

# **THE IMPACT OF INTERNATIONALIZATION STRATEGIES ON FAMILY FIRMS'**

## **GROWTH IN DOMESTIC MARKETS**

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## **Abstract.**

Scholars examining the consequences of internationalization strategies on firm's growth in domestic markets have developed two conflicting viewpoints: the substitution-effect view postulates that internationalization takes place at the expense of the firm's domestic market; the complementarity-effect view, posits that internationalization has positive effects for firm growth in firm's domestic market. We contend that the ownership structure of the firm and, specifically, the distinction between family vs. non family firms, helps explain the unresolved issue about the impact of internationalization on the domestic-market growth. Applying a socio-emotional wealth (SEW) perspective on family firms leads to predict that – compared to their non-family counterparts – family firms are more likely to foster internationalization through the complementarity-effect mode. We test our hypotheses on a sample of 338 Italian multinational companies in the time-window 2008-2012. Empirical results provide evidence in support of our theory: degree of internationalization translates into stronger growth in the domestic market for family business, rather than for non-family firms. Theoretical implications and contributions of our theory are presented and discussed.

## **Keywords**

family firms, socio-emotional wealth, internationalisation, foreign direct investments, ownership, growth

# THE IMPACT OF INTERNATIONALIZATION STRATEGIES ON FAMILY FIRMS' GROWTH IN DOMESTIC MARKETS

## Introduction

Firm growth represents an important phenomenon for corporate strategies and performance in modern corporations, especially for family firms that – given resource constraints (Achtenhagen, Naldik and Melin, 2010; Davis and Stern, 1988) and the specific set of interests and values involving, among others, fear of losing control (Casillas, Moreno and Barbero, 2010) – encounter significant contextual and decision making challenges. The extant research has concluded that firm's growth represents a complex and multi-dimensional phenomenon. Multiple growth-pathways can be pursued by corporations, each involving specialized challenges that call for a distinct theoretical framework (McKelvie and Wiklund 2009; Shepherd and Wiklund, 2009; Naldi and Davidsson, 2014).

Specifically, scholars examining firm's growth from with a focus on internationalization strategies developed two conflicting perspectives on the consequences of internationalization for firm's growth on the domestic markets. The *substitution-effect perspective* postulates that internationalization takes place at the expense of the firm's activity and growth on the domestic market. In an impetus to exploit business opportunities abroad (e.g., cost-differentials for production-inputs), corporations substitute activities in their home-countries with foreign investment progressively reducing presence and vitality of their business at home. By contrast, the *complementarity-effect perspective* maintains that internationalization provides corporations with unique opportunities to empower their knowledge and expertise, resulting in positive effects for firm's growth on the domestic market. Scholars recognize that serving a foreign market - either through exports, foreign production or contractual modes – represents a significant opportunity for

firm's growth; internationalisation provides opportunity for strategic revitalisation of firm's business (Calabrò et al., 2013).

Despite the considerable work in the realm of internationalization strategies, there is still lack of consensus about whether firms pursue growth in the substitution vs. the complementary mode, and the effects of internationalization on firm growth in domestic markets remains controversial.

Examining this issue is important not only for theoretical reasons, i.e., understanding the core driver of corporate behaviors and internationalization. It is also important for policy makers and the whole home-country economy as well. Policy makers at national and cross-national levels are subject to increasing pressures to augment the levels of country-competitiveness. In particular, within policy and academic circles, there is a general and common recognition that outward foreign direct investment (FDI) may enhance the competitiveness of the home economy. Yet, the driving-forces underlying corporate choices, and the relation of internationalization-strategies with growth in the domestic country is still in need of being fully understood. Examining the conditions under which firms are more likely to pursue internationalization by virtue of a substitution vs. complementarity mode is crucial for policy-makers, for both the design and the implementation phases of policies aimed at enhancing a country's outward investments (Bannò et al., 2015).

In this article, we contend that firm's ownership structure and, specifically, the distinction between family vs. non family firms, helps explain the conditions under which internationalization strategies are more likely to associate with growth in the domestic country. Specifically, we argue that complementarity effects of internationalizations on firm's growth in the domestic market are likely to prevail in family firms; substitution effects are more likely in non-family firms. There are mainly two supporting this view for this idea. First, an extensive body of research in the realm of the socio-emotional wealth (SEW) (Gomez-Mejia et al., 2007; Berrone, Cruz, Gomez-Mejia, 2012) suggests that preservation of the family and social identities, such as the binding ties with the local

community, represents a core driver of family firms' behaviors. As a result, family business are relatively unlikely to pursue a substitution-mode in their internationalization strategies, because such a mode involves significant detrimental consequences for the local businesses and personal ties in the family firm's social community (Brainard and Riker, 1997), impairing the socio-emotional capital. Second, accepting the idea that growth on the domestic market may be enhanced by greater competence/expertise acquired through internationalization (Penrose, 1959; Naldi and Davidsson, 2014), we expect this effect to be stronger in family firms, This is because: (a) family firms are known to exhibit a relatively low level of managerial competence/expertise relative to their non-family counterparts (Stenholm et al., 2016); and (b) learning-curves are known to be significant under relatively low levels of initial knowledge/expertise (Epple, Argote and Devadas, 1991). In other words, family firms, which have been significantly exposed to internationalization, likely develop those resources/managerial competence and expertise that – while helping them to cope with the challenges of internationalization– are also beneficial for the general management at their home-country headquarters and business-activities. As a result, while family firms with limited exposure to internationalization significantly suffer from problems of limited resources, knowledge and expertise, and are thus likely to manifest poor growth-rates in their home-market, family firms with greater exposure to internationalization are far more capable of understanding and managing business at home, giving rise to high growth-rates in domestic market. In sum, internationalization-processes provide family firms with those advanced managerial competence and expertise that are normally lacking in such organizations, and that may be beneficial in the home-country as well, fostering domestic-growth. Such a phenomenon is less pronounced for non-family firms, which normally exhibit greater competence and expertise, whether or not they pursue challenging ventures such as in internationalization.

The combined arguments developed above suggest that internationalization fosters a firm's growth in the domestic market especially for family firms, rather than for non-family firms. First, family firms are unlikely to pursue internationalization that may also impair their socio-emotional wealth in their local community. Further, the positive effect on domestic growth associated with an upgrade in managerial skills is expected to be higher for family firms. Hence, if family firms are to expand internationally, they will do so by (a) seeking opportunities that preserve their socio-emotional wealth (Gomez-Mejia et. al 2007) in their home-country, and (b) upgrading knowledge and skills that enhance business quality and growth in their headquarters/home-country businesses.

We test these ideas on a representative sample including 379 Italian multinational companies affiliated with 4,348 foreign firms in the period 2008–2012. The empirical results provide general support for the hypothesized effect: a greater level of internationalization translates into stronger growth in the domestic market for family-firms, rather than for non-family firms.

This paper contributes to the extant research on international business and family business in several ways. First, it sheds light on an under-investigated issue in the domain of family business, i.e. the family firm's growth, suggesting that SEW concerns in family firms implies a more accurate selection of internationalization initiatives aimed at preserving the business growth in the home-country. Second, it contributes to research on internationalization by showing how the ownership structure of the firm (i.e. family vs non family) may affect the family firms internationalization strategies and may represent a core driver to disentangle previous inconclusive findings about the implication of internationalization for growth in the domestic market. Third, to our knowledge, it is the first attempt in the literature to employ SEW as a conceptual framework to investigate the domestic growth of multinational family firms, and hence including non-economic factors in the analysis of firm's behaviour. Finally, we investigate the foreign versus home production dichotomy (Jetto-Gillies, 1998), which underpins many other studies, specifically in relation to FFs. By analysing

international activities, which imply key strategic and risk-related decisions, we provide a better understanding how family presence and influence affects firm's strategic choices on international expansion.

## **THEORY BACKGROUND**

### **Firm growth and internationalization strategies**

Firm's growth is a core research topic in entrepreneurship and strategy. The extensive bulk of research has recently concluded that firm growth is a multidimensional and multifaceted phenomenon: "Firms grow in different ways, for different reasons, and with different consequences" (Naldi and Davidsson, 2014: 688; Delmar et al., 2003; Shepherd and Wiklund, 2009). As a result, growth studies should focus on how, when and why firms grow, instead of trying to explain growth rate as a global construct (Achtenhagen et al., 2010; Davidsson et al., 2010; Gilbert et al., 2006; McKelvie and Wiklund, 2010).

More recent advancements and reviews call for the adoption of theory precision and specification to the study of growth, focusing on how and when and why firms expand, as contrasted with broader and more generalized attempts to explain growth rate as a global construct (Achtenhagen et al., 2010; Davidsson et al., 2010; Gilbert et al., 2006; McKelvie and Wiklund, 2010). Along this line of research, scholars have recently examined –among other topics– correlation of sales and employment general firm's growth (Chandler et al., 2009), inter-temporal correlation of organic growth and acquisitive growth (Lockett et al., 2011), consequences of growth associated with high and low profitability (Davidsson et al., 2009), the interrelation between firm resources and environmental conditions and their joint effect on growth-modes (i.e., organic vs. acquisitive) (Clarysse et al., 2011).

Internationalization represents one core driver of firm growth (Sapienza et al., 2006; Autio et al., 2000; Andersson, Gabrielsson, Wictor, 2004). Internationalization is demanding in terms of

resources, investment and risk, and firms may not homogeneously respond to inherent challenges and opportunities (Naldi and Davidsson, 2014). In examining the implications of internationalization on the firm's growth in the domestic market, scholars identified two opposite effects: a substitution effect and a complementarity effect.

According to the substitution-effect, when firms expand internationally they are especially sensitive to opportunities for substituting business activities in their home countries, with business activities in foreign countries (Frank and Freeman, 1978; Lawrence, 1996; Lipsey, 1994). The driver underlying such internationalization-mode involves attempts to exploit cross-border, differential market opportunities, such that foreign business activities entails comparative advantages in terms of efficiency and costs of production-inputs. For example, firms may move business activities in countries with relatively reduced levels of labor costs and higher growth-rate (e.g., BRICS), to exploit the cost-advantages and market opportunities offered by those markets.

Alternatively, in order to describe the effects of international business on the home-country growth, scholars have proposed a complementarity-mode to internationalization . According to the complementarity-effect, when firms expand internationally efficiency gains abroad foster competitiveness and growth in the home country. Additionally, international business involves an increase in the *high-skilled* work-force at the home-country (i.e. headquarter), as a means to cope with the more challenging coordination and control tasks associated with business activities dispersed overseas. The greater competence and expertise induced by the need to cope with international challenges has also a cascade positive-effect on the efficacy of business activities at home. In other words, firms more exposed to the international business are more likely to also exhibit an improved set of competence and expertise, given international expansion triggers the need for an upgrade in the high-skilled work-force . As a result, firms exposed internationally are more effective in running the



business in the home-country (contrasted with firms which do not benefit from such exposure) resulting in greater growth rate in the domestic market.

The extant research has extensively examined the validity and consistency of the two perspectives above, but results are largely inconsistent (see e.g. Frank and Freeman, 1978; Jordan and Vahlne, 1981; Glickman and Woodward, 1989; Blomstgrom and Kokko, 1994; Krugman, 1994; Lawrence, 1994; Lipsey, 1994; Messerlin, 1995; Agarwal, 1996; Brainard and Riker, 1997). One possible driver underlying the relationship between internationalization and home-country growth is the ownership structure of the firm and, specifically, the distinction between family and non-family firms. The extant research outlines how family firms exhibit specific features and behaviors that are distinct from those typically characterizing non-family firms. In particular, family firms' behaviors have been argued to be driven not only by financial concerns, but also by socio-emotional concerns and the particular need to cope with gap of resources and expertise. Before examining how family ownership may help shed light on the differential patterns of behaviors inherent in the substitution-mode and the complementary mode, in the next paragraph we briefly highlight the distinct features of family business.

### **Family business, strategic decision making and internationalization.**

Scholars in the family firm research stream have long recognized the unique and distinctive features of family business and behaviors. Recent efforts aiming at understanding family firm decision making have produced the conceptual framework of socio-emotional wealth (SEW) (Gomez-Mejia et al., 2007; Berrone et al., 2012; Cennamo, Berrone, Cruz, & Gomez-Mejia, 2012; Chrisman & Patel, 2012; Martí, Menéndez Requejo, & Rottke, 2012). SEW is the “single most important feature of a family firm's essence that separates it from other organizational forms” (Berrone et al., 2012, p. 3). SEW involves an alteration in family firm behaviors relative to non-family counterparts, due to the

significant weight family members associate to socio-emotional concerns inherent in running the business.

In their seminal contribution, Gómez-Mejía and colleagues (2007; Gomez-Mejia et al., 2011) suggest that family principals (i.e. family business owners) make decisions in reference to SEW, in addition to consideration of financial rationales. According to this view, “family firms are typically motivated by, and committed to, the preservation of their SEW, referring to nonfinancial aspects or ‘affective endowments’ of family owners” (Berrone et al., 2012, p. 259). The SEW is conceptualized to capture the stock of affect-related value that a family derives from its controlling position in a particular firm (Berrone et al., 2012), and by the preservation of the family identity and binding social-ties with the community into which the family firm comes to be embedded. In this formulation, the preservation of SEW is the most important objective for family business owners, and gains or losses in SEW represent the pivotal frame of reference that family-controlled firms use to make major strategic choices and policy decisions (Berrone et al., 2012).

Ownership significantly influences a firm’s strategic choices, especially when the family owns a significant equity stake (Zahra, 1996, 2005; Zahra and Pearce 1989). Specifically, family owners frame problems in terms of assessing how actions will affect socio-emotional endowment (Berrone et al., 2012). When there is a threat to that endowment, the family is inclined to make decisions that are not necessarily driven by profit maximisation. When the family has a high stake in the firm’s ownership, there will be a tendency to avoid implementing strategies that could decrease the family’s control of the business and increase potential risks (Casillas et al., 2010), such as the risk associated with international expansion. If ownership remains in family hands, the firm can experience a convergence around norms and values (Thusman and Romanelli, 1985); on the contrary, if the firm expands abroad, the family must delegate responsibilities and relinquish control. International expansion is a particularly uncertain and risky project due to the “liability of foreignness” (Zaheer,

1995); at the same time, research indicates that family firms tend to exhibit a conservative attitude and aversion to risk. For these reasons, family owners want to be sure about the safety of the family wealth before they enter foreign markets (Sciascia et al., 2012). For the same reasons, family firms are reluctant to reach out to external partners. Changes in ownership are likely to provide more financial resources, encourage the adoption of a more dynamic and competitive business model and increase the responsiveness to market changes (Goodstein and Boeker, 1991). In addition, Sciascia et al. (2012) state that opening up ownership to non-family members could enable access to important resources for international expansion, such as financial, human and technological resources that are essential for overseas expansion. However, this choice poses threats to control and socio-emotional endowment. Moreover, ownership concentration limits the firm's ability to react promptly to the need for change and, more generally, to seize new business opportunities (Bosi and Trento, 2012), especially international ones. The considerations presented above indicate the high importance of the family ownership dimension, and there indeed exists a substantial degree of dependence between ownership and strategies. SEW and the conservative attitude that accompany family involvement in ownership can obstruct the decision to expand abroad.

Several empirical studies have become to outline that development of internationalisation process differs for family firms and non family firms (see e.g. Bell et al., 2004; Fernandez and Nieto, 2006; George et al., 2005; Graves and Thomas, 2006; Johanson and Vahlne, 2009); thus, the internationalisation of FFs is becoming a significant research area (Kontinen and Ojala, 2010). However, there is a lack of consensus in the literature concerning the assessment of family effects (Pukall and Calabrò, 2013).

## HYPOTHESIS DEVELOPMENT

In this section we contend that – when it comes to consider the implications of intentional strategies for firm growth in the domestic market – family firms more likely adopt a complementarity mode of internationalization, rather than a substitutive effect. If anything, non-family firms are more likely to adopt a substitution mode.

Research on international businesses suggests that the substitution and the complementarity modes of international businesses also reflect to the society and contextual environment of the domestic country . Specifically, the substitution mode of international business entails the re-location of activities along the value chain, with detrimental effects on employment in the home-country (e.g., layoff, reduction in rates of new employees hiring, sale of domestic branches) and significant social costs for local community. Additionally, the substitution mode of international business also impairs the network of procurement from local suppliers and the extended positive externalities of business activities on the local community. Therefore, the substitution mode of international business involves significant social and personal costs. The SEW perspective suggests that preservation of socio-emotional wealth beyond financial considerations, that is, preservation of the family identity and of the binding social ties of family members with the local community represents a core driver of family firms' behaviors. As a result, family firms are relatively unlikely to pursue international business in the substitution-mode, given the inherent and significant social costs that such approach involves. Previous research suggests that family business do condition maximization of financial wealth to preservation of social instances. For example, Berrone et al. (2012) demonstrates that family businesses are relatively less likely to engage in local pollution as a means to preserve the social welfare of their local community, even if this means abandoning the goal of profit maximization. By the same token, it can be expected that family firms are relatively

unlikely to engage in international activities through the substitution-effect mode, being more prone to follow the alternative complementarity-effect mode.

An additional argument more directly calls for a stronger complementarity-effect for family firms. The complementarity mode of internationalization emphasizes the positive cascade-effects of international businesses to the home-country business activities, in terms of upgrading in competence, expertise and knowledge . Family firms are known to lack resources, competence and expertise that are at the core of effective management and growth . Therefore, family firms with very limited exposure to international businesses are more likely to suffer from lack of expertise and competence which are at the core of sounding and effective decision making, resulting in a relatively limited capacity to grow in the home country. By contrast, family firms with greater exposure to international businesses are likely to exhibit – in comparison with their domestic-focused family firms – a significant greater quality of management work-force. As a result, a greater exposure to international business likely translates into a significant greater management capacity in family firms. Such effect is relatively less pronounced in the non-family firm domain, because – independent of exposure to international activities – such firms benefit from a significant endowment of resources.

Overall, the arguments outlined above suggest that – when it comes to the influence of internationalization on firm growth in the domestic market – family firms are relatively more likely to engage in internationalization through the complementarity mode, such that exposure to international activities associates with greater growth rates for family firms rather than for non-family firms. Stated formally:

*Hypothesis. The positive effect of business internationalization on domestic growth (i.e. complementary mode) is stronger for family firms, rather than for non-family firms.*

## THE EMPIRICAL SETTING

### **The dependent and independent variables**

The dependent variable for the proposed model is domestic growth (variable *Domestic growth*), here measured by the difference between sales in 2012 and sales in 2008.

In line with our hypotheses, we operationalize family businesses through the key dimensions of ownership. First, we identify family control as the power to appoint the board of directors, both directly and through financial holdings. This definition is in line with previous studies, according to which family control can be identified as the fractional equity holding by family founding members or descendants (Bannò and Sgobbi, 2016; Tognazzo, Destro and Gubitta, 2013; Lee, 2006; Anderson and Reeb, 2003). Gallo (1995) and Lee and Tan (2001) argue that a firm can be considered a family business only if the family owns a share of 50% or more of the equity. Similarly, Littunen and Hyrsky (2000) assert that a family firm is a business owned by a family or a member of a family. As such we define the variable *Family ownership* as binary variable equal to 1 either if a nonlisted firm is majority owned by the family or if no less than 20% of a listed firm is owned by the family, and zero otherwise (Cascino, Pugliese, Mussolino and Sansone, 2010).

Over the years, researchers have debated the best way to measure a firm's degree of internationalisation (Ietto-Gilles, 1998; Reuber and Fisher, 1997), which represents the independent variable of this research. For example, Dunning and Pearce (1981) developed a one-dimensional index based on sales, and Dunning (1996) later decided to extend it, creating a multidimensional indicator based on three elements: assets, number of employees and investment in R&D. Furthermore, Sullivan (1994) developed an index that takes into account the five dimensions of sales, profits, assets, top management international experience and degree of physical dispersion of the international activities. According to the considerations above, we measure the degree of

internationalisation (*Internationalisation*) with the number of total FDI made by the parent company.

The impact of the family firm internationalisation on domestic growth is analyzed by controlling for other firm-specific characteristics that are generally included in empirical studies of growth. As previously stated the literature demonstrates that firms have a dichotomous attitude towards domestic growth, leading to several studies aimed at identifying the factors that affect domestic development in front of an international growth. Because of these studies, we know that domestic growth depends on the following factors: firm age and size, innovation, financial constraints, profitability, productivity, international experience, domestic geographical localization and industry.

Firsts control variables are firm size and firm age, which proxy for accumulated knowledge and experience and usually display a positive correlation with domestic growth . Firm size (variable *Firm size*) is measured by the number of employees, whereas the variable *Firm age* is defined as the firm age in 2008. We include as the control variable also a firm's R&D output (i.e., its R&D output as number of patent, *Innovation*). The literature suggests that by acting in international markets, firms can better capitalize on the exclusive rents of R&D expenditures and of patents. Multinational firms offer products to a larger number of potential buyers, thus enhancing profits based on innovation efforts and spreading innovation costs. Internationalization lowers the risk of R&D by avoiding fluctuations and business cycles that are specific to a single market (Kafouros, Buckley, Sharp, and Wang, 2008). Furthermore, international investments enhance a firm's knowledge about the environment and competition in various countries. This knowledge drives the firm's efforts into the most promising innovative objectives (Filippetti, Frenz and Ietto-Gillies, 2009). If on the one side this mutual relationship whit innovation can contribute to domestic growth when a firm is internationalised, on the other side because of the uncertainty and delay of the returns, despite the

large amount of resources employed in R&D, it is quite normal for the resulting domestic growth to be low. These virtuous relationships may lead to domestic growth. Firms may be unable to cover the costs of going abroad and then growth at home. Because the effective cost of growth may vary across firms because of differences in the availability and cost of financial resources, we proxy firms' financial constraints by the ratio between their current assets to current liabilities (variable *Financial constraints*). The literature documents a propensity to domestic growth in the case of firms that have high profitability and productivity (Hanel and St. Pierre, 2002). Specifically, the variable *Profitability* is measured by the ratio between equity and total assets (i.e., the return on investment) and *Productivity* is measured by the value added per employee. We proxy *International experience* through the number of years of firm presence in the international market through FDI. We also control for geographical localization. The binary variable *North* takes the value one when the firm is located in the North of Italy, and zero otherwise. Finally, we include industry dummies as further controls not only because of the significant impact of the industry on the dynamic of growth (Scherer, 1983) but also because internationalisation is a strategy more extensively employed in specific industries. The analysis controlled for the industry by resorting to Pavitt taxonomy (1984). Four binary variables signal whether the firm belongs to a traditional sector, a scale-intensive sector, a specialized supplier sector or a science-based sector (the variables are *Pavitt traditional*, *Pavitt scale intensive*, *Pavitt specialised supplier*, *Pavitt science based*, respectively).

We normalised all continuous independent variables both to decrease the impact of outliers and to reduce heteroscedasticity.

The data used to construct the variables were derived from different databases, namely, Reprint, Aida (Bureau Van Dijk), Borsa Italiana and Espacenet. The dataset employed to define the independent variables *Internationalisation* and *International experience* was Reprint, which is



updated annually and provides a census of Italian firms making outward FDIs since 1986. With respect to international investments, an illustration of the methodology employed in this paper to identify FDI is essential for a proper interpretation of the data and analyses. The criteria were based on principles of economic materiality, rather than being formal and/or legal-administrative in nature. Thus, the FDIs made by financial institutions were not considered. However, intermediate, difficult to classify forms exist, such as private equity and merchant bank funds, which operate on the basis of targeted business strategies, acquiring controlling interest in firms belonging to selected industries and directly intervening in their management. These investments were included in our analysis. However, we excluded interest acquired from investment funds, private equity funds and merchant banks as part of management buy-outs, and when there was no direct participation in the management of the investee firm (for additional details, see Mariotti and Mutinelli, 2017).

The data on family and firm characteristics (i.e. *Family\_ownership*) were retrieved from the Aida (Bureau van Dijk) database and Borsa Italiana. The Aida database reports the company name, the year it was founded and the family name of each board member and shareholder with the respective ownership share, thus allowing us to identify kinship relations on the basis of family names. We also obtained balance sheet data (i.e. *Firm age, Firm size, Financial constraints, Profitability, Productivity, North* and *Industry*) from the Aida database (Bureau van Dijk). Borsa Italiana is responsible for the organisation and management of the Italian stock exchange. Founded in 1997 following the privatisation of the exchange, the company has been operational since 2 January 1998. Borsa Italiana is now part of the London Stock Exchange Group, following the merger effective 1 October 2007. Among others, the main responsibilities of Borsa Italiana are to collect information about listed firms, enabling us to obtain the variable *Family ownership*. Finally, the Espacenet database provides information from approximately 90 million patent documents worldwide, including information about inventions and technical developments from 1836 to the

present. Espacenet is a free online service for searching patents and patent applications. It was developed in 1988 by the European Patent Office and the member states of the European Patent Organisation, and provided us the variable representing the number of patents (i.e. variable *Innovation*).

--- Table 1 about here ---

Table 1 reports the sources and definitions of both the dependent and independent variables that account for family firm-specific and firm-specific effects in the proposed empirical analyses.

### **The econometric models**

The estimated model assesses the impact of family firm internationalisation on the attitude towards domestic growth, controlling for firm-specific effects. The model tests hypothesis by assessing the separate impact of the share of equity controlled by the owner family and the degree of internationalisation of a firm. The domestic growth is estimated by an ordinary least squares given the continuous nature of the dependent variable (Green, 1993).

*Domestic growth = fn (Ownership; Internationalisation; Control variables)*

(Model 1)

As stated, the aim of this paper is to understand the impact of the degree of internationalisation of a family firm on domestic growth. In order to verify the full hypothesis, we extend the first model to test the moderating effects of the internationalisation of family firms on firms' domestic growth. In statistical terms, we test the significance of the corresponding interaction variables (i.e. *Family ownership \* Internationalisation*):

*Growth = f(Family ownership; Family ownership \* Internationalisation; Control variables)*

(Model 2)

Summarising, in order to differentiate the impact of interaction between family firms and internationalisation per se, the analysis consists into two estimations. The first one includes only family ownership and internationalisation as separate regressors (Model 1) whilst the second one includes also the interaction items (Model 2). In both models, in order to take into account the time lag between international investments and their domestic results so that causal relationships have time to evolve (Hollanders and Arundel, 2006), we assume a time lag between sales equal to four.

### **Descriptive analysis of the sample**

By merging the information from the aforementioned databases, we obtained a sample comprising 338 multinational Italian companies affiliated with more than 4.000 foreign firms, and the data were updated in 2016. Italy does not have a highly internationalised economy. The stock of outward FDIs as a share of GDP is lower in Italy than in many other advanced countries (UNCTAD, 2016). The low rate of growth of Italian industry over the last decade, partly owing to anaemic domestic demand, makes strategies for entering foreign markets very important (Tardivo and Cugno, 2001). Table 2 reports the mean values of the variables that account for the whole sample, family firms specific and control variables effects by cluster. To conduct the descriptive analysis of the sample, we adopt the family business definition based on the criterion of ownership for two reasons. First, this choice allows for distributing the firm coherently with the real Italian situation, since about 80% of Italian firms are family-owned (Unicredit, 2014; Trento, 2008). Second, the ownership-

related definition is the most common one in the literature and, above all, it is the one we adopted (Gallo, 1995; Lee and Tan, 2001; Littunen and Hyrsky, 2000). The interpretation of the elaborations cannot overlook this premise.

--- Table 2 about here ---

The first variable of Table 2 shows that family firms growth more than non family one (the t-test between the two groups is significant at  $p < 0.05$ ). The last panel of the same Table displays the results relating to the control variables. The mean of the degree of internationalisation and the international experience are higher for the non-family business cluster (the t-test between the two groups is respectively significant at  $p < 0.01$  and  $p < 0.05$ ). This result is in line with other relevant studies (Fernandez and Nieto, 2005; Gallo and Garcia Pont, 1996). Although the non family firms are older than the family ones the difference between the two mean values is significant only at  $p < 0.10$ . Same happens for innovation. On average, non-family businesses are bigger than family ones (t-test is significant at  $p < 0.01$ ). The t-test signals that neither the profit per employee nor the financial constraints is significantly different from zero for either cluster, while profitability is higher for family business (t-test is significant at  $p < 0.01$ ). The majority of the firms' headquarters, for both kind of firms, are located in Northern Italy (in both cases, the proportion test between the clusters is significant at  $p < 0.01$ ). In relation to the industry we found mixed results.

## RESULTS

The correlation matrix, available upon request, shows acceptable correlation indexes between all regressors.

Taking into account only the effect of family ownership and internationalisation *per se* (Model 1), we observe that family nature and degree of internationalisation are respectively not significant and negatively linked to domestic growth (*Internationalisation* is negative and significant different from zero at  $p < 0.01$  in Model 1). Same occurs in Model 2. Looking further at the model with interaction items, we see that the interaction between family ownership and internationalization positively affect the domestic economic growth (*Family ownership \* Internationalisation* is positive and significantly different from zero at  $p < 0.01$  in Model 2). In line with Hypothesis, the non significant effect of family ownership and the negative effect of internationalisation on the level of domestic growth of a firm, are counteracted for firms that are internationalised (Figure 1).

--- Table 3 about here ---

--- Figure 1 about here ---

The examination of the coefficients displayed by the control variables yields interesting results for both models. The international experience of firms has a positive effect both in Models 1 and 2 (the coefficient of the variable *International experience* is positive and significant at  $p < 0.01$  in Model 1 and 2), while domestic experience does not matter. The variable measuring firm profitability is significantly different from zero only in Model 2 (the coefficient of variable *Profitability* is significant and different from zero at  $p < 0.10$ ), while productivity is not significant

in both models. Contrary to our expectations, the coefficients associated with financial constraints are not significant different from zero nor in Model 1 neither in Model 2. *Size* impact positively and it is significantly different from zero at  $p < 0.01$  in both models. Contrary to expectations, the outputs of the regression model indicate that innovative activities discourage domestic growth (the coefficient of *Innovation* is negative and significantly different from zero at  $p < 0.01$  in both models). Moreover, in contrast with our expectations, the *North* coefficient is not significantly different from zero in either model. Although the majority of the multinational Italian companies are located in Northern Italy (Mariotti and Mutinelli, 2017), their domestic growth, is not influenced by geographical localisation. Finally, also the coefficients associated with the industry dummies are not significantly different from zero neither in Model 1, nor in Model 2).

## DISCUSSION

The present article examines one specific source of firm growth, i.e., growth by internationalization strategies, and documents that the effects of international business on domestic growth are stronger in family firms, than in non-family firms. Thus, the presence on the international business is conducive of growth in the home-market especially for family business. The theoretical arguments developed in this study and the empirical findings make several contributions to the extant research.

First, this study characterizes family firm behaviors regarding both internationalization and firm growth. Firm growth has been extensively examined in the realms of organization theories and corporate strategy, but it has been neglected in the realm of family business. Given family firms are exposed to significant resource constraints and given their interests/incentives are not necessarily consistent with maximization of financial returns, growth resides at the core of family firm behaviors and functioning, the existing research appears to fall behind the required research effort that such a topic requires. This article contributes to family business literature, by demonstrating

how family firms involve distinct patterns of behaviors when it comes to internationalization and its effect on the domestic growth. Specifically, while organizations (both family and non-family) may in principle follow either pathways towards internationalization and growth, i.e., the substitution mode or the complementarity mode, a focus on SEW alter family firms behaviors, rendering them less inclined to adopt the substitution-mode, and rather prone to apply the complementarity mode. Hence, the presence a stronger presence on the international arena have different implications for growth in the domestic markets, for family vs. non-family firms.

Interestingly, such an insight has significant implication for the role of SEW and family firms within the international business research. That is, our study suggests that SEW alters excess opportunistic behaviors (i.e., substitution mode), leading organizations (i.e., family firms) to adopt a more 'rationale' and selective approach in choosing internationalization strategies, avoiding short-term substitution of activities and leading to a greater focus on complementarity of resources.

Second, this study also contributes to the literature on internationalization. The extant research examining internationalization and domestic growth has been controversial regarding the conditions under which organizations are likely to adopt a substitution-mode vs. a complementary mode to internationalization activities. The present study suggests that the ownership structure of the firm and, specifically, the distinction of family vs. non family firms, helps explain previous inconsistent empirical findings, and provides a valuable rationale to reconcile the internationalization literature with the family firm research. Hence, theoretical framework that has been developed in the realm of family business, i.e., SEW, appears to have valuable theoretical implication for research on internationalization. Future scholars may draw from the contribution of this study to move towards a greater integration of internationalization and family business research streams, fostering our understanding of family firm behaviors in international market and market growth.

This article combines the family business literature and the internationalization research stream, into an integrated general framework that leverages insights from both perspectives. A common theme across almost all studies in family firms (see e.g. the review by Berrone et al., 2012) is that, SEW protection represents a key non-economic reference point for corporate decision making, leading the firm to make strategic and managerial decisions that cannot be understood within a traditional profit-maximizing logic. Thus, infusing a SEW perspective into the field of international business is especially valuable, given it illustrates the distinctiveness of the FF identity by taking non-economic factors into consideration, providing a consistent explanation for previous (contradictory) evidence on internationalization-modes that were un-explicable, within the international business literature alone.

In particular, this article relies on a specific definition of internationalisation, which is widespread and commonly-used in the international business literature, and is on the foreign versus home production dichotomy (Ietto-Gillies, 1998). This aspect is a further novelty of this article, given it examines this aspect specifically in the realm of family business. The index of internationalisation is constructed as shares of activities that the company has abroad in relation to its domestic activities. In the literature, these activities are represented by sales, assets, employment, R&D, profits or other variables. Previous studies on international business frequently adopt only one of these variables; some other studies adopt a composite basket, usually aggregated together as a linear average with the same weights, is used (Sullivan, 1994; UNCTAD, 1997). This article considers the ratio of the number of employees hired abroad to the number of workers employed in Italy as a good indicator of the degree of the presence on the foreign market.

Overall, by analysing international activities, which imply key strategic and risk-related decisions, we provide a better understanding of how family presence and influence affect a firm's strategic choices, specifically regarding international expansion.



Despite the contributions of this paper, it is not without *limitations*, and future research could expand our analysis in several directions. First, the results should be taken with some caution because the sample was composed solely of Italian firms; thus, our results may not reflect the current situation in other countries. Additional comparative studies along the lines we proposed in this paper could be very helpful to better understand the links between internationalisation and family and non family firms' growth. Second, our analysis focused on the growth and internationalisation of Italian family firms. We did not examine whether a higher degree of internationalisation has some effects on the governance structure of the firm. Finally, our analytical framework, based on sales growth, is just one of the many possible frameworks for measuring growth. Other ways of understanding firms' domestic development could be based on the employee growth, or on the increased profitability and productivity. Thus, further research is necessary.

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

<b>Variable</b>	<b>Definition</b>	<b>Source</b>
<i>Dependent variable</i>		
Domestic growth	Difference between domestic sales in 2012 and 2008	AIDA
<i>Family and International business</i>		
Family ownership	Dummy equal to one either if a nonlisted firm is majority owned by the family or if no less than 20% of a listed firm is owned by the family, and zero otherwise	AIDA, BORSA ITALIANA
Internationalisation	Number of FDI	REPRINT
<i>Control variables</i>		
Firm age	Firm age in 2008	AIDA
Firm size	Number of employees	AIDA
Innovation	Logarithm of the number of patents held by the firm	ESPACENET
Financial constraints	Liquidity ratio, calculated as the ratio of current assets (net of inventory) to current liabilities	AIDA
Profitability	Profit per employee index, calculated as the ratio of revenue to labour costs	AIDA
Productivity	Return on Investment	AIDA
International experience	Number of years of firm presence in the international market through FDI	REPRINT
North	Dummy variable equal to 1 if the firm is located in the South of Italy and 0 otherwise	AIDA
Industry	Dummy variable equal to 1 if the firm belongs to a specific sector and 0 otherwise	REPRINT

**Table 2: Comparison between family and non-family firms**

Variable	Mean/ % Sample [347 firms]	Mean / % FB [255 firms]	Mean / % NFB [92 firms]	Difference FB vs NFB	
Domestic growth		0.072	-0.204	0.276	**
Internationalisation		-0.099	0.272	-0.371	***
Firm age		-0.042	0.118	-0.161	*
Firm size		-0.100	0.283	-0.383	**
Innovation		-0.052	0.138	-0.190	*
Financial constraints		0.028	-0.076	0.104	
Profitability		0.061	-0.170	0.231	*
Productivity		0.035	-0.096	0.130	
International experience		-0.073	0.202	-0.275	**
North		0.917	0.804	0.113	***
Pavitt supplier dominated		0.200	0.130	-0.690	*
Pavitt scale intensive		0.302	0.271	0.030	
Pavitt specialised supplier		0.200	0.130	0.069	*
Pavitt science based		0.137	0.195	-0.058	*

a) *T-test*

b) *Proportion test*

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

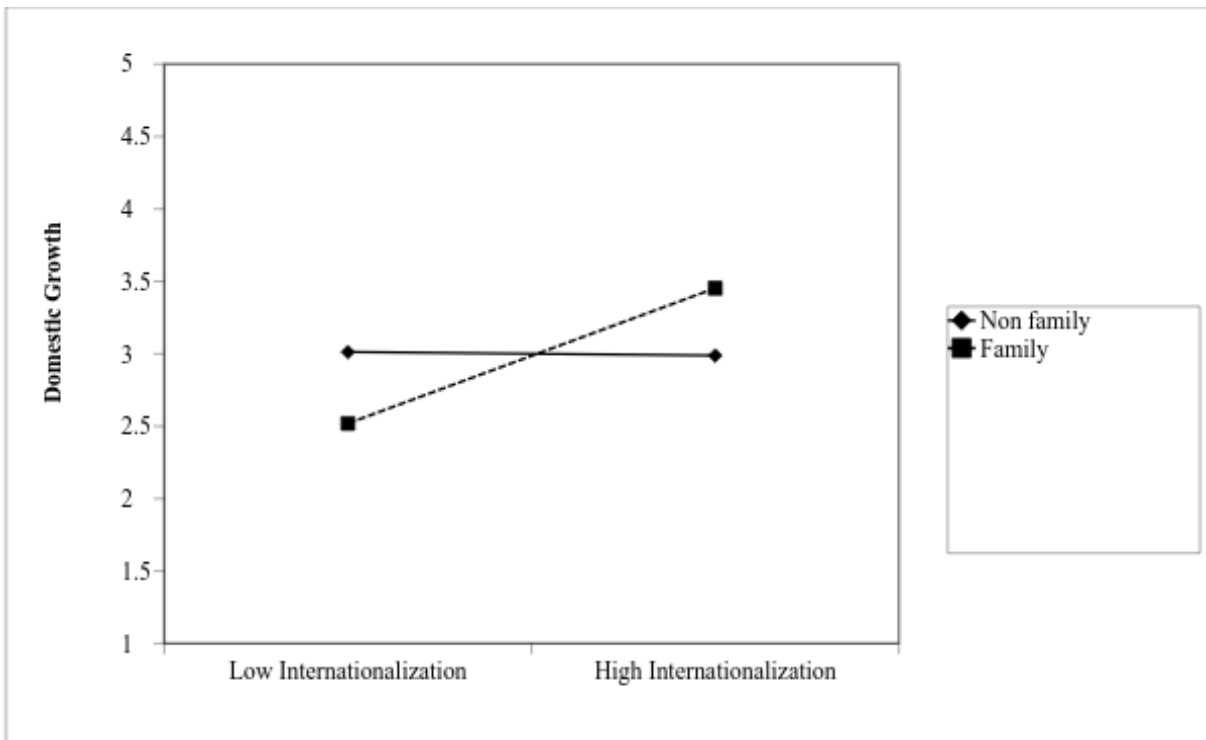
**Table 3: Output of the econometric model**

Domestic Growth	Model 1			Model 2		
	$\beta$		Std. Err.	$\beta$		Std. Err.
Family ownership	0.073		0.100	0.048		0.095
Internationalisation	-0.694***		0.049	-0.850***		0.053
Family ownership * Internationalisation				0.569***		0.090
Firm age	0.296		0.049	0.048		0.096
Firm size	0.267***		0.079	0.282***		0.075
Innovation	-0.218***		0.047	-0.236***		0.045
Financial constraints	-0.003		0.043	0.001		0.041
Profitability	0.069		0.047	0.074*		0.042
Productivity	0.029		0.043	0.048		0.041
International experience	0.296***		0.049	0.231***		0.048
North	0.090		0.140	0.068		0.132
Pavitt supplier dominated	-0.106		0.124	-0.089		0.117
Pavitt scale intensive	-0.024		0.106	-0.036		0.100
Pavitt science based	-0.073		0.134	-0.057		0.126
Const	-0.084		0.152	-0.005		0.144

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

<sup>a)</sup> Baseline: Pavitt Specialised supplier

**Figure 1: Two-way interaction effects for a binary moderator (i.e. Family ownership)**



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