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Does transitioning from family to non-family controlled firm influence internationalization?

Does family firm transitioning influence internationalization?

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Abstract

Purpose – The purpose of this paper is to study the internationalization of family firms, exploring specifically if the transition from family control to non-family control (losing family managerial influence) affects a firm's export activity.

Design/methodology/approach – Based on panel data for Spanish firms from 2006 to 2012, a random effect tobit and probit regression and a propensity score matching were run on a sample of 225 firms moving from family to non-family control (switchers) matched with 4,213 firms remaining under family control (non-switchers).

Findings – Although from a static viewpoint family controlled firms export less than their non-family counterparts, from a dynamic perspective family firms remaining under family control (non-switchers) are associated with a fall in export activity in comparison with family firms transitioning to non-family control (switchers). Both findings are related back to the socioemotional wealth (SEW) perspective.

Research limitations/implications – The findings of this study shed light on the trade-offs that family firms experience in order to balance their desire to increase their internationalization (and the risk associated with it) and their wish to maintain SEW.

Practical implications – The findings should encourage family owners and managers to take long-term strategic decisions leading to internationalization which, although risky, will prevent subsequent loss of SEW in terms of family control.

Originality/value – This work provides evidence concerning family firms' willingness to undertake risky activities, such as internationalization, considering the threats to their wealth.

Keywords Family firm, SEW, Export activity, Family control transitioning, PSM methodology

Paper type Research paper

1. Introduction

Despite the growing literature on the intersection between family firms and internationalization, research in this area has produced contradictory findings. Two recent reviews have been published (Kontinen and Ojala, 2010a, b; Pukall and Calabrò, 2014) and these do not report a consensus on whether family firms constrain or facilitate export activity. While some studies (Carr and Bateman, 2009; Kontinen and Ojala, 2011) find that the small size and flexibility of management teams in family firms allow them to react quickly to new international opportunities, others (Fernández and Nieto, 2005; Graves and Thomas, 2006; Merino *et al.*, 2015) conclude that family controlled firms are less internationalized than non-family controlled firms because of their concern to preserve family control of the business. Yet other scholars (Cerrato and Piva, 2012; Pinho, 2007) find no difference between family and non-family firms regarding certain dimensions of internationalization.

The conflicting results arise from the different theoretical frameworks used, the diversity of family dimensions considered, and the level of analyses, methodologies and samples adopted (Merino *et al.*, 2015). To shed light on this gap, we adopt one of the main theoretical frameworks in the field (Xi *et al.*, 2015), the socioemotional wealth (SEW) perspective (Gómez-Mejía *et al.*, 2007, 2011). This theory suggests that family firms are more flexible, altruistic and oriented toward long-term goals that include the promotion of export activities



(Liang *et al.*, 2014; Miller *et al.*, 2008) and at the same time that families do not want to lose control of the firm, and so they avoid export activities that may erode the socioemotional endowment (Cesinger *et al.*, 2016; Gómez-Mejía *et al.*, 2010). Gómez-Mejía *et al.* (2007) suggest that family controlled firms are loss averse with respect to SEW and hence are willing to incur significant business risks in terms of internationalization if they believe it will preserve that wealth, creating an “apparent paradox.”

The objective of this study is thus to see which of these two apparently opposite sides of family firm internationalization has the greater weight. Applying a relatively novel dynamic analysis, based on propensity score matching (PSM) (Chang and Shim, 2015), we analyze, whether the transition from family to non-family control induces more or less firm’s export activity. To do this, we used a sample of 225 firms transitioning to non-family control (switchers) during the period 2006-2012 and match them with a control sample of 4,213 family firms remaining under family control (non-switchers).

This paper makes several contributions to the academic debate on the internationalization of family firms. First, it sheds light on the selectivity aspect of firms which switch from family control to non-family control, highlighting the internal characteristics of firms opting for this strategy and the causal influences of this strategy on the firms’ exports (Kraus, Mensching, Calabrò, Cheng and Filser, 2016). Second, from a methodological perspective, the study applies PSM to find a valid counterfactual to match and compare firms switching from family to non-family control with those that do not (Chang and Shim, 2015). Third, it provides new contextualized evidence of the links between family firms and the economy in which they operate, namely Spain. This is a representative “family non-exporting firm” country (Madrid-Guijarro *et al.*, 2009; Merino *et al.*, 2015; Sánchez-Marin *et al.*, 2016), predominantly characterized by low investment in innovation, limited productivity and a relatively low international orientation, where 80 percent of firms are family businesses, representing 70 percent of gross domestic product (GDP) compared with 65 and 50 percent in the European Union and the USA, respectively.

The paper is structured as follows. It first presents the theoretical background, reviewing the literature. This is followed by the methodology, which describes the data, the variables and the PSM methodology. Then the results are presented, followed by the conclusions and implications.

2. Theoretical framework

2.1 Internationalization of family controlled and non-family controlled firms

The literature on the intersection of family involvement and internationalization presents complex and fairly inconsistent findings in the context of family firms (Kontinen and Ojala, 2010a; Pukall and Calabrò, 2014). The heterogeneity of theoretical approaches, the variety of idiosyncratic family business dimensions and the remarkable heterogeneity concerning analytical methods and countries of analysis can, to some extent, explain the lack of agreement in this topic (Merino *et al.*, 2015). This is similar to what happens in other topics in family business research field (Xi *et al.*, 2015). Nevertheless, studies may be classified in two representative streams. One research line takes its point of departure from the involvement of unique family resources in the management/governance of the firm and the other focuses on the risk aversion of the owner-family.

Based on the uniqueness of family resources (Habbershon and Williams, 1999; Sirmon and Hitt, 2003) one stream of research claims that family controlled firms export more than non-family firms. Miller and Le Breton-Miller (2005) found that firms that are less preoccupied with short-term financial gain are generally more likely to establish enduring relationships with external partners (e.g. potential foreign customers or suppliers) than their non-family counterparts (Miller *et al.*, 2008). Several studies (Basly, 2007; Carr and Bateman, 2009; Casillas and Acedo, 2005; Claver *et al.*, 2007, 2009; Kraus, Mensching, Calabrò,

Cheng and Filser, 2016; Kontinen and Ojala, 2011; Sciascia *et al.*, 2012; Segaro, 2010; Zahra, 2003) have supported the notion that qualitative-specific resources of the family firm, such as trust, altruism, commitment and social capital, can be beneficial for running an international business. Crick *et al.* (2006) found little difference between high performing, international family and non-family SMEs.

However, some other studies question these findings (Fernández and Nieto, 2006; Olivares-Mesa and Cabrera-Suárez, 2006; Sundaramurthy and Dean, 2008), remarking that family involvement usually implies a lack of management expertise and entails a potential loss of family control that undermines processes and routines of internationalization (Graves and Thomas, 2006; Menéndez-Requejo, 2005; Merino *et al.*, 2015). Cesinger *et al.* (2014) add psychic distance as a barrier that causes family controlled firms to internationalize significantly more slowly than non-family controlled firms. Similarly, Liang *et al.* (2014) argue that the internal resources of family firms, especially financial, managerial and institutional/social resources, significantly limit their internationalization in terms of direct exporting (Kontinen and Ojala, 2010b; Root, 1994).

Adopting a SEW perspective (Gómez-Mejía *et al.*, 2007, 2010), a second stream of research explains these contradictory on the basis of how firms view value creation. Value creation in family firms is not confined to pure economic value. Family firms not only try to optimize economic value, but at the same time try to achieve other non-economic, socioemotional, objectives (Arregle *et al.*, 2007; Berrone *et al.*, 2012). These non-economic goals – keeping control in family hands, preserving family values and good inter-family relationships – condition how the family firm operates. From the SEW perspective, it is generally predicted that family firms will reduce their exporting as the family will wishes to retain its grip on control: there is a tendency for exporting to dilute the family's controlling interest and so this strategy may be avoided (Cesinger *et al.*, 2016; Gómez-Mejía *et al.*, 2010).

Supporting the lower level of international activity among family controlled firms, studies such as those of Gallo *et al.* (2004), Okoroafo (1999), Wang (2006), Merino *et al.* (2015), Claver *et al.* (2008) and Kontinen and Ojala (2010b) explain this behavior by the existence of a number of specific characteristics of family firms, such as their willingness to preserve the organization for future family generations, their less qualified family managers, or their more conservative attitude or the preference for domestic markets in which family firms have gained great prestige over the years. Another argument for the limited international activity of family firms is that internationalization – and specifically exporting – implies sunk, non-recoverable costs (Fernández and Nieto, 2005; Hanley and Monreal-Pérez, 2012). Family firms may not have these funds, and they may be less willing to raise external capital if it entails diluting their control, which works against the decision to export or increase exports. Possible loss of SEW may constrain the export activity of family controlled firm.

As Wang (2006) and Claver *et al.* (2008) conclude that, although family firms appear to be willing to develop long-term internationalization plans, their limited resources, together with the tendency to avoid taking risky decisions, because of the fear of loss of control and family wealth, constrain export activity. All these arguments suggest that in comparison to their non-family counterparts, family controlled firms prefer to operate domestically rather than internationally. Based on the above, we formulate the following hypothesis:

H1. Family controlled firms will exhibit lower levels of export activity than non-family controlled firms.

2.2 The transition of firms from family control to non-family control and their internationalization

Building on the above arguments formulated from a static viewpoint, we now build a dynamic perspective of how family firm export behavior can be interpreted in the context of

the transition from family control to non-family control. This transition may involve, in terms of export behavior, that the family firms taking decisions they would rather not take, such as appointing non-family members with knowledge of foreign markets/exporting expertise to lead the exporting side of the business, and neglecting what they arguably do best, namely catering for domestic customers.

Such scenarios usually involve a reduction in the family's SEW. Gómez-Mejía *et al.* (2007) argue that family firms are likely to see relinquishing control, and more broadly relinquishing the family's SEW, as a crucial loss. Understanding SEW as the stock of affect-related value a family derives from its control of a particular firm, Gómez-Mejía *et al.* (2007) argue that for family controlled firms the primary reference point is the loss of SEW, and, therefore, preserving the family's SEW when this wealth is at risk is inextricably tied to the organization representing a key goal in and of itself (Gómez-Mejía *et al.*, 2010). In light of this wealth at risk, family firms that wish to export face a dilemma (Gómez-Mejía *et al.*, 2010; Miller *et al.*, 2008): the need for the decision maker(s) within a family controlled firm to exploit international opportunities while maintaining family control and simultaneously maintaining a set of low-risk domestic projects (Gallo *et al.*, 2004; Wang, 2006; Zahra, 2003).

SEW theory predicts that family firms will tend to reject international strategies as they may threaten family control (Gómez-Mejía *et al.*, 2007; Miller *et al.*, 2013) and family control diminishes the probability of internationalization (Arosa *et al.*, 2010; Cesinger *et al.*, 2016). In other words, when family influence in the business is relatively high, firms tend to stay local (Mitter *et al.*, 2014). As internationalization requires high set-up costs (Girma *et al.*, 2008; Roberts and Tybout, 1997), the firm will require funding and raising funding from external equity providers may result in a significant dilution of family holdings, thereby transferring power (real or perceived) to outside investors (Gómez-Mejía *et al.*, 2010).

However, since family owners are very concerned about family wealth threats, family controlled firms will adopt more risky decisions than non-family controlled firms to maintain that wealth – and the family control –, including decisions about internationalization (Gómez-Mejía *et al.*, 2010; Liang *et al.*, 2014). From this we can point out, on the one hand, that any transition in a company from family to non-family control (switchers), as it involves a significant erosion of family SEW, suggests that these firms have been unable to adopt more risky decisions about internationalization to maintain SEW. Empirical evidence confirms that family controlled firms that avoid internationalization, fearing that failed strategic moves could lose them SEW, end up becoming suffering a significant loss of family wealth (George *et al.*, 2005; Liu *et al.*, 2011).

On the other hand, family controlled firms that remain under family control (non-switchers) are able to take the necessary risks related to internationalization, seeking to maintain their SEW, being then engaged in more export activity (Cesinger *et al.*, 2016). Empirical evidence shows that family firms will sometimes make strategic decisions that are risky in order to maintain family control – and prevent potential loss of SEW – encouraging them to pursue long-term strategies that inevitably include international growth (Gómez-Mejía *et al.*, 2010; Liang *et al.*, 2014). Thus, the transition from family control to non-family controlled firm might be expected to work against exporting. This suggests the following hypothesis:

- H2.* Transitioning from family control to non-family control worsens the firm's export activity: switchers' export activity is lower than non-switchers' export activity.

3. Methodology

3.1 Sample and data

This study analyses data drawn from the Spanish Business Strategy Survey (SBSS), an institutional database that surveys a representative panel of manufacturing firms, during the period 2006-2012. Because public authorities have the power and the resources to secure a high level of participation, the survey achieves a high response rate and the sample is

sufficiently large and representative of the population. In conjunction with the quality of the information collected, these characteristics constitute the main advantage of using the secondary data produced by public agencies (Dorling and Simpson, 1999). All of the information contained in the SBSS is subject to strict controls for validity and consistency.

Since 1990, the SBSS has surveyed an average sample of 1,800 firms every year by distributing a questionnaire containing 107 questions across 50 fields. The reference population is composed of firms with ten or more employees in Spanish manufacturing industry. From these firms, we identify family controlled firms as those firms with any family members holding managerial positions, similarly to previous studies employing this same database (e.g. Fernández and Nieto, 2006; Kotlar *et al.*, 2013).

Following Bernard and Jensen (2004), in Table I we report the average values of the firms' productivity levels, export activities and innovation according to the two-digit classifier for the industry in which they operate. We aim to provide a sense of the heterogeneity of the firms' export behavior across the industries. As Roberts and Tybout (1997) and Bernard and Jensen (2004) point out, the results show the importance of the industry in explaining firm export and productivity performance. Of particular note is the intense export activity of the lumber and wood industry and the high export propensity and size of the motor vehicle industry. The firms in these sub-sectors have sufficient resources to overcome the barriers to entry for these industries and to take advantage of economies of scale that improve their efficiency and thus cover the fixed costs that are implied in exporting (Monreal-Perez *et al.*, 2012; Roberts and Tybout, 1997). The sub-sectors that include more family controlled firms (firms containing at least one manager from the owning family)[1], as shown in Table I, are beverages and textiles (55.87 and 54.74 percent, respectively).

3.2 Description of variables

Export activity variables. To measure export activity, two variables were considered: the firm's export intensity, that is the percentage of exports in total sales; and the firm's export propensity, a categorical variable indicating whether the company exports (0 = No; 1 = Yes). These were drawn from studies of the export orientation of firms (Katsikeas *et al.*, 2000). Among modes of entry to international markets, export activity is the most common, especially for family firms (Fernández and Nieto, 2005; Okoroafo, 1999), because it requires committing fewer resources (in comparison with foreign investment) and therefore implies fewer risks.

Family firm variables. To classify the nature of a family firm, we construct family control by measuring the number of owners and relatives holding managerial positions in the firm on 31 December, as in Kotlar *et al.* (2013). This variable indicates the importance of the involvement of family members in the firm's top management, as family managers are a driver of a family firm's intentions, strategic visions and goals (Merino *et al.*, 2015; Sonfield and Lussier, 2009). A second family firm variable was measured through a dummy variable representing the switchers – firms in which the number of family managers reduces by at least one since the previous year – and non-switchers – firms that do not change the number of family managers from one year to the next.

Control variables. The following six variables were included as control variables. Industry export activity: the mean value of the export activity (the industry mean export intensity when export propensity is the explained variable, or its mean export propensity when export intensity is the output) of all the firms from a specific industry. For firms belonging to an industry whose mean export activity indicator is greater than the mean value of the whole variable, it takes a value = 1, and 0 otherwise[2]. Firm age: measured from the year in which the firm was incorporated. Firm size: the natural logarithm of the total personnel employed at the firm as of 31 December. Firm productivity: its labor productivity, that is the value of the goods and services produced and other current income,

Table I.
Manufacturing
breakdown by
sub-sector (2006-2012)

Sub-sectors	<i>n</i>	Export intensity (%)	Export propensity (%)	Firm size ^a	Firm age	No. of family managers	Family firm (%)	Foreign share (%)	Productivity
1. Meat products	395	21.83	65.89	2.73	26.63	1.00	50.50	1.33	333.71
2. Food and tobacco	1,126	21.93	57.04	2.72	32.13	0.94	53.10	9.62	247.86
3. Beverages	247	18.07	73.58	2.95	45.87	0.52	55.87	9.38	385.10
4. Textiles	760	19.71	59.29	1.91	31.97	1.07	54.74	4.40	95.12
5. Leather products	312	20.39	64.15	1.36	25.37	1.06	49.36	0.96	114.84
6. Lumber and wood	504	24.39	47.42	1.87	20.43	0.94	46.23	3.88	113.56
7. Paper products	510	20.03	72.55	2.76	30.35	0.82	41.57	18.06	227.67
8. Printing and publishing	600	22.12	44.83	2.02	30.26	0.95	43.50	6.71	121.43
9. Chemical products	916	22.15	86.24	3.43	36.67	0.59	41.48	33.12	334.81
10. Rubber and miscellaneous plastics products	730	19.40	78.77	2.44	28.89	0.79	41.37	21.35	165.08
11. Mining and quarrying of non-metallic minerals	1,030	19.71	46.89	2.46	27.34	0.79	44.47	8.47	172.82
12. Primary metal	457	23.96	86.00	3.86	33.55	0.43	41.79	21.72	380.76
13. Fabricated metal products	1,744	22.58	47.71	2.04	24.44	0.95	42.32	9.91	141.67
14. Industrial machinery	840	22.18	84.88	2.70	31.00	0.91	42.62	19.47	181.94
15. Computer and office	207	19.99	74.40	2.71	24.86	0.77	40.10	13.88	122.52
16. Electrical equipment	623	23.53	79.13	3.11	31.81	0.61	36.92	26.59	137.75
17. Motor vehicles	662	21.46	88.22	4.28	28.99	0.36	38.07	41.59	240.78
18. Other transportation equipment	278	20.99	74.46	3.36	34.80	0.56	37.05	17.51	302.01
19. Furniture and fixtures	692	20.24	58.09	1.88	22.35	1.02	43.93	3.00	106.19
20. Miscellaneous manufactures	318	20.51	75.16	1.61	30.98	0.97	42.77	12.50	128.88
Total	12,951	21.44	65	2.57	29.23	0.84	50.97	14.16	195.49

Note: ^aSize is taken as the natural logarithm

in thousands of euros, divided by the approximate average of the firm's total personnel. Foreign ownership: the percentage of direct or indirect participation of foreign capital in the social capital of the company. And finally, temporary workers: the percentage of casual employees over the total personnel employed at the firm as of 31 December.

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3.3 Models and statistical procedures

Two different procedures were followed to test our hypotheses. First, tobit censored regression and probit regression models were estimated (depending on the continuous or dichotomous nature of the output variable) to identify the impact of family control (presence of family managers in the firm) on firm export intensity. Second, PSM was performed to study the different export behavior between switchers and non-switchers.

First, regarding the tobit and probit regressions on export intensity, following the recommendations of Filipescu *et al.* (2009), all the variables were lagged by one time period to account for the delay in the impact of these variables (Greenhalgh *et al.*, 1994). Introducing these lagged variables reduces the probability that covariance problems will arise (Bernard and Jensen, 1999) and improves the probability of inferring a causal relationship (Baum, 2006). The advantage of random effects (RE) models is that they explicitly control for unobserved firm heterogeneity by allowing the error term to consist of a time invariant unobserved firm-specific effect (u_i) and a random unobserved shock (x_{it}), which varies across firms and time (Bernard and Jensen, 2004). Using a data set identical to that used in this study, Martínez-Ros (1999) obtained evidence of the importance of unobserved variables, such as managerial ability, for innovative behavior. The influence of this variable, which is not considered in any of the models herein, exemplifies the importance of unobserved heterogeneity and therefore the convenience of using RE models.

To identify the effect that family control has on a firm's export activity, we used a RE tobit regression model, specified as follows:

$$EI_{i,t} = \beta_0 + \beta_1 \text{Cont}_{i,t-1} + \beta_2 \text{FamControl}_{i,t-1} + \alpha_i + \varepsilon_{i,t}; \quad i = 1, \dots, n; \quad t = 1, \dots, T_i \quad (1)$$

where $EI_{i,t}$ represents the export intensity of the firm i in period t ; $\text{Cont}_{i,t}$ are the control variables (industry export activity, firm age, firm size, productivity, foreign ownership and temporary worker dummies for sectors and years, all within period t); $\text{FamControl}_{i,t-1}$ is the explanatory variable for family control for firm i during period $t-1$; α_i captures the unobservable differences among the firms; and, $\varepsilon_{i,t}$ is the error term. It is assumed that α_i and $\varepsilon_{i,t}$ are uniformly, independently and normally distributed, with a mean of zero and variances of σ_α^2 and σ_ε^2 , respectively. In addition, it is assumed that α_i and $\varepsilon_{i,t}$ are independent of $(x_{i1}, x_{i2}, \dots, x_{iT})$.

Second, an RE probit regression model was estimated, specified as follows:

$$EP_t = \begin{cases} 1 & \text{if } \beta_0 + \beta_1 \text{Cont}_{i,t-1} + \beta_2 \text{FamControl}_{i,t-1} \\ & + \alpha_i + \varepsilon_{it} \geq 0; i = 1, \dots, n; t = 1, \dots, T_i; \\ 0 & \text{otherwise} \end{cases} \quad (2)$$

where EP_t is the firm's export propensity in year t and the other variables are the same as in the tobit regression described above.

Third, to address export behavior and attitude to risk of family controlled firms when their SEW is threatened, the study applied a combination of PSM with difference-in-differences to a sample of switchers. Following Heckman *et al.* (1997), the average effect of switching can be calculated as:

$$E\{y_{t+s}^1 - y_{t+s}^0 \mid \text{switchers}_t = 1\} = E\{y_{t+s}^1 \mid \text{switchers}_{it} = 1\} - E\{y_{t+s}^0 \mid \text{switchers}_{it} = 1\} \quad (3)$$

where the last expression is needed to infer the export intensity rates for the group of family firms that do not switch to reduce their family control. To derive this term, each firm that transitions from family control to non-family control (switcher) was matched with a counterfactual, constructed over the distribution of family firms remaining under family control (non-switchers). Thus, a reliable comparison group was obtained using PSM (Chang and Shim, 2015). The study applied the Stata propensity score function, `psscore`, based on Rosenbaum and Rubin (1983). Specifically, the first-stage probit captures the likelihood that firms lose SEW based on the observable pre-exporting attributes of the firm (firm size, firm age, temporary workers, family involvement and foreign shareholding). Both control (non-switchers) and treatment (switchers) groups are then assigned to strata according to the propensity score and the balancing property is checked for each stratum[3]. The nonparametric matching estimator constructs a match for each newly exporting firm using a kernel-weighted average over multiple non-exporting firms[4].

Assuming that the common support conditions hold, there is now a consistent estimator of the propensity of transitioning family firms (switchers) to export. The results of the first stage probit selection, prior to the matching itself, are shown in the Appendix (Table AI). Finally, a further correction is applied to difference out time-varying external shocks (e.g. exchange rate movements) by applying difference-in-differences analysis to the outcomes. As Chang and Shim (2015) point out, it is evident from prior work comparing average indicators (e.g. performance) between groups of family controlled and non-family controlled firms, mostly based on cross-sectional data, that such research is susceptible to endogeneity biases as a number of unobserved factors can affect firm indicators. It is thus challenging to find a setting, close to a controlled experiment, that makes it possible to single out the effects of the transition from family control to non-family control on export activity.

To overcome this limitation, following Chang and Shim (2015), the study adopted the next methodological development: PSM and difference-in-differences estimation, enabling the creation of a quasi-experimental setting (Rosenbaum and Rubin, 1983). The difference-in-differences method removes any unobserved heterogeneity. The PSM output variable is then the difference-in-differences export intensity, calculated by subtracting the export intensity of the previous year from the export intensity of the year in question.

4. Results

4.1 Descriptive statistics and correlations

Table II provides the means, standard deviations and correlations of the variables used in the basic econometric models. Most of the values are below 0.56, which is the maximum value recommended for the test of multicollinearity (Filipescu *et al.*, 2009; Leiblein *et al.*, 2002). No correlations are higher than that level.

It is possible to evaluate the impact of these correlations by testing for the variance inflation factor (VIF)[5] which has a maximum value of 1.11. These levels are considerably lower than 10, indicating that the results are not biased by multicollinearity (Baum, 2006).

4.2 Hypothesis testing

As a point of departure for this analysis, an analysis of variance was conducted to test the argument that family controlled firms export less than non-family controlled firms. The results show both that family firms export with lower intensity (22.83 vs 25.49 percent) and with a lower propensity compared to non-family counterparts (84.78 vs 86.18 percent)[6].

To test these results – and especially the effect of family control on firm export activity – tobit and probit regressions were carried out, which are shown in Table III. As can be seen, the family control coefficient is negative and significant in the probit regression, but not significant in the tobit regression. When “export propensity” is the dependent variable (probit regression) it can be concluded that the smaller the endowment of resources of family

	Mean	SD	1	2	3	4	5	6	7	8	9	Does family firm transitioning influence inter- nationalization?	
1. Export intensity	23.86	0.35											
2. Export propensity	0.85	0.32	-0.06*										
3. Family control	0.69	0.91	0.05*	-0.24*									
4. Industry export propensity	0.66	0.48	-0.03*	0.49*	-0.28*								
5. Industry export intensity	0.52	0.50	0.64*	0.05*	0.12*	-0.06*							
6. Firm age	41.16	22.22	-0.04*	-0.05*	-0.07*	-0.05*	-0.18*						
7. Firm size	193.83	364.45	-0.00	0.03*	-0.13*	0.07*	-0.01	0.18*					
8. Productivity	205.21	130.87	0.06*	0.20*	-0.21*	0.04*	-0.01	0.24*	0.05*				
9. Foreign ownership	18.27	36.61	0.00	-0.04*	-0.38*	-0.05*	0.01	-0.04*	0.06*	0.06*			
10. Temporary workers	4.94	7.58	0.15*	0.03*	-0.12*	0.02*	-0.05*	-0.11*	0.05*	0.10*	0.02*		

Note: * $p < 0.05$

Table II.
Means, standard deviations and correlations

	Random effects tobit ^a	Random effects probit ^b
Family control _{<i>t-1</i>}	-0.53 (0.65)	-0.56** (0.07)
Industry Export Activity _{<i>t-1</i>} ^c	-11.95** (1.73)	-0.38* (0.17)
Firm age _{<i>t</i>}	0.08** (0.02)	0.00 (0.00)
Firm size _{<i>t</i>}	-0.00 (0.00)	-0.00 (0.00)
Productivity _{<i>t-1</i>}	0.03** (0.00)	0.02** (0.00)
Foreign ownership _{<i>t-1</i>}	-0.13** (0.02)	-0.01** (0.00)
Temporary workers _{<i>t-1</i>}	0.57** (1.73)	0.20** (0.01)
Year dummies	Yes	Yes
Industry dummies	Yes	Yes
Log likelihood	-12,530.071	-563.6548
Pseudo R ²	0.0863	0.6179
No. observations	9,771	10,337

Notes: ^aDependent variable: export intensity – 2,593 left-censored observations; 7,718 non-censored observations; ^bDependent variable: export propensity; ^cDue to multicollinearity reasons, this variable has been measured through EP in the tobit regression and through in the EI one. *,**Significant at 5, 1 percent levels, respectively. All regressions include a constant; The coefficients are marginal effects and represent the change in probability due to a one-standard deviation increase in the independent variable at the means of the other variables (or the change from 0 to 1 in the case of a dummy variable). Standard errors are reported in parentheses

Table III.
Effect of family involvement on the firm export activity

firms (Fernández and Nieto, 2006) and their preference for keeping control of the firm (Gómez-Mejía *et al.*, 2007, 2010) explain the result. According to the analyses shown in the second column of Table III (the probit regression results), as proposed by *H1*, from a static perspective, a firm's exporting behavior decreases as family control increases. Conversely, in the tobit model ("export intensity" as the dependent variable) the lack of significance of the coefficient of family control may be a statistical anomaly, as the coefficient of "Industry Export Activity" is so large that it lowers the impact of other variables. Taking account of both results, *H1* is partially supported.

With respect to the control variables used in the tests, belonging to an actively exporting industry limits the export activity of the firm. This is probably because the firm competes with different firms and may focus its efforts locally to distinguish itself from its competitors. As can be also seen, age is of great importance, especially for the firm's export intensity. The older and more experienced the firm is, the more resources it may accumulate (overcoming the lack of resources that is one of the main obstacles to exporting;

Fernández and Nieto, 2005) and it can acquire more knowledge of foreign markets to minimize the uncertainty of operating abroad (Eriksson *et al.*, 2000). On other hand, the positive effect of productivity confirms the self-selection effect: export markets will only select the most productive firms that can penetrate and compete successfully in foreign markets (Delgado *et al.*, 2002). Finally, having a significant share of its capital in foreign hands restrains the firm’s export activity; foreign owned firms may follow a profitable strategy to reduce risk and operate exclusively in safer domestic markets.

To test *H2*, the PSM methodology was used, through which differences in the export activity between firms losing family control (switchers) and firms that are not losing family control (non-switchers) could be determined. As can be seen in Table IV, the treatment effect is -25.426 percent; switchers change their export intensity much less than non-switchers. As *H2* proposes, from a dynamic viewpoint, family firms that remain in family control are more inclined to become involved in risky activities, such as export activity, to avoid reducing their SEW, by selling products only in their domestic market (Claver *et al.*, 2008; Gómez-Mejía *et al.*, 2010). These results are graphically shown in Figure 1. The findings suggest that family firms remain under family control (non-switchers) as a consequence of their willingness to engage in risky activities (such as export activity) compared to selling only domestically, provided that the family does not lose control of the firm. This is in line with SEW theory (Gómez-Mejía *et al.*, 2007, 2010): family firms take on more risk to avoid threats to their SEW linked to their family control. Therefore, *H2* is supported.

5. Conclusions and discussion

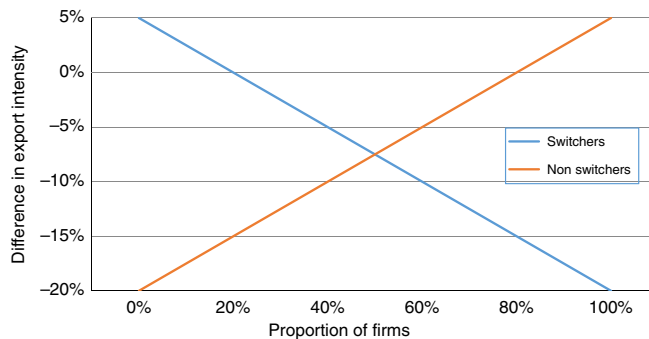
While some authors conclude that family involvement has a positive impact on the internationalization of a business (Carr and Bateman, 2009; Zahra, 2003), others contradict this, arguing that family-related factors have a negative impact on a firm’s international activities (Fernández and Nieto, 2005; Graves and Thomas, 2006; Kontinen and Ojala, 2010b).

Table IV.
PSM→Δ export intensity of “switchers” vs export intensity of “non-switchers”

	<i>n</i>	ΔExport intensity ^a
Switchers _{<i>t</i>-1}	225	-19.996%
Non-switchers _{<i>t</i>-1}	4,213	5.431%
Effect of treatment	-25.426%	
<i>t</i>	-6.638*	

Notes: ^aDifferences-in-differences (2016-2012). All estimations apply common support assumption bootstrapped standard errors; common support assumption applied for all kernel estimates. *Significant at the 5 percent level

Figure 1.
Export intensity difference of switchers vs non-switchers



Yet other scholars find no difference between family controlled and non-family controlled firms regarding certain dimensions of internationalization (Cerrato and Piva, 2012; Pinho, 2007). Starting from these mixed findings, this paper takes a first step toward understanding the trade-offs in family controlled firms in balancing their desire to increase their internationalization (and the risk associated with it) and their wish to maintain SEW (Gómez-Mejía *et al.*, 2007, 2010). The central questions addressed in this paper relate to family firm internationalization: the static differences between family controlled and non-family controlled firms in terms of their export activity; and the dynamic differences between the export behavior of family firms remaining in family control (non-switchers) and those moving from family control to non-family control (switchers).

Taking a Spanish sample of 225 family firms switching to non-family control during the period 2006-2012 and matching them with a control sample of over 4,213 family firms remaining under family control, the results show that family firms appear to have an exporting edge over non-family firms. As family controlled firms are more risk averse and unwilling to lose their family wealth, but can probably count on fewer specific financial, social and human resources, they have a lower level of export activity, especially in terms of propensity. This paper is therefore aligned with an important stream of research that supports the notion that limited family-specific resources (financial, human and social), together with the tendency to avoid taking risky decisions, constrain export activity (Fernández and Nieto, 2006; Graves and Thomas, 2006; Liang *et al.*, 2014; Menéndez-Requejo, 2005; Merino *et al.*, 2015; Olivares-Mesa and Cabrera-Suárez, 2006; Sundaramurthy and Dean, 2008; Wang, 2006).

The results also indicate, according to SEW postulates (Gómez-Mejía *et al.*, 2007), that the transition from family control to non-family control reduces a firm's export activity and that switchers' export activity is lower than non-switchers' export activity. This can be explained by the fact that family firms are concerned with family wealth, and when this is threatened they are more to take riskier decisions related to internationalization than family firms transitioning to non-family control (George *et al.*, 2005; Gómez-Mejía *et al.*, 2010; Liang *et al.*, 2014). Going international is riskier than selling domestically, but if selling only domestically threatens firm survival and family wealth, family firms are more willing to sell abroad to preserve family wealth (Cesinger *et al.*, 2016; Liu *et al.*, 2011; Mitter *et al.*, 2014). The results confirm our expectation that family controlled firms use internationalization to preserve SEW more when they face greater peril (Gómez-Mejía *et al.*, 2010).

Alternative explanations of the findings can be found in the mode of internationalization. Firms leaving family control may transition to different management modes which rely more on foreign direct investment (FDI) and less on exporting (Kontinen and Ojala, 2010b), as a means of entering foreign markets. Exporting is the preferred international entry mode for family firms as it implies less risk and consequently the involvement of fewer resources (Claver *et al.*, 2007; Fernández and Nieto, 2005; Merino *et al.*, 2015), which explains why firms remaining under family control export more than their switching counterparts. Another explanation may lie in the greater psychic distance as the firm markets its goods further afield (Cesinger *et al.*, 2014; Kontinen and Ojala, 2010b): the distance to the export market may moderate the effect of the change in firm governance on export activity. More distant markets may require more professional managers and modes of entry that may imply the involvement of a greater levels of resources.

This study contributes academically in several ways. First, it explains more fully the effects of family control on family firm internationalization (Benavides-Velasco *et al.*, 2013; Liang *et al.*, 2014), providing evidence of how family management can affect managerial decisions about export behavior in SMEs both positively and negatively (Gómez-Mejía *et al.*, 2010). From a static perspective, family controlled firms export less than their non-family counterparts, but from a dynamic perspective, when family wealth is threatened, family firms that change into

family controlled firms (switchers) are associated with higher export activities than family firms remaining under family control (non-switchers). And second, beyond theoretical findings, this paper makes an important methodological contribution. Researchers should not report evidence based on pooled data for differences between family and non-family firms. If they fail to take selection bias into account, they may give a misleading impression of how well (or otherwise) family firms are performing (Chang and Shim, 2015). Applying PSM as a robustness check to create a valid counterfactual, this study provides a more accurate analysis of the exporting differences between switchers and non-switchers.

This paper also has some important practical implications. From a microeconomic (management) viewpoint, family managers may see these findings as encouraging a climate and culture that favors internationalization to preserve their family wealth. Family managers should embrace long-term strategic decisions leading internationalization that, although risky, will prevent subsequent loss of SEW and family control. Family firm managers should overcome their limited financial and managerial resources, as well as any rivalries and family conflicts, by capitalizing on their power concentration, discretion, social capital, long-term orientation, altruism and other family-intrinsic characteristics that may help internationalization. From a macroeconomic viewpoint, after years of shrinking GDP (between 2008 and 2011) and of high unemployment (up to 20-25 percent) in Spain, policy makers should stimulate the internationalization of family SMEs without losing the idiosyncrasy of family firms, by providing financial assistance, managerial training, and so on, and encourage family firms to enter international markets to compensate for sluggish domestic demand in order to obtain and maintain competitive advantage.

Finally, some limitations of this study should be mentioned. Firms that depart from family control may assume a new legal form, which could influence their export intensity. This is the reason why the study controlled for changes in foreign ownership. However, a goal for future research might be to replicate the analysis while controlling for other sources of within-group heterogeneity for firms leaving family control. But within group heterogeneity is not restricted to the group of firms that lose leaving from family status. Also, the export activity variables are affected by many factors which cannot easily be controlled, meaning that the results of this study, like those of other similar investigations, should be treated with caution. The present analysis concentrates on exporting, the mode of entry into international markets which is most common for Spanish firms. However, it leaves other interesting areas of activity unexplored, especially in relation to other industries, markets and international modes of entry (FDI, alliances, licensing and joint ventures). Salomon and Shaver (2005) point out that although exporting facilitates the flow of information from the host market, it does not provide sufficient flow to result in predicted effects. More in-depth analysis of international expansion is required to generate knowledge concerning the local environment, as FDI does. The size of the family business also modifies its decision-making processes. Thus, the smaller and more informal the family firm and the more concentrated its management, the greater the influence of the founder (Lussier and Sonfield, 2015; Sánchez-Marín *et al.*, 2017). Consequently, it would be interesting to split the sample of family businesses (to compare micro and small family businesses). In summary, the method by which and the rate at which firms internationalize in different sectors in particular countries has been found to vary (Crick *et al.*, 2006).

All these constraints are a consequence of the nature of the information available in the survey (SBSS), for which reason future investigations are encouraged to use alternative – and richer – databases and methods of data collection that overcome the lack of information. Nevertheless, despite its limitations, this study should be viewed as a first attempt to explore some of the dynamics behind a firm's decision to leave family control and the impact on the firm's subsequent export status.

Notes

1. This is the method used to identify family firms in recent works employing the same database (SBSS) (e.g. Kotlar *et al.*, 2013; Fernández and Nieto, 2006).
2. Not to mix the dependent variable with the same variable part of an independent variable and thus face potential multicollinearity problems, a different variable was used to build this control variable for each model.
3. Conditional independence is assumed, i.e. firms in the control and treatment groups largely select into losing SEW based on these observable pre-exporting attributes.
4. The study used the Stata default Gaussian kernel with bandwidth 0.06. Smith and Todd (2005) give an excellent summary of this and other matching techniques. An advantage of this matching technique is that it reduces the asymptotic mean squared error found in traditional pairwise matching.
5. The maximum VIF values of each variable (considering both the regressions: the first with export intensity as the dependent variable and the second with export propensity as the dependent variable) are as follows: family control = 1.54; industry export intensity = 1.06; industry export propensity = 1.43; firm age = 1.19; firm size = 1.05; productivity = 1.25; foreign ownership = 1.27; temporary workers = 1.08.
6. The results of this analysis are available upon request from the authors.
7. Please note that all these matching variables were lagged one year (with respect to the treatment variable).

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Does family firm
transitioning
influence inter-
nationalization?

Appendix. Analysis prior to the matching technique

Simple probit and tobit regressions are not set up to deal with endogenous management losses. The study therefore turned to estimates from propensity scored and matched kernels, reporting first the related balancing tests in Table AI. The switchers and the non-switchers are first allocated to five blocks by the Stata psscore procedure on the basis of their family control, the industry export activity through its export propensity, size, age, productivity, foreign shareholding, sub-sector and proportion of temporary workers. Balancing implies that the group ("non-switchers" and "switchers") averages for selection variables such as productivity in each block are statistically equivalent (the Stata balancing rule is at the 0.01 level of significance). Only once the blocks have been satisfactorily balanced is it possible to report the estimates for the first-stage probit selection in Table AI.

From the first-stage probit analysis (Table AI), it can be seen that within the sample of family controlled firms, the greater the family control, the firm belonging to a high exporting industry (approached through the industry export propensity), its sales, its (labor) productivity, being foreign owned, its proportion of temporary workers and the sub-sector it belongs to[7], the more likely it is that the firm will reduce the number of its family managers. This suggests that firms with greater family control are those in which the threat of losing family wealth (in terms of family control in management) is greater.

	Coefficient	SD
Family control _{t-1}	0.7422618*	0.0391902
Industry export activity _{t-1}	0.2503132*	0.0551842
Size _{t-1}	0.000072	0.0000754
Age _t	-0.0016937	0.0013182
Productivity _{t-1}	0.0023404*	0.0003312
Foreign shareholding _{t-1}	-0.0071186*	0.0018927
Subsector _{t-1}	0.0548995*	0.0055011
Temporary workers _{t-1}	-0.0274016*	0.0045036
Constant	-3.356871*	0.1452139
Observations		10,587
Pseudo R ²		0.2520
Percentiles (propensity score)		
P75		0.1255282
P50		0.0089604
P25		0.0027005
Region of common support		[0.0003425, 0.84368791]

Note: *Significant at the 1 percent level

Table AI.
First-stage probit
selection

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