was not going to be a 'if you look at the cost of doing an overseas exhibition and say at the end of the year, well I've spent...\$100,000 and I've only got \$100,000 worth of business you shouldn't have bothered.' Don't look at it that way. It has got to be at least a five-year project minimum. (Salvador, Starmould's non-family manager of sales and marketing)

It also enabled them to develop important international business relationships, which often took a number of years to bring to fruition (discussed further in Section 6.6.1). This ability to have a long-term orientation towards internationalisation was possible because the family owned the business (patient capital):

For us, a key point of difference from our major competitors is that we're family-owned. Because all the...corporate entities tend to have a very short-term time horizon for getting things done or making things happen... We're privately owned and therefore take a longer-term view on market development, market growth. (Roger, Pioneer Wines' non-family manager of North American office)

### **6.2.3 Financial performance**

A firm's domestic and international financial performance was found to influence a family firm's commitment to internationalisation. With regard to performance in the domestic market, poor performance (in terms of sales growth and financial return) was found to encourage family firms to internationalise. For example, in four firms (Classic wines, Pioneer Wines, Polypro and Woodcraft), the family's commitment to international growth was strengthened because of poor sales growth in the domestic market. Conversely, as demonstrated in one case firm (Woodcraft), an improvement in a family firm's growth prospects in the domestic marketplace can weaken the commitment to internationalisation, particularly when the firm has limited production capacity and can attain better margins in the domestic market.

Poor financial performance in the international marketplace was found to weaken a family firm's commitment to internationalisation in three of the firms (Woodcraft, Polypro and Pioneer Wines). As highlighted in the previous chapter, Pioneer Wines' over reliance on one international market nearly resulted in its financial demise in the 1960s when overseas sales ceased. Many years passed before the family was willing to venture overseas again. In the case of Polypro, the financial losses associated with its failed South American joint venture weakened the commitment to actively pursue internationalisation.

It should be noted, however, that poor financial performance in the international marketplace did not always result in a weakening of a family firm's commitment to internationalisation. In two cases (Bookworks and Starmould) the family continued to invest significant resources (such as personal assets) towards internationalisation throughout the 1980s despite disappointing results. It was not until the 1990s that the owners began to realise financial and non-financial benefits from internationalisation.



#### 6.2.4 Production capacity

Analysis of the case firms highlighted that the availability of production capacity for international growth could influence a family firm's commitment to internationalisation. Two of the firms (Woodcraft and Longwear), which were described as reluctant internationals in the previous chapter, had no desire to pursue internationalisation at the time of this study. As a consequence, priority was given to using their production capacity towards satisfying domestic orders, largely because of superior product margins:

We know that our product would fit into other markets but we are flat out making products for our own market...We've got three quarters of a million dollars worth of orders. That's on the books now. So why promote yourself overseas when you can't produce...Until we improve the capacity, we don't need to grow the market any more than what it is.  
(Wayne, founder of Woodcraft)

I think we've got our own work cut out for us at this point in time, as far as meeting the demands... within Australia...As we are currently set up, I don't think it is appropriate to go and pursue offshore markets. (Lewis, Longwear's non-family manager of sales)

The drive to increase the production capacity was largely determined by the family's financial (e.g. growth ambitions) and non-financial objectives (lifestyle, commitment to others such as employees) and the financial resources available to expand capacity (discussed further under Section 6.3).

#### 6.2.5 Succession a trigger for organisation change

In three of the case firms (Starmould, Newline and Pioneer Wines) succession to the next generation brought about a change in the vision of the company and culminated in a commitment to internationalisation. This issue is not limited to SMFEs, as a recent discussion with the CEO of a large family business (Bigweave) reported a similar change triggered by succession. Bringing about a commitment to internationalisation often required a change in the mindset of management. Successors came with fresh understanding of the importance of internationalisation to the achievement of firm objectives, including growth and survival. For example, in the case of Pioneer Wines, the successor was much more supportive of the international expansion plan proposed by one of its non-family managers:

If Richard's father was still running the company at that time [when I presented the plan] I would say I might have been able to push this through but it would have been very much less likely [to have been accepted]. There's a generational attitude change that has occurred.  
(Roger, Pioneer Wines' non-family manager of North American office)

However, in the case of Woodcraft, succession to the second generation brought about a weakening in the commitment to internationalisation. One of the key motivations for Woodcraft to pursue internationalisation was because it was struggling to make inroads into the domestic marketplace. The firm was therefore keen to increase its sales through selling offshore in order to ensure its ongoing growth and survival. The education and expertise of the second generation successor enabled Woodcraft to improve its performance in the domestic marketplace through the development of the firm's marketing capabilities. This resulted in all its production capacity being used in satisfying domestic orders, which had a healthier profit margin. Although the second generation family general manager was happy to receive overseas orders through the firm's website, Woodcraft was no longer committed to the internationalisation of the firm:

But I don't plan to be chasing export market overseas for any sort of volume in the near future. Woodcraft has got a heck of a lot more it can grow in this country before it needs to branch out overseas. (Wilber, Woodcraft's family general manager)

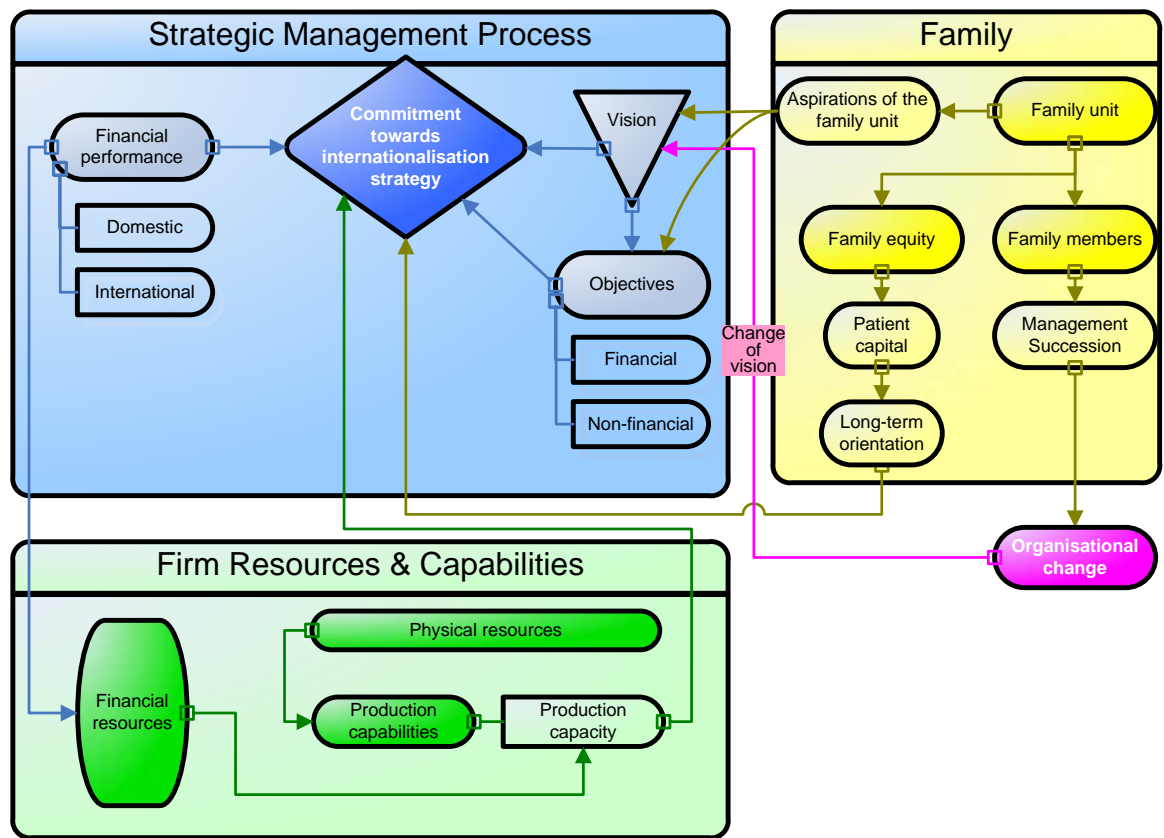


Figure 6.1 Summary of influences on commitment towards an internationalisation strategy

### **6.3 Financial resources**

As remarked upon earlier in this chapter, successful international growth requires an ongoing commitment to internationalisation. However, a long-term commitment to internationalisation is in itself not sufficient without access to the necessary financial resources. Analysis of the case firms that had an ongoing commitment to internationalisation demonstrated that the degree of internationalisation was influenced by access to financial resources, as well as willingness to commit financial resources to internationalisation-related activities:

I think...most family-owned businesses thinking about expansion face one major problem and that's called funding. Whether it be money to be spent on marketing and business development or whether it be money to invest in a new business or a new product range for example. All family businesses have that challenge. (Simon, Starmould's new family CEO and owner)

Because firm size is often used as a proxy of the financial resources available in the firm (Dhanaraj & Beamish, 2003), this finding regarding the effect of availability of financial resources on the internationalisation of the case firms is consistent with that reported in the quantitative analysis. The execution of an internationalisation strategy required financial resources to fund activities such as international travel, exhibiting at international trade fairs, setting up foreign sales offices, and sales and marketing-related activities. Financial resources were also required to bring about changes necessary within the firm to support internationalisation, such as the development of its production, managerial and marketing capabilities.

In this section, factors that influenced a family firm's availability and commitment of financial resources towards internationalisation are examined, and summarised in Figure 6.2.

#### **6.3.1 Availability of financial resources**

The availability of financial resources refers to the financial resources that the firm can use to fund growth-related activities such as internationalisation. As Figure 6.2 highlights, the financial resources available to the family case firms were determined by several factors, including the willingness to borrow funds from a financial institution, ownership structure, dividend policy, domestic marketplace performance, and access to government and industry grants.

In Chapter 5 it was noted that the sources of finance for international growth strategies included internally generated funds (e.g. retained profits), shareholder funds (e.g. capital contributions and reinvestment of dividends by owners), bank finance (e.g. bank overdraft), and grants (government and industry). Using the sources of finance referred to in the most recent Australian Family and Private Business Survey (Smyrnios & Walker, 2003), the CEO from each of the eight case firms was asked to rank the firm's top three sources of finance, which are summarised in Table 6.1. Retained profits were the most popular source of finance amongst the eight cases, which is consistent with responses reported in the Australian Family and Private Business Survey (Smyrnios & Walker, 2003). In all the case firms, there was a general reluctance to use long-term debt, largely because of the firms' aversion to taking risks:

They [the family owners] don't like to have debt. They worry about debt. They worry about simply owing money. (Ralph, Pioneer Wines' non-family director of sales and marketing)

However, as demonstrated by the behaviour of one case firm, changes to a family firm's managerial capabilities (e.g. accounting systems, use of benchmarking, appointing non-executive non-family directors with financial expertise) can lead to a more positive attitude towards risk-taking and therefore taking on long-term debt:

In the company's history they're completely against owing money and borrowing money and it is only in recent times and through adopting the disciplines of a public company in terms of our accounting that we've convinced the family and our bankers that this is the way to go. (Raymond, non-family finance manager of Pioneer Wines)

Table 6.1 reveals that the least popular source of finance among the case firms was equity finance, which is consistent with the findings of the Australian Family and Private Business Survey (Smyrnios & Walker, 2003). Equity financing was also unpopular among the eight case firms. The family owners expressed a desire to maintain total control over the direction and operations of their businesses, and their determination to avoid the complications introduced when accessing outside equity:

And I think they've seen what has happened to their cousin's [family business], bringing outside equity in, the demand for reporting, expertise, you've got people with other, other objectives other than your own. People who want to build the brand quickly, just change a lot of the philosophies. They [the family] would like to stay with our philosophies and we can only really do that if we are 100% [family] owned. (Cameron, Classic Wines' non-family non-executive director)

**Table 6.1 Sources of finance**

Case Firm	Sources of Finance <sup>(i)</sup>							
	Shareholder's funds	Retained profits	Cash flow	Bank overdraft	Bank loans	Family loans	Equity finance	Leasing
Bookworks	-	2	3	1	-	-	-	-
Starmould	1	2	3	-	-	-	-	-
Classic Wines	-	3	2	-	1	-	-	-
Woodcraft	-	1	-	2	-	-	-	3
Polypro	-	-	-	2	3	1	-	-
Newline	-	1	-	2	3	-	-	-
Longwear	2	3	-	-	-	-	-	1
Pioneer Wines	1	3	-	2	-	-	-	-
Mean (rank)	0.500 (5 <sup>th</sup> -6 <sup>th</sup> )	1.875 (1 <sup>st</sup> )	1.000 (3 <sup>rd</sup> )	1.125 (2 <sup>nd</sup> )	0.875 (4 <sup>th</sup> )	0.125 (7 <sup>th</sup> )	0.000 (8 <sup>th</sup> )	0.500 (5 <sup>th</sup> -6 <sup>th</sup> )

(i) The top three sources of finance are ranked in order of preference, where 3 refers to the most popular source of financing.

At times, however, family members contributed personal assets (capital contributions) in order to raise the financial resources required for international growth:

To fund the production of new products, the travel to find export and domestic sales, and to allow for future expansion, the [family] home...was sold and the proceeds put into the business. (Bookworks, supplementary documentation)

Harmony amongst family members encouraged them to remain owners, which in turn influenced the amount of funds available for growth strategies, such as international expansion. In one case firm, conflict among the family owners resulted in one part of the family having to be bought out. In order to do this, the remaining family owners had to borrow the money, which drained the funds needed to develop capabilities required for international growth, such as their marketing capabilities:

Well, we've already done that [borrowed funds] to buy the non-active shareholders out. And that's dead money. It didn't actually do anything for the business, other than put an interest burden on the cash flow. (Connor, Classic Wines' family managing director)

Dividend policy also influenced the financial resources available for international growth. There was a diversity of dividend policies across the eight firms, ranging from market-based, modest and non-existent payout rates. The effect of the dividend policy on international growth was only observed in one firm (Classic Wines), which paid market-based dividends to its shareholders:

I think it would be nice to have a little less of a payout to ramp up our growth a bit faster. But we can work at that, live with that. Family will just progress cautiously. (Cameron, Classic Wines' non-family non-executive director)

Harmony among family owners was an important factor in being able to reinvest profits into the business as opposed into the pockets of the family:

Dividend policy never existed and until last 5-7 years, dividends have been a joke. It has always been ploughed back into the company, which has really helped Pioneer Wines. And if I decided after this tough year to halve the dividend, I'm not going to have angry shareholders on my doorstep saying, 'Why have you halved my dividend?' That's the bottom line – it's not an issue. (Richard, Pioneer Wines' family CEO)

The above discussion indicates that, because of their reluctance to take on long-term debt or outside equity, the family firms faced self-imposed restrictions on where they could source the finances required for international expansion. As a consequence, the performance of the firms in the domestic marketplace largely determined the funds available for international growth strategies and therefore the pace of internationalisation. This self-imposed restriction on sources of finance could provide one explanation why, as found in the quantitative analysis, the internationalisation of SMFEs lagged behind that of their non-family counterparts. One of the most important drivers of the rapid international expansion experienced by Pioneer Wines and Starmould was that, compared to the other six firms, these firms had significant amounts of internally generated funds to finance growth as a result of their dominant position in the domestic marketplace:

The company has very solid domestic brands...and those brands give us a tremendous cash flow and margin that can be used to support international market development. (Roger, Pioneer Wines' non-family manager of North American office)

What has enabled the company to do that [exhibit at international trade fairs annually] is a solid underlying business back home in Australia, which has produced the funds to enable the company to go and explore export opportunities more aggressively. (Salvador, Starmould's non-family manager of sales and marketing)

However, as demonstrated by Pioneer Wines, a dominant domestic market position is not always sufficient for raising the funds for a born-again global pathway to internationalisation. In this firm, long-term debt was required to fund the development of its production capabilities for international expansion.

It appears that family firms face unique challenges to raising the finances necessary for international expansion. Because they face self-imposed restrictions to accessing financial resources, government and industry grants can be a valuable and effective source of funds to assist them in growing internationally. Five of the firms indicated that grants, such as the Federal government's Export Market Development Grant, were an important source of finance when initiating (or reinitiating in Pioneer Wines' case) international growth strategies:

So I think of the first trip or two when everything was at risk and we had nothing else to give because the banks had it all, then the government grants made a difference. (Baldrice, Bookworks' family CEO)

In the case of Newline, industry grants were invaluable in providing the financial resources required to develop its production capabilities:

As a small company catering for a niche market it was difficult to commit significant staff resources and funds to R&D. At the same time there was little chance of the company expanding its presence beyond the limited local market without being able to develop products with significant market differentiation. The [XYZ grant] has enabled the company to make that vital investment and undertake R&D projects that directly benefit the business. (Newline, supplementary documentation)

### **6.3.2 Committing financial resources**

Analysis of the case firms revealed that even if a family business had access to the financial resources required for international expansion, the family owners might not be willing to commit such resources to internationalisation-related strategies. Restraints on the commitment of financial resources towards the execution of an internationalisation strategy (as well as to bringing about the necessary changes to the firm's resources and capabilities) ultimately determined the rate at which a family firm grew internationally. Two issues were found to influence whether a family firm's resources were committed to the international growth of the firm: the level of commitment of the family members towards internationalisation, and the working family members' attitude towards risk-taking.

In the previous chapter, two firms (Longwear and Woodcraft) were classified as 'reluctant internationals' because, despite having sold their products overseas during the last three years, they were not committed to internationalisation. This lack of commitment was reflected in the fact that they were unwilling to divert financial resources towards internationalisation-related strategies:

So that would need to be quite a strategic shift to want to put the resources into it to actually see if we could penetrate it further. And I don't really see at this point in time that that's really a direction that we should be taking. (Lewis, Longwear's sales manager)

With regard to the family firm's attitude towards risk-taking, analysis of the six firms that were committed to internationalisation revealed a tension over when to commit financial resources: upfront to generate the international sales or when the international sales have materialised (chicken vs. egg dilemma). Working family owners that had a greater propensity to take risks were more likely to commit financial resources to internationalisation-related strategies with the hope that such action would be rewarded in terms of international growth:

We're very conservative, on a scale, 4 to 5 [out of 10]. Maybe get to a 6 [out of 10] when you think we spent a lot of money, hundreds of thousands of dollars, to get that export chart where it is. I didn't think it was a risk, I knew that it would work if we kept at it long enough. (Sean, Starmould's family managing director)

Classic Wines was a model example of how a highly risk-averse family culture can restrict the amount of financial resources committed to the internationalisation of the family firm. This firm needed to develop its production (capacity), managerial and marketing capabilities in order to stimulate further international growth. There were two key factors that limited the family's ability to develop these capabilities: that the working family owners had a production mindset (discussed further under Section 6.6.3.1) and that they were very risk averse when it came to committing funds where the outcomes are uncertain. Conflict existed because certain family members were trying to bring about a change to the risk-averse nature of the family firm:

There are sections of the management which say we've got to get the resources in place before we engage top marketers, whereas others will say, well, engage the top marketers who will create the funds necessary to support their employment. (Claude, Classic Wines' family executive director)

But Classic Wines have got the potential to build a really good network for sales and marketing if only they had the balls to do it. (Colin, non-family advisor to Classic Wines)

Similarly, limited managerial capabilities were a key inhibitor to the international growth of Newline, as the firm needed managerial capacity and expertise to handle the workload and

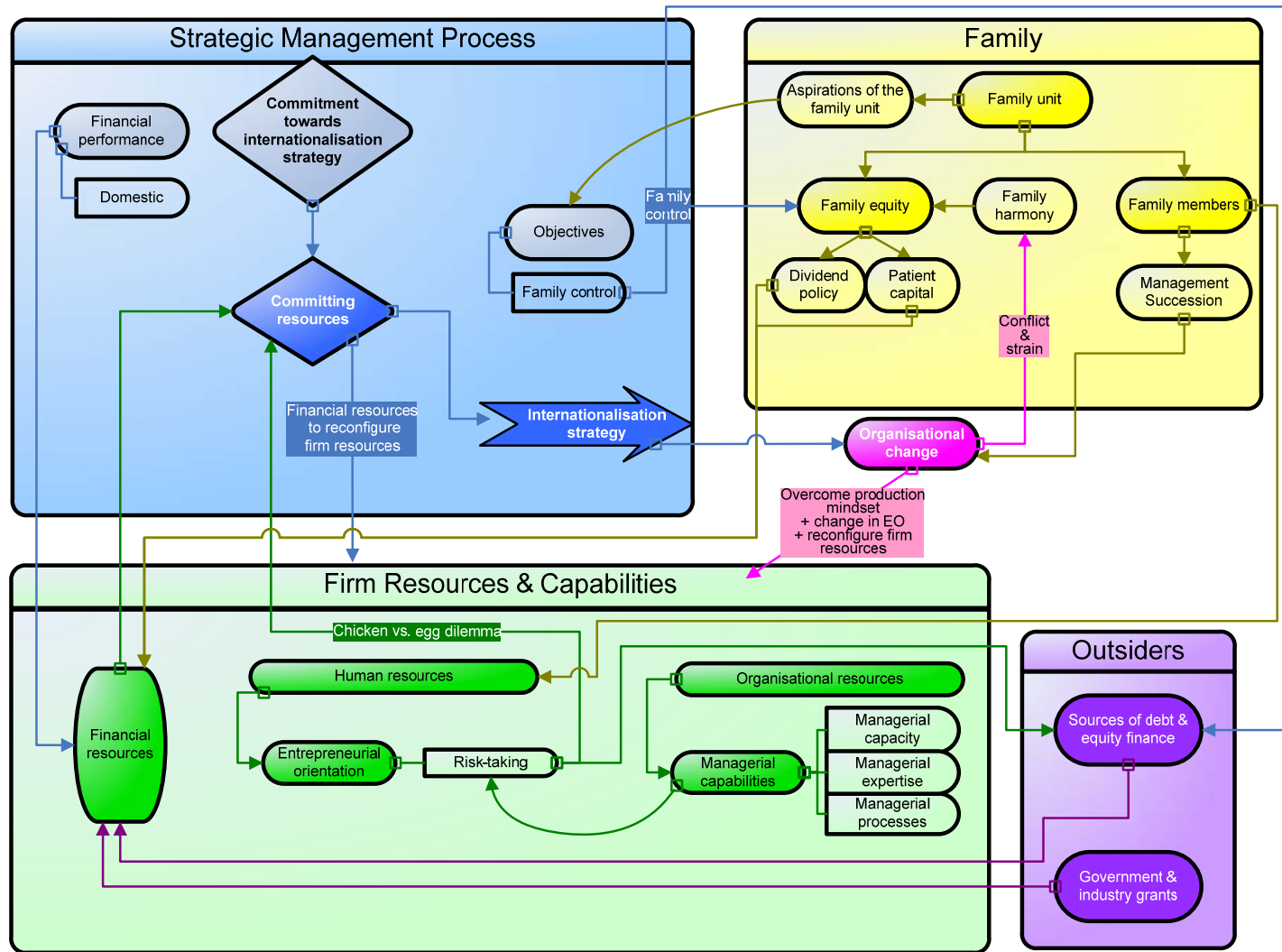


complexities associated with international business (discussed further under 6.6.2). Like Classic Wines, the working family owners were reluctant to commit financial resources to develop the firm's managerial capabilities until further international sales had materialised:

Are we prepared to risk, a hundred and twenty grand a year on a general manager and then another sixty, seventy, eighty thousand on another sales guy? I know what I want but I want something to come off that's fairly tangible with our exports before I embark on any of that kind of expenditure. Because it's not a piece of equipment, you're talking about people and you don't want to stuff people around on one side. At the same time, it is going to take these people a good twelve months, two years before they really know your business. So it is a fairly hefty investment. If the sales are there and the money is there well then yeah, no hesitation.  
(Neil, Newline's family CEO)

This reluctance to commit resources could explain why, as the quantitative analysis highlighted (Chapter 4), family firms lag behind their non-family counterparts in internationalising their operations, as well as developing the managerial capabilities required for internationalisation. As demonstrated by Pioneer Wines, succession to the next generation can result in a change of attitude towards risk-taking and therefore the commitment of financial resources towards internationalisation-related strategies (see Figure 6.2):

So I guess with limited funds, family orientated companies are generally limited. I think Richard [the successor] has seen the need to spend the money to get the result. Whereas before [under his father's management] you spend the money when you see the result and that's not always there.  
(Rodney, Pioneer's non-family manager of purchasing)



**Figure 6.2** Summary of influences on availability and commitment of financial resources to internationalisation

## **6.4 Human resources**

In this study, human resources refer to the people who are directly (family and non-family employees, non-executive directors) or indirectly (unpaid advisors, family members not employed by the business) involved in the operations of a family firm. Analysis of the case firms showed that a family firm's human resources had a substantial influence on the development of the organisational capabilities required for internationalisation, such as production, management and marketing capabilities, as well as its international network relationships. As summarised in Figure 6.3, the key human resource issues that influenced the development of these capabilities included the entrepreneurial orientation, knowledge, experience and expertise, and relational abilities of members of the executive management team. How these human resource issues influence the development of the family firm's organisation capabilities and international business networks is explained in this section.

### **6.4.1 Entrepreneurial orientation of family leaders**

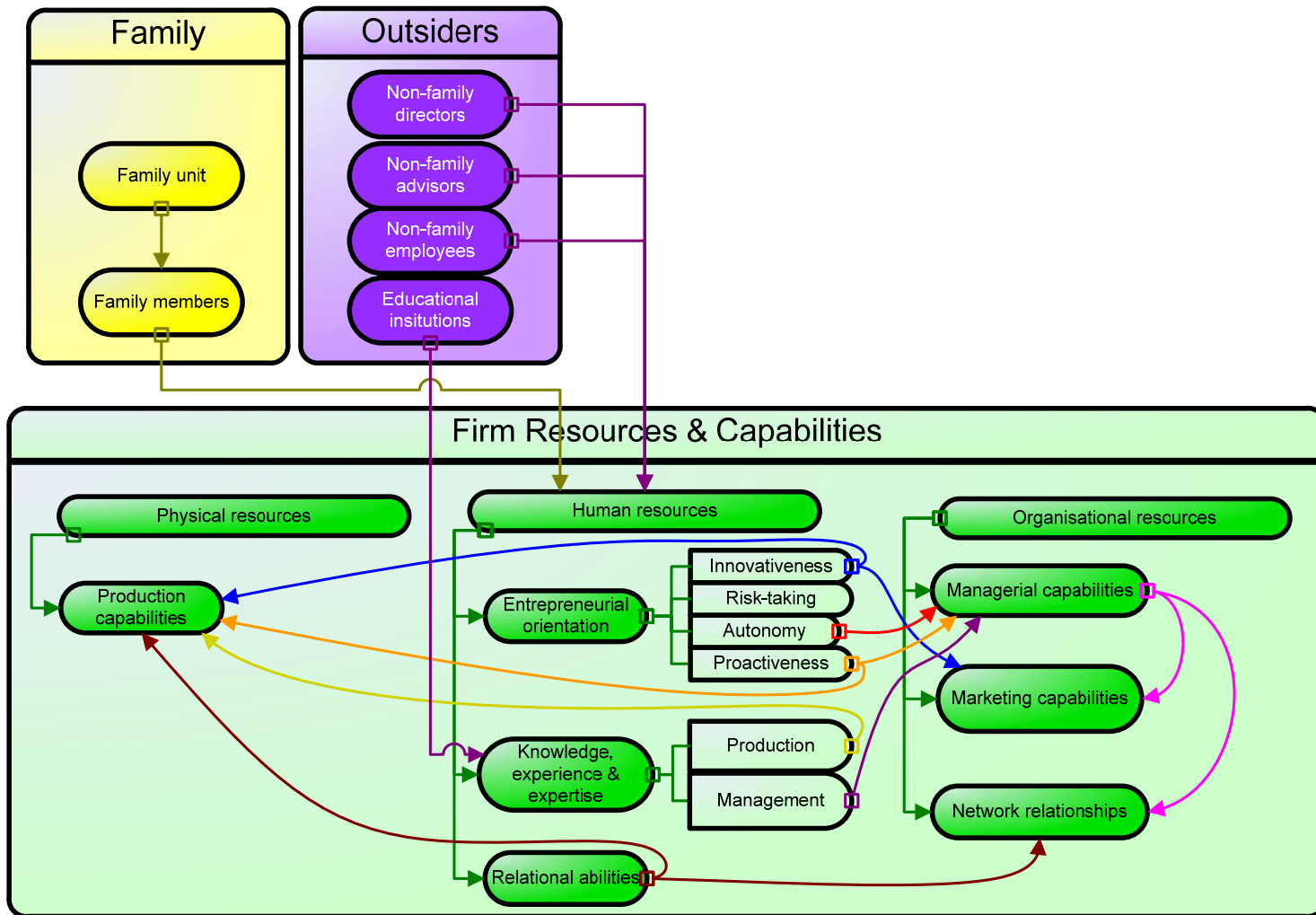
During the analysis of the case firms, aspects of the entrepreneurial orientation (EO) of the working family members who occupied leadership positions emerged as a significant influence not only on the commitment towards internationalisation, but also on the firm's ability to develop and leverage its capabilities in the international marketplace. These influences included the family leader's attitude towards risk taking, autonomy, innovativeness and proactiveness, which are discussed below.

#### **6.4.1.1 Risk taking**

Risk taking refers the degree to which a firm is willing to venture into the unknown, take on substantial amounts of debt, or make large resource commitments to pursue new opportunities. As discussed in Section 6.3, a family owner's attitude towards risk can determine whether a firm uses long-term debt finance and commits resources towards internationalisation-related strategies.

#### **6.4.1.2 Autonomy**

Autonomy refers to the independent action of an individual or a team bringing forward an idea and carrying it to completion (Lumpkin & Dess, 1996). In four firms (Bookworks, Classic Wines, Pioneer Wines and Starmould) it was evident that a manager's lack of autonomy restricted the use of a firm's managerial capabilities and consequently its ability to either execute an internationalisation strategy, or bring about the changes required (reconfiguring of resources, develop marketing capabilities) for internationalisation.



**Figure 6.3** Summary of influence of human resources on firm capabilities and network relationships

As reported in Section 6.2.1, family owners of one case firm experienced resistance from non-family managers to the implementation of a global vision for the business. In order to enact their vision, the family members in one case (Bookworks) made a particular non-family manager redundant in order to secure their autonomy. In the other three cases, family members restricted managers from utilising their expertise in their areas of responsibility. For example, in the case of Classic Wines, the autocratic management style of the family managing director, limited the general manager's ability to develop the marketing capabilities essential for international growth. History had repeated itself as the previous generation had also adopted a domineering management style, which continued to affect the firm years later:

[Claude's father] ruled with an iron fist 'til very late and very conservatively well into [his] 80s...He was a very intelligent, very vibrant person but hadn't moved enough with the times. I think that cost them [Classic Wines] 10 to 15 years. They could have been in a stronger position now. (Cameron, Classic Wines' non-family non-executive director)

Similarly, in the case of Pioneer Wines, the previous generation managed the business autocratically, and was not open to the ideas of others:

Certainly Grandpa's influence, limiting change, restricting change, being resistant to change had some internal implications and those suggesting great ideas were shooed off to the corner. 'Thanks for your idea but this is the way we do things around here.' And I think that has probably had some limitations. (Rowena, Pioneer Wines' family manager of exports)

One of the key reasons why succession to the next generation facilitated the internationalisation process of Pioneer Wines was that the successor introduced a management style that gave management greater autonomy:

I've had a very different management style to Father, which he has always had great difficulty with. He was a very dominant...hold all the reins, don't do anything unless I say so, typical of his era. Whereas I'm very much more of a team player. The success of the company in my mind is absolutely dependent on the success of the people who work here not me. (Richard, Pioneer Wines' family CEO)

I think one of the great things he [Richard, family CEO] does is that he hires people who are specialists and smarter than him in certain areas...I see so many companies that I worked with overseas or that exist in Australia or wherever where the managing director is too scared to have someone smarter than him. And Dad has never had that fear...his humility is incredible...But he does have a fantastic team surrounding him...A major decision wouldn't be made without the consultative process, but it is a consultative process, it's not a directive process. (Rowena, Pioneer Wines' family manager of exports)

As an example of this, as noted in Section 6.2.5, Richard (the successor) was much more willing to support the international expansion plan proposed by of the firm's managers.

#### **6.4.1.3 Innovativeness**

Innovativeness refers to engaging in and supporting new ideas, experimentation, and creative actions that may result in the development of new products, services, or technological processes (Lumpkin & Dess, 1996). Firm innovations were a key facilitator of the internationalisation of all the firms to varying degrees. As outlined in Table 6.2, the types of innovations included the development of unique product lines, product designs, product brands, and the development of cost competitive production processes. These innovations would not have been possible without the involvement of 'champions' who were instrumental in bringing about such innovations that assisted each firm's internationalisation. In six of the firms, it was the current or previous working family members that were pivotal in the firm's innovations. For example, the innovative orientation of the three family members was a key reason for the international demand for Polypro's products:

We're a inventive family. So we wanted to have an avenue that allowed us to use those sorts of skills that we had and develop them out. Build our business and then bring in other like-minded people into the business as well. (Peter, Polypro's family manager of product lines)

In the case of Starmould, its international success was made possible because of the innovative product design developed by the previous generation. However, one of the family members carried on that inventive spirit by developing a unique way to automate a particular production process, which enabled the firm to manufacture products at a globally competitive cost (a production capability).

However, as highlighted in two of the cases (Pioneer Wines and Woodcraft), even when family members felt that they lacked flair themselves, they could encourage and harness the expertise of outsiders, such as a non-family manager with expertise in sales and marketing, in order to drive international expansion. Ralph (Pioneer Wines' non-family director of sales and marketing) was responsible for the development of an innovative sub-brand specifically for the international marketplace, and was a key contributor to the firm's rapid international growth.

**Table 6.2 Innovation and the effect on internationalisation**

Firm	Type of innovation	Innovation attributable to	Effect on internationalisation
Bookworks	Development of unique product lines	Baldric (family CEO)	<u>High: International demand for product lines</u> [The firm's rapid growth in the UK] was an example of doing research here [Australia], being an innovator and only seeing very marginal success, then have research recognised about 8 to 10 years later in the overseas market... I think our ability to perform and survive and grow are embedded in our ability to create innovative solutions (Baldric, Bookworks' family CEO).
Pioneer Wines	Development of unique sub- brand specifically for overseas market	Ralph (non-family director of sales and marketing)	<u>High: International demand for brand</u> [XYZ branded range] had become the largest single contributor to Pioneer Wines' gross margins and the largest selling brand (Pioneer Wines, supplementary documentation).
Longwear	Development of unique product designs;	Leopold (Family CEO) & his cousin (previous managing director prior to retirement)	<u>Moderate: International demand for product line</u> Our [ABC design] we brought out ten years ago was different that what else was on the market. That was certainly innovative and recognised as such (Lewis, Longwear's non-family manager of sales).
Polypro	Development of unique product lines	Peter, Proctor & Parkin (family managers)	<u>High: International demand for product line</u> It [innovation] will be a big part of what happens for us in the future [international expansion]...both our products that we export [are].innovative, nobody even tried. We play with materials and our compositions for, well we don't stop, we're always looking. We are always doing new trials... we process product and everything is a little bit different. Nobody can find out how we're doing it...the [ABC] system, the innovative side of that is taking an idea and making it work. That's export potential and a joint venture soon. The [XYZ] system is innovative, it's way out there type stuff...I had a guy who...looked at it and said, you're nuts...why did you ever try that. Nobody told us we couldn't...So definitely innovation (Parkin, Polypro's family manager of product development).

**Table 6.2 Innovation and the effect on internationalisation (continued)**

Firm	Type of innovation	Innovation attributable to	Effect on internationalisation
Classic Wines	Development of unique product line	Connor (family managing director)	<p><u>Moderate: International demand for product line</u></p> <p>[Innovation has been] pretty important because [XYZ] is one of the strong lines of that is sold overseas. We sell far more [XYZ] overseas than we do in Australia (Claude, Classic Wines' family executive director).</p> <p>[The] technology that...we've been working on it for about six years, that's going to allowed us to make styles of wine that's going to suit warmer climates like Asia (Connor, Classic Wines' family managing director).</p>
Newline	Development of unique product lines	Neil (family CEO) & his father (research & development)	<p><u>High: International demand for product line</u></p> <p>Newline has thrived on an approach that combines commitment to meeting customer needs with a drive for world-class, innovative product development and design...Newline specialises in the manufacture and supply of high-quality, innovative products for the [XYZ industry] (Newline, supplementary documentation).</p>
Starmould	Development of unique product design	Seymour (previous family CEO prior to retirement)	<p><u>High: International demand for product line</u></p> <p>Dad designed it, he was the first one to make the [ABC] design'...No one ever got it right in terms of causing us major loss of market share (Sean, Starmould's managing director).</p>
	Development of unique production processes	Shane (family manager of production)	<p><u>Moderate: Ability to produce products at a globally competitive cost:</u></p> <p>Now the automation has enabled us to...compete with factories in China. Instead of having investment in plant and equipment they have 200 people hand assembling certain products. So we are in a position now that we are quite comfortable that we can compete relatively well with Asian competition (Simon, Starmould's new family CEO and owner).</p>
Woodcraft	Development of unique product range	Outsider (commissioned a designer)	<p><u>High: International demand for product lines</u></p> <p>Certainly got to be innovative. The success with the Japanese, which I keep going back to, was probably the start of a successful style, range or producing a product. Commissioning a designer, working with them to put a practical, put a concept into a practical manufactured product. So that was fairly risky (Wilbur, Woodcraft's family general manager).</p>



#### 6.4.1.4 Proactiveness

Proactiveness refers to seeking new opportunities, which may or may not be related to the present line of operations, and the introduction of new products and brands ahead of competition. It also includes strategically eliminating operations that are in the mature or declining stages of the business cycle (Lumpkin & Dess, 1996).

All of the firms in this study exhibited characteristics of proactiveness, which was found to contribute to their production and managerial capabilities. With regard to production capabilities, many of the innovative product lines highlighted in Table 6.2 were introduced ahead of those of competitors. The production capacity that Pioneer Wines enjoys today can largely be attributed to the foresight of the family CEO from a previous generation in carrying out a major vineyard expansion during a downturn in the industry:

I think most people thought he was mad. (Richard, Pioneer Wines' family CEO)

That visionary move started the... backbone of our wine export drive. (Pioneer Wines, supplementary documentation)

The contribution that proactiveness made to managerial capabilities was particularly evident at Newline and Polypro, which exited declining industries and entered more promising ones because of the family's ability to identify new business opportunities. The rapid growth experienced by Pioneer Wines in North America was the result of developing a unique brand ahead of its competitors.

However, the markets in which the case firms pursued business opportunities were influenced by their commitment to internationalisation. Those firms that lacked commitment (Longwear and Woodcraft) sought new opportunities for their products primarily in the domestic marketplace. Conversely, most firms which were committed towards internationalisation proactively sought new business opportunities for their products both domestically and internationally. The two exceptions to this were firms which passively pursued (opportunistic) internationalisation because of the negative outcomes associated with internationalisation (Polypro) and the production mindset of management (Classic Wines):

Where we've succeeded is where we've almost been reactive...Where we've been proactive and trying to introduce and almost force it into a market, it has not been well done. (Proctor, Polypro's family manager of production)

I think to me it feels like we're just standing still...we should and we could be doing just so much more if you were prepared to put the resources in to the areas that you know, would give you that leverage for growth. (Clare, Classic Wines' family general manager)

#### **6.4.2 Knowledge, experience and expertise of executive management team**

As argued in Chapter 2, successful international growth requires family firms to develop the requisite organisational capabilities. As discussed later in Sections 6.5.2, 6.6.1, 6.6.2 and 6.6.3, the capabilities that were found to be critical for the successful internationalisation of the family firms included production, managerial and marketing capabilities, as well as international networks. The family firms' human resources were found to be the key determinant of the extent to which they had developed these capabilities.

As highlighted in Table 6.2, one of the major contributions that family members made towards a firm's production capabilities was their expertise in the development of unique product lines, product designs, and new production processes. One of the reasons why these eight case firms had survived the test of time (age of firms ranged from twenty-five to 120 years) was because the family members were highly technically proficient in what they manufactured. In multigenerational firms, this manufacturing expertise had been passed down the generations through 'hands on' work experience within the business:

From this humble beginning, an unbroken succession of family members has been involved in the venture. The knowledge and skills required to run an ever-growing business have successfully passed from generation to generation. (Pioneer Wines supporting documentation)

In some cases, this expertise had been accompanied by formal education, particularly in industries that required highly technical knowledge such as winemaking. In these cases, education was pivotal in bringing about the changes required to improve the firm's production capabilities:

And I guess that's what qualified family members can actually achieve in a family business, they can actually go straight to the jugular rather than make more mistakes along the way. (Connor, Classic Wines' family managing director)

Although the experience gained by family members working in the business assisted the development of the firm's production capabilities, the same could not be said about the firm's managerial and marketing capabilities. As highlighted in Table 6.3, most of the family managers of each firm did not have outside managerial experience. Also, apart from

one firm (Pioneer Wines), 50 percent or less of the family managers had business qualifications, although most had received management training. Education was found to assist family members in developing their managerial expertise. For example, family members from two firms (Newline and Bookworks) found that undertaking formal management education (e.g. an MBA) increased their understanding and expertise in management:

I learnt a lot about marketing, learnt a lot about, even from an accounting point of view, just how to read documents more closely and understand them...Again, I picked subjects that were particularly interest to me and hence a lot of marketing subjects, because that was probably an area that we were lacking in here... I know that that has been used. (Neil, Newline's family CEO)

Although the education of family members benefited the firms, in most cases the development of the firm's managerial and marketing capabilities required the employment of non-family managers with the requisite skills:

With the experience that I've had I think there's probably a lot I can add in that side of the business...[The family] has got to a stage where they really can't manage everything themselves and they need professional management which is a very difficult step. I think they're taking that step. I think they can see some value from me in that regard. (Patrick, Polypro's non-family manager of sales and marketing)

As Table 6.3 illustrates, all but one firm (Woodcraft) employed a non-family manager, and in most of these cases, this resulted in a significant development in the firm's capabilities. For example, Richard (Pioneer's family CEO) had the managerial expertise to recognise the changes that needed to occur in order to grow internationally, but did not know how to bring those changes about. Through the appointment of Ralph (Ralph, Pioneer Wines' non-family director of sales and marketing), Pioneer Wines was able to bring about those changes:

But I [Ralph] also think you are never going to get ahead unless you're prepared to embrace conflict and drive change...I think he [Richard] was desperate for it to happen, he just didn't have the plan and didn't know how to go about it. When I came along with a few bright ideas he said, that's it! That's exactly what I wanted and this bloke has got it, he's got a bit of nous. Okay Ralph, you do it. (Ralph, Pioneer Wines' non-family director of sales and marketing)

**Table 6.3 Composition, education and experience of management**

Case	Executive management team			# (%) with business qualifications			Whether any manager received mgmt. training during the year	Family managers with outside managerial experience
	Total # of managers	# (%) family	# (%) non-family	Family managers	Non-family managers	Total # of managers with business qualifications		
Bookworks	4	2 (50%)	2 (50%)	1 (50%)	2 (100%)	3 (75%)	Yes	1 (50%)
Starmould	3	2 (66%)	1 (33%)	1 (50%)	0 (0%)	1 (33%)	No	0 (0%)
Classic Wines	4	3 (75%)	1 (33%)	1 (33%)	0 (0%)	1 (25%)	No	1 (33%)
Woodcraft	3	3 (100%)	0 (0%)	1 (33%)	n.a.	1 (33%)	Yes	0 (0%)
Polypro	5	4 (80%)	1 (20%)	2 (50%)	1 (100%)	3 (60%)	Yes	0 (0%)
Newline	8	4 (50%)	4 (50%)	1 (25%)	2 (66%)	3 (38%)	Yes	1 (25%)
Longwear	7	1 (14%)	6 (84%)	0 (0%)	1 (17%)	1 (14%)	Yes	0 (0%)
Pioneer Wines	7	1 (14%)	6 (84%)	1 (100%)	6 (100%)	7 (100%)	Yes	0 (0%)

n.a. = not applicable

In the case of Starmould, the exponential international growth coincided with the appointment of an experienced non-family sales and marketing manager (Salvador). The need for this expertise had been overlooked for some time, largely because Sean (Starmould's family managing director) had an overrated view of his own marketing ability:

Sean [family managing director] thought that he was a good marketer. And he had a lot of the basics there but he wasn't a salesman. (Salvador, Starmould's non-family manager of sales and marketing)

The culmination of Salvador [non-family manager of sales and marketing] with Sean's export focus led to a very interesting combination of people in the company. And the experience and knowledge that Salvador brought to the company, about marketing, merchandising and promotions from his background in UK and Europe was exactly the kind of fit that the company required to grow its export business. So the combination of the two led them working together to do this. (Simon, Starmould's new family CEO and owner)

These non-family managers were drivers of the changes required for internationalisation, which are discussed further in Sections 6.6.2 and 6.6.3.

The changes brought about by these non-family managers would not have been possible were it not for the fact that the family management gave these managers the autonomy to carry out such changes (refer Section 6.4.1). In addition, the managers had prior experience with other family businesses, which equipped them with the skills for bringing about change while balancing the needs of both the owning family and the business:

If I [Ralph] had of come from a corporate background without knowledge of family businesses and how they operate I think I would have struggled to gain credibility. I think I probably wouldn't have had the benefit of past experience in handling the family environment to be able to push those [changes] through. (Ralph, Pioneer Wines' non-family director of sales and marketing)

In the case of Starmould, before the employment of its current non-family manager, it employed another non-family manager with little effect because he clashed with the family managing director and did not have the requisite skills to drive international expansion. These findings suggest that for a firm to be successful in building its organisational capabilities through the employment of a non-family manager, it is critical that he or she can fit into the culture of the family business in addition to possessing the requisite expertise:

But having said that you then need the people, whether it is family members or outsiders that actually can deal in that worldwide market. And that's the really difficult thing to do. It's not something you can just learn overnight. You can buy in some expertise but if you do that then you've got to make sure that if you buy people in to augment the family focus if you like, you need to make sure that you've got three important things. And that's technical expertise/ability, experience and probably the most important one is chemistry. So that there is a good cultural fit with the person that comes in. (Raymond, non-family finance manager of Pioneer Wines)

Other firms such as Bookworks, Polypro and Newline had recently appointed non-family managers with the specific purpose of developing their marketing capabilities. Because of the domineering nature and production mindset of the managing director of Classic Wines, the need for such an appointment was not well understood and strongly resisted.

As was particularly evident in Pioneer Wines, one of the advantages that family businesses can have over their non-family counterparts is the level of commitment from their employees. Roger, the non-family manager who was responsible for initiating the international expansion of Pioneer Wines in the late 1980s, had been with the firm all his working life and was seen as a quasi-family member by other employees. His commitment to the owning family, and his drive and willingness to learn (as he had no experience in export) were key reasons for the firm's international success:

And I think he effectively deserves a great deal of praise and probably credit for driving that [international growth] because the guy makes me look like a loafer. He travelled 35 weeks of the year out of 52, all around the globe setting up markets and did it for 10 years and really has an enormous work ethic and potential to work. He was single and he gave his life basically to the company and still does. Now he's married but has no children and he just worships the family. (Ralph, Pioneer Wines' non-family director of sales and marketing)

As demonstrated in one case firm (Longwear), the employment of non-family managers does not always lead to the development of a firm's organisational capabilities. As highlighted in Table 6.3, only 17 percent of this firm's non-family managers had business qualifications. For example, its accountant had no formal business training and was essentially an accounts clerk as she was not responsible for tasks typically carried out by accountants, such as the development of budgets and arranging the finance for purchasing assets. Many of the responsibilities and decision making rested on the shoulders on the family CEO alone.

Several of Longwear's non-family managers lacked outside business experience (such as the accountant and sales manager) as they had been employed by Longwear for most of their working lives. As a consequence, it was evident that the firm had limited managerial and marketing capabilities to grow the business:

Sometimes I think, we should be out there more, we should be really known out there...Again I think the whole company is been very conservative in everything it does. (Lola, Longwear's non-family accountant)

#### **6.4.3 Valuable role of outsiders**

In addition to building a firm's capabilities through education and the hiring of experienced non-family managers, some firms overcame the limited management expertise of the family managers by utilising the expertise of outsiders. This was achieved in several ways, including the establishment of an active board of directors, the use of consultants, government and industry associations, or through an advisory board.

In the case of Classic Wines, appointment of a non-family, non-executive director to its board assisted the firm in developing the international network relationships that were required for international growth. Because of his influence through the board, Cameron (non-family, non-executive chairman of the board) successfully brought about changes to family attitudes so that family members regularly attended international trade shows, which were crucial to building the brand name internationally:

Travelling overseas to promote the company's wines used to be viewed as both an aggravation - because it interrupted 'the real work' - and a cause of some embarrassment, because the family makes no distinction between tripping overseas on a wine promotion and having a holiday... this is one aspect of the business that's really changed since taking our non-family chairman on board.. (Caleb, Classic Wines' non-executive family director)

Instead of setting up a formal board of directors, Polypro and Newline set-up regular meetings with an advisory board that consisted of people external to the business with expertise in areas in which the family perceived the firm was lacking. Using an advisory board to build the firm's managerial capabilities was seen as critical for the successful international growth of these firms:

I spent so much of my time fighting fires and you know that kind of way of doing business that won't work any longer as the business grows, so I want some better structure in the organisation. I think by having a formal system like an advisory board it will force the rest of us to, and myself as well, to maybe become that little more formal, but also bring knowledge from these people that have worked in much larger organisations. (Neil, Newline's family CEO)

Newline could not have grown to its current size without the assistance of an Australian state-based government agency (Centre for Innovation, Business and Manufacturing or CIBM) that offered free advice to SME manufacturers. CIBM assisted the family in developing the firm's strategic plans for growth, quality assurance programs, and establishing an advisory board.

As with the employment of non-family managers, the use of outsiders (such as advisors or non-family, non-executive board members) is only of value to the family business if they are firstly capable, and secondly, possess the competencies in areas that are needed. Polypro was an example of how poor advice from outsiders can lead to substantial financial losses when internationalisation is attempted. Firstly, the family acted on poor advice from a family friend with regard to entering the South American market through a joint venture:

He [the family friend and advisor] is a real snake. They trusted them, they trust a lot of people and they're snakes...[He] was only looking out for himself. (Phoebe, Polypro's family manager of finance)

In addition to this, the external accountant who had served the family for many years was inadequately prepared for dealing with the complexities of international joint ventures, something the family only became fully aware of after the failure of the joint venture:

Half a million dollars later [as a result of the failed joint venture]...So I suppose it is just one example for us but it is also an example of professionalism that's required and it's not making the same mistakes again...So that's why, if you are going into these other countries, go with the professionals. (Proctor, Polypro's family manager of production)

The story of Polypro serves to emphasise the fact that as a business grows and gets involved in increasingly complex business arrangements, it is possible to outgrow the expertise of its external accountant. As a consequence, in order for the firm to develop the managerial capabilities required for growth, it may need to switch to an accounting firm with the requisite skills.



#### 6.4.4 Relational abilities of family members

The working family members were found to have a substantial influence over the development of a firm's network relationships with other businesses around the world. As discussed later in this chapter (Section 6.6.1), these international network relationships played an important role in the internationalisation of the firm. Many of the family business owners and managers were characterised by their long-term orientation towards business, honesty and integrity, the emphasis on personal relationships, the desire for mutually beneficial business relationships, and accessibility to others. These characteristics were found to facilitate the development of business relationships with other businesses in the international marketplace, particularly other family business owners who shared similar characteristics.

Table 6.4 provides examples of characteristics that fostered the development of international business relationships. The honesty and integrity of family members assisted firms in developing their international network relationships, and also delineated their choices of business partners. In Polypro's experience, the integrity of the family influenced the decision to cease trading to a particular country where the payment of bribes was a requirement for conducting business:

If you need to do business that way we don't need to do business with you. I'm not interested. So that's a fairly strong ethic for us, is honesty and integrity. It is non-negotiable. That's it, written on the board: honesty and integrity. (Peter, Polypro's family manager of product lines)

Pioneer Wines was a model example of how the characteristics of family members outlined in Table 6.4 can facilitate the internationalisation of the firm. Pioneer Wines was awarded a lucrative contract by a large North American family business because of the attitudes and behaviour of the family members. Although several other Australian firms were considered suitable in terms of the quality and price of the product, Pioneer Wines was chosen because the firm developed a rapport with the North American family business owners, who recognised the Australian family's sense of honesty and integrity, and their long-term commitment to the business:

There's cultural advantages, and this is the thing that came out of the feedback as to how and why we were successful... There's the price, the cost, the supplier, they've got to be happy with what they take... If they're all equal amongst the people tendering who they actually want to do business with, I think culturally... in their heart of hearts they wanted to do business with another family company. And they just liked ours, they liked ours and they liked the people. I got on incredibly well with them. (Ralph, Pioneer Wines' non-family director of sales and marketing)

Therefore, although they may lack expertise in marketing, family members can play an important role in developing the family firm's international network relationships, which in turn, drive the internationalisation of the firm. For this reason, it is critically important that family members are willing and able to travel internationally to build such relationships through exhibiting at international trade fairs. However, as highlighted in the previous chapter (Section 5.5.2), the demands of international travel not only placed strain on family managers, but also on their partners and children, as well as on the management of the business as a whole. As a consequence, it is an advantage if a family business has family members who enjoy international travel and have in place sufficient managerial capabilities to cover family managers while overseas. It is also important to select family members who are competent at networking, and who are able to present a favourable image of the business overseas:

Again, Sean [Starmould's family managing director] fell out with quite a few [international customers] along the way and that was [because of] his character traits...He's a lovely guy but he either likes you or he hates you and if you weren't interested in his product then he didn't want to know you. (Salvador, Starmould's non-family manager of sales and marketing)

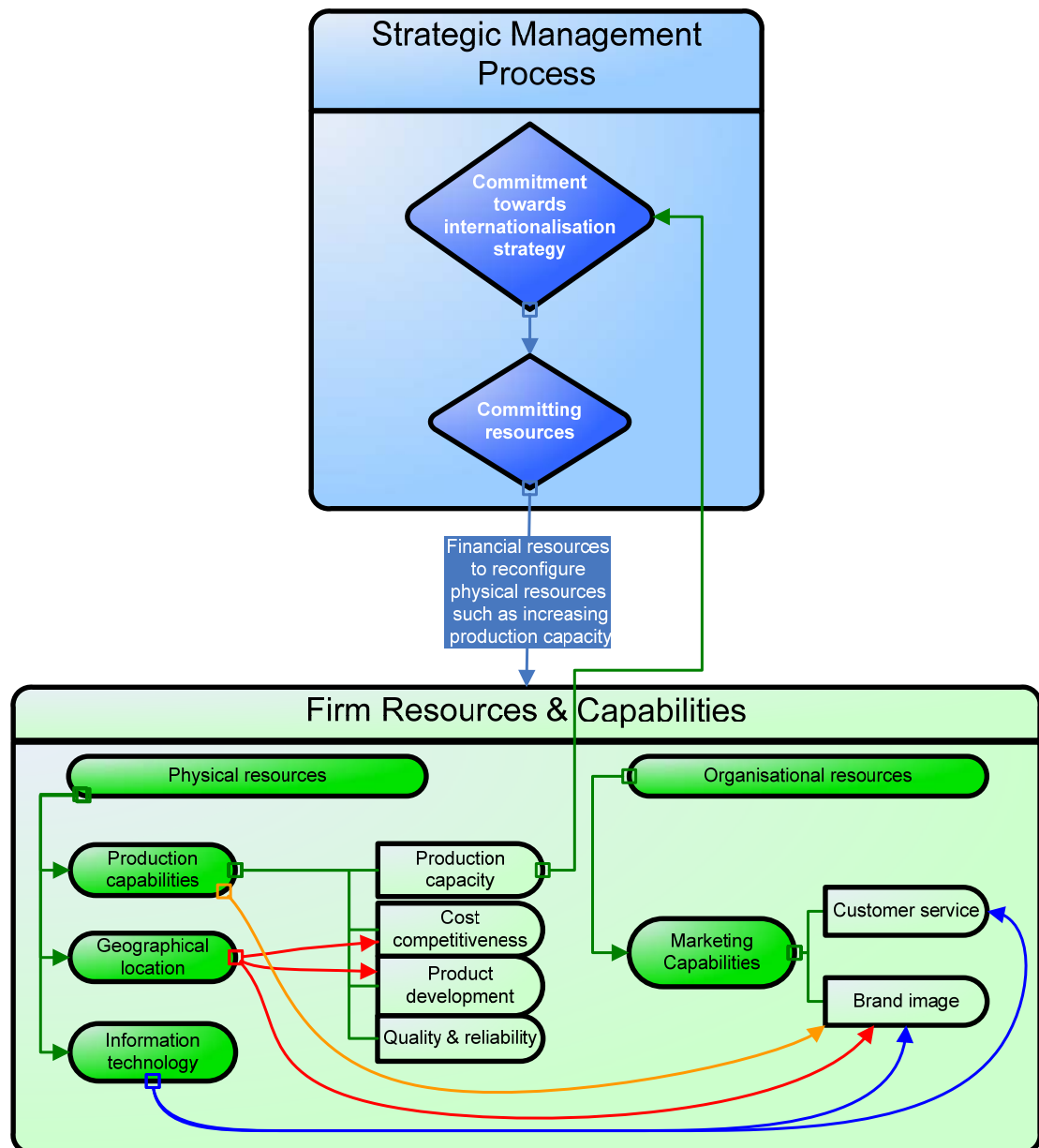
Also, as discussed later in Section 6.5.2, personal relationships formed between customers and working family members were critical to the development of the production capabilities (product development) of several family businesses.

**Table 6.4 Characteristics that foster the development of international business relationships**

Characteristic of family members	Observed in	Examples
Long-term orientation towards business	All cases	For us, a major point of difference from our major competitors is that we're family-owned. Because...most of them and certainly the bigger ones are all corporate entities which tend to have a very short-term time horizon for getting things done...Their vision is very much focused on hitting numbers for the next quarterly board meeting...therefore there's some pretty erratic changes of direction in terms of what happens and a lot of customers don't like that. They like stability and long-term confidence and they like to see companies that will take a loss to see profit into the future. And public companies tend not to want to do that (Roger, Pioneer Wines' non-family manager of North American office).
Personal relationships	All cases	I think because it has been Baldrick [family CEO] and myself visiting we have formed friendships with these particular people. So therefore it is much more personal (Beth, Bookworks' family manager of sales).  Really makes you committed to want to help him launch [a new product line] in a successful way. And that personal relationship keeps me fuelled all year long telling people how nice the family is (Curtis, Classic Wines' North American distributor).
Honesty and integrity	All but Woodcraft	We wanted high quality operations, preferably family-owned, with a reputation for quality, honesty, integrity and taking a long-term approach (Curtis, Classic Wines' North American distributors).
Mutually beneficial relationships	All but Woodcraft	I think that people feel when they're dealing with you, you're not there to rip them off because you want the long-term benefit for both companies. I push that a lot, that this is a, that they're dealing with people that will help you, you know, with marketing and what have you (Neil, Newline's family CEO).
Accessibility	All except Bookworks, Starmould & Classic Wines	And our customers love doing business with people who are part of the family and they love knowing that they can pick up the phone and talk to Dad in a heartbeat. And we are very receptive to that. We will not ever, we will talk to any customer regardless of their importance...Without our customers we're nothing. And I think that whole idea is pretty valuable and may not be something found in a non-family-owned company (Rowena, Pioneer Wines' family manager of exports).

## 6.5 Physical resources

Physical resources include the technology used in a firm, its associated production capabilities, its geographical location and access to raw materials (Barney, 1991). They affect businesses in a variety of subtle and not so subtle ways. As highlighted in Figure 6.4, physical resources were found to be instrumental for the development of the production and marketing capabilities required for internationalisation.



**Figure 6.4** Summary of Influence of a firm's physical resources on its capabilities

### **6.5.1 Changes to production infrastructure**

Production infrastructure refers to the physical assets and processes used by the firm to manufacture products for its customers. Analysis of the eight case firms revealed that their ability to grow internationally was dependent on changing their production infrastructure to develop the globally relevant production capabilities, which are outlined in Section 6.5.2.

Of the six firms committed to internationalisation, four had to undertake substantial changes (reconfigure, add, discard) to their production infrastructure in order to develop some or all of the production capabilities required for internationalisation. The development of these production capabilities would not have been possible unless the family members had been willing to embrace change and commit the firms' financial resources to efforts to bring change about:

The company had historically been [producers of XYZ products] and Dad really saw, it was very clear that the industry was changing very rapidly in the late seventies, it had changed very rapidly in the late seventies and we were missing the boat. The wine industry was moving from [XYZ] to...the table wine market. So it was a real paradigm shift for our company's operation and with it went a lot of investment decisions that needed to be taken. (Rowena, Pioneer Wines' family manager of exports)

Examples of the changes made by these four firms, and the associated production capabilities that were developed, are outlined in Table 6.5.

### **6.5.2 Production capabilities required for internationalisation**

Production capabilities refer to those manufacturing capabilities that enable the firm to produce globally competitive products. They arise from combining the firm's physical resources with other firm resources such as the expertise of its human resources. As discussed later in Section 6.6.3, the production capabilities of the case firms influenced the brand image of the firm.

#### **6.5.2.1 Production capacity**

As already mentioned in Section 6.2.4 of this chapter, the availability of production capacity for international growth was found to influence a family firm's commitment to internationalisation. Limited production capacity led to two of the firms (Longwear and Woodcraft) to commit all of their capacity towards supplying the domestic marketplace, largely because of superior product margins.

**Table 6.5 Changes to production infrastructure**

<b>Case firm</b>	<b>Examples of changes made to production infrastructure</b>	<b>Production capabilities developed which were important for internationalisation</b>
Classic Wines	Changes to grape varieties grown, extension of vineyards, upgrade to modern winemaking machinery including installation of new crushing facilities and introduction of refrigerated storage tanks.	Production capacity Cost competitiveness New product development Quality & reliability
Pioneer Wines	Changes to grape varieties grown, extension of vineyards, upgrade to modern winemaking machinery including installation of new crushing facilities, introduction of refrigerated storage tanks, introduction of computerised drip irrigation watering system, establishment of new bottling facility. Also implemented quality assurance system.	Production capacity Cost competitiveness New product development Quality & reliability
Newline	Purchase of several new machines, sale of old machinery, construction of new building for manufacturing, implemented quality assurance system.	Production capacity Cost competitiveness New product development Quality & reliability
Starmould	Purchase of several new machines, 'in house' development of an innovative assembly system to automate labour intensive processes	Production capacity Cost competitiveness Quality & reliability

Expenditure on infrastructure by the four firms committed to internationalisation, assisted them in increasing their production capacity (Table 6.5). Although a family firm may be committed to internationalisation, as highlighted in Section 6.3.2, the risk-averse nature of family leaders can inhibit them from assigning sufficient financial resources to the building of production capacity. This was demonstrated in the case of Classic Wines. The firm had substantial potential for international growth and was committed to internationalisation, but the family leaders were unwilling to invest in order to substantially increase production capacity until they were certain of future sales.

#### **6.5.2.2 Cost competitiveness**

In all but one of the firms (Polypro), it was observed that the ability to manufacture products at a globally competitive cost significantly influenced their ability to grow internationally. Pioneer Wines, for example, received recognition from Australia's leading wine critics for the value for money of its products. The ability to offer this value was very important in the firm's successful internationalisation. As with Classic Wines, this market advantage stemmed from the firm's production infrastructure, including its vineyards:

Access to company owned grapes give us a stable cost base. That's very important for international sales. (Ralph, Pioneer Wines' non-family director of sales and marketing)

Conversely, despite proactively adopting modern manufacturing technology and processes, Longwear's manufacturing costs were perceived by the owners to be a serious inhibitor to its internationalisation:

It is pretty difficult if we've got high wages, high cost in manufacturing and then we have to shift the [XYZ] half way around the world and be subject to all the import duties and so forth that exist around the world. Plus value-added tax takes the last little business, so it makes it difficult for us to sell our product [overseas]. (Leopold, Longwear's family CEO)

As noted earlier, Longwear's family managers made a conscious decision not to outsource production. The family CEO was more concerned with the ongoing employment of the firm's employees than with adopting the strategy of the firm's competitors and shifting production to cheaper manufacturers in Asia.

The relative importance of being able to manufacture products at a globally competitive cost was influenced by the source of a firm's competitive advantage. For example, in the case of Bookworks, Polypro, and Newline, their international competitiveness stemmed primarily from their ability to develop innovative, leading edge product lines rather than their cost competitiveness.

As highlighted in Section 6.4.1, the innovation in manufacturing processes assisted family firms to remain cost competitive in the international marketplace.

### **6.5.2.3 Product development**

The internationalisation of the family firms was found to be influenced by the ability to modify their existing product range to meet the needs of the international marketplace. As reported in Chapter 5 (Section 5.4.4), all but two of the firms (Polypro and Longwear) either adapted their existing product range or developed new product lines specifically for the international marketplace. For example, one of Bookworks' key competitive strengths was its ability to adapt and publish its books in many different languages:

We are comfortable working in scores of the world's languages and it gives us a great competitive advantage. (Bookworks, supporting documentation)

Pioneer Wines' major restructuring of its production infrastructure enabled it produce product lines in demand internationally:

The vineyard project will increase our desirable product mix. We've got a number of varieties planted out there which were in demand at one time one way or another but now no longer top of the tree, if you like. (Raymond, non-family finance manager of Pioneer Wines)

As demonstrated in three case firms (Bookworks, Polypro and Newline), the ability to modify an existing product range, or develop new (and sometimes innovative) product lines, was facilitated by the strong personal relationships between working family members and their customers:

And because we have this intimacy with our [end users] and networks we are able to develop content which is credible and relevant to other countries as well, in a way which they've [our competitors] been unable to develop. (Bosworth, Bookworks' non-family manager of marketing)

As was the case with Starmould, a family firm did not necessarily have to invest in new infrastructure to be able to develop new products required for the international marketplace. Rather than investing in new machinery, Starmould imported the complementary product lines in order to meet the diverse needs of its international customers. Because of the production mindset of the previous owners, Salvador (Starmould's non-family manager of sales and marketing), was only able to bring about this change after the business was sold to another family:



We're doing a whole range of different accessory lines and we're selling a hell of a lot more of these now... We don't make them, we import them because it's not worth tooling up for... You've got to offer a range of products even if it is outside your norm. And that's what the previous owners couldn't understand... now we have regular shipments coming in from overseas..., which supplement our products. Again, Sean [Starmould's family managing director who sold the business during this study] would not let me invest the money in that stock, where Simon [Starmould's new family CEO and owner] has and we're turning the stock over that much faster. (Salvador, Starmould's non-family manager of sales and marketing)

The ability of a family firm to harness the innovative abilities of its employees to develop new product lines was found to be one of the major influences promoting internationalisation. All but two of the firms (Starmould and Longwear) had received national and/or international awards for their product designs. As highlighted earlier in Table 6.2, each firm had been able to develop unique products that had had a positive impact on international growth.

The rapid international growth experienced by Starmould, for example, was largely attributable to a product designed by the previous generation. The product had enabled the firm to achieve a dominant position in the domestic marketplace. This domination had subsequently generated the funds required for the successful promotion and sale of the same product line overseas. Although Classic Wines, Longwear and Polypro were not proactively looking to grow internationally, it was their innovative product lines that drove their international sales.

#### **6.5.2.4 Quality and reliability**

Another production capability that was important for the internationalisation of the family firms was the ability to reliably produce and deliver products of a high quality. In the case of Newline and Pioneer Wines, which proactively pursued internationalisation, changes to their production infrastructure and the implementation of managerial processes (quality assurance programs) were important in achieving the quality standards required for international growth:

Achieving this certification opens doors to significant commercial opportunities. (Pioneer Wines, supplementary documentation)

Even for those firms that were not proactively pursuing internationalisation (Classic Wines, Longwear and Woodcraft), their ability to reliably produce high quality products enhanced their reputations (brand image) and generated interest from overseas buyers. For example, one of Classic Wines' local agents recommended the firm to a North American distributor on the strength of its reputation in the local marketplace:

We wanted high quality operations, preferably family-owned operations with a reputation for quality and honesty and integrity and taking a long-term approach. (Curtis, Classic Wines' North American distributor)

Longwear, likewise, is approached regularly by people from overseas wanting to purchase its products:

We stand by our motto of the Best Aussie [XYZ manufacturer] and we have an honest reputation for quality. (Longwear, secondary documentation)

People write and say they're the most comfortable [XYZ product] I've had, I need some more and I can't get them over there, what can I do. So I think that's all just word of mouth I think. I think that's just satisfied customers. (Lola, Longwear's non-family accountant)

In the case of Woodcraft, being quality producers was one of the key reasons why a designer was willing to enter into a joint venture with the firm for the purpose of developing product lines for the Asian marketplace:

We flew the designer out here so he could see our quality and he was more than happy with what he saw. (Wayne, founder of Woodcraft)

### 6.5.3 Information technology resources

All but two of the firms (Bookworks and Polypro) indicated that their information technology (IT) resources contributed to their internationalisation for three reasons. Firstly, the use of a company website was important for developing brand awareness in overseas markets, and led to sales opportunities overseas. Pioneer Wines, for example, commenced sales to Asia as a consequence of a distributor 'logging onto its website' (Pioneer Wines, secondary documentation). Woodcraft and Longwear had sold their products to a number of foreign markets solely through their websites:

People who obviously hit on the web and find our product there. And again a lot of them are second time users. (Lola, Longwear's non-family accountant)

Conversely, as in the case of Classic Wines, having an inferior website compared to one's competitors was perceived to have a negative effect on the internationalisation of the firm:

It wouldn't appeal to you and then reinforce your desire to become a loyal Classic Wines customer. (Caleb, Classic Wines' non-executive family director)

Secondly, IT assisted family firms in providing a high level of customer service through the ability to regularly and easily communicate with their international customers:

Because of the internet...our communication with our customers overseas is relatively simple and doesn't require us to jump on a plane every two weeks to go and visit customers and sort out problems...when there is an issue it is one that tends to be relatively minor and it can be sorted out relatively quickly. (Simon, Starmould's new family CEO and owner)

Finally, IT assisted family firms (Starmould) in gathering information on overseas markets for the purposes of developing their internationalisation strategies, including the identification of potential buyers and competitors in those markets, and product pricing.

#### **6.5.4 Geographical location**

The geographical location of the firms was perceived to both facilitate and inhibit the internationalisation of the family firms. In five of the cases (Bookworks, Classic Wines, Pioneer Wines, Starmould and Longwear), being 'Australian' manufacturers was perceived to positively influence their brand image:

So we stamp Australian made all over our products wherever we can and that differentiates us against cheap Asian competition. And we market that very heavily. (Simon, Starmould's new family CEO and owner)

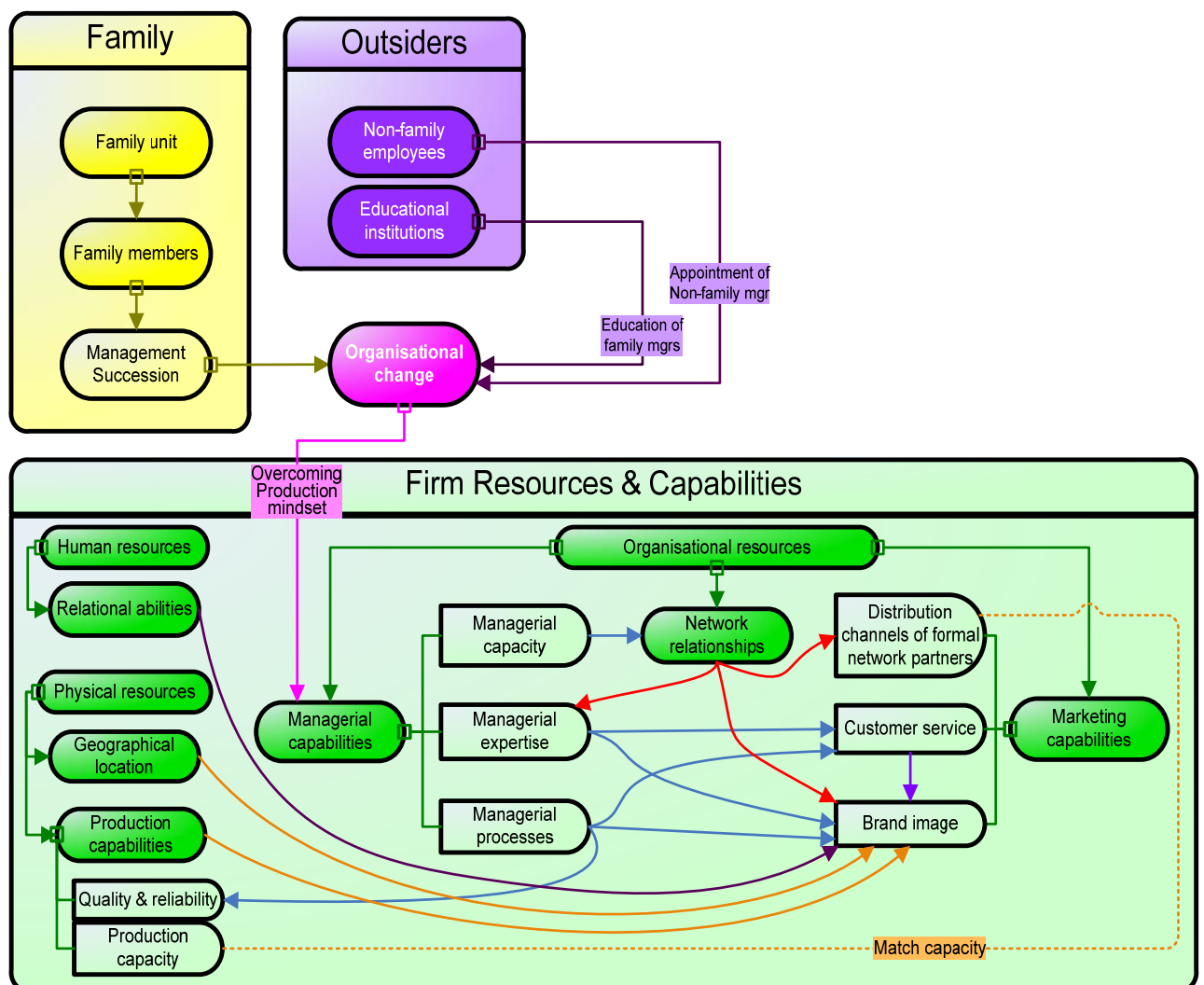
Geographical location has a significant influence on brand image in the wine industry. Pioneer Wines and Classic Wines have been able to compete with wineries in foreign markets because they reside in Australian wine regions that are well regarded internationally for their targeted market segments. In addition to brand value, being located in Australia has enabled one firm (Bookworks) to access resources (expertise) not readily available in other countries, enabling it to produce products that have been in high demand internationally.

Despite these advantages, a number of firms indicated that they were at a distinct disadvantage because of Australia's geographical location relative to important international markets:

The distance and the freight costs are the two things that are hardest to overcome. (Nerida, Newline's family manager of customer service)

## 6.6 Organisational resources

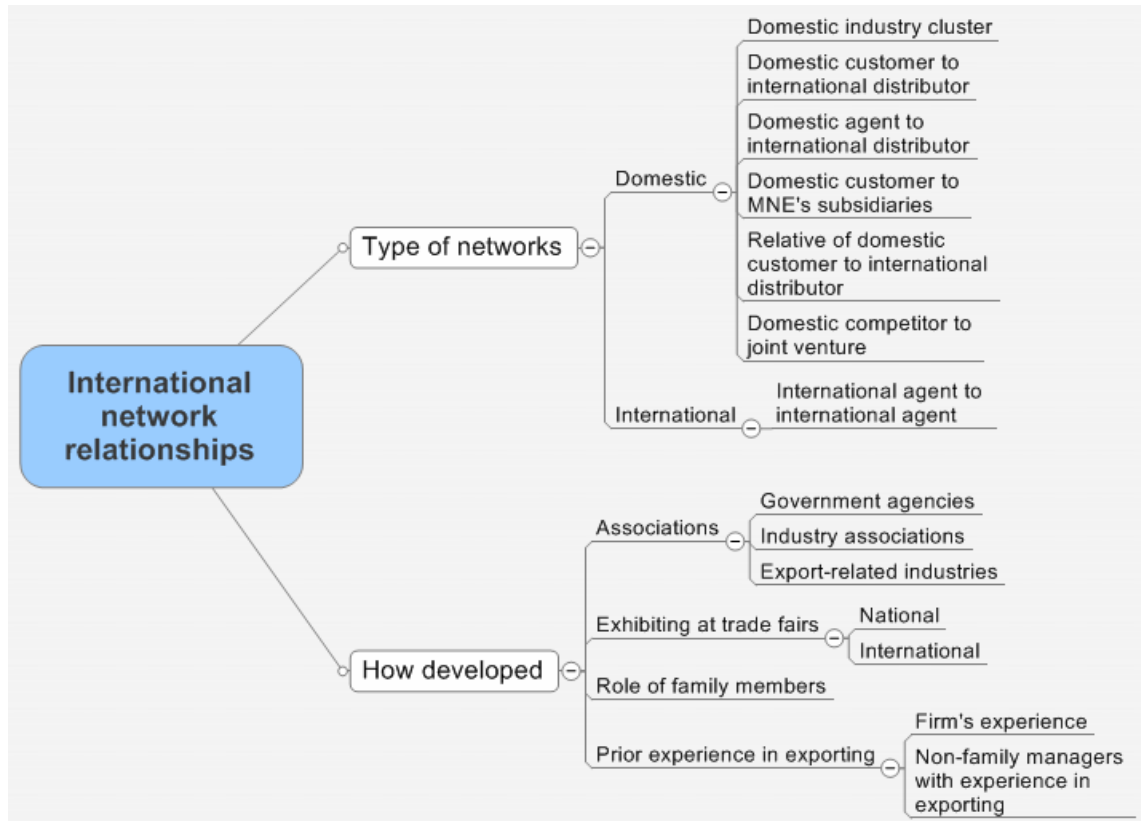
Organisational resources refer to a firm's formal reporting structure, its formal and informal planning, controlling, and coordinating systems, as well as informal relations among groups within a firm and between a firm and those in its environment (Barney, 1991). Analysis of these case firms highlighted that their organisational resources played an important role in their internationalisation process. In particular, the network relationships and their managerial and marketing capabilities were found to have a substantial influence over the ability of family firms to grow internationally. How these factors influence the internationalisation process is discussed in this section, and summarised in Figure 6.5.



**Figure 6.5** Influence of a firm's organisational resources on its capabilities and network relationships

### 6.6.1 Network relationships

One important observation to arise from the qualitative analysis was the influential role that a family firm's external network relationships play in its international growth. As illustrated in Figure 6.6, the types and the development of international networks can take a variety of forms and directions, and be developed in a variety of ways.



**Figure 6.6** Types and development of international network relationships

The quantitative findings presented in Chapter 4 suggest that network relationships with other firms are positively and significantly associated with internationalisation. Consistent with these findings, an examination of the internationalisation process of the eight family firms revealed that the international expansion of all but one of the firms (Longwear) was facilitated through network relationships.

#### 6.6.1.1 Types of network relationships

Although international network relationships can take many different forms, the substance of the network relationship is more important than its form. Although the quantitative analysis focussed on formal business network relationships, the qualitative analysis suggests that regardless of whether the relationship is formal or informal, or the parties involved, network relationships are an important vehicle to grow the family business internationally.

Table 6.6 provides examples of the types of network relationships observed in the seven case firms, and explains how each of these relationships facilitated international expansion.

**Table 6.6 Influence of network relationships on internationalisation of the family firm**

Case firm	Type of network relationship	Example of influence of internationalisation
Bookworks	Domestic industry cluster	This case demonstrated how network relationships can assist a family firm in developing its management and marketing capabilities required for internationalisation. Bookworks was part of an industry cluster, which comprised of firms which operated in niches that did not compete with each other. Through the cluster, firms shared and learnt from each other on export-related issues such as freight and warehousing (to minimise costs), use of IT, where to access particular resources (e.g. people with certain skills), export marketing and exhibiting at trade shows. 'Their preparedness to share information has been exemplary. The result has been that some very small operators have had their confidence raised to the point where they are undertaking export initiatives they would not have otherwise taken. I think this is an important outcome of the cluster activity' (Baldric, Bookworks' family CEO).
Starmould	Domestic customer to international distributor(s)	This case highlighted how a firm's relationships with its customers can lead to the formation of a business relationship with an international distributor. Sean (Starmould's family managing director) asked one of the firm's local clients for an introduction to a distributor in Sweden, who this client knew personally. This introduction led to the formation of a business relationship and the distributor was so impressed with Starmould that he told 'all his mates all the way around Europe...how good Starmould was...He's responsible for 40 percent of this company's exports' (Sean, Starmould's family managing director).
Classic Wines	Domestic agent to international distributor	Alan, a North American wine agent based in Australia, happened to come into contact with a North American distributor while on business in the USA. Through this chance encounter, the distributor communicated its desire to represent an Australian winery, from a particular region known for its quality, in North America. On his return the agent used his networks to identify a winery with characteristics that the distributor was looking for, and culminated in the formation of a business relationship between Classic Wines, the agent and the North American distributor.
Polypro	Domestic customer to MNE's subsidiaries	This case demonstrated how the takeover of one of the family firm's customers can give access to the network relationships of the takeover firm. As highlighted in the previous chapter, one of Polypro's key customers was taken over by a multinational enterprise (MNE). As a consequence of this, in addition to continuing to supply its domestic customer that was acquired, it was also given the opportunity to supply one of the MNE's subsidiaries located in South America.
Woodcraft	Domestic competitors to joint venture	This case demonstrated how a firm can utilise the network relationships of its competitors to grow internationally. One of Woodcraft's competitors was working with a designer to produce unique product lines specifically for the Asian market. Through their involvement in the industry association, the family owners of Woodcraft became aware of the fact that this competitor had decided to end the arrangement because the owners decided to sell the business. As a result, Woodcraft contacted and met the designer, who agreed to form a joint venture to design and sell product into Asia. Through his contacts, the designer successfully negotiated a business arrangement with a distributor in Asia, and led to Woodcraft's first international sales.
Newline	Relative of domestic customer to international distributor	This case demonstrated the unique way in which network relationships of a firm can drive internationalisation. The son of one of Newline's domestic customers, who had spent some time working over in North America, put Neil (family CEO of Newline) in contact with a distributor based in Canada. The son thought this distributor would be interested in some of Newline's innovative product lines that were being put into use in his fathers business. This led to the development of a business relationship with the Canadian distributor, who successfully sold Newline's product lines into the North American market. Through the distributor's networks, firms further up the industry value chain (e.g. manufacturers of the equipment used by Newline's customers) became aware of these innovative product lines, which in turn, informed their distributors. This led to a number of enquiries from distributors from Europe and was the trigger for commencing sales into Scandinavia.
Pioneer Wines	International agent to international agent	As demonstrated in this case, many overseas agents had their own network relationships, and therefore conducting business with one of those agents can lead to business with other agents that are known to them. In this case, a business relationship with an agent in Denmark also led to doing business with an agent based in Germany. This was because these two agents had strong, personal relationships and work together to build their businesses. Another example of this is where the firm's agent in Ireland recommended the firm to an agent in England.

International network relationships assisted the international expansion of the firms by providing international sales opportunities (e.g. Polypro), the development of marketing capabilities (e.g. ‘word of mouth’ advertising, brand image/awareness, access to the capabilities of network partners such as distribution channels), and managerial capabilities (e.g. the management expertise gained by Bookworks’ involvement in an industry cluster).

#### **6.6.1.2 How developed**

Given that network relationships can have a significant influence over the internationalisation of the firm, it is important for family leaders to understand ways in which a family firm’s network relationships can be fostered. International network relationships can arise serendipitously, such as in the case of Bookworks where its domestic agent moved overseas for personal reasons but used his network relationships developed in the foreign country to sell Bookworks’ product in that country. However, analysis of the network relationships of the seven firms identified the following factors stimulated the development of international network relationships:

##### **Government, industry and export-related associations**

Being involved in government, industry and export-related associations was found to be a useful way for four family firms (Newline, Bookworks, Starmould and Woodcraft) to initiate the development of international network relationships, particularly at the early stages of internationalisation. These networks were found to be a rich source of advice on exporting, and also the means by which contacts could be made that would assist the international growth of the firm. For example, one of the main reasons why Parkin (Parkin, Polypro’s family manager of product development) was on the board of an international industry association was to make the firm’s activities and potential known on a global scale with the hope that this would translate into international growth opportunities in the future.

##### **Exhibiting at major national and international trade fairs**

For four of the firms (Bookworks, Starmould, Newline, Woodcraft and Pioneer Wines), exhibiting at major national and (particularly) international trade fairs was the most effective way to develop international network relationships:

I’d say most of what we do overseas in some way or other we can trace back to the major international trade fair and the network and contacts. It might be friendships that have grown from attending that fair but you’ve never done business with them but you have been introduced to people through their business and so on. (Baldric, Bookworks’ family CEO)

Most of our exports have come about as a result of doing trade shows either here or overseas...that's how really the contacts have come about. (Neil, Newline's family CEO)

However, the development of these international network relationships was found to take time and significant financial resources, and therefore must be seen as part of a medium-to-long-term strategy to promote international growth. In the words of Baldrick (family CEO of Bookworks), the successful development of international business relationships requires:

Persistence...When everyone else thinks you're dead, you've still got to be kicking...I was told at my first major international trade fair that I would just have to keep attending for three years. No one would want to do any serious business with me under three years...So when you consider export being a distance [from Australia], international business people want to know whether they can trust you and be around for the long-term. So the networking thing, it is back to networking and trust. So you can only be in that for the long-term. (Baldrick, Bookworks' family CEO)

Exhibiting rather than mere attendance (the considerably cheaper of the two) at these trade fairs was perceived to be more effective for building network relationships. In the case of Starmould, the decision to exhibit at major international trade fairs (an initiative of the non-family sales and marketing manager) rather than merely visiting, as they had done for fifteen years with little success, significantly increased international sales.

#### **Role of family members in development of network relationships**

The key word in the term international network relationships is 'relationships'. A firm's effectiveness in developing international networks was influenced by the relational abilities of its employees:

Collaboration [with overseas partners] starts off with a meal and a long chat over a beer or two. And I'm being deadly serious. I think it is about relationships first. (Bosworth, Bookworks' non-family manager of marketing)

It is extremely important, at our level. And you talk about these big corporate companies like Southcorp and some of the big national distributors in the United States, it is all about brands and...an economic relationship. And although that still plays to us as well, I don't mean we're not a benevolent business, relationships are really important at our level. (Curtis, Classic Wines' North American distributor)

For reasons given earlier in this chapter (Section 6.4.4), working family members were found to play an important role in the development of a family firm's network relationships with other businesses around the world:



Being a family-run business helped secure contracts in Asia. Asian business people look far more favourably on dealing with a member of the family that owns the company. (Pioneer Wines secondary documentation)

He [Cameron, Classic Wines' non-family non-executive director] has emphasised the importance of family travelling to promote the 'family' aspect of the brand and insists that it is vital to the brand's success. (Caleb, Classic Wines' non-executive family director)

I think because it has been Baldrick. (family CEO) and myself visiting [the businesses overseas], we have formed friendships with these particular people. So therefore it is much more personal. (Beth, Bookworks' family manager of sales)

Starmould's rapid overseas growth into Europe (as outlined in Table 6.6) was largely attributable to the personal relationship formed between Sean (Starmould's family managing director) and a distributor in Sweden. Relationships can make all the difference in a family firm winning and maintaining business over competitors which may offer similar quality products at competitive prices:

He's responsible for 40 percent of this company's exports ... When I thanked them for this, he responded with the words 'to work with Starmould is not a job, it is a passion'. (Sean, Starmould's family managing director)

The above examples highlight the importance of involving family members in developing the network relationships of the business, providing that they possess the requisite skills.

#### **Prior experience in exporting**

The prior experience of the firm in exporting was found to influence the ease and rate at which the family firm developed international network relationships. One of the reasons why Pioneer Wines experienced rapid international growth in the late 1980s was because of its prior experience in exporting. This enabled the firm to quickly develop the international business relationships required for internationalisation:

We have known a lot of people around the world who have provided a sort of initial contact. We didn't go back to England in the early eighties and think, who do we talk to? We knew lots of people there. So I guess that history was a significant factor. (Richard, Pioneer Wines' family CEO)

As was the case with Newline and Starmould, even if a family firm is new to exporting, it can employ a non-family manager with the international experience and networks necessary to develop the firm's international network relationships.

## 6.6.2 Managerial capabilities

Managerial capabilities refer to the management capacity (human resources available for managerial tasks), management expertise (managerial competencies) and management processes (commonly used managerial planning and control techniques) available to the firm for evaluating, shedding, adding, bundling, and leveraging its resources and capabilities to compete in the marketplace. The findings from the quantitative analysis (Chapter 4) suggest that managerial capacity, expertise and processes of SMFEs lag behind those of their non-family counterparts, particularly at a high degree of internationalisation. Based on the qualitative analysis for the eight case firms, this section discusses why the development of a family firm's managerial capabilities is important for internationalisation, as well as why they may have difficulty in developing such capabilities.

### 6.6.2.1 Managerial capacity

Analysis of the case firms highlighted the importance of having sufficient managerial capacity (human resources available for managerial tasks) to successfully implement international growth strategies. Insufficient managerial capacity was found to inhibit the internationalisation of family firms in different ways. For example, limited managerial capacity constrained the ability of family firms to take advantage of international growth opportunities:

He just didn't have any time for it [international growth opportunities], so the whole thing drifted and drifted and nothing really happened. (Roger, Pioneer's non-family manager of North American office)

That's probably been a very big restraint I suppose in that there have probably been [international] leads and enquiries that simply have not been followed up. (Nassar, Newline's non-family accountant)

Limited managerial capacity also inhibited the family managers' ability to travel overseas to build the international network relationships required for internationalisation:

[We need] to get other people in here to do a lot of the day to day stuff that we're all currently doing at the moment... You only have to look at our competitors to see how successful a lot of them are, and they spend a lot of time overseas building relationships...at the end of the day it could mean the difference between a big sale or a small sale, or no sale at all. While you can have really good agents that do a great job for you, it still doesn't replace having someone from the winery go over and do some of that networking and relationship building. (Clare, Classic Wines' family general manager)

As demonstrated in four case firms (Bookworks, Newline, Starmould and Pioneer Wines), increasing managerial capacity can free up family members to execute internationalisation-related strategies, such as the development of their international business networks. For example, through the appointment of a non-family sales manager, Newline was able to base a manager in North America for six months to develop both its international networks and sales. This was something the working family members would otherwise not have been in a position to do, largely because the firm lacked the managerial capacity to cover their roles while overseas. Extended time overseas would also have placed significant strain on the family CEO's spouse and young children.

Family firms that pursued international growth opportunities with limited managerial capacity reported negative outcomes, such as a deterioration in performance in the domestic market and additional strain placed on the family unit and the management team. For example, in Chapter 5 (Section 5.2), it was reported that one firm (Polypro) suffered a loss of market share domestically as a result of not having sufficient managerial capacity for international expansion. In the case of Newline, when Neil (family CEO) spent time overseas, problems occurred in the domestic operations:

[A] certain amount of dropping [i.e. errors, and sales enquiries not being followed up] happens when I'm away and that's because people are under more stress because I'm not here, so therefore, so a few things go wrong, and I'm conscious of that. (Neil, Newline's family CEO)

Despite the importance of acquiring sufficient managerial capacity for internationalisation, several family firms struggled to do so. As highlighted in Section 6.3.2, the risk-averse nature and production mindset of family leaders was found to inhibit the commitment of financial resources towards internationalisation-related strategies such as building managerial capacity. Furthermore, family objectives such as the desire to remain wholly family-managed, as well as lifestyle issues, were found to influence the ability of family firms to develop their managerial capacity:

It [inhibitor to international growth] would be our ability to increase the breadth and depth of management and still keep with the philosophy of that we want to be a family-owned and managed organisation, that's one of our goals. (Cameron, Classic Wines' non-family non-executive director)

Because of family commitments, their [the family managers'] time is limited...they work very hard, but in terms of number of hours present to do what has to be done, it is more limited and I think that's a negative, and especially when they have key roles. So that's another reason that I see we need to pull in other people to either assist or take on those roles or share those kinds of roles, for us to be able to grow, so that's a limiting factor. (Neil, Newline's family CEO)

### 6.6.2.2 Managerial expertise

Not only was it important to have sufficient managerial capacity for internationalisation, it was also critical that family firms had requisite managerial expertise, particularly in the area of sales and marketing. As pointed out in Section 6.4.2, in all but one case firm the lack of managerial expertise (particularly in sales and marketing) was overcome through the employment of an experienced non-family manager. Table 6.7 gives examples of how managerial expertise (or the lack thereof) directly or indirectly influenced the internationalisation of family firms.

**Table 6.7 Examples of the effect of managerial expertise on internationalisation of the family firm**

Case firm	Issue	Effect on internationalisation
Bookworks & Newline	Building expertise in general management	<u>Facilitator</u> : Undertaking formal management education (MBA) equipped the family CEOs of Bookworks and Newline with the expertise required to manage international growth. 'As the business has grown management expertise has had to grow so we have kept up with training over the years, to the point of doing an MBA...When crises arise I think it equips you better to deal with the crises. It also equips you better to review your business planning strategy in all its senses (Baldrice, Bookworks' family CEO).
Classic Wines	Lack of expertise in sales and marketing	<u>Inhibitor</u> : Production mindset and risk-averse orientation senior family management inhibited the employment of a manager with the requisite expertise required to build the firm's marketing capabilities. The autocratic management style of the family managing director also inhibited other managers from utilising what expertise they had to build the firm's marketing capabilities. 'They [the working family owners] don't know anything about, or very little about sales and marketing, and the culture of the company is that there has never been money put into marketing and sales. So it's something that I believe needs to change and you only have to look at the success of other companies around the place that have put money into marketing, like D'Arenburg and Wirra Wirra' (Clare, Classic Wines' family general manager).
Pioneer Wines	General management expertise and acquiring expertise in sales and marketing	<u>Facilitator</u> : Succession to the next generation brought about a management style that was much more open to utilising the expertise of the management team. 'My management style is very much a team based style. We're all trying to achieve the same objective...we can all have input into how to get there' (Richard, Pioneer Wines' family CEO). The appointment of a non-family manager with expertise in sales and marketing was critical for bringing about the changes required to build the firm's marketing capabilities. This had a significant effect on the international growth of the firm.
Polypro	Lack of expertise in general management and sales and marketing	<u>Inhibitor</u> : Commenced a joint venture relationship before the legal documentation was agreed on and signed. Resulted in the joint venture partner producing and selling Polypro's unique product design to Polypro's South American customer without receiving any royalties. Also developed new products without any real regard to commercial viability.
Starmould	Lack of, and acquiring, expertise in sales and marketing	<u>Inhibitor/facilitator</u> : Although Sean (family managing director) had an understanding of the importance of marketing, he overrated his marketing abilities. It was not until a non-family manager with the requisite skills was employed that the changes required to build the firm's marketing capabilities were brought about. This had a dramatic effect on the international growth of the firm.

Managerial expertise in sales and marketing was one of the reasons Pioneer Wines and Starmould were able to follow a born-again global pathway to internationalisation. In both cases, the appointment of a non-family manager with the requisite managerial expertise was critical for bringing about the changes required to build the firm's marketing capabilities, and subsequent international growth. Examples of changes brought about by Ralph (Pioneer Wines' non-family director of sales and marketing) included the shift from a production mindset to a customer orientation, which resulted in the restructuring of the sales and marketing functions, the development of new product lines and the firm's brands.

One of the brands developed by Ralph became the largest single contributor to Pioneer Wines' gross margins and the largest selling brand. The main change brought about through the appointment of Salvador (Starmould's non-family manager of sales and marketing) was the shift from a production mindset to a customer orientation. This resulted in the deletion of an unprofitable product line (which accounted for 40 percent of the firm's business) towards a focus on manufacturing products with international growth potential and the importation of complementary product lines to meet the diverse needs of its international customers. Prior to Salvador's appointment, Sean (family managing director) was fixated on only selling those product lines they manufactured. Salvador was also responsible for improvements to the firm's product costing system and the development of more sophisticated sales support materials to help the firm's customers (predominantly distributors) drive their sales with the end-user customers.

Managerial expertise not only influences the ability of a family firm to grow internationally, it also influences the outcomes associated with internationalisation. As shown in Table 6.7, the financial losses associated with Polypro's failed international joint venture were largely attributable to a lack of managerial expertise amongst the family managers.

Presenting an image of being 'professionally' managed, where non-family members were present on the executive management team, was perceived to be important for winning international business in two firms (Pioneer Wines, Newline). Family management was important to develop the trust while non-family involvement helped communicate that it was a professionally run business:

I think that helped us with them [one of their overseas customers] in particular and the fact that we did have Norman. (sales manager) who was a non-family member, yet at the same time you know they're emailing with Nerida [family manager of customer service]. (Neil, Newline's family CEO)

As discussed earlier in Section 6.4.3, the use of outsiders through an active board of directors or an advisory board was found to be an effective way of obtaining the managerial expertise required for internationalisation. Outsiders also assisted in the development of much needed managerial processes, such as business planning and management reporting systems.

### **6.6.2.3 *Managerial processes***

In addition to having the managerial capacity and expertise required for internationalisation, it was important that the family firms developed the requisite managerial processes, particularly in the areas of business planning, accounting systems, quality assurance programs and export documentation systems.

#### **Business planning**

Business planning was found to be one of the most important management processes for those family firms open to further internationalisation; that is, all except Longwear and Woodcraft. Analysis of these six case firms highlighted that business planning was important because it enabled family firms to assess how internationalisation fitted in with the values, vision and objectives of the firm, and helped gain the necessary support from other family members to enact internationalisation strategies. Because successful internationalisation required a long-term commitment (refer to Section 6.2.2), it was critical that family firms engaged in business planning so that the family could weigh up the costs, both financial and personal, associated with internationalisation. Business planning was also important for the identification of appropriate internationalisation strategies (appropriate foreign markets and entry methods) and for establishing targets to monitor actual versus planned performance so that corrective action could be taken:

But these family companies need to have a plan, they need to know what they want, they need to cost it, they need to research it and they need to agree that at the end of all of that if it is still definitely the right way to go then they either need to go about knocking off those bites or hitting those steps to get to their goal, or put in time periods where they will review the strategy and can it if it is not working or it is too costly and you can't make it work. (Ralph, Pioneer Wines' non-family director of sales and marketing)

Although one of Polypro's family members attributed international success to opportunistically responding to international growth opportunities rather than planned international expansion, the lack of planning was largely due to the fact that the firm did not have the managerial expertise to develop appropriate plans for international expansion. This was why the recently appointed sales and marketing manager argued that the firm needed to:

...have a very clear strategy of what we're going to do and how we're going to do it...Inherent growth has sort of stopped and if they want it to grow again they've got to have quite a clear strategy to do that. (Patrick, Polypro's non-family manager of sales and marketing)

Despite the family indicating that the firm had an export market plan, a significant inhibitor to the further internationalisation of Classic Wines was that it had no detailed business plan outlining how it intended to achieve the family's objective to grow its international business. As a consequence, its future international growth largely rested on the actions and capabilities of its agents and distributors:

I think the lack of discipline in the whole strategic planning and implementation process is one thing that is one of the weaknesses of the business. (Caleb, Classic Wines' non-executive family director)

### **Accounting systems**

In addition to having business planning processes, it was important for family firms to have adequate accounting systems to monitor financial performance against their business plans in order to enact the necessary control over their operations. All of the firms had accounting systems that could generate regular income and expenditure reports. However, as was observed in three firms (Newline, Bookworks and Polypro), as the family firm grew, so did the need to develop more sophisticated accounting systems in order to identify the profitability of different product lines in different markets. In three firms (Bookworks, Polypro and Starmould) it was also important to improve the accuracy of the family firms' product costing systems, as they were either generally simplistic (in that they only focused on *direct* product costs) or overly complex to be useful for pricing decisions. Other firms were aware of their need to make such changes to their costing systems:

[The costing system is] not very sophisticated...I'm trying to do a bit more work on it because I certainly feel that some of our products are much more profitable than others, and there are some that I would just completely like to get rid of...[But you can't] until you can actually have confidence in your costing figures. (Clare, Classic Wines' family general manager)

### **Quality assurance programs**

All but one of the firms (Classic Wines) utilised quality assurance (QA) programs to varying degrees. QA programs were found to play a critical role for internationalisation in two ways. Firstly, it was important for communicating the firm's brand image of quality and reliability to potential overseas buyers, and secondly, for ensuring the reliable production of high quality products. As highlighted in Section 6.5.2, the ability (and reputation) to reliably produce and deliver products of a high quality facilitated the internationalisation of several firms.

### **Export documentation system**

Having systems in place to efficiently and effectively expedite international orders was seen as a small but important contributor to Pioneer Wines' customer service. As part of this system, Pioneer Wines consolidated the shipments of its overseas customer who regularly ordered product from a range of firms, including Pioneer Wines:

Perhaps a small point but I do think we've got an export documentation system out there that is second to none. We are constantly complimented on the level of our skill and accuracy and ability to make it happen.  
(Richard, Pioneer Wines' family CEO)

### **6.6.3 Marketing capabilities**

Marketing capabilities refer to those resources, processes and attributes controlled by the firm that enable the firm to market and sell its products in the marketplace. The development of the family firm's marketing capabilities was found to be one of the most important issues influencing its internationalisation. In order to develop the international network relationships and the marketing capabilities of the firm, it was important for management to change from having a production mindset towards a customer orientation.

In addition to a customer orientation, it was also important to acquire the expertise required to develop marketing capabilities. This section discusses why there was a need for management to shift from a production mindset to a customer orientation. This section also examines the capabilities of the firms' network partners, as well as the family firms' customer service and brand image, three components of marketing capabilities that influenced their ability to grow internationally.



### 6.6.3.1 *Overcoming the production mindset of management*

In several of the firms, the development of the marketing capabilities required for internationalisation was inhibited by the ‘production mindset’<sup>18</sup> of the managers. Management of five of the firms (Bookworks, Classic Wines, Pioneer Wines, Polypro and Starmould) all exhibited characteristics of a production mindset to varying degrees. Because of this mindset, family members who were in important managerial positions (such as CEO) were often totally opposed to developing more of a customer perspective, and consequently, the firm’s marketing capabilities. Comments typical of a manager with a production mindset included:

And [the previous family CEO] always referred to sales and marketing people as spin-doctors. With that attitude it doesn’t really all go well for dealing with customers...This is what we’re going to make and then we just give it to the sales guys and tell them to go and sell it. (Roger, Pioneer Wines’ non-family manager of North American office)

That was his [Shane, Starmould’s family manager of production] philosophy. If the machines are making noise they’re making money. (Salvador, Starmould’s non-family manager of sales and marketing)

Going full bore into producing product and then thinking, oh we’ve got to sell this now. (Beth, Bookworks’ family manager of sales)

We think about products, we don’t think about markets, so that’s another change [we need to make]. We need to think about marketing. (Patrick, Polypro’s non-family manager of sales and marketing)

We’re producers...we grow grapes, and make wine, and then if someone comes along and expresses some interest in buying it, well, we’re only too happy to sell it to them. But as far as having a marketing arm of the company, deliberately going out and research a market, no, we haven’t ever done that. (Claude, Classic Wines’ family executive director)

In the case of Pioneer Wines and Starmould, the gradual change towards a customer orientation was initiated through succession to the next generation where the next generation had a greater understanding of its importance to the future growth of the business. This change was seen as instrumental to the exponential international growth experienced by these two born-again global firms:

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<sup>18</sup> A ‘production mindset’ is one where the owners are preoccupied with carrying on the business from an ‘inside out’ (if we manufacture it they [the customers] will come) perspective as opposed to an ‘outside in’ (the customers will come if we give them what they want) perspective. Managers with a production mindset believe that sales growth will occur as a consequence of producing good quality, or innovative, products, rather than through the development, and execution, of appropriate sales and marketing strategies for products that meet the needs of customers in the market segments targeted.

My willingness and acceptance of the importance of marketing because father saw it as a waste of time. 'What do you want to do that for? If you're got the right product you'll sell it'. Not anymore. (Richard, Pioneer Wines' family CEO)

We actually don't see ourselves as manufacturers. We see ourselves as marketers of [XYZ] products. The manufacturing process is part of what we do...So to have a totally production focus mentality I think is dangerous for the long-term success of the business. (Simon, Starmould's new family CEO and owner)

In the case of Bookworks, this transition arose as a result of the family CEO undertaking further education (MBA degree), through which he realised the need to develop the firm's marketing capabilities. Although Bookworks, Pioneer Wines and Starmould developed more of a customer orientation, non-family managers were appointed because the family members did not have the expertise required to develop the firm's marketing capabilities. Sean's (Starmould's family managing director) awareness of, and education in, sales and marketing was not sufficient to successfully grow the business internationally, largely because he carried out the marketing role with a production mindset:

It is a mindset issue. There are traders and there are manufacturers... and being a manufacturer and not a trader he [Sean the family managing director] didn't recognise some of the opportunities... You mustn't dictate to your customer what they will buy... My way was to actually go and see our existing distributors and... build their business. (Salvador, Starmould's non-family manager of sales and marketing)

Classic Wines was an example of a firm whose international growth was inhibited by the production mindset of its management. This issue caused tension amongst the owning family members because some realised the need for more of a customer orientation:

...the culture of the company is that there has never been money put into marketing and sales. So its something that I believe needs to change... The reality is, it is a cultural thing and its very difficult for them to see or understand what the potential benefits might be of putting more resources into marketing. (Clare, Classic Wines' family general manager)

The management of Polypro suffered a production mindset to a lesser extent because the family understood the importance of producing what the customer wanted. An important part of the firm's success lay its ability to develop innovative product lines that met customer needs. However, the firm remained production oriented in the sense that products were often developed without any real regard to long-term commercial viability. The firm had over 350 different product lines.

During the course of the current study, the family acknowledged limitations caused by their lack of marketing expertise and appointed a non-family manager to develop the firm's marketing capabilities. In the words of the new non-family manager:

This is going to be all about what you don't do, not about what you do do...They could probably make a lot more money making probably 70-100 [products]...at least 50% of them make no money or lose money...We need to have a very clear strategy as to which products into which markets...But that requires a bit of data analysis beforehand to really be sure where we are making our money and where the potential is and where the export is. (Patrick, Polypro's non-family manager of sales and marketing)

### **6.6.3.2 Distribution channels of network partners**

As highlighted in Chapter 5 (Section 5.4.3), because they lacked the financial and human resources, the sales and marketing expertise, or a sufficient foreign market share, most of the firms were not in a position to establish an overseas sales office. However, as noted in Section 6.6.1, through forming business relationships, such as with international agents and distributors, family firms were able to access the capabilities required to grow internationally, such as foreign market knowledge and access to distribution channels.

The selection of agents and distributors for their products had a significant influence on the family firm's ability to drive international sales. Some firms saw it as an advantage if the agent or distributor was also a family business because of common values and an understanding of how family firms operated. However, when selecting an agent or distributor, it was important to consider the rate at which they could grow the sales relative to the family firm's production capacity. Matching capacity was vital. Underutilising capacity would constrain the international growth rate of the firm, while over commitment would create undue stress:

They've got to have strong links into the marketplace...We're having problems [with an overseas distributor] at the moment because...it doesn't have the links into the marketplace...On the other hand we don't want that much because it is an enormous market and if we had someone that really lit a fire there we'd go down screaming because we couldn't cope with it. So it is a difficult balance. (Richard, Pioneer Wines' family CEO)

### 6.6.3.3 Customer service

The ability to continually understand, meet and exceed the needs of its customers was found to assist the international growth of several of the family firms (Bookworks, Pioneer Wines, Polypro, Newline and Starmould). Starmould was a model example of how a family firm's commitment to customer service could have a dramatic effect on its international expansion. Customer service was regarded as one of the firm's major competencies:

We as a business have a superb reputation in the marketplace for attention to detail, of getting what the customer ordered, getting what they want on time, at the price they require it, everything. (Salvador, Starmould's non-family manager of sales and marketing)

The firm's superior customer service assisted it in marketing its brand overseas. As illustrated in Table 6.6, one of its overseas distributors was so impressed with Starmould's customer service that he told all his business contacts in Europe how great they were to deal with, and was responsible for 40 percent of Starmould's exports.

An essential component of customer service is giving the customer what they want. While Starmould excelled in many ways at serving its customers, its product range was limited to the products it manufactured (production mindset), which limited the firm's success. Customers had to purchase complementary lines from other firms. However, the appointment of a manager with expertise in sales and marketing who encouraged the firm to import and sell complementary lines alongside its manufactured range produced a dramatic effect:

They [a distributor] would struggle to make a \$3,000 order once a year. Now we get an order from them for \$10,000 at a time and they repeat that three, four or even five times each year...and they've now become an important distributor. And we did the same thing with a lot of other distributors. (Salvador, Starmould's non-family manager of sales and marketing)

In addition to giving customers choice, superior customer service also involves assisting customers in on-selling products to their customers (the retailers). Through its new sales and marketing manager, Starmould developed a range of promotional displays and marketing materials that resulted in a tremendous upsurge in sales to retailing firms:

They're our customers and what we have decided is rather than selling our products to them, we need to put them in a situation where they are best equipped to sell our products to their customers. And that means if we can drive demand at the fire end we are doing the job of the wholesalers. The wholesalers don't have to put any effort into marketing Starmould's products. (Simon, Starmould's new family CEO and owner)

#### 6.6.3.4 Brand image

Analysis of the case firms revealed that a family firm's brand image had a significant influence on internationalisation. The brand image of the family firms was largely influenced by their production capabilities (Section 6.5.2), geographical location (Section 6.5.4), the relational abilities and characteristics of family members (Section 6.4.4), network relationships (Section 6.6.1), as well as superior customer service. For example, Longwear (whose brand has been around for some time) was recognised as being Australia's best XYZ manufacturer and this reputation was important for its international sales:

You've got to have a really good product, you've got to have a competitive priced product and then you've got to get people to know the brand and recognise your brand. I think we have a lot of second and third [time buyers]...A lot of times they're Australians working over there [overseas] but had them before, or they've run into a friend who's come from Australia and they've got this beaut [XYZ] and tell them how great they are. 'We want some too'. So we get a fair bit of that. (Lola, Longwear's non-family accountant)

As outlined in Table 6.4, although the characteristics of the family owners assisted the development of international network relationships, the degree to which the eight family firms promoted themselves as being 'family businesses' varied considerably. Newline did not market itself as being a family business because the family owners believed it communicated a 'ma and pa' type of image. Conversely, presenting the image of being a multigenerational family-owned business was seen to be a competitive advantage for those firms competing in the global wine market (Pioneer Wines and Classic Wines):

That's what they see as our unique selling point...we're family-owned. We've got history, tradition, substance, ethics and a way of doing business that hopefully is attractive to small segments in the market...That we are not just owned by another monolith or megalith or whatever you want to call it. We do actually have a heart and a soul and are real people that live behind the business. (Raymond, non-family finance manager of Pioneer Wines)

As a consequence, the value associated with marketing oneself as a family business is industry specific and dependent on whether such an image adds value in the eyes of the consumers internationally:

I think the wine buying experience is more than just buying a bottle of wine. And so the family bit is important there in that area of the market. (Caleb, Classic Wines' non-executive family director)

The challenge faced by the family firms was how to build their brand image and make their reputation known internationally. As highlighted earlier in this section, management of five of the firms exhibited characteristics of a production mindset, and as a consequence they operated under the false belief that sales were driven by production capabilities such as cost competitiveness, quality, reliability and product uniqueness.

These qualities in themselves are not sufficient, however, to become known on the international stage. Although word of mouth advertising of the brand can be an effective way to increase the awareness of the brand internationally (as was the case with Woodcraft and Longwear), it is important for family firms to build and market their brands globally in order to drive international growth. Several of the family firms in the current study, however, lacked the expertise to bring this about, and as a result they were ‘hidden champions’: leaders in what they produced but largely unknown on the international stage.

For example, Classic Wines has been described as ‘the quiet achiever’ (Classic Wines, secondary documentation) and a business failing to take advantage of the opportunities generated by its production capabilities because of poor marketing of the brand:

The brand has been a consistent under-performer during the 1990s. The marketing of the brand does scant justice to the very considerable resources available to it, notably its gold medal winning [XYZ] and its fine and elegant [ABC]. (Classic Wines, supporting documentation)

As was the case with Pioneer Wines and Starmould, the concept of branding was not well understood, as reflected by the fact that it was difficult to find the firm’s brand on the products that they sold:

The branding had been let go so that the way the company was presented to the outside world and the way their products, their wines, their communication, their strategies, they were all dormant and/or sort of just hanging around...It is important to have a strong brand, core mother brand...When I got here [the family brand name] was in tiny print on every wine label. They pushed it to the side like a sort of disabled half brother...they acknowledged he was there but they didn’t promote him. (Ralph, Pioneer Wines’ non-family director of sales and marketing)

The appointment of managers with expertise in sales and marketing was critical for the development and marketing of the brands of these firms. In both these firms, their primary brands are now prominently featured on all product lines. As mentioned earlier (refer Section 6.4.1.3), one of Pioneer Wines new brands was responsible for the firm’s exponential international sales growth:

The development of brands is becoming most important for serious export growth...The company would seek to strengthen existing brands and develop new ones, such as the recently released [XYZ] brand, which was selling well in mainland Europe, particularly Germany. It represented a 'fresher, modern approach' in both wine styles and marketing, to capture domestic and overseas sales. (Pioneer Wines, supporting documentation)

Starmould has also developed comprehensive marketing material for both distributors and retailers in order to promote the brand.

In addition to employing the managerial expertise to build the brand of family firms, as highlighted in Sections 6.5.3 and 6.6.1, having a web presence, as well as sending family members to key national and international trade fairs, were critical activities for marketing their brands. Because the family firms did not have the financial resources necessary to advertise their products directly to their end user customers, the development of their international business networks was found to be the most effective way to market their brand.

As highlighted in the previous chapter, four firms reported that international growth had increased their brand image and reputation, both domestically and internationally, which assisted them in further internationalisation:

We're selling here and we're selling there, all of that adds to our credibility as an international company and so that's going to assist us in selling to new [markets], particularly the [United] States. (Neil, Newline's family CEO)

## **6.7 Conclusions**

The findings presented in this chapter provide insight as to why, as reported in the quantitative analysis, the propensity for and degree of internationalisation of SMFEs is less than that of its non-family counterparts. Based on the analysis of the internationalisation of the eight case firms, a number of factors influenced an SMFE's commitment to internationalisation, as well as what (and how) firm resources (financial, physical, human and organisational) influenced its ability to grow internationally.

The vision and objectives, long-term orientation, financial performance, production capacity, and characteristics of the family successor of an SMFE were found to influence its commitment towards internationalisation. Although an SMFE may have an ongoing commitment to internationalisation, the execution of the firm's internationalisation strategy required access to the necessary financial resources, as well as the willingness to commit

financial resources to the internationalisation-related activities of the firm. Access to the necessary finances and the willingness to commit these resources were influenced by several factors, including the working family members' attitude towards risk-taking and the owning family's desire to retain total control of the firm.

In addition to having the necessary financial resources, the ability of an SMFE to grow internationally was dependent on its ability to acquire and configure its resources to develop globally relevant capabilities. The findings presented in this chapter provide insight not only into why managerial capabilities are important for internationalisation, but also why SMFEs may have difficulty in developing such capabilities (as reported in the quantitative analysis).

Other capabilities found to be important for internationalisation included the production capabilities to manufacture globally competitive products, international networks, and marketing-related capabilities. The entrepreneurial orientation of the working family members in leadership positions emerged as a key influence not only on the commitment to internationalisation, but also on the firm's ability to develop and leverage a firm's capabilities in the international marketplace. Working family members also played an important role in the development of an SMFE's international network relationships. Although the education of family members might help, in most cases, the development of the firm's managerial and marketing capabilities required the employment of non-family managers with the requisite skills.

In order for SMFEs to develop their marketing capabilities, it was important that the orientation of the management team changed from a 'production mindset' to more of a customer orientation. Such a change was brought about by succession to the next generation, formal education in business and management, or through the appointment of an experienced sales and marketing non-family manager.

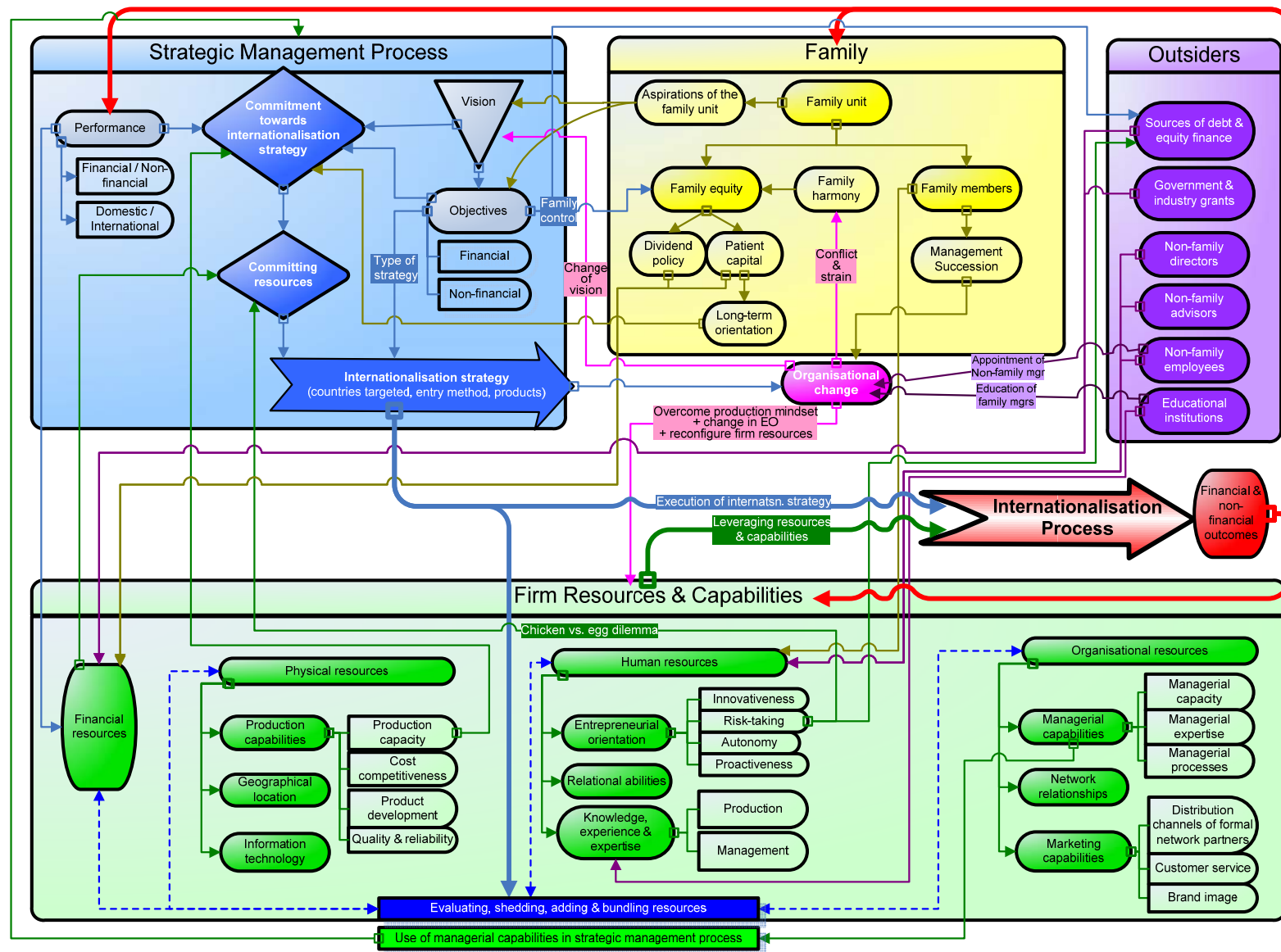


## **Integrated findings, conclusions and implications**

### **7.1 Introduction**

This chapter integrates the overall findings of the investigation of the four research issues, which were presented in Chapters 4, 5 and 6. As recorded in Chapter 3, the study adopted a concurrent mixed model design, where the research issues were analysed using both quantitative and qualitative methods. The propensity for and extent of internationalisation of SMFEs (RI #1) was explored using quantitative analysis, while their internationalisation behaviour (RI #3) was explored using qualitative analysis. The effect of internationalisation on SMFEs (RI #2), as well as factors that influenced their internationalisation process (RI #4) were explored using both types of analysis. The results of the quantitative analysis were presented in Chapter 4, while the results of the qualitative analysis were presented in Chapters 5 and 6. These findings are used to develop an integrated model of the internationalisation of Australian SMFEs in the manufacturing sector, which is presented in Figure 7.1.

In this model, factors that influence the internationalisation of SMFEs are highlighted. The implications of the findings for theory, policy and practice are presented in Sections 7.7 and 7.8, while Section 7.9 discusses the limitations associated with the quantitative and qualitative analyses, and the implications for future research. The chapter concludes with a summary of the contributions made by this study to the extant family business and internationalisation literature.



**Figure 7.1** An integrated model of the internationalisation of SMFEs

## **7.2 Research Issue #1: The propensity for and degree of internationalisation of SMFEs**

The results of the analysis of 871 Australian manufacturing SMEs presented in Chapter 4 indicated that, compared to their non-family counterparts, SMFEs were less likely to engage in selling their products overseas. These results also indicated that the degree of internationalisation of SMFEs was less than that of their non-family counterparts. These findings provide support for the results of recent family business research in other Western countries (Fernández & Nieto, 2005; Zahra, 2003) and suggest that in Australia, compared to non-SMFEs, SMFEs are less likely to venture into the international marketplace. Furthermore, those that do, do so to a lesser degree when compared to non-SMFEs.

These findings are, however, contrary to those reported by Menendez-Requejo (2005) who found no difference in the propensity of family and non-family firms to internationalise. On the contrary, she found that second generation family firms were more likely to internationalise than all other firms. However, because her study did not control for the effects of a firm's age on internationalisation, her conclusions may be questioned, as the higher propensity to internationalise could be due to the age of the firm rather than the characteristics of the second generation.

Although they found no direct effect, Cassillas and Acedo (2005) found that family involvement had an indirect influence on internationalisation through its affect on firm size and perceptions of risk (known influences on internationalisation). The fact that family involvement influences internationalisation indirectly highlights the value of using a qualitative case study approach to explore how family involvement influences the internationalisation of family firms. To date, Cassillas and Acedo (2005) are the only researchers who have attempted to understand how family involvement influences the internationalisation of the family firm. This study has addressed this research gap by examining the internationalisation process of eight Australian family case firms and identifying factors that influenced their internationalisation, which are discussed in Sections 7.5 and 7.6.

### **7.3 Research Issue #2: The effect of internationalisation on SMFEs**

To date, there has been scant research on the effect of internationalisation on the family firm. As a consequence, the current study examined the financial and non-financial effects of internationalisation on the family business in the Australian context.

#### **7.3.1 Financial outcomes**

##### **7.3.1.1 Financial performance**

The results reported in Chapter 4 indicated that internationalisation does have a marked effect on overall financial performance on Australian SMFEs. Although there was limited support for the positive association between venturing into the international marketplace and financial performance, the degree to which an SMFE expands internationally had no observable effect on financial performance, which is contrary to previous SME research (Qian, 2002; Qian & Li, 2003). These findings suggest that, compared to solely focusing on the domestic marketplace, there are some financial benefits to be gained by SMFEs in venturing overseas.

Expansion from moderate to high levels of internationalisation does not necessarily result in improved financial performance, however, because performance may be moderated by other intervening factors, such as exchange rates, foreign market entry strategies employed, and the managerial capabilities of the firm. Lu and Beamish (2001) found that the relationship between export intensity and financial performance was influenced by the strength of an SME's local currency. During periods when the local currency is strong, SMEs are often forced to lower the prices of exported goods in order to maintain their export sales, decreasing financial performance.

During the time period pertaining to the quantitative data examined in this study, the Trade Weighted Index of the Australian dollar remained relatively constant in Years One and Two, but depreciated significantly in Year Three (13 percent). Therefore, using Lu and Beamish's (2001) argument, there should have been a positive significant association between the degree of internationalisation and financial performance of SMFEs (particularly in Year Three). No such association was found.

An SME's financial performance is also influenced by whether it has the managerial capabilities required for internationalisation. As a firm grows internationally, the risks associated with exporting increase, making more complex forms of foreign market entry

strategies, such as Foreign Direct Investment (FDI) more attractive (Lu & Beamish, 2001). FDI has been found to have a 'U' curve effect on financial performance due to the 'liability of foreignness' (Lu & Beamish, 2001; Majocchi & Zucchella, 2003), which refers to the disadvantages (costs, risks, suboptimal managerial decisions) that flow from conducting business in an unfamiliar market. As a consequence, SME performance has been found to decrease with initial FDI activity but improve as the level of FDI increases (Lu & Beamish, 2001).

In order to successfully grow internationally through the implementation of a range of foreign market entry strategies such as exporting and FDI, however, SMEs must develop the requisite managerial capabilities (Lu & Beamish, 2001; Majocchi & Zucchella, 2003):

For SMEs which have limited management resources and international experience, the complexity of managing these two international expansion activities [exporting and FDI] can stretch management capabilities to the extent that it could depress overall performance (Lu & Beamish, 2001, p. 571).

As reported in Chapter 4, SMFEs lagged behind their non-family counterparts in building their managerial capabilities as they grew internationally, and this difference was particularly evident at high levels of internationalisation. Therefore, one possible explanation for why the expansion from moderate to high levels of internationalisation did not result in improved financial performance is the limited managerial capabilities of SMFEs. This issue was evident in one of the case firms (Polypro). Despite having limited exporting experience, Polypro entered into a joint venture with an overseas firm, which failed due to the limited managerial capabilities of the family management, and resulted in substantial financial losses. This firm also experienced a deterioration in performance in its domestic market, largely because it lacked the managerial capacity to cope with the loss of key members of its management team who spent considerable periods of time overseas establishing the joint venture.

The findings from the qualitative analysis provided some support for the results of the quantitative finding of the positive association between venturing into the international marketplace and financial performance. Four case firms found that internationalisation improved their overall financial performance. For example, in one of these cases internationalisation enabled the family owners to maximise the sales value of their family business, highlighting that internationalisation can be an effective firm value-maximising strategy for family members intending on exiting the business.

Four case firms, however, did not experience improved financial performance from internationalisation. Two of these case firms experienced mixed financial outcomes associated with internationalisation for different reasons. As highlighted earlier, one firm (Polypro) experienced financial losses from increased internationalisation as a result of limited managerial capabilities. The other firm experienced mixed financial outcomes primarily because it had recently invested substantial resources in international marketing activities and expanding its production capabilities.

The experience of these two firms suggests two things with regard to the financial returns associated with internationalisation: firstly, financial returns are dependent on having the managerial capabilities required for internationalisation; secondly, that although there may be positive financial returns in the long-term, there may be periods, particularly in the early stages (or investment phases) of a firm's internationalisation process, where there are no or limited financial returns.

Contrary to the quantitative findings reported above, respondents from the final two case firms did not perceive any improved financial performance as a result of internationalisation. In Chapter 5, these two firms were labelled 'reluctant' international firms in that they sold product overseas despite not being committed to internationalisation. These firms had low levels of internationalisation (3 percent or less) and therefore any financial gains from international sales would have been negligible. One of the firms ceased actively pursuing internationalisation after its joint venture into the Japanese market failed as a result of unfortunate timing (onset of the Asian economic crisis). As highlighted by Lu and Beamish (2001) this firm may have experienced positive financial returns from internationalisation had management remained committed to international expansion:

SMEs should not be discouraged by initial setbacks in the internationalization process. Rather, managers in SMEs should focus on learning from early experiences and finding effective ways to overcome the disadvantages encountered when initially operating in foreign lands. (p. 582)

The experience of these two firms suggests that the financial returns associated with internationalisation are dependent on having a long-term commitment to internationalisation.

### **7.3.1.2 Other financial outcomes**

Consistent with previous research (Grant, 1987; McDougall & Oviatt, 1996), internationalisation enabled six of the case firms to grow their overall sales. Growing internationally into several different markets enabled four of the firms to reduce the risks associated with being reliant upon one market, such as the domestic marketplace, which is consistent with previous research (Qian, 1996). However, as highlighted in two case firms, when a substantial proportion of an SMFE's sales are to a single foreign market, internationalisation can increase the financial risk of the firm and threaten its survival. Therefore, this ability to spread the risk is dependent on an SMFE not having 'all its eggs in one basket' but by selling into several different overseas markets in addition to its domestic market, which often provides the internally generated funds required for future international growth.

International growth, however, was found to place substantial demand on the limited financial resources of the case firms. The financial strain was often a result of a timing issue where the investment in international growth activities preceded the realisation of international sales. Having a strong domestic base and a willingness to borrow from lending institutions moderated the financial strain brought about by rapid internationalisation.

As highlighted by one highly innovative case firm, when growing internationally, it is important for SMFEs to take the necessary steps in order to protect the intellectual property of their products. Failure to do so may result in financial losses associated with unauthorised use of their designs by competitors.

### **7.3.2 Non-financial outcomes**

A number of non-financial benefits associated with internationalisation were observed in the case firms. One of the important outcomes from internationalisation was the acquisition of knowledge and experience, which had positive flow-on effects to other areas of the business, such as the development of the firm's capabilities and overall competitiveness. As observed in one case firm, even failed international joint ventures provided management with opportunities to acquire new knowledge and experience, and enabled the managers to be more competent in their roles. The positive learning outcomes from this experience is consistent with McGrath (1995) who argues that venture failures can generate useful learning that otherwise would not be available to the firm.

In addition to the knowledge and experience gained, internationalisation brought about change within the case firms in the form of the development of their capabilities, particularly in the areas of production, management, and marketing. With regard to production capabilities, internationalisation required the case firms to increase their production capacity, to adopt more cost competitive production methods, develop the ability to produce a range of different product lines and/or increase the quality of their current product lines. With regard to managerial capabilities, as observed in both the quantitative and qualitative analyses, internationalisation brought about improvements in SMFEs' managerial capacity, managerial expertise, and managerial processes. With regard to marketing capabilities, internationalisation enhanced the brand image and reputation of SMFEs, both domestically and internationally, and fostered the development of international business network relationships. Overall the changes brought about by internationalisation improved the competitiveness of SMFEs, enabling them to successfully compete with their local and international competitors.

Two negative non-financial outcomes associated with internationalisation not previously identified in the literature were observed. These included the strain placed on the family and management, and the conflict that it generated between family members and/or family members and employees. As part of a firm's international expansion, family managers were often required to spend considerable time overseas to attend major international trade fairs, meet key foreign customers or to establish a foreign office or joint venture. The demands of international travel not only placed strain on the family managers, but also on their family members, as well as on the management of the business as a whole. The strain placed on the family and management influenced the preferred method of foreign market entry, which is discussed further under Section 7.4.

The changes brought about by internationalisation were found to bring about conflict within the family firms where there were family members or non-family managers resistant to such change. As a consequence, the successful internationalisation of the family firm might require overcoming resistance to the required changes, as well as developing mechanisms to manage the associated conflict.



#### **7.4 Research Issue #3: The internationalisation behaviour of SMFEs**

Because of the limited research into the internationalisation process of family firms, little is known about whether family firms follow traditional, born global or born-again global pathways to internationalisation. This study addressed this research gap by examining the internationalisation process of the eight family firms from their foundation to the present time. The results presented in Chapter 5 show that most of the firms followed a traditional pathway to internationalisation. Their first steps were unplanned and reactive to external events and consisted of gradual incremental stages of international growth, financed from internally generated funds. They initially focussed on psychically close countries and sold existing and modified product lines through agents and distributors.

Although none of the firms exhibited characteristics of born global firms, two of the firms exhibited behaviour similar to that of the born-again global pathway to internationalisation. These two case firms focussed on the domestic marketplace for an extended period of time before suddenly embracing rapid and dedicated internationalisation as a result of 'critical incidents'. Succession to the next generation and the appointment of a non-family manager with the requisite capabilities were critical events that led to rapid internationalisation. How succession and the appointment of a non-family manager assisted the internationalisation of these firms were explored in Chapter 6, and are summarised in Sections 7.5.3 and 7.5.5 of this chapter.

The internationalisation behaviour of the eight family case firms further challenges the relevance of a stage model view of internationalisation. Rather than consisting of a series of steps reflecting gradual increases in internationalisation, the internationalisation behaviour of these firms pointed to the fact that firms can experience periods of de-internationalisation in response to critical events (e.g. loss of a key customer, failed joint ventures, and changes in government policy). Alternatively, firms can experience periods of rapid, as opposed to gradual, internationalisation in response to critical events. Contrary to Stage Model Theory, some of the firms' first steps into the international marketplace were to psychically distant countries rather than psychically close countries, and most of the firms were unlikely to progress beyond using agents and distributors to more advanced methods of entering foreign markets.

This study contributes to our understanding of the internationalisation process of SMEs in three key ways:

- Firstly, in addition to challenging the relevance of a stage model view of internationalisation, the current study provides further support to the born-again global pathway to internationalisation proposed by Bell et al. (2003). Their study identified three types of critical incidents (change of ownership, acquisition and client followership) that led to firms undertaking the born-again global pathway to internationalisation.
- Secondly, the current study extends our understanding of the born-again global pathway by the identifying another type of critical incident particular to family firms, succession to the next generation, which can lead to rapid internationalisation.
- Finally, the current study has also highlighted how family involvement can influence the type of foreign market entry methods employed by family firms. The family's lifestyle objectives, preference for control, attitude towards risk taking, and family harmony were found to influence the foreign market entry method selected. This finding provides empirical evidence for that suggested in the literature (Harris et al., 1994) where family consideration resulted in the selection of foreign market entry methods that had the least negative effect on family harmony. This may explain why Zahra (2003) found that family influence was positively associated with sales to foreign countries, but negatively associated with the number of countries that the firm sold to.

#### ***7.5 Research Issue #4: Influences on the internationalisation of SMFEs***

As highlighted earlier in this chapter, the propensity for and degree of internationalisation of SMFEs was less than that of their non-family counterparts. Although six of the case firms followed a traditional pathway to internationalisation, two firms exhibited internationalisation behaviour similar to that of born-again global firms. To further understand the internationalisation behaviour of SMFEs, the internationalisation process of the eight family case firms was examined from a resource-based perspective. The family's commitment to internationalisation, as well as the firm's financial, human, physical and organisational resources were found to be key determinants of the family firm's internationalisation behaviour.

### **7.5.1 Commitment to internationalisation**

The case firms demonstrated that although successful international expansion required SMFEs to acquire the resources and capabilities required for internationalisation, first and foremost it required management to leverage those resources and capabilities by developing and executing an appropriate international strategy. Whether an SMFE leveraged its resources in the international marketplace was influenced by the owning family's commitment towards internationalisation. This finding is consistent with previous SME research, which suggests that management's commitment is one of the key determinants of international growth (Leonidou et al., 1998; Zou & Stan, 1998). The owning family's commitment to internationalisation was found to be largely influenced by its vision and objectives for the firm, the firm's domestic and international performance, the availability of production capacity, the time horizon of the family owners, and succession to the next generation.

With regard to vision, some case firms simply did not have the desire to 'conquer the world' but were much more preoccupied with the domestic marketplace. In three case firms, succession to the next generation brought about a change in vision of the SMFE which culminated in a commitment to internationalisation. Successors came with a fresh understanding of the importance of internationalisation for achieving firm objectives, including growth and survival. In one case firm, however, succession to the next generation brought about the opposite effect. This suggests that the effect of succession to the next generation on the commitment to internationalisation may be dependent on the vision and qualities of the successor. Furthermore, although the family CEO might introduce a global vision to the family business, his or her ability to execute the vision through an internationalisation strategy was found to be dependent on the support of the family owners and management.

These findings suggest that succession does not always result in the internationalisation of an SMFE but that international expansion is dependent on the vision and qualities of the successor and the support of family owners and management. This observation contradicts the conclusions of previous family business research (Fernández & Nieto, 2005; Menendez-Requejo, 2005). The finding that the family firm's commitment to internationalisation is dependent on the consensus within the family unit as well with its non-family managers also highlights a potential limitation of previous internationalisation research, an issue that

is discussed further under Section 7.7. Moreover, the finding emphasises the importance for family firms of having a strategic planning process, such as the Parallel Planning Process (PPP) proposed by Carlock and Ward (2001), so that the needs of both the family and the business can be considered when assessing the appropriateness of an internationalisation strategy.

In the case firms, the SMFE's financial objectives of growth, survival and financial return were the most commonly given motivations for the commitment to internationalisation. This was particularly so where they had excess production capacity available and desired to grow but were unable to do so in the domestic marketplace. The effect of growth objectives on the commitment to internationalisation is consistent with that found in previous research (OECD, 1997).

In the main, non-financial objectives such as continuing the family tradition of remaining a local producer, were found to weaken a family's commitment to internationalisation. However, objectives that involved a family's commitment to the well being of others had mixed effects on the firm's commitment to internationalisation. Concern for the well being of employees was found to weaken the firm's commitment to internationalisation, while a family's passion for improving the 'lot of others' was found to increase its commitment.

The finding that SMFEs have multiple and complex objectives rather than simple, narrowly focussed goals, offers new insights as to why they may not pursue internationalisation as aggressively as their non-family counterparts. This may explain why the internationalisation of SMFEs lags behind that of non-SMFEs, as identified in the quantitative analysis presented in Chapter 4.

Poor financial performance in the international marketplace in terms of sales growth and return was found to weaken the case firms' commitment to internationalisation. The extent to which this affected the firms' ongoing commitment to internationalisation was influenced by the availability of financial resources, as well as the degree to which the family owners took a long-term perspective of performance. Because of the critical importance of a long-term commitment, family firms with patient capital were found to be more likely to successfully internationalise in the long-term despite poor short-term results from their international activities.

### **7.5.2 Financial resources**

Although some of the case firms had an ongoing commitment to internationalisation, the execution of an internationalisation strategy required access to the necessary financial resources. Financial resources were required to fund activities such as exhibiting at international trade fairs, and to bring about the changes required within the firm for internationalisation, such as the development of its capabilities. Analysis of the case firms that had an ongoing commitment to internationalisation highlighted that the degree of internationalisation was influenced by their access to financial resources, as well as their willingness to commit financial resources to internationalisation-related activities.

The financial resources available to the case firms were influenced by several factors, including the firm's willingness to borrow funds from financial institutions, the family ownership structure, dividend policy, domestic marketplace performance, and access to government and industry grants. Because of their preference for family control and their risk-averse nature, there was a general reluctance amongst the family owners to raise financial capital through loans from lending institutions or bringing in outside equity. Rather, internally generated funds were the most popular source of finance for international growth strategies. This suggests that family firms adhere to a pecking order when raising additional finance, favouring internally generated equity over long-term debt and outside equity.

Although this finding is consistent with previous research (Gallo et al., 2004; Poutziouris, 2001; Romano, Tanewski & Smyrnios, 2000), this study builds on prior research by highlighting the influence of the pecking order on the ability of family firms to grow internationally. Because of the pecking order, the performance of family firms in the domestic marketplace largely determined the funds they had available for international growth strategies and therefore the pace of their internationalisation. As a consequence, the rate at which most of the case firms internationalised was typical of those following a traditional pathway to internationalisation.

Two case firms, however, did experience rapid international growth, which was made possible because of the internal funds generated from the dominant market position of their brands in the domestic marketplace. Family harmony was also found to influence the funds that a family firm had available for internationalisation, through its influence on the ownership structure and dividend policy. Family conflict that resulted in the pruning of the

family ownership tree limited the funds available for internationalisation. Conversely, family harmony was found to encourage family members to reinvest their dividends in the business to fund growth. Because family firms face self-imposed restrictions to accessing financial capital, government and industry grants were found to be a valuable and effective source of funds to assist them in growing internationally.

Because firm size is often used as a proxy of the financial resources available in the firm (Dhanaraj & Beamish, 2003), this finding regarding the effect of limited financial resources on the internationalisation of the family firm is consistent with that found in the quantitative analysis. The quantitative analysis indicated that firm size was positively associated with the propensity to internationalise. SMFEs were found to be smaller (i.e. have less financial resources) than their non-family counterparts, which may partly explain why the current study, as well as others, found that the internationalisation of family firms is less than that of their non-family counterparts. The self-imposed restrictions on accessing financial capital may partly explain why SMFEs' growth rates are more likely to be similar to those of 'lifestyle' firms (as reported in Chapter 4) when compared to their non-family counterparts. Because of their lower growth rate, family firms take longer to saturate their domestic marketplace and venture overseas. This may partly explain why the internationalisation of SMFEs lags behind their non-family counterparts.

In addition to having sufficient financial resources, internationalisation of the case firms was also dependent on the willingness of the working family owners to commit financial resources to internationalisation-related strategies. The willingness to commit financial resources to such strategies was influenced by the family's level of commitment to internationalisation as well as its attitude to risk-taking. Those firms with a commitment to internationalisation all exhibited a tension over when to commit financial resources to internationalisation (chicken vs. egg dilemma). Family owners who expressed a greater propensity to take risks were more likely to commit financial resources to internationalisation-related strategies up-front in the hope that such action would be rewarded in terms of international growth. This finding regarding the relationship between management's attitude towards risk-taking and internationalisation is consistent with previous research (Aaby & Slater, 1988; Fillis, 2001; Leonidou et al., 1998).

In summary, the influence of the availability of, and willingness to commit, financial resources provides new insight as to why the internationalisation of family firms lags behind that of their non-family counterparts. Because of this, family firms may be exposed to the opportunity costs (in the form of unrealised financial and non-financial benefits) associated with under-investing in growth-related strategies such as internationalisation.

### **7.5.3 Human resources**

Analysis of the case firms revealed that a family firm's human resources had a substantial influence over the development of the organisational capabilities required for internationalisation. The human resource issues that influenced the development of the requisite capabilities included the entrepreneurial orientation (EO), knowledge, experience and expertise, and relational abilities of members of the executive management team.

Aspects of the EO of the working family members in leadership positions emerged as an important influence not only on the commitment of financial resources towards internationalisation, but also on the firm's ability to develop and leverage its capabilities in the international marketplace. These included the family leader's attitude towards risk taking, autonomy, innovativeness and proactiveness. As highlighted earlier, the attitude of family owners employed in executive roles influenced the willingness to take on long-term debt as well as to commit financial resources towards internationalisation-related strategies.

It was also critical that management had the autonomy to execute an internationalisation strategy and to bring about the changes required for internationalisation. An autocratic, domineering style of leadership, the unwillingness of the previous generation to give total control over to the next generation, and conflict between family and non-family managers, all deprived management of the autonomy required to implement internationalisation-related strategies. Although previous research (Zahra, 2005) has found the length of a CEO's tenure to inhibit entrepreneurial activity such as internationalisation, this study found that the previous family CEO can also inhibit a firm's internationalisation.

The innovativeness of the employees (and particularly family members employed by the family business) was found to be critical for firm innovations, an important driver of SMFE internationalisation. This finding regarding innovativeness is consistent with that reported in the quantitative analysis, where innovation commitment was positively associated with the propensity for and degree of internationalisation of SMFEs and non-SMFEs. Although

consistent with previous SME research (Department of Foreign Affairs & Trade, 1995; Knight & Cavusgil, 2004; Leonidou et al., 1998; McMahon, 2001), this study has highlighted the valuable contribution that family members employed by the family firm can make towards the development of firm innovations.

Internationalisation also required an element of proactiveness, where management sought new business opportunities overseas through the development of new and innovative product lines or brands. These findings highlight the importance of developing and sustaining an entrepreneurial orientation within the family firm, particularly in the areas of risk-taking, autonomy, innovativeness and proactiveness.

The areas of expertise held by family members were found to have a substantial influence over the family firm's ability to develop the capabilities required for internationalisation. One of the key reasons why these firms had survived the test of time was because the family members were highly technically proficient in what they manufactured. However, many of family managers lacked the management expertise required to develop the firm's requisite capabilities for internationalisation, particularly its managerial and marketing capabilities. As a consequence, the employment of competent non-family managers with expertise in these areas of need was able to bring about the changes required to develop the firm's managerial and marketing capabilities, and in turn, international growth.

Consistent with arguments offered by other research (Dyer, 1989), the current study notes the valuable contribution that an experienced non-family manager can make to the internationalisation of a family business, especially when there is a skills gap in the management team and there is a need to bring about change within the firm. Competence, cultural fit, previous experience in working in other family businesses, and having the autonomy to act were all critical for an outsider to bring about the changes required for internationalisation. In addition to building a firm's capabilities through the hiring of experienced non-family managers, some firms overcame the limited management expertise of the family managers by utilising the expertise of outsiders. This was achieved in several ways, including the establishment an active board of directors, through an advisory board, the use of consultants, or networking with government and industry associations. The current study highlights the important supportive role that outsiders can play in the internationalisation of the family business.



Although family managers in the case firms often lacked expertise in marketing, family involvement played an important role in the development of the family firm's international network relationships, and consequently its internationalisation. Many of the family managers were characterised by a long-term orientation towards business, honesty and integrity, the emphasis on personal relationships, the desire for mutually beneficial business relationships, and accessibility to others. These characteristics were found to facilitate the development of business relationships in the international marketplace, particularly other family business owners who shared similar characteristics.

Consistent with previous research (Brokaw, 1992; Donckels & Frohlich, 1991; Lyman, 1991; Swinth & Vinton, 1993; Tagiuri & Davis, 1996; Ward, 1997) this study demonstrates that the relational capabilities generated through family involvement facilitate the internationalisation of the family firm. Therefore, it is critically important that family members are willing and able to travel internationally to build such relationships through attending and exhibiting at international trade fairs. However, as reported in the discussion of RI #2, the demands of international travel not only place strain on the family managers, but also on their partners and children, as well as on the management of the business as a whole. As a consequence, it is an advantage if a family business has family members who enjoy international travel and are competent at networking. It is also critical that the firm has sufficient managerial capacity and expertise to cover family managers while they are overseas.

#### **7.5.4 Physical resources**

Although several of the case firms had a strong commitment to internationalisation, and the financial resources required to execute such a strategy, it was critical that they also had the infrastructure to develop the production capabilities required for internationalisation. These included having sufficient production capacity to meet both domestic and international demand, the ability to reliably produce high quality products at a globally competitive cost, and the ability to develop innovative product lines, or adapt their existing lines, to meet the requirements of international markets. These findings are consistent with previous research (Leonidou, 2004) where these capabilities were found to have a low (capacity, quality, product development) to high influence (cost competitiveness) on the international growth of SMEs.

In order to develop some or all of these production capabilities, family firms were required to undertake substantial changes (reconfigure, add, discard) to their production infrastructure. The development of these production capabilities would not have been possible unless the family members had been willing to embrace change and commit the firms' financial resources to bring about such change.

In addition to its production infrastructure, information technology resources were found to be important for the internationalisation of the family firm, which is consistent with the findings of previous family business research (Davis & Harveston, 2000). Firstly, the development of a comprehensive company website was important for developing brand awareness in overseas markets, as well as generating direct sales opportunities overseas. It was also an effective way to provide timely customer service to its international customers. Secondly, information technology was an important tool for gathering information on issues such as potential customers, competitors, and product and pricing decisions for particular overseas markets.

The geographical location of the firms was found to have mixed effects on the internationalisation of the family firm. Being 'Australian' manufacturers was perceived by management to positively influence the brand image and international competitiveness, particularly in the wine and plastics industries. Conversely, because of Australia's remoteness, excessive freight costs were perceived to impair the competitiveness of Australian SMFEs.

#### **7.5.5 Organisational resources**

In addition to having the requisite production capabilities, it was also essential that the family firms developed international network relationships, as well as managerial and marketing capabilities, which are critical for international growth.

Both the quantitative and qualitative analyses revealed that international growth was substantially influenced by a firm's network relationships with other parties. Although the qualitative analysis highlighted that these network relationships took many different forms, the substance of the relationship was more important than its form. These relationships not only assisted in the international growth of the family firm, they also assisted in the development of the firm's managerial and marketing capabilities. These findings provide additional support to that of previous research (Chetty & Holm, 2000; Coviello & Munro, 1997; Coviello & McAuley, 1999), which argues that the internationalisation of a firm is largely determined by its network relationships.

The quantitative analysis indicated that SMFEs were less likely to engage in networking with other businesses, consistent with previous family business research (Donckels & Frohlich, 1991). Because a family firm's network relationships had a critical influence on the internationalisation process, and because they were less likely to engage in networking with other businesses, this could be a key reason why the international growth of family firms lags behind that of their non-family counterparts. As stated earlier, these relationships can assist firms in accessing market knowledge, international contacts and resources and capabilities required for international expansion.

The qualitative analysis did provide some support to Swinth and Vinton's (1993) proposition that international joint ventures between family firms are more likely to be successful because they share similar characteristics such as a mutually beneficial long-term orientation towards business, honesty and integrity, and an emphasis on personal relationships. Nevertheless, as highlighted by the negative outcome experienced by one case firm, entering into a business relationship with an overseas family business does not negate the fact that all business relationships should be conducted in a professional manner.

Participation in government, industry and export-related associations was found to be a useful way for family firms in their early stages of internationalisation to initiate the development of their international network relationships. Exhibiting (rather than mere attendance) at major national and (particularly) international trade fairs was the most effective way in which family firms developed their international network relationships. This supports previous research that has found frequent visits to overseas markets and trade fairs to be critical for international growth (Moini, 1995).

International network relationships often took considerable time and financial resources, however, and should be seen as part of a long-term international growth strategy. As stated by Moini (1995) firms must 'commit adequate resources to exporting, or not enter the export markets. The riskiest adventure occurs when the company is not totally committed' (p. 22). As highlighted earlier in Section 7.5.3, family members were found to play an important role in the development of the firm's network relationships with other businesses around the world. For example, the rapid international growth experienced by one firm was largely due to the relationship formed between a family member and an overseas distributor at an international trade fair. Family involvement in networking activities, therefore, can be

a key strategic advantage for family businesses looking to grow their business internationally. Consistent with previous research (Leonidou et al., 1998), the international experience of the firm and its management was found to increase the rate at which the family firm developed international network relationships.

With regard to managerial capabilities, the qualitative analysis revealed that the family firm's managerial capacity had a substantial effect on its ability to grow internationally, as well as the outcomes (financial and non-financial) of internationalisation. Limited managerial capacity, for example, reduced the time management had available to plan for and pursue international growth opportunities, such as attending international trade fairs to market the firm as well as build the firm's international network relationships. When firms that did actively pursue international growth opportunities with inadequate managerial capacity, they suffered a deterioration in performance in their domestic market. The importance of having sufficient managerial capacity for internationalisation is consistent with observations offered by previous research (Leonidou, 2004).

In addition to having adequate managerial capacity, it was also critical that family firms had the managerial expertise required for growth. Although many of the family managers were technically proficient in what they manufactured, most of the family managers did not have outside managerial experience, and 50 percent or less had formal business qualifications. This lack of managerial expertise in general management as well as in sales and marketing inhibited the development of marketing capabilities in some firms, and was responsible for the substantial financial losses incurred by one case firm as a result of a failed international joint venture.

Although formal business education of family managers was found to be a useful way to increase the managerial expertise of the management team, the most effective way observed was through the appointment of experienced non-family managers. As stated earlier in Section 7.5.3, the employment of competent non-family managers that had previous experience in working in other family businesses was found to be instrumental for bringing about the changes required to grow the business internationally. Examples of these changes included the shift from a production mindset to a customer orientation, reconfiguration of product lines (deletion of unprofitable, import of complementary, and development of new lines), improvements to the firm's product costing system, branding, marketing materials,

website, and introduction of new sales and marketing techniques. The employment of non-family managers was also found to assist in communicating an image of being 'professionally' managed, which was important for winning contracts with overseas firms. The use of outsiders through an active board of directors or an advisory board was also found to be an effective way of acquiring the managerial expertise required for internationalisation.

In addition to managerial capacity and expertise, it was also important for family firms to develop the requisite managerial processes, particularly in the areas of business planning, accounting systems (e.g. product costing systems, regular financial reporting), quality assurance programs and export documentation systems. Business planning was critical for successful internationalisation because it enabled family firms to assess how internationalisation fitted in with the values, vision and objectives of the firm, and gain the necessary support from other family members to enact internationalisation strategies. Because successful internationalisation required a long-term commitment, it was essential that family firms engaged in business planning so that the family could weigh up the costs (financial and non-financial such as effect on family) associated with internationalisation. Business planning was also important for the identification of appropriate internationalisation strategies (appropriate foreign markets and entry methods) and for establishing targets to monitor actual versus planned performance so that corrective action could be taken.

Overall these findings provide new insights to those of previous research (Bilkey, 1978; Leonidou, 2004). Although prior research has generally compared the managerial characteristics of exporting and non-exporting SMEs, this study has shown that the managerial capabilities increase according to the degree of internationalisation. Secondly, this study has found that SMFEs face unique barriers to developing their managerial capabilities as they grow internationally. In Chapter 4, the analysis of the managerial capabilities of SMFEs and non-SMFEs according to their degree of internationalisation revealed that the management capacity, expertise and processes of SMFEs lag behind those of their non-family counterparts. This difference was most evident at a high degree of internationalisation.

Analysis of the case firms provided reasons as to why SMFEs lag behind their non-family counterparts in building their managerial capabilities as they grow internationally. Firstly, with regard to managerial capacity, family firms were reluctant to commit financial resources to employing additional managers until international sales had reached a certain level (chicken vs. egg dilemma). Secondly, family members often had a production mindset and therefore failed to understand the importance of developing the family firm's marketing capabilities through the appointment of an experienced sales and marketing manager. Thirdly, family objectives such as the desire to remain wholly family-managed, as well as lifestyle issues (e.g. family responsibilities), at times limited the firm's managerial capacity. The lack of managerial capacity had flow on effects on the family firm's managerial expertise and processes. Based on the findings from the quantitative and qualitative analyses, the limited managerial capabilities of SMFEs may partly explain why the current study and others have found that the internationalisation of family firms lags behind that of their non-family counterparts. For example, as observed in one case firm, positive changes to a family firm's managerial capabilities were found to lead to a more positive attitude towards risk-taking and the taking on of the long-term debt required to finance internationalisation-related strategies.

With regard to marketing capabilities, the family firm's brand, customer service, and the capabilities of the firms with which it had developed business relationships were found to be some of most important issues affecting internationalisation. Although prior research has found some of these issues to be important for international growth (Leonidou, Katsikeas & Samiee, 2002), the production mindset of management within family businesses was identified as a key obstacle to the development of their marketing capabilities. This finding provides new insight as to why the internationalisation of SMFEs is less than that of their non-family counterparts. Such a change was brought about by succession to the next generation, formal education in business and management, or through the appointment of an experienced sales and marketing non-family manager. The transition towards a customer orientation encouraged SMFEs to commit resources towards building marketing capabilities (resources for brand building and visiting international markets). The selection of agents or distributors with whom to enter into business relationships was found to have a significant influence on the family firm's ability to drive international sales. Some family firms saw it as an advantage if the agent or distributor was also a family business because of

synergies stemming from common values and an understanding of how each other operated. Nevertheless, it was critical to select a partner with the market knowledge, expertise, and distribution channels (the ‘horsepower’) to grow the family firm’s sales at a rate appropriate for its production capacity. This finding is consistent with previous research, which suggests that alliances with overseas partners can be an effective way to acquire the resources and capabilities required for internationalisation (Lu & Beamish, 2001).

The current study highlighted, however, that, in addition to high quality customer service, the development and marketing of the family firm’s brands were essential for international growth. Branding was not well understood by family firms, as evidenced by the fact that the firm’s brand (and sub-brands) did not feature prominently on the products that they sold. Although word of mouth advertising of the brand was found to be an effective way of increasing the awareness of the brand internationally, it was important for family firms to build their brands and market them globally in order to drive international growth. Failure to do so places family firms at risk of remaining ‘hidden champions’; leaders in what they produce but remaining largely unknown on the international stage. The current study highlighted the fact that SMFEs need to investigate effective ways of marketing their brands, including the development of a website, family members exhibiting products at major international trade fairs, and the creation of comprehensive marketing materials.

### ***7.6 An integrated model of the internationalisation of SMFEs***

Based on the findings of the quantitative and qualitative analyses, an integrated model is presented in Figure 7.1, which highlights those factors that were found to influence the internationalisation of SMFEs. These included an SMFEs strategic management process, its stock of resources and capabilities, the owning family and outsiders.

First and foremost, successful internationalisation requires a long-term commitment to the execution of an internationalisation strategy. For this to occur, it is critical that the aspirations of the family members, as expressed through the firm’s overall vision and objectives, are consistent with an internationalisation strategy. Depending on the characteristics of the successor, succession to the next generation can bring about the change towards a global vision, and consequently the commitment to internationalisation. Conversely, it can bring about the abandonment of a global vision and subsequently, de-internationalisation.

Growth oriented family firms with excess production capacity but faced with limited opportunities in the domestic marketplace are more likely to have a long-term commitment to internationalisation. Although there are financial and non-financial benefits from internationalisation in the long-term, unfavourable outcomes may be experienced in the short-term (e.g. financial losses, family/management strain). As a consequence, family firms with patient capital are more likely to be in a position to have a long-term commitment towards, and enjoy the benefits of, internationalisation.

In addition to having a long-term commitment towards internationalisation, it is also critical that the family firm has access to the financial resources required for the execution of a long-term internationalisation strategy, as well as for reconfiguring the firm's resources to develop the requisite capabilities. Financial resources determine the rate at which a family firm can grow internationally. The financial resources available for internationalisation are determined by a family firm's performance in the domestic marketplace, family equity and dividend policy, government and industry grants, as well as the family's willingness to acquire finance from outside sources. Whether a family firm acquires debt and/or equity finance is influenced by the family's attitude to risk and desire to remain wholly family-owned. The family's attitude towards risk also influences the willingness to commit financial resources to internationalisation-related activities (chicken vs. egg dilemma). Because family firms are often reluctant to bring in outside equity, it is important that they have mechanisms in place to ensure family harmony as it can encourage family members to reinvest their dividends back into the business and reduces the need to use limited financial resources to prune the family tree.

As highlighted in the model, the adoption of an internationalisation strategy requires a family firm to make significant changes, including the change from a production mindset towards a customer orientation, the development of an entrepreneurial orientation, and the reconfiguration of the firm's resources. This change can be initiated by the succession to the next generation, formal education in business and management, or through the appointment of an experienced sales and marketing non-family manager. Financial resources will be needed to develop the capabilities required for internationalisation through the reconfiguration (adding, shedding, combining) of the firm's physical, human and organisational resources:



- *physical resources*  
 The family firm needs to reconfigure its production infrastructure to develop the production capabilities that enable the firm to produce globally competitive products. These include having sufficient production capacity to develop and reliably produce cost competitive, high quality products for the international marketplace. They arise from combining the firm's physical resources with other firm resources such as human resources. The firm also needs to acquire information technology for market research and to develop a website for promoting its brand and providing superior customer service to its international customers.
- *human resources*  
 The firm needs to acquire the right mix of human resources to develop the entrepreneurial orientation (e.g. innovativeness), relational abilities and technical, managerial and sales and marketing expertise required to build the firm's production, managerial and marketing capabilities.
- *organisational resources*  
 The firm needs to develop the managerial capabilities (e.g. managerial processes), the international network relationships and marketing capabilities (e.g. brand image) required for internationalisation.

As shown in Figure 7.1, this study provides new insights to the internationalisation literature by identifying the financial and non-financial effects that international expansion can have on the family unit, in addition to its effect on the firm's resources and capabilities and strategic management process:

- *firm resources and capabilities*  
 Internationalisation provides opportunities for family firms to acquire further knowledge and experience that can have flow on effects onto other areas of the firm including the development of its production (e.g. product development) managerial (e.g. managerial expertise), and organisational (e.g. sales and marketing expertise) capabilities. Although internationalisation may place a strain on financial resources in the short term, it can result in improved economies of scale and cash flows in the long-term as it grows internationally.
- *strategic management process*  
 The outcomes associated with internationalisation influences its ongoing commitment to internationalisation, the resources committed to internationalisation, as well as the type of internationalisation strategy adopted (e.g. direct exporting vs. licensing). Because internationalisation adds complexity to managing the family business, its strategic management process may become more formalised where performance is scrutinised on a more regular basis and more detailed strategic plans are developed.

- *family*

The internationalisation of the family firm can bring many benefits to the family including an increase in the value of its equity, the personal satisfaction from being internationally competitive, ensuring the long-term survival of the business, rewarding and challenging careers for family members. However, internationalisation can place substantial strain on family harmony, particularly when family members are required to spend considerable time overseas.

### **7.7 Implications for theory**

To date, there has been a lack of research on the internationalisation of family firms. This study has addressed this gap by examining the propensity for and degree of internationalisation of SMFEs, the effect of internationalisation on SMFEs, as well as the identification of issues that influence their ability to grow internationally. The current study has a number of implications for internationalisation theory:

- Firstly, the study adds to the literature by demonstrating that there are differences in the internationalisation of SMFEs and non-SMFEs. SMFEs are less likely to venture into the international marketplace, and those that do, do so to a lesser degree and with less managerial capabilities.
- Secondly, the study has identified outcomes particular to the internationalisation of family firms not identified by previous research, such as the strain placed on family members as well as the conflict that can arise within the family unit as a result of the changes brought about by internationalisation.
- Thirdly, in addition to challenging the relevance of a stage model view of internationalisation, the current study provides further support to the born-again global pathway to internationalisation proposed by Bell et al. (2003). The findings extend our understanding of the born-again global pathway by the identification of another type of critical incident particular to family firms, viz. succession to the next generation, which can lead to rapid internationalisation. Contrary to previous family business research, qualitative analysis of the data has demonstrated that, depending on the characteristics and aspirations of the successor, succession to the next generation in a SMFE can lead to de-internationalisation. Moreover, the data point to the fact that family involvement can influence the type of foreign market entry methods employed by family firms, an issue that has been largely overlooked in internationalisation research.
- Fourthly, it has been demonstrated that the combination of different theoretical perspectives (Stage Model Theory, Network Theory and RBV) can be an effective approach to examining and understanding the internationalisation behaviour of firms.

Stage Model Theory was useful for identifying the internationalisation behaviour of family firms, while the use of a RBV (where firm networks were seen as a unique firm-resource) was an effective way for identifying what (and how) firm-specific factors, such as family involvement, influence their internationalisation behaviour.

- Fifthly, the benefits of using a mixed method research design have been highlighted. Using both quantitative and qualitative analyses, research issues were able to be examined in ways that would not have been possible through the use of a single research method. Also the findings of the quantitative and qualitative analyses informed each other and provided for stronger, more reliable conclusions to be made. For example, the qualitative finding that SMFEs faced family-related obstacles to developing their managerial capabilities was confirmed through the quantitative analysis, which found that, compared to non-SMFEs, SMFEs grow internationally with less managerial capabilities. The fact that family involvement was found to directly and indirectly influence the internationalisation of SMFEs highlights the value of using a qualitative case study approach to explore why, as identified in the quantitative analysis, their propensity for and extent of internationalisation are less than that of their non-family counterparts.
- Finally, it was observed that the internationalisation of SMFEs is dependent on the characteristics and behaviour of a number of individuals within the firm rather than that of the CEO. For example, an SMFE's ongoing commitment to internationalisation was dependent on the consensus within the family unit as well with its non-family managers. This finding highlights a key limitation of previous research, which has implicitly assumed that SMEs have only one decision-maker:

...This is fundamentally misleading assumption, since it is widely acknowledged that in most firms...the decision making unit consists of many individuals. This constitutes a serious methodological problem in this type of research, since it focuses on the characteristics of the decision maker where selection of the inappropriate individual may lead to erroneous conclusions. (Leonidou et al., 1998, p. 84)

As a consequence, it is important for future SME internationalisation research (and particularly that of SMFEs) to consider the influence of the characteristics and behaviour of a range of individuals in the firm.

## **7.8 Implications for policy and practice**

### **7.8.1 Implications for SMFEs**

It is clear that internationalisation can bring a number of financial and non-financial benefits to a family business. Although family firms may benefit in the short-term from taking advantage of international opportunities as they arise (opportunistic exporters), overall the benefits from internationalisation accrue in the medium-to-long-term. Therefore, the family

and the business must be willing to make a long-term commitment to internationalisation. Because internationalisation is a long-term strategy, family businesses intending on venturing overseas, or aiming to increase their degree of internationalisation, need to engage in strategic planning. Because internationalisation often requires organisational change, it is essential that the family be fully aware of what is required to develop a successful internationalised family business.

Strategic planning addresses issues such as the fit between the family's aspirations, the vision and objectives of the firm and the intended internationalisation strategy. It is also useful for identifying the resources and capabilities that will need to be acquired or developed in order to execute the intended internationalisation strategy (gap analysis), how they will be obtained, and the organisational change that will need to occur to bring this about.

Through strategic planning, family members can also assess what implications internationalisation has on the family unit, such as the extra workload or travel commitments placed on family members, potential effects on the ownership structure, dividend policy and career development opportunities. A key part of the internationalisation of the firm is strategic management where the strategic plans of the firm are compared with the outcomes so that corrective actions, where necessary, can be taken. For example, strategic management is important to ensure that the risks associated with international business are spread across several markets rather than being concentrated in one geographical region. Mechanisms also need to be in place to effectively manage the conflict that can often arise from bringing about the changes required for internationalisation, which may include establishing an active board of directors with outside expertise, use of an advisory board, and use of a family council.

The finding from the current study suggest that it is essential that the firm acquire and build the requisite resources and capabilities in order to build a successful international family business. These include:

- *financial resources*

Although government grants, such as the Export Market Development Grant, can be a useful source of finance (and knowledge) for family firms in the early stages of internationalisation, they are not sufficient to build an international family business. Unless a family firm enjoys a dominant position in the domestic marketplace, it will need to raise the necessary funds through industry grants, debt and/or equity finance.

This may mean taking greater risks (higher gearing ratios) or the family relinquishing some of its control (outside equity). Failure to raise and commit sufficient financial resources to the execution of an internationalisation strategy may expose the family business to risks greater than that faced by domestically focused family firms (Moini, 1995).

- *physical resources*

Family firms need to configure the infrastructure (physical, human and organisational) to develop the production capabilities required for internationalisation. These include having sufficient production capacity to meet both domestic and international demand, the ability to reliably produce high quality products at a globally competitive cost, and the ability to develop innovative product lines, or adapt their existing lines, to meet the requirements of international markets. Because innovation has consistently been shown to be a key driver of internationalisation, it is critical that family firms develop the entrepreneurial culture that supports an ongoing commitment to innovation.

- *human resources*

Although they may have the technical skills, most family managers will not have the business skills required to grow the business internationally. In addition to formal training (in business management/marketing) of existing family managers, the employment of non-family managers with the necessary expertise and family business experience can be one of the most effective ways to acquire the skills for international growth. One possibility is equipping future successors with the necessary expertise through education and international business experience outside the family business. Because succession to the next generation can bring the revival of the entrepreneurial spirit required for internationalisation, mechanisms (such as an active independent board) should be in place to ensure a family CEO does not stay too long in the job. Not only is it important to acquire the necessary expertise, it is also important to give managers the autonomy to proactively respond to opportunities in their areas of responsibility.

- *organisational resources*

In order to grow the family business internationally, it is critical that they develop their international business networks and their marketing capabilities. Family manufacturing businesses are often very proficient and innovative in what they produce. The challenge they face is making the transition from a production mindset to a customer orientation. Failure to do so put family firms at risk of remaining 'hidden champions': leaders in what they produce but remaining largely unknown in the international stage.

In addition to developing a family brand and providing superior customer service, it is critical that family firms develop their international business networks, which have been identified as one of the key drivers of SME internationalisation. Forming network relationships with overseas firms with the required 'horsepower' to grow the family firm's sales at a rate appropriate for its production capacity, is one of the most important steps that they can make to internationalise. In addition to developing a comprehensive website, exhibiting at key international trade fairs is one of the key ways a family firm can develop its international networks and build brand awareness. Because they can play an influential role, it is critically important that competent family members are willing and able to travel internationally to build such international business relationships.

As they grow internationally, it is important that family firms have the managerial capabilities to manage that growth. Through appointing additional managers, management education and adopting modern management processes, the international growth of the family firm can be effectively managed to minimise the strain placed on both the family and domestic operations, as well as releasing family members to represent the firm overseas at trade fairs. It also enables family firms to more effectively manage (and be comfortable with) the risks associated with undertaking additional debt to finance growth.

A summary of the implications of the research for SMFEs is offered in Table 7.1.

**Table 7.1 Summary of implications for SMFEs**

Implications for SMFEs
<ul style="list-style-type: none"> <li>○ SMFEs need to view internationalisation as a long-term strategy in order to realise the associated benefits.</li> </ul>
<ul style="list-style-type: none"> <li>○ The importance of engaging in formal strategic planning so that the needs of both the business and the family can be assessed when evaluating alternative internationalisation strategies.</li> <li>○ Strategic planning also important for identifying the resources (e.g. financial) and capabilities (e.g. production capacity) required for internationalisation (gap analysis), how they will be obtained, and the organisational changes required to bring this about.</li> </ul>
<ul style="list-style-type: none"> <li>○ Implementation of mechanisms to effectively manage the conflict that may arise from the changes required for internationalisation. These may include the establishment of an active board of directors with outside expertise, use of an advisory board or use of a family council.</li> </ul>
<ul style="list-style-type: none"> <li>○ Although government grants (e.g. EMDG) are a useful source of finance for initiating internationalisation strategies, they are not sufficient for building an international SMFE.</li> <li>○ Unless an SMFE enjoys a dominant position in the domestic marketplace, it will need to raise the necessary funds to execute internationalisation-related strategies through industry grants, debt and/or equity finance. This may mean taking greater risks (higher gearing ratios) or relinquishing some family control (outside equity).</li> <li>○ Failure to raise and commit sufficient resources to internationalisation may expose the SMFE to risks greater than if it remained domestically focused.</li> </ul>
<ul style="list-style-type: none"> <li>○ Internationalisation requires SMFEs to develop the requisite production capabilities: sufficient production capacity to develop and reliably produce quality products at a globally competitive price.</li> </ul>
<ul style="list-style-type: none"> <li>○ Successful internationalisation requires the formation of a management team with the requisite expertise.</li> <li>○ Although the requisite managerial expertise can be acquired through formal business education, the most expedient way is through employment of non-family manager who had had prior with family businesses and international markets.</li> <li>○ SMFEs contemplating embarking on internationalisation in the future should encourage potential future family successors to gain international management experience outside the family business.</li> <li>○ Successful internationalisation also requires the owning family giving the management team the autonomy to utilise their expertise in their areas of responsibility.</li> </ul>
<ul style="list-style-type: none"> <li>○ Because of the importance of innovation, risk-taking, autonomy and proactiveness for internationalisation, it is important to foster an EO within the firm.</li> <li>○ Succession planning crucial to ensure that the incumbent family CEO does not stay too long in the job and quash the EO within the firm.</li> </ul>
<ul style="list-style-type: none"> <li>○ Important for SMFEs to develop the managerial capabilities to effectively grow and manage the complexities associated with internationalisation. Failure to do can place substantial strain on both the business and the family.</li> </ul>
<ul style="list-style-type: none"> <li>○ Development of marketing capabilities and international business networks critical to guard against remaining a 'hidden champion' and to grow internationally. This may require overcoming management's 'production mindset' towards more of a customer perspective.</li> <li>○ Family can play a critical role in the development of international business networks, particularly through representing the firm at key international trade fairs.</li> <li>○ Important to form network relationships with overseas firms that can grow the SMFE's sales at a rate appropriate to its production capacity.</li> </ul>

### 7.8.2 Implications for policy

As indicated at the outset of this study, the Australian government aimed to double the number of Australian businesses exporting by 2006. Because the internationalisation of SMFEs lags behind that of their non-family counterparts, this study confirms that policy initiatives directed towards the internationalisation of family firms are warranted. This study suggests that initiatives in the following areas should be a priority:

- *educating family firms*

In order to increase the propensity of family firms to internationalise, it is critical to make them aware of the benefits of, and government assistance available to assist them in, internationalisation. Family business research (Okoroafo, 1999) indicates that an awareness of government assistance is low and consequently few family firms use such assistance. As a consequence, it is critical that policy makers and family business associations work together to ensure that family businesses are aware of the support that is available to assist them in their international expansion, particularly financial support since they are limited by their financial resources. To encourage the involvement and commitment of the next generation, family business associations can play a role in promoting the management of an internationalised family firm as a rewarding and challenging career path;

- *financing family firms*

Because government grants and retained earnings will often not be sufficient to finance a long-term internationalisation strategy, family firms will need to raise additional finance. Through the development of their managerial capabilities, family firms are in a stronger position to manage risk and therefore more likely to take on additional debt finance. To encourage the use of equity financing, family business associations could provide seminars that feature family firms that have benefited from using such finance (such as finance, expertise and access to alternative business networks). Because innovation is a key driver of internationalisation, government and industry bodies could also provide additional research and development grants to assist family firms in developing innovative production processes and products. Family business advisors (such as accountants) can also provide guidance on how family firms can make the most of the limited financial resources they have, such as leasing and minimising inventory levels (i.e. financial bootstrapping methods);

- *developing the managerial capabilities of family firms*

Because family firms have a preference to retain management within the family, business schools can play a role in offering tailored courses that equip family members with the necessary business management and marketing expertise required for international growth. Family business associations can also play a role in encouraging the next generation to obtain managerial experience outside the business, particularly in



the international arena. Because managerial capabilities (such as strategic planning) are important for successful internationalisation, and family firms have limited financial resources to pay consultants, policy-makers can play a key role in providing government-sponsored advisory services. Family business advisors can assist family firms in developing their managerial capabilities through the use of active boards and advisory boards. Family business associations can also play a role in educating family firms on the benefits of appointing non-family executives to the management team and the board of directors, as well as using advisory boards;

■ *family business statistics*

Because of their importance to the Australian economy, ongoing research is required to ascertain how SMFEs can survive and succeed in an increasingly competitive global marketplace. Because of the challenges associated with collecting family business statistics, the ABS should be encouraged to include family business-specific questions in their current SME surveys so that a comprehensive database of Australian SMFEs can be developed.

Suggestions for policy development are summarised in Table 7.2.

**Table 7.2 Summary of implications for policy**

Implications for policy
<ul style="list-style-type: none"> <li>○ Awareness programs to educate SMFEs of the support available to assist them in growing internationally, such as the Australian government's EMDG and export support services, and export networks. Such programs are also important to promote the financial and non-financial benefits of internationalisation for SMFEs, such as a means to providing a rewarding and challenging career pathway for the next generation;</li> </ul>
<ul style="list-style-type: none"> <li>○ Because innovation is a key driver of internationalisation, government and industry associations could provide R &amp; D grants to promote and encourage innovate activity among SMFEs;</li> </ul>
<ul style="list-style-type: none"> <li>○ Because SMFEs can be reluctant to direct their limited financial resources towards employing consultants for advice on growth-related issues (e.g. strategic planning, lean manufacturing, brand development), policy-makers can play a key role in providing government-sponsored advisory services;</li> </ul>
<ul style="list-style-type: none"> <li>○ The development of a range of seminars or educational programs to assist SMFEs in addressing a number of the implications summarised in Table 7.1. These include:               <ul style="list-style-type: none"> <li>– Strategic planning that encompasses both the needs of the family and the business;</li> <li>– Various options for financing the SMFE for international growth, including the use of actual case studies on family firms that have successfully used equity financing to fund growth;</li> <li>– How to create and use an active board of directors, an advisory board and a family council to manage the needs of the family and the business more effectively;</li> <li>– Lean manufacturing;</li> <li>– Fostering an entrepreneurial orientation within the firm;</li> <li>– Brand and website development;</li> <li>– International marketing;</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>○ The development and promotion of MBA and other management education award programs that assist SMFEs in developing the managerial expertise required for internationalisation;</li> </ul>
<ul style="list-style-type: none"> <li>○ Because of the importance for future research on SMFE performance, the ABS should be encouraged to include family business-specific questions in its current SME surveys.</li> </ul>

## **7.9 Limitations and future research**

### **7.9.1 Limitations of quantitative analysis**

Despite the advantages of the quantitative analysis employed in this study, such as the examination of the existence and persistence of relationships between internationalisation and other variables over a three-year period, there are some limitations. The quantitative analysis is restricted to the manufacturing industry and therefore the findings may have limited generalisability to other industries. The findings are also limited in that they could not indicate the direction of the statistical associations reported in Chapter 4. For example, although a positive statistical association was found between internationalisation and financial performance, it is unknown whether the improved financial performance precedes or follows internationalisation.

There are also limitations that stem from the use of the BLS. Firstly, because the BLS was confidentialised, it was not possible to control for the influence of type of manufacturing sector upon the relationships tested. Secondly, the researcher had no influence in how the variables of interest were measured in the BLS. For example, in this study, the degree of internationalisation was determined through using the measure 'export intensity'. Although such an approach has been used in previous research, it is limited in that it does not take account of other variables that have also been used to identify the scope (number of foreign countries entered) and the foreign market entry method employed (e.g. exporting from domestic base, foreign sales office, foreign manufacturing plant, licensing, strategic alliance). As a consequence, the differences in managerial capabilities of SMFEs and non-SMFEs could be due to differences in the foreign market entry method adopted (which vary in complexity). Similarly, the fact that the degree to which an SMFE expands internationally had no observable effect on financial performance could be due to other influences such as the foreign market entry methods employed<sup>19</sup>.

This study also uses a broad definition of a family business, and therefore it includes firms with varying levels of family influence, including entrepreneur-led family businesses. As a consequence, it's not known what effect the degree of family influence has on the findings reported in Chapter 4.

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<sup>19</sup> Lu and Beamish (2001) found that the effect of internationalisation on the financial performance of SMEs was influenced by nature and extent of foreign market entry methods employed.

Because the BLS data were collected last decade, there is a possibility that the statistical relationships identified in this study may not hold today. For example, because the Australian Federal government has been aggressively promoting exporting since 2000, one would expect that the number of firms participating in the international marketplace to have increased compared to last decade. However, it is the researcher's opinion that the statistical differences between SMFEs and non-SMFEs reported in the quantitative analysis will not fluctuate significantly over time. For example, although the participation rates in the international marketplace may have increased since last decade, because of the enduring complexities inherent in family businesses, SMFEs will continue lag behind non-SMFEs when it comes to internationalising their operations. Despite these limitations, the quantitative analysis was considered worthwhile to provide a richer context for the qualitative research undertaken in this study.

### **7.9.2 Limitations of qualitative analysis**

Despite the advantages of the qualitative analysis employed in this study, such as answering questions that other methods cannot and providing stronger conclusions when combined with the quantitative analysis results, there are three key limitations. Firstly, as with the quantitative analysis, the qualitative analysis of the eight case firms is restricted to the manufacturing industry and therefore the findings may have limited generalisability to other industries.

Secondly, because this study uses a limited number of case firms (eight in total), there is the risk that the conclusions developed from the qualitative data analysis (such as the relationships depicted in the integrated model of the internationalisation of SMFEs) are idiosyncratic with limited generalisability to other organisational contexts (Eisenhardt, 1989). However, where possible, this risk has been minimised by the dual research design of this study, where the findings from both the quantitative and qualitative data analyses have been compared and contrasted when developing the overall conclusions of the study. The study's findings were also presented in a range of different forums, such as academic and business conferences, the media, and directly to the case study firms. The feedback obtained from these forums suggests that the study's findings may be generalisable to other contexts.

Thirdly, because the qualitative analysis was limited to SMFEs, it is not known whether all the influences on internationalisation identified in this study are unique to SMFEs or are common to all SMEs (that is, SMFEs and non-SMFEs). Some of the qualitative findings are clearly unique to family firms. For example, collectively, the quantitative and qualitative findings suggests that, compared to their non-family counterparts, SMFEs have less managerial capabilities as they grow internationally, which influenced their ability to internationalise, as well as the outcomes associated with internationalisation. Another example is where succession to the next generation was found to be a catalyst for bringing about the changes required for internationalisation in certain circumstances. Conversely, it is not known whether the problem of a production mindset amongst the management of SMFEs is also encountered by non-family manufacturing SMEs. The implications of these limitations for future research are discussed in the following section.

### **7.9.3 Implications for future research**

Based on the above discussion of the limitations inherent in the quantitative and qualitative analyses, additional research is required to confirm and extend the overall conclusions of this study. Firstly, because of the limitations that stem from the use of the BLS, further research is required to ascertain whether the difference in managerial capabilities of SMFEs and non-SMFEs is due to differences in the foreign market entry method adopted (which vary in complexity). Similarly, further research is required to ascertain whether the relationship between the extent of internationalisation and financial performance of SMFEs is moderated by the foreign market entry methods employed. Because of the inability to control for the influence of the type of manufacturing sector, further research is required to ascertain whether the quantitative findings are consistent across manufacturing sectors.

Secondly, because of the exploratory nature of this study, further research is required to examine the relationships presented in the integrated model of the internationalisation of SMFEs. Some suggestions for future research include:

- whether SMFEs that place greater emphasis on family considerations (family first) are more likely to adopt foreign entry methods that are less intrusive on family life
- whether internationally active SMFEs that have formal planning systems in place outperform other SMFEs in the international marketplace (in terms of meeting the objectives of both the family and the business)

- whether SMFEs that are more open to using a range of sources of finance are more likely to rapidly grow internationally compared to other SMFEs
- whether SMFEs that employ non-family managers with the requisite expertise and prior experience in family firms are more likely to rapidly grow internationally compared to other SMFEs
- whether SMFEs that grow internationally with limited managerial capabilities are more likely to encounter negative financial outcomes and strain on the family unit.

The generalisability of relationships depicted in the integrated model to other contexts, as well as the relative strength of those relationships, is unknown. For example, it is not known whether the commitment to internationalisation or the stock of financial resources has a greater influence on the internationalisation of SMFEs. Therefore further statistical analysis (such as structural equation modelling) is required to ascertain the generalisability of the relationships depicted in this model to other contexts (industries, countries and large family firms) as well as the identification of those variables that have the greatest influence on the internationalisation of SMFEs. Also, because the qualitative analysis was limited to family firms, further research is required to ascertain whether all the influences on internationalisation identified in this study are unique to SMFEs or are common to all SMEs (that is, SMFEs and non-SMFEs). For example, it is not known whether the problem of a production mindset amongst the management of SMFEs is also encountered by non-family manufacturing SMEs.

Finally, although this study identified succession to the next generation as a potential trigger for the born-again international behaviour of SMFEs, it was also found to lead to de-internationalisation in one case firm. Therefore future research is required to ascertain the ways in which succession to the next generation can influence the internationalisation behaviour of SMFEs.

### **7.10 Summary of key contributions to knowledge**

The major contributions made by this study to the extant family business and internationalisation literature are summarised in Table 7.3. Through the identification of factors that limit the ability of family firms to grow internationally, as well as the manner in which these obstacles can be overcome, it is envisaged that the findings of this study will be of value to both family businesses and the Australian economy.

**Table 7.3 Key contributions made by study to extant literature**

<b>Contribution</b>
<b>Research issue 1:</b> Is there a difference in the propensity for and degree of internationalisation of SMFEs and non-SMFEs?
Propensity for internationalisation of SMFE is less than that of non-SMFEs;
Extent of internationalisation of SMFE is less than that of non-SMFEs.
<b>Research issue 2:</b> What effect has internationalisation had on SMFEs
Financial performance of internationally active SMFEs is greater than that of SMFEs that focused on the domestic marketplace. Extent of internationalisation had no observable effect on the financial performance of internationally active SMFEs;
Financial benefits associated with internationalisation dependent on having a long-term commitment to, and the managerial capabilities required for, internationalisation;
Internationalisation can be a trigger for conflict within the firm and place substantial strain on the family unit and management.
<b>Research issue 3:</b> Is the internationalisation behaviour of SMFEs similar to that of traditional international firms?
Most SMFEs follow a traditional pathway to internationalisation, although some SMFEs can exhibit internationalisation behaviour similar to that of born-again globals;
Identification of 'critical incidents' that can trigger SMFEs to follow a born-again global pathway to internationalisation;
Internationalisation behaviour of SMFEs challenges relevance of Stage Model Theory;
Support for the born-again global pathway to internationalisation;
Family involvement found to influence the type of foreign market entry methods employed by SMFEs;
<b>Research issue 4:</b> What factors influence the internationalisation process of SMFEs?
Effect of succession on the internationalisation of SMFEs dependent on the vision and qualities of the successor and the support of family and management;
An SMFE's vision and multiple and complex objectives influence the commitment to internationalisation;
SMFEs with patient capital were more likely to remain committed to internationalisation despite poor performance in the short-term;
Pecking order of SMFEs limits the funds available for internationalisation;
The executive management team's entrepreneurial orientation (such as the willingness to commit financial resources, innovativeness, and ability of managers to enact internationalisation-related strategies) has an effect on the drivers of internationalisation;
Employment of non-family manager with the expertise, cultural fit, and prior work experience in family firms is often required to bring about the changes and development of capabilities required for successful internationalisation of SMFEs;
Network relationships play a critical role in the internationalisation of SMFEs; Family involvement facilitates the development of international network relationships; Compared to non-SMFEs, SMFEs are less likely to engage in formal networking with other businesses
Compared to non-SMFEs, SMFEs face unique barriers to developing their managerial capabilities as they grow internationally Limited managerial capabilities of SMFEs inhibit international growth, and place strain on family unit, management team and performance in domestic marketplace;
Production mindset of family leaders inhibits the development of an SMFEs marketing capabilities (such as firm brands), which are critical for international growth.

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## Appendix 1 Tests of normality of metric variables

	Kolmogorov-Smirnov			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
<b>Export intensity (95/96)</b>	0.345	871	<b>0.000</b>	0.457	871	<b>0.000</b>
<b>Export intensity (96/97)</b>	0.346	871	<b>0.000</b>	0.452	871	<b>0.000</b>
<b>Export intensity (97/98)</b>	0.347	871	<b>0.000</b>	0.450	871	<b>0.000</b>
<b>Firm age (95/96)</b>	0.156	871	<b>0.000</b>	0.906	871	<b>0.000</b>
<b>Firm age (96/97)</b>	0.144	871	<b>0.000</b>	0.907	871	<b>0.000</b>
<b>Firm age (97/98)</b>	0.153	871	<b>0.000</b>	0.902	871	<b>0.000</b>
<b>Firm size (95/96)</b>	0.163	871	<b>0.000</b>	0.826	871	<b>0.000</b>
<b>Firm size (96/97)</b>	0.163	871	<b>0.000</b>	0.824	871	<b>0.000</b>
<b>Firm size (97/98)</b>	0.171	871	<b>0.000</b>	0.803	871	<b>0.000</b>
<b>Innovation commitment (95/96)</b>	0.426	871	<b>0.000</b>	0.170	871	<b>0.000</b>
<b>Innovation commitment (96/97)</b>	0.438	871	<b>0.000</b>	0.130	871	<b>0.000</b>
<b>Innovation commitment (97/98)</b>	0.423	871	<b>0.000</b>	0.191	871	<b>0.000</b>
<b>Management team size (95/96)</b>	0.191	871	<b>0.000</b>	0.805	871	<b>0.000</b>
<b>Management team size (96/97)</b>	0.177	871	<b>0.000</b>	0.816	871	<b>0.000</b>
<b>Management team size (97/98)</b>	0.184	871	<b>0.000</b>	0.759	871	<b>0.000</b>
<b>Return on total assets (95/96)</b>	0.241	871	<b>0.000</b>	0.315	871	<b>0.000</b>
<b>Return on total assets (96/97)</b>	0.141	871	<b>0.000</b>	0.765	871	<b>0.000</b>
<b>Return on total assets (97/98)</b>	0.367	871	<b>0.000</b>	0.091	871	<b>0.000</b>

## Appendix 2 Business profiling questionnaire and interview guide

### Section 1 - Business Profile

- **When was the firm first established?**

- **How many employees (full time equivalent) does the firm employ?**

Male..... Female..... Total.....

- **How many employees are in management positions? Total.....**

- **How would you best describe the current ownership control of the family business?<sup>1</sup>**

100% ownership   
 50-99% ownership  *Tick one box*  
 Less than 50% ownership

- **What generation owns the firm?**

1<sup>st</sup> G ; 2<sup>nd</sup> G ; 3<sup>rd</sup> G ; 4<sup>th</sup> G ; 5<sup>th</sup> G

- **What range indicates the average gross sales of the organisation?**

Less than \$1m  \$10-19m  \$100m+   
 \$1-5m  \$20-49m  *Tick one box*  
 \$6-9m  \$50-99m

- **What has been the approximate rate of growth of sales over the last three years?**

2001/02.....%      2002/03.....%      2003/04.....%

- **In each of the last three years, as a % of sales, how much has been spent on R&D activities<sup>2</sup>?**

2001/02.....%      2002/03.....%      2003/04.....%

- **In each of the last three years, what % of the firm's sales have been to overseas markets<sup>3</sup>?**

2001/02.....%      2002/03.....%      2003/04.....%

- **In what year did the business commence sales to overseas markets?**

Year.....

- **In each of the last three years, what is the total number of foreign countries that the firm has made sales to?**

2001/02.....      2002/03.....      2003/04.....

<sup>1</sup> Family is defined as relatives (whether by birth or adoption) of the founding family member(s).

<sup>2</sup> R & D is generally investigative work, which is of actual or potential use in the development of new or enhanced materials, products, devices, processes or services.

<sup>3</sup> Sales to overseas markets may be achieved through a variety of channels. These can include direct sales to an overseas customer, sales through an importer or distributor, joint ventures, and strategic alliances.





- **Does the firm have meetings with family members other than at management or board meetings? If so, how often are these meetings conducted?**

# of meetings per year:.....

- **Does the firm have any of the following business practices in place?**  
(Please circle the most appropriate response for each business practice).

<b>Business practice</b>		
Documented strategic or business plan	Yes	No
Export market planning	Yes	No
Regular income / expenditure reports (> once per year)	Yes	No
Benchmarking	Yes	No
Management training of employees during the year	Yes	No
Documented organisational structure	Yes	No
Documented job descriptions for managers	Yes	No
Documented succession plan	Yes	No

- **Does the firm have any of the following business improvement techniques in place?**  
(Please circle the most appropriate response for each technique).

<b>Business practice</b>			
Total Quality Management	No	Informally	Formal program used
Quality Assurance	No	Informally	Formal program used
Just-In-Time Inventory System	No	Informally	Formal program used

- **How frequently did the firm seek business information or advice from the following sources during the 2003/04 financial year?**  
(Please circle the most appropriate response for each source of advice).

<b>Source of Advice</b>	<b>Frequency used in the 2003/04 financial year</b>		
External accountant	Never	1-3 times	>3 times
Bank	Never	1-3 times	>3 times
Solicitors	Never	1-3 times	>3 times
Business consultants	Never	1-3 times	>3 times
Family or friends	Never	1-3 times	>3 times
Government small business agencies	Never	1-3 times	>3 times
Others in the industry	Never	1-3 times	>3 times
Local businesses	Never	1-3 times	>3 times
Industry associations / chamber of commerce	Never	1-3 times	>3 times

## Family business interview guide

### Information about interviewee:

- What is your current role in the organisation?
- How long have you occupied this position?
- How and when did you commence working for the firm?
- What is the nature of your working background and education?
- What are the key skills you bring to the firm?

## Section 2 – Managerial Capabilities of the Firm

### Board structure:

- What is the current structure of the board of directors and what role does it play?
- Is this adequate in your view? How might it be improved?
- In what ways (if any) has the board structure assisted / inhibited the international expansion of the firm?

### Management structure:

- What is the current management structure? How many are family members?
- How has this changed over time? What caused these changes?
- To what extent have formal job descriptions been developed for each management role?
- Is this current management structure adequate in your view? How might it be improved?
- What is the firm's policy regarding the hiring of family and non-family employees?
- Does the firm have a succession plan? What affect has the succession process had on the firm in the past? Positive / Negative?
- In what ways (if any) has the management structure assisted / inhibited the international expansion of the firm?

### Management processes:

- How are decisions made within the firm? Who is involved in this process?
- In what ways does the firm plan for the future?
  - Who is involved in this process?
  - In your view, is this adequate? How might it be improved?
- How is performance monitored in the organisation?
  - Who is involved in this process?
  - In your view, is this adequate? How might it be improved?
- To what extent does the firm engage in the training of its management?

## Section 3 – Globalisation and Internationalisation Process

- **What do you understand by the term 'globalisation'?**
- **In what ways has globalisation affected the firm?**
- **In your opinion, why has the firm expanded internationally?**

### *Probing questions:*

- What was the trigger / critical event?
- Who were the key players in expanding internationally?
  - How was this decision made?
- What is the key motivation for expanding internationally?
  - How does this align with the objectives of the firm? Growth?
- Entry method employed (direct sales; distributor/agent; joint venture; o/seas office)?
- What countries to target?

**From your perspective, what future plans does the firm have with regard to its international expansion?**

- Increase – what does the firm need to do in order to achieve this?
- Same or decrease – why is this?

#### **Section 4 – Influences on Internationalisation**

**What do you think are the distinct capabilities of the firm?**

- What advantages (if any) arise from being a family business?
- What capabilities have been particularly important in order to grow internationally?
- Has there been any particular capability that the firm has had to develop in order to grow internationally? Who has been the instigator/driver of this change?
- Are there any other capabilities that the firm may need to develop in order to further grow internationally?

**What outside relationships have been particularly important to the firm (eg suppliers, distributors, professional associations, govt. agencies, other FBs, end-use customers)?**

- In what (if any) way has being a FB assisted in developing these important relationships?
- In what (if any) have these important relationships influenced the firm's international expansion?

#### **Section 5 – Affect of Internationalisation on the firm**

- **What affect has international expansion had upon the firm?**

*Probing questions:*

- Financial success?
- Production processes?
- Governance?
- Management: people and practices?
- Family?
- Ownership?

#### **Section 6**

- **To what extent are senior managers able to act independently and make decisions?**
  - Effect on international expansion?
- **To what extent has the firm being innovative with its PRODUCTS and PROCESSES?**
  - Who are the key drivers of innovation?
  - Effect on international expansion?
- **Would you regard the firm as leader or follower with respect to:**
  - The development of new processes with your firm;
  - The development of new products;
- **To what extent does the firm actively pursue business opportunities internationally?**
- **What is the firm's attitude to risk?**
  - Financing
    - Primary source of funding?
    - Comfortable with borrowing money from the bank?
    - Willingness to bring in outside equity?
    - Affect of dividend policy on finances?
    - Affect of financing position on firm's capacity?
  - Comfortable with venturing into unknown?
  - Willingness to commit large sums of money to new ideas / projects?
- **To what extent does the firm actively take on its competitors?**

## **Section 7**

- **Are there any aspects of the firm's international expansion that, in retrospect, you think could have been done differently?**
- **From your perspective, do you think family businesses have any particular advantages or disadvantages when it comes to growing internationally?**
  - Research shows that family businesses are less likely to expand into international markets. Based upon your dealings with family businesses, why do you think this is?
- **What advice would you give a family-owned business that was considering expanding internationally?**
- **Is there anything else you would like to say that we haven't covered that is relevant to this study?**
- **Any supporting documentation that is relevant to the study that I might peruse.**

## Appendix 3 Introductory letter



ADELAIDE  
GRADUATE  
SCHOOL OF  
BUSINESS



THE UNIVERSITY  
OF ADELAIDE  
AUSTRALIA

### Responses by Family-owned Businesses to Globalisation

#### Background to the study

I am a PhD student at the University of Adelaide, undertaking a study investigating the challenges faced by Family-Owned-Small-to-Medium-Sized Enterprises (SMFEs) in an increasingly global economy. The South Australian Chapter of Family Business Australia (FBA-SA) and the Australian Research Council (ARC) are supporting this research. As part of this study, I am interested in interviewing a number of people who participate in or are associated with family businesses in Australia.

It is generally recognised that SMFEs make a significant contribution to the Australian economy. The economic prosperity of Australia is largely dependent upon the success of family firms in an increasingly 'global' marketplace. The study aims to increase our understanding of issues surrounding growing the business internationally. Any conclusions that can be researched to facilitate the ongoing development of SMFEs will therefore be of value. You and members of your organisation are those most closely involved with the day-to-day management of the business. Therefore any thoughts you may share with me on that management will be of value to the study.

Any information that is made available to me will be treated as strictly confidential. With the permission of those being interviewed, I would like to tape the interviews and transcribe them for ease of analysis. The tapes will be destroyed and the transcripts will not be identified with any personal or company details. In writing up the study, no comments will be published to identify the organisation unless this is specifically agreed on beforehand.

While it is hoped that the interviews will be as informal as possible, I will use a general interview guide during the interview process.

Thankyou for agreeing to be involved in this study.

Yours sincerely,

*Chris Graves*

## Appendix 4 Overview of node structure<sup>20</sup>

**Node Explorer**  
Node Set Tools View

Browse Properties Attributes DocLinks NodeLinks Edit Set Assay Search

**Nodes** | **Nodes in /Analysis/Influences on Intzn process**

Title	No.	Passages	Created	Modified
Mkt entry strategy	1	54	26/11/2004 -...	16/08/2005...
Extent of intzn	4	0	26/11/2004 -...	1/06/2005 -...

**Role in Firm**

- Strategic Mgmt Process
- Values**
- Vision**
- Long term orientation**
  - Objectives
    - Financial
    - NonFinancial
  - Strategies
    - Domestic**
    - International
      - Intzn process
      - Intzn Strategy
    - Products
- Performance**
  - EO
    - Autonomy**
      - Aggressiveness
      - Responsiveness
      - Risk taking
    - Innovation**
  - Firm resources
    - Financial capital
    - Physical capital
    - Human capital
    - Org capital
  - FB issues
    - Emotions
    - Strain**
      - Governance
      - Family equity**
      - Dividend policy**
        - Employment of family
        - Succession
        - Change
  - External factors
  - Do differently**
  - Advice to others**
    - Business type
  - Analysis
    - Influences on Intzn process
    - Affect on firm
- Cases (3)

<sup>20</sup> The purpose of this appendix is to give an overview of the broad categories contained within the node structure (e.g. strategic management process, firm resources) rather to present all nodes used in this study (230 in total). Please note that nodes displayed in **bold** merely highlight nodes that contain coding; nodes not in bold contain coding within sub-nodes.