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FAMILY FIRMS VENTURING INTO INTERNATIONAL MARKETS: A RESOURCE DEPENDENCE PERSPECTIVE

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ABSTRACT

Drawing on resource dependence theory, we expect the degree of openness/closeness in the governance of family businesses to influence their internationalization. We find that external ownership increases the scale and the scope of the firm’s international operations. An external CEO and larger TMTs enhance the scale of a family firm’s international operations, but not the scope of international operations. Conversely, external board members enhance the scope of international operations, but not the scale. These results encourage further looks into the resources that non-family actors bring to the family business and their effects on different dimensions of internationalization.

INTRODUCTION

Globalization has altered the nature and scope of strategy and competitiveness for most firms (Zahra & George, 2002). Increased market liberalization, the use of information and communication technology and innovative supply chain management practices have increased the opportunities to internationalize for small and medium-sized enterprises (SMEs) (George, Zahra, & Wiklund, 2005; Westhead, Wright, & Ucbasaran, 2001), including family firms (e.g. Zahra, 2003; Fernández & Nieto, 2006). The international business (IB) literature suggests that firms need to be well equipped with resources to successfully compete in international markets. Especially in the early phases of internationalization, firms that are subject to liability of foreignness (Buckley & Casson, 1976; Hymer, 1976/1960) are more vulnerable to fluctuating conditions in the environment and can ill-afford to carry out international projects which eventually may end in failure (Buckley, 1989; Knight & Liesch, 2002). In short, access to resources is fundamental to successful internationalization.

Venturing into international markets seems to pose specific resource challenges for family firms. While factors such as commitment, long-term orientation and unique capabilities may enhance the internationalization of family firms (Gallo & Sveen, 1991; Zahra, 2003), the lack of resources may hinder family firms from seizing global opportunities and dealing with the complexity inherent with international expansion. Researchers have, for instance, noted that the lack of managerial resources (Graves & Thomas, 2006; Fernández & Nieto, 2006), financial resources (Gallo & Pont, 1996) and knowledge of international markets (Okoroafo, 1999) within the family constrains the internationalization of family firms. Yet, little is known about how family firms access the resources they need to grow outside national borders.
The resource dependence perspective maintains that organizations require resources to succeed and even survive. It also proposes that a crucial means for accessing resources is to build linkages with actors in the external environment (Pfeffer, 1972; Pfeffer & Salancik, 1978). To build and maintain links between the organization and external resources is a task for a firm’s governance structure (Pfeffer & Salancik, 1978; Zahra & Pearce, 1989; Boyd, 1990). In this paper, we draw on resource dependence theory to examine the relationship between a family firm’s governance structure and its scale and scope of internationalization. Our key argument is that a family firm’s with an open governance structure can build links to the external environment and access non-family resources needed to enhance the scale and the scope of its operations overseas. We define a firm’s key governance structures as comprising the ownership, the board, and the top management and view family firms with open governance structures as those with external owners, external CEO, external board members, and large top management teams.

This paper makes several contributions. Examining the relationship between governance and internationalization, we extend the literature on international business by uncovering the importance of external representation in the firm’s governance structures. To family business research, we add an investigation of the role of links to the external environment to obtain resources needed for strategic development and expansion. Previous theory driven research on family firm governance has almost exclusively investigated the internal challenges and dynamics of family firms. Using research dependence theory to examine the meaning and impact of open governance structures, we also extend research on internationalization in family firms. Finally, we broaden the applicability of resource dependence theory through a fresh look at its explanatory power in relation to an important business strategy – internationalization – in private business organizations.

THEORY AND HYPOTHESES

Internationalization and family firms

Competing across national borders is more complex and resource-consuming than operating in the home market. Internationalization might spread a firm’s limited resources too thinly or it might present internal coordination problems (Manolova, Brush, Edelman, & Greene, 2002). Activities such as researching foreign markets, making products and service suitable for international customers, finding and contracting international buyers and suppliers, moving goods and services across large distances, and making sure that products are managed properly on the way to their users pose significant challenges to firms, and especially to SMEs (Knight & Liesch, 2002). Furthermore, internationalizing firms are more vulnerable to fluctuating conditions in the environment (Hymer, 1976/1960); and, when smaller in size, can ill-afford to carry out international projects which eventually end in failure (Knight & Liesch, 2002).

Accordingly, most IB scholars seem to agree that access to resources enhances a firm’s internationalization prospects. The internationalization perspective (Buckley & Casson, 1976, 1979) and the eclectic theory (Dunning, 1988; Dunning, 2000) highlight multinational enterprises’ (MNEs) unique advantage relative to that possessed by their foreign competitors. These scholars increasingly acknowledge that these unique advantages stem from MNEs’ resources (Dunning, 2000). The link between resources, especially knowledge-based, and internationalization lies also at the heart of the Uppsala internationalization model (Johanson & Vahlne, 1977) and the international entrepreneurship (IE) literature (McDougall, Shane, & Oviatt, 1994). In the Uppsala model, the accumulation of experiential knowledge through progressive internationalization enhances a firm’s commitment to further internationalization (Johanson & Vahlne, 1977). Studies in the IE tradition find that, along with the founder knowledge (Bloodgood, Sapienza, & Almeida,
1996), other factors such as the firm knowledge intensity (Autio, Sapienza, & Almeida, 2000) or access to networks (Blomstermo, Eriksson, Lindstrand, & Sharma, 2004) are relevant for the international market development of young ventures. George et al. (2005) argue that SMEs are limited in their resources and international experience. Decisions and determinants regarding the scale and scope of internationalization are therefore crucial. Scale is about how much a firm relies on foreign markets in its business activities, sales, marketing, and R&D. Scope refers to the number of countries in which a firm does business activities (George et al. 2005:211).

Previous research has highlighted the challenges faced by internationalizing family firms. The fear of losing control (Ward, 1987; Gallo & Pont, 1996; Casillas & Acedo, 2005), tendency to avoid risk taking (Fernández & Nieto, 2005), conservatism and resistance to change amongst family leaders (Ward, 1987; Gallo & Sveen, 1991) and lack of formal control and planning systems (Graves & Thomas, 2006) are factors that have been advanced as constraints for their internationalization. While some family firms may possess unique family influenced resources that give them a competitive advantage in some situations (Habbershon & Williams, 1999; Sirmon & Hitt, 2003), a theme in previous research on family firms’ internationalization is that they tend to lack the financial, managerial, knowledge resources needed for pursuing this strategy. Thus, family firms will need to attract new resources externally to the family and the firm in order to expand internationally. Opening up the family firm’s governance structure to external, non-family resources that can support internationalization means that family businesses must surpass their fear of losing control since they are in a better position to internationalize if working in collaboration with others (Fernández & Nieto, 2005). This observation motivates the use of a resource dependence perspective to explain internationalization of family firms.

A resource dependence perspective

According to the resource dependence perspective (Pfeffer, 1972; Pfeffer and Salancik, 1978; Finkelstein, 1997) to understand organizations’ strategic choices and actions, explanations based on their internal characteristics and dynamics must be complemented with a focus on the external environment in which organizations are located and, especially, on the pressures and constraints that emanate from this environment. Organizations are externally controlled and they depend on resources only available outside their organization to expand and survive over the long run (Pfeffer & Salancik, 1978). The need for resources, including financial and physical resources as well intangible resources such as information, knowledge, advice and legitimacy makes organizations dependent on external sources of these resources.

Although organizations are constrained by their situation in the external environments, there are opportunities to act. Firms can co-opt sources of constraints, that is, to secure at least temporary, more autonomy and greater potential to pursue a specific strategy. Moreover, since external resource constraints have impact on organizational and strategic outcomes organizations also have the intention and sometimes the ability to negotiate their position within these constraints using tactics (Pfeffer & Salancik, 1978). Such tactics can include changing the governance structure with the purpose to ease the resource constraints by creating external links to needed resources. However, gaining control over scarce resources using tactics such as this may also create new constraints as far as they give rise to interdependence where the organization is more exposed to the actors providing these resources. External resource dependencies also affect internal power dynamics. The people and groups that reduce uncertainty by providing the resources hold more power as a result of their critical role for the access of resources that are needed to pursue a specific strategy (Pfeffer & Salancik, 1978).

We share the view that a critical determinant of a firm’s ability to deal with the complexity and
resource need required for internationalization rests in its governance structure (Melin, 1992; Sanders & Carpenter, 1998). Since organizations are embedded in networks of interdependencies and social relationships (Pfeffer & Salancik, 1978), governance is about creating links to the environment to access resources that are unavailable within the owning-family or the firm (Carney, 2005; Nordqvist & Goel, 2008). By creating links to the external environment, and open up the governance structure for input and resources only available outside the family and the firm, family firms can overcome their lack of resources that constrains their ability to pursue certain strategic choices and, for instance, expand internationally. Opening up the governance structure for external resources can also be a way to address counterproductive vested interests, overcome political resistance that results from the prevailing distribution of power and thereby to increase the chances of strategic change (Pfeffer & Salancik, 1978). This may be important since the perpetuation of power tend to constrain the strategic flexibility of an organization (Goodstein & Boeker, 1991).

Because the resource dependence perspective focuses on broad governance decisions, it is appropriate to define a firm’s governance structure as embracing the ownership, the board, the CEO and the top management (Brunninge, Nordqvist & Wiklund, 2007; Goodstein & Boeker, 1991; Rediker & Seth, 1995). In a family firm, open governance structures thus refers to the extent to which the ownership, the board, the CEO position and the top management team are open to people external to the owning family. Inevitably, open governance means that the family will lose some control and that, to the extent that they provide critical resources; external individuals are in a position to influence strategic actions. From the resource dependence perspective there is therefore a trade-off between maintaining control and relying on family resources, and losing some control but increasing the chances to acquire needed non-family resources for pursuing international strategies. In the remainder of this section, we develop hypotheses regarding the association between open governance structures, seen as the existence of external ownership, external board members, external CEO and a large top management team, and internationalization of family firms.

The Ownership

Ownership is at the apex of a firm’s governance structure. Family firms are often characterized by a concentrated ownership: that is one family controls all shares. An increase in external ownership is likely to provide more financial resources, and thereby to facilitate the firm’s international expansion. Internationalization is, indeed, costly and needs to be financed (Buckley, 1989). Financial resources can also be used to access other resources needed to internationalize (Wiklund & Shepherd, 2003), e.g. hiring personnel with knowledge and experience of international markets; carrying our marketing research on overseas customers, etc. Beside financial resources, external owners can provide other types of resources, which are equally pivotal for the internationalization of family firms. Fernández & Nieto’s (2006) study, for instance, shows that owners are sources of intangible resources, such as information, knowledge and legitimacy.

In addition to providing more resources, a change in ownership is likely to alter the existing power distribution and loosen up some of the political resistance within an organization (Pfeffer & Salancik, 1978). As Goodstein and Boeker (1991:309) note, there are strong reasons why “owners of a company might be likely to directly and indirectly influence strategic decisions on products and services”. For instance, altering the ownership structure often reduces the managers’ control over strategic choices and leads to a consideration of more strategic options – some of which may not even be in the immediate interest of the managers (Salancik & Pfeffer, 1980). Conversely, if ownership remains completely in the same hands, that is a family’s, for a long time it is more
likely that there is a convergence around norms, values and strategic options (Tushman & Romanelli, 1985) that does not necessarily support expansion and risky strategic moves such as internationalization. Changes in ownership can disrupt this stability and rigidity and increase the responsiveness to competitive changes and new business opportunities (Goodstein & Boeker, 1991). In short, selling out part of the equity to owners external to the family entails a more open governance structure. The new shareholders can help the family firm both to change attitudes and to obtain resources they need in order to internationalize, while the family still can maintain the formal control through keeping majority ownership. We therefore hypothesize that:

Hypothesis 1: External ownership is positively associated with a) scale of internationalization and b) scope of internationalization

The Board of Directors

The next level in a firm’s governance structure is the board of directors. Pfeffer (1972) notes the important task of board members to provide links to the environment through which external resources may accessed. By recruiting the right board members, the board can be an arena where important external resource dependencies can be managed and controlled (Pfeffer & Salancik, 1978). This role of the board has been widely investigated and confirmed in the corporate governance literature (e.g. Boyd, 1990; Hillman, Cannella & Paetzold, 2000).

Serving to connect the firm with external actors and reduce uncertainty and external dependencies the board can provide a family firm with four types of resources: (1) advice, counsel and know-how, (2) legitimacy and reputation, (3) channels for communicating information between external organizations and the firm, and (4) preferential access to commitments or support from important actors outside the firm (Pfeffer & Salancik, 1978). These are important resources for firms that pursue international strategies (Brush, Edelman, & Manolova, 2002; Buckley, 1989; Hitt, Bierman, Uhlenbruck, & Shimizu, 2006).

Firms face different levels of uncertainty and environmental dependency and they will therefore have different size and composition of the board (Sanders and Carpenter, 1998). Board members have strong reasons to be actively involved in strategic processes such as internationalization, since they are legally liable for the performance of a firm. In addition to monitoring the CEO and the top management team, board members can be involved in the actual planning and implementation of international strategies through sharing their experience, knowledge and contacts from their previous international ventures (Sanders & Carpenter, 1998).

The most common way to capture the resource dependence role is to investigate the extent to which outside, external board members are represented on a board. Every board member brings specific attributes and links to external resources to the board. A mix of outsiders and insiders means that there is greater heterogeneity of resources, such as expertise, skill and information that can be used during internationalization. In general increasing outsider representation tends to trigger more strategic actions initiated by the board (Goodstein & Boeker, 1991). The board’s role in internationalization should thus be greater with more external board members. Moreover, outside board members are less involved in the day-to-day operations of the firm. They can therefore think freer on different strategic alternatives, focus on giving their counsel and advice to top management (Westphal, 1999) and act as agent for resource acquisition (Pfeffer and Salancik, 1978).

There is evidence that external board members can represent important resources in family firms’ strategic processes (Schwartz & Barnes, 1991; Corbetta & Salvato, 2004; Fiegener, 2005). Voordeckers, Van Gils & Van den Heuevel (2007) note, for instance, that family firms with a
strong focus on business-oriented objectives are more likely to have a external board members while Johannisson & Huse (2000) argue that external board members are important providers of resources such as advice, support and knowledge thanks to their links to social and professional networks outside a specific family firm. Brunninge et al. (2007) find that outsiders on the board in closely held SMEs have a positive effect on strategic change, including moving into international markets. In short, having external members on the board contributes to opening up the governance structure of family firms. External board members can advice family firms during the internationalization process as well as provide access to resources they need. We therefore hypothesize that:

Hypothesis 2: Increased representation of external directors on the board is positively associated with a) scale of internationalization and b) scope of internationalization

The CEO

The CEO reports to the board and is therefore the next level in the governance structure. The CEO has traditionally been considered the motivating and driving force behind strategic changes and expansion (Boeker, 1997) and researchers have looked at the role of CEO characteristics for internationalization (Aaby and Slater, 1989; Chetty and Hamilton, 1993). According to the resource dependence perspective, the CEO is a human resource that is controlled, though not formally owned, by the firm through employment contracts. As such, s/he can be used to reduce uncertainty and pursue organizational strategies (Pfeffer & Salancik, 1978). Internationalization requires extensive human resources and especially managerial capability, such as experience, knowledge and expertise about how to do business overseas. A knowledgeable and motivated CEO is, therefore, pivotal for engaging in international strategies.

Lack of managerial capability has been noted as a major constraint to family firm’s internationalization (Gallo & Garcia-Pont, 1996; Graves & Thomas, 2006; Fernández & Nieto, 2006). In family firms CEOs tend to have long tenures and be members of the owning-family. Such a unification of ownership and management may lead to less risk taking (Brunninge et al. 2007) and greater managerial entrenchment. Moreover, family firms that prefer to hire the CEO from within the family may suffer from a shortage of family members that both have the training to become CEO and to carry out international businesses (Gallo & Garcia-Pont, 1996).

By constrast, a non-family CEO can bring in external resources, or links to such resources in the environment, allowing the implementation of strategies that previously were hindered by inertia or the lack of resources. A non-family CEO brings additional skills, perspectives and ideas on how and where to compete (Boeker, 1997). He or she may also alter the established power positions and disrupt political resistance and pursues new strategic actions (Tushman & Romanelli, 1985) based on the control of resources that previously did not exist in the organization (Pfeffer & Salancik, 1978). Indeed, research has shown that, non-family CEOs are central to the ability of family firms to grow and endure in their competitive market space over time (Blumentritt, Keyt & Astrachan, 2007). In sum, although taking on a difficult challenge due to the often strong family and business cultures, external non-family CEOs contribute to opening up the governance structure of family firms and provide new perspectives, ideas and energy to pursue international strategies. We therefore hypothesize that:

Hypothesis 3: Having an external CEO is positively associated with a) scale of internationalization and b) scope of internationalization

The Top Management Team

The CEO is not alone in taking the executive responsibility for a firm’s internationalization. In most firms there is a top management team (TMT)—that is, a group of managers with different
tasks, competencies and areas of responsibility (Hambrick & Mason, 1984). As Mintzberg (1973) notes, the work of top managers consists to a large extent of establishing and developing ties with actors outside the organizations that represent resources and capabilities needed to develop and implement strategies. From a resource dependence perspective, a key role of TMT is therefore to build, maintain and improve links to the external environment that are crucial for the provision of resources (Pfeffer & Salancik, 1978). Hambrick & D’Aveni (1992:1449) note that “the resources available on a team result from how many people or on it.” This means that TMT composition, especially its size, referring to how many people comprise the TMT, determines how many links to external resources a firm will have.

The size of the TMT is an important determinant of firms’ level of international activity (Tihanyi, Ellstrand, Daily & Dalton, 2000). A larger TMT has more and various links to the external environment. It also possesses different knowledge, experience and perspectives that can be important input to the process of internationalization (Finkelstein & Hambrick, 1996). Larger teams are, indeed, needed to process the large and diverse amount of information, evaluate the many different alternatives and provide more knowledge on how to tackle challenges that arise as a result of international business activities (Sanders & Carpenter, 1998). In addition, a larger TMT forms a less homogenous group of managers and it is, thereby, less likely to maintain organizational status quo (Wiersema & Bantel, 1992), to be insulated, and to avoid new strategies that increase uncertainty (Boeker, 1997). Furthermore, any managers in the team offer a greater cognitive diversity since more functional areas are represented (Brunninge et al. 2007).

Though family firms tend to internationalize with smaller top management teams than non-family firms (Graves & Thomas, 2006), we expect larger TMT to positively influence internationalization. First, larger TMT are better endowed with the managerial capabilities and inclination that family firms need to handle complex international expansions (Gallo & Garcia-Pont, 1996; Okoroafo, 1999). Second, increasing the size of the TMT is a way for family firms to “handle the complexities and workload brought about by international expansion” (Graves and Thomas, 2006:210). Third, adding non-family members to the top management team is critical to promote strategic renewal and expansion (Salvato, 2004). Larger TMTs, at least partly, counteract the dominant influence that individual family owners and managers tend to have over the firm’s strategic direction. “Being one out of several TMT members, the individual member may feel more confident and safe to suggest alternative strategic ideas and to promote strategic change” (Brunninge et al. 2007:298). In short, a larger TMT is more likely to include non-family managers creating a more open governance structure. We therefore hypothesize:

**Hypothesis 4:** The size of the TMT is positively associated with a) scale of internationalization and b) scope of internationalization

**METHOD**

**Sample and data collection**

Following Westhead and Cowling (1999), family firms are defined on the basis the following two criteria: 1) a firm in which one or more family members own at least 50% of the firm’s shares; and 2) a firm that is perceived by the CEO as being a family firm. In Sweden there are not comprehensive lists of firms with these characteristics. Hence, we identified our eligible sample via a screening sample. We started with a sample designed to be representative of privately owned Swedish SMEs, comprising 2 455 firms in four broadly defined industry groups. These firms were interviewed over the phone in 1997. Out of the 2020 firms which responded to the phone interview, 461 firms reported that one family owned 50% or more of the business and that they perceived themselves a being family firms. These 461 family firms were, thus, selected as
eligible cases for our study. In 2000, these firms were contacted again and surveyed by phone. 331 firms responded the phone interview, yielding a response rate of 71%, for the 2000 survey round. Data for the study’s independent and control variables were collected during the 1997 survey round as well as from different registers. Data for the study’s dependent variables were collected during the 2000 survey round. The targeted respondent was the CEO. This choice was made in the light of the key role played by the CEO in SMEs. Within smaller firms, chief executives are directly involved in the business (Preisendorfer & Voss, 1990) and have first-hand information on what is going on in the firm (Yusof & Aspinwall, 2000). As already mentioned, the CEOs’ answers to the survey’s instruments were combined with a series of separated fielded data.

Sample attrition bias

Internationalization is risky and time consuming for small and medium sized firms (Buckley, 1989). The variables that impact SME internationalization may also cause attrition from the study. To detect and correct for attrition bias, we use the Heckit technique (Heckman, 1979). This modeling approach comprises two-steps. First, one should estimate a first-stage model to specify the selection equation and calculate an outcome variable, which is called Inverse Mills Ratio (IMR) or hazard rate or lambda. Then, one should use IMR as a control variable in the subsequent analyses. In this way it is possible to assess and possibly correct for attrition bias.

In our study, the first-stage model is developed based on a probit model estimating the probability that the 461 SMEs—which responded to the survey round in 1997—drop out of the sample in 2000. The IMR obtained from this analysis is included in the subsequent analyses. The probit model includes a first set of variables that can predict drop-outs as well as firm internationalization. These variables are: major industry group, firm size, firm age, and past growth. The probit model should also include at least another variable that predicts attrition, but does not have a direct effect on internationalization (Delmar & Shane, 2003). In a study of new Swedish firms, Dahlqvist et al. (2000) find that whether or not a firm is located in a main metropolitan area is related to its marginal survival, but not to its performance, measured in terms of sales growth, employment growth and profitability. This result seems to suggest that, at least in Sweden, a firm’s location in main metropolitan areas may influence its survival, but not directly its growth. Hence, we include a broad location dummy variable (major metropolitan areas vs. other locations) into the probit model estimating sample attrition.

Measures

Dependent variables

We investigate two dimensions of a firm’s internationalization: scale of internationalization and scope of internationalization. Scale of internationalization. The scale of a firm’s international activities is not a state, but a continuous choice that managers make relative to domestic activities (Sullivan, 1994). Consequently, most measures of international scale (also labeled international intensity or degree of internationalization) are ratios. Following George et al. (2005), we measure scale of internationalization as the percentage share of a firm’s inward and outward international activities. Specifically, we compute the arithmetic mean of the standardized values of the following five items: export share; import share, share of advertising budget directed at international markets, share of production completed abroad and share of R&D completed abroad (alpha =0.70). Scope of internationalization. International scope is measured by the number of countries to which a firm is exporting its products or services. While our measure of scale of internationalization captures the degree of involvement in international business activities (both inward and outward), our measure of international scope accounts for the geographic reach of a firm’s foreign sales. Since SMEs are expected to sell more to neighboring countries than to psychic distant countries (Johanson & Wiedersheim-Paul, 1975), this measure indicates the extent
to which a firm sells beyond its adjacent countries (Fernhuber, Gilbert, & McDougall, Forthcoming).

Independent variables

External CEO was measured by dummy coding whether or not the CEO was a member of the owner family. The ratio of external directors was calculated by dividing the number of external directors (that is persons who do not work in the company and do not belong to the owner family) by the total number of directors on the board. TMT size is calculated by the total number of TMT positions in the firm. External ownership is measured by the percentage of the firm’s shares not held by members of the owner family.

Variables other than our independent variables may influence the scale and scope of a firm’s internationalization. Thus, in the analysis we control for the following variables: Major industry group was measured using dummy codes for the SMEs’ primary business. The analyses include three dummy variables reflecting the firms’ main industry: manufacturing, service and retail, and other industries. Firm size was measured by the number of the firm’s sales turnover. Firm age was measured by the number of years the firm had been in existence. These data were obtained from Statistics Sweden (a central government authority for official statistics) in 1997. The analysis also controls for past growth, which is measured by asking the respondents to compare the growth of their firm with the growth exhibited by their two major competitors, over the previous three years in terms: 1) sales; 2) company value; 3) net profit; and 4) cash flow (alpha 0.80). This information was collected during the first survey round in 1997.

Choices for data analysis

Several analysis techniques are used in this study. Probit analysis is used as a first step in the Heckit technique, when assessing and controlling for attrition bias (the results of this analysis are reported in Appendix). We use multiple regression analysis to estimate the impact of the independent variable on the scale of internationalization; and negative binomial regression analysis to estimate the impact of the independent variables on the scope of internationalization. Negative binomial regression analysis technique is favored over Poisson regression analysis because it handles the overdispersion of count data (for more information on negative binomial regression cf. Long & Freese, 2006).

RESULTS

In this section we present the results. First, we report the results for the Heckit technique assessing sample attrition bias. Second, we illustrate the results for the multiple regression and negative binomial regression analyses. Prior to these analyses we checked for multicollinearity issues. Among the study’s independent and control variables, the correlation with the greatest magnitude is 0.43 (see Table 1). The variance inflation factors (VIF) of each independent and control variable confirm that multicollinearity is not a problem. The largest VIF of each independent variable is 1.72, which was below the rule-of-thumb cut-off of 10 (Hair, Black, Babin, Anderson, & Tatham, 2006).

Corrections for attrition bias. Multiple regression and negative binomial regression analyses are estimated including the IMR variable correcting for sample attrition bias (the first-stage probit model estimating sample attrition bias is displayed in Appendix I). The results seem to be affected by attrition bias. The IMR variable is significant in the negative binomial regression analysis. In addition, its inclusion significantly changes the other parameters in the negative binomial regression analysis and in the multiple regression analysis. Hence, we will report the results which include the IMR variable controlling for sample attrition.
The results show that external ownership is positively and significantly related to the scale (Table 2) and scope of internationalization (Table 3). These results support Hypothesis 1a and 1b. Increased representation of external directors on the board is not significantly related to scale of internationalization (Table 2), contradicting Hypothesis 2a. However, increased representation of external directors on the board is positively and significantly related to the scope of internationalization (Table 3), supporting Hypothesis 2b. Having an external CEO is positively and significantly related to scale of internationalization (Table 2). This result support Hypothesis 3a. However, having an external CEO is not significantly related to the scope of internationalization (Table 3). Thus, Hypothesis 3b does not receive support. Finally, the size of the TMT is positively and significantly related to scale of internationalization (Table 2), but not significantly related to the scope of internationalization (Table 3). Thus, Hypothesis 4a is supported, but Hypothesis 4b is not.

**DISCUSSION**

Internationalization is a resource demanding strategy that poses specific challenges to family firms, which oftentimes lack the financial, managerial and knowledge resources within the family to internationalize. This study uses the resource dependence theory to understand how family firms can access these resources in their external environment. Specifically, we examine how open governance structures are related to scale and scope of a family firm’s internationalization. Our key argument is that open family firms attract more nonfamily resources through external ownership, board representation, CEO and a large top management team that can enhance the scale and scope of internationalization. The empirical findings support our overall conceptual logic.

As we predicted external ownership in family firms is positively associated with both the scale and the scope of internationalization. This means that when external ownership increases family firms are more involved in sales, marketing, purchase, production and R&D activities abroad; and they sell to multiple foreign countries. This finding is consistent with the predictions of resource dependence theory. It shows that external owners might provide links to the external environment and access to both financial resources and knowledge-based resources, such as advice, information and support, facilitating substantial internationalization. Moreover, external ownership may challenge political resistance and provide more strategic options to expand internationally (Pfeffer & Salancik, 1978; Salancik & Pfeffer, 1980; Goodstein & Boeker, 1991). This finding is also in line with previous research on the role of external ownership for internationalization in SMEs (e.g. George et al., 2005), including family firms (Fernández & Nieto, 2006).

From a resource dependence perspective, the board is a key governance structure to provide with resources needed for internationalization, but only available outside the organization. Board members represent vital links to the external environment where these resources can be obtained (Pfeffer, 1972; Pfeffer & Salancik, 1978; Boyd, 1990; Hillman et al. 2000). We therefore expected that external members serving on the board would enhance the internationalization of family firms. We found only partial support for this prediction. Interestingly, external board members are positively related to the scope of internationalization, but not to the scale of internationalization. In other words, external board members affect the number of countries to which a family firm exports, but not its involvement in different types of activity across national borders. One explanation could be that board members are less involved in decisions concerning daily operations, e.g. the scale of foreign operations. Their work is rather focused on giving advice on strategic issues involving a large degree of complexity and risk taking (c.f. Westphal, 1999; Goodstein & Boeker, 1991), such as increasing the firm’s geographic reach around the world.
Doing business in multiple countries means to not only be active in the neighboring countries (Fernhaber et al., Forthcoming), but also to increase uncertainty and risk by being exposed to distant cultures and diverse competitive environments. External board members may use their experience and understanding of a broad set of countries. In line with the resource dependence perspective, it may further be that the resources external board members provide access to, e.g. communication channels, legitimacy and reputation (Pfeffer & Salancick, 1978; Johannisson & Huse, 2000), are more important for the scope, than for the scale of internationalization.

Further, we expected that having a non family CEO enhances the scale and scope of internationalization. We found that having an external CEO affects the scale of internationalization, but not the scope of internationalization. One explanation, rooted in the resource dependency theory, is that the external resources non-family executives bring to the business operations consists, for the most part, of knowledge and expertise of actual sales, purchase, marketing and manufacturing of products. These functionally oriented competences are important for managing the scale of a firm’s foreign operations, but not for enhancing its geographic reach.

A similar result was obtained for the impact of TMT size. We found that the size of the top management team is related to scale internationalization. This indicates that a family firm’s involvement in international activities, such as marketing, sales, purchasing and manufacturing, is strengthened by a large and diverse TMT. This finding is consistent with prior research (e.g. Sanders & Carpenter, 1998). However, larger TMT do not contribute to expanding the firm’s geographic scope.

An explanation, in line with the resource dependence perspective, to why external resources at the top management level in family firms only enhance the scale of internationalization is that the CEO and his/her top team prefer to focus on and become good at certain foreign markets. Indeed, making sure to be competitive in international markets is a demanding job that not always gives the room for thinking about expanding into new markets. In family firms it may also be that to increase the scope of internationalization, the non-family CEO and TMT need support from external resources at a higher level in the governance structure to be able to alter informal power positions and overcome political resistance to change (Blumentritt et al. 2007). Thus, while executive succession and increasing the size of the TMT may provide enough new resources to intensify the scale of international operations (c.f. Goodstein & Boeker, 1991; Boeker, 1997) it may not be enough to also increase the scope of internationalization in family firms. Future research is needed to further push this explanation.

Limitations and future research directions
Our study is not without limitations. First, although obtained based on a rather general theory that has been applied in a variety of contexts, the results should be carefully interpreted because they are drawn on a sample of Swedish firms and may not reflect the situation of family firms in other countries. We encourage future research that investigates internationalization of family firms in other countries, and especially that make comparisons between countries. Second, we use a broad sample that contains family firms of different industries. This clearly increases the generality of our results, but there it also increases heterogeneity relative to what a more limited and uniform sample based on a specific industry would have done. Industry is an important factor for the internationalization of SMEs (e.g. Boter & Holmqvist, 1996; Westhead, Wright & Ucbasaran, 2001). Researchers could focus on specific industries to further disentangle this effect. Given the general heterogeneity of the family firm population, we also encourage research that compares the internationalization of different types of family businesses. Such research could use,
for instance, the F-PEC scale (Klein, Smyrnios & Astrachan, 2005) to generate different types of family firms that are relevant to compare.

Third, relying on resource dependence theory to investigate what determines internationalization of family firms means a relevant focus on family firms’ scarcity of resources and their links to the external environment. While this external perspective on family business strategy is timely, it undoubtedly provides a limited understanding of internationalization of family firms. The internationalization of family firms is likely to be associated with factors other than the openness of their governance structure. Researchers have already started to draw on various theories and concepts, such as internal capabilities and resources, organizational culture, risk taking behavior, institutional theory and the individual inclinations of managers, to explain internationalization in family firms. Most studies are still conceptual or exploratory, and we therefore suggest that more theory driven research that draws on rigorous qualitative or quantitative methods should be conducted. We also need studies that look into the link between internationalization and performance. Further, it would be interesting to know to what extent internationalization explains the governance structure of a firm that is the opposition relation to what we have investigated in this paper. For instance, as globalization, market liberalization, and increasingly international customers and suppliers put pressure on a firm to become more international, this may become an environmental change triggers a changed board composition, or the decision to recruit more non-family members to the firm’s top management team.

Implications and Conclusion

Our paper makes several important contributions to the literature. First, it contributes to the literature on international business (IB) by addressing the calls for more research on the relationship between governance structures and internationalization (e.g. Melin, 1992; Sanders & Carpenter, 1998). Second, it contributes to the growing body of research on governance in family firms. While most theory driven governance research has focused on the internal dynamics of family businesses (e.g. Habbershon & Williams, 1999; Gomez-Mejia et al., 2001; Schulze et al. 2001; 2003, Miller & LeBreton-Miller, 2006; Miller, LeBreton-Miller & Scholnick, 2008), the research dependence perspective allows for a much needed look at the role of the external environment for family firm governance (Habbershon & Pistrui, 2002; Nordqvist & Goel, 2008). Moreover, focusing on the role of governance our study contributes to the growing but still scarce research on internationalization in family firms. There are still few empirical investigations of the resource dependence perspective, especially on private business organizations (Pfeffer & Salancik, 2003). Another contribution is thus to the literature on the resource dependence perspective by examining the explanatory power of this framework within the context of internationalization and family firms. By using data from Sweden we also extend the geographical validity of the resource dependence perspective (Pfeffer & Salancik, 2003:xxiv).

In today’s global business environment, the ability of a firm to expand across national borders is crucial for its survival and growth. From the international business literature we know that internationalization means that firms need to be well-equipped with resources in order to successfully expand the scale and scope of their business activities in foreign countries. Previous researchers have argued that entering into international markets poses specific challenges for family firms. They often lack the financial, managerial and knowledge-based resources needed to internationalize, at the same time as family owner-managers often are reluctant to open up their firm for external resources, due to a fear of losing control and a heighten sense of risk-taking. We addressed this dilemma by drawing on a resource dependence perspective. In essence, we argued that family firms’ with open governance structures are more better positioned to build links to external, non-family resources that can facilitate their internationalization. We viewed open
governance structures as those with external and non-family owners, board members, CEO and with a large top management teams. In line with our overall conceptual logic and predictions, we found that external ownership promotes both the scale and the scope of internationalization, while the existence of external board members facilitates only the scale of internationalization, and an external CEO and large TMTs only the scope of internationalization.

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Hillman, A.J, Cannella, A. Jr, & Paetzold, R. L (2000), The Resource Dependence Role of Corporate Directors: Strategic Adaptation of Board Composition in Response to


APPENDIX 1: First-stage Probit model estimating attrition from the sample

Note: *** p<0.001, ** p<0.01, * p<0.05

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficient</th>
<th>Standard Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>-0.33</td>
<td>0.22</td>
</tr>
<tr>
<td>Retail</td>
<td>0.015</td>
<td>0.273</td>
</tr>
<tr>
<td>Services</td>
<td>-0.26</td>
<td>0.19</td>
</tr>
<tr>
<td>Firm size</td>
<td>-0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Firm age</td>
<td>-0.01</td>
<td>0.01</td>
</tr>
<tr>
<td>Past growth</td>
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</tr>
<tr>
<td>Metropolitan area</td>
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<td>0.16</td>
</tr>
<tr>
<td>Constant</td>
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<td>0.45</td>
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Observations: 398
Log likelihood: -168.63971
LR chi2(7): 7.07
Pseudo R2: 0.02

Table 1: Correlation Table

<table>
<thead>
<tr>
<th>Manufacturing</th>
<th>Retail</th>
<th>Services</th>
<th>Firm size</th>
<th>Firm age</th>
<th>Past growth</th>
<th>External CEO</th>
<th>TMT size</th>
<th>External directors</th>
<th>External ownership</th>
</tr>
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<tbody>
<tr>
<td>-</td>
<td>-0.18*</td>
<td>-0.43*</td>
<td>-0.05</td>
<td>0.21*</td>
<td>-0.01</td>
<td>-0.03</td>
<td>0.01</td>
<td>0.02</td>
<td>0.13*</td>
</tr>
<tr>
<td>Retail</td>
<td>-</td>
<td>-0.26*</td>
<td>0.05</td>
<td>0.15*</td>
<td>0.07</td>
<td>0.02</td>
<td>0.06</td>
<td>0.07</td>
<td>-0.10*</td>
</tr>
<tr>
<td>Services</td>
<td>-0.43*</td>
<td>-</td>
<td>-</td>
<td>-0.04</td>
<td>-0.04</td>
<td>-</td>
<td>0.16*</td>
<td>0.07</td>
<td>-0.10*</td>
</tr>
<tr>
<td>Firm size</td>
<td>-0.05</td>
<td>-0.26*</td>
<td>0.15*</td>
<td>-0.07</td>
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<td>0.01</td>
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<td>-0.02</td>
</tr>
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<td>Firm age</td>
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<td>-0.19*</td>
<td>0.04</td>
<td>0.04</td>
<td>-0.04</td>
<td>-</td>
<td>0.01</td>
<td>0.06</td>
<td>0.01</td>
</tr>
<tr>
<td>Past growth</td>
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<td>0.07</td>
<td>0.04</td>
<td>0.04</td>
<td>-0.04</td>
<td>-0.03</td>
<td>0.06</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>External CEO</td>
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<td>-0.02</td>
<td>0.06</td>
<td>0.01</td>
<td>-0.07</td>
<td>-0.05</td>
<td>0.01</td>
<td>0.02</td>
<td>0.01</td>
</tr>
<tr>
<td>TMT size</td>
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<td>0.09</td>
<td>0.16*</td>
<td>-0.09</td>
<td>0.20*</td>
<td>0.07</td>
<td>0.07</td>
<td>-</td>
</tr>
<tr>
<td>External directors</td>
<td>0.02</td>
<td>-0.07</td>
<td>0.07</td>
<td>0.11*</td>
<td>0.01</td>
<td>0.06</td>
<td>0.00</td>
<td>0.15*</td>
<td>-</td>
</tr>
<tr>
<td>External ownership</td>
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<td>-0.02</td>
<td>-0.10*</td>
<td>0.06</td>
<td>0.03</td>
<td>0.02</td>
<td>0.01</td>
<td>0.03</td>
<td>0.08</td>
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Note: * p<0.05
Table 2: Multiple regression analysis estimating Scale of Internationalization

<table>
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<tr>
<th>Variables</th>
<th>Model 1</th>
<th>Model 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMR (attrition)</td>
<td>13.22</td>
<td>11.01</td>
</tr>
<tr>
<td>Manufacturing</td>
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<td>6.340*</td>
</tr>
<tr>
<td>Retail</td>
<td>0.34</td>
<td>0.69</td>
</tr>
<tr>
<td>Service</td>
<td>-2.95</td>
<td>-2.61</td>
</tr>
<tr>
<td>Firm size</td>
<td>-0.00</td>
<td>-0.00</td>
</tr>
<tr>
<td>Firm age</td>
<td>0.00</td>
<td>0.03</td>
</tr>
<tr>
<td>Past growth</td>
<td>-1.45</td>
<td>-1.52</td>
</tr>
<tr>
<td>External CEO</td>
<td></td>
<td>4.90*</td>
</tr>
<tr>
<td>TMT size</td>
<td></td>
<td>0.53*</td>
</tr>
<tr>
<td>External directors (ratio)</td>
<td></td>
<td>2.06</td>
</tr>
<tr>
<td>External ownership (Percentage)</td>
<td></td>
<td>0.10*</td>
</tr>
<tr>
<td>Observations</td>
<td>331</td>
<td>331</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.18***</td>
<td>0.22***</td>
</tr>
<tr>
<td>Adj. R-squared</td>
<td>0.16</td>
<td>0.19</td>
</tr>
<tr>
<td>Change in R-squared</td>
<td></td>
<td>0.03**</td>
</tr>
</tbody>
</table>

Note: ***p<0.001, ** p<0.01, * p<0.05

Table 3: Negative binomial regression estimating scope of internationalization

<table>
<thead>
<tr>
<th>Variables</th>
<th>Model 1</th>
<th>Model 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMR (attrition)</td>
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<td>14.76***</td>
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<tr>
<td>Manufacturing</td>
<td>-2.02*</td>
<td>-2.21*</td>
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<tr>
<td>Retail</td>
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<td>-0.04</td>
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<tr>
<td>Service</td>
<td>-5.75***</td>
<td>-5.94***</td>
</tr>
<tr>
<td>Firm size</td>
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<td>-0.00</td>
</tr>
<tr>
<td>Firm age</td>
<td>-0.08*</td>
<td>-0.08*</td>
</tr>
<tr>
<td>Past growth</td>
<td>-1.65**</td>
<td>-1.94***</td>
</tr>
<tr>
<td>External CEO</td>
<td></td>
<td>0.75</td>
</tr>
<tr>
<td>TMT size</td>
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<td>0.15</td>
</tr>
<tr>
<td>External directors (ratio)</td>
<td></td>
<td>1.39*</td>
</tr>
<tr>
<td>External ownership (Percentage)</td>
<td></td>
<td>0.03*</td>
</tr>
<tr>
<td>Observations</td>
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<td>330</td>
</tr>
<tr>
<td>Log likelihood</td>
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<td>-366.0951</td>
</tr>
<tr>
<td>LR chi2</td>
<td>75.39***</td>
<td>87.36***</td>
</tr>
<tr>
<td>Pseudo R2</td>
<td>0.09</td>
<td>0.11</td>
</tr>
</tbody>
</table>

Note: ***p<0.001, ** p<0.01, * p<0.05