Internationalisation and corporate governance in family businesses: a case study

Elena Cristiano

Department of Business Economics and Law
(Dipartimento di Scienze Aziendali e Giuridiche),
University of Calabria,
Ponte Pietro Bucci, 87036,
Arcavacata di Rende, Calabria, Italy
Fax + 39-0984-492277
Email: elena.cristiano@unical.it

Abstract: The international expansion of SMEs derives from the combined action of a number of internal and external factors, which are present in the phases of a business activity at various levels. Among the ‘internal’ variables that may be considered as remarkable explanatory elements of the internationalisation processes, just recently the relationship between the ownership structure and the access to foreign markets has become particularly important. Entrepreneurial, managerial and financial resources are of great importance in the process of internationalisation of family businesses. The internationalisation is an important dimensional and organisational growth opportunity, thus allowing to revitalise both the family system and the enterprise system, through new job opportunities for the members of the controlling family and through the business sustainability for the future generations. The presence of family members, with a different level of risk perception and risk appetite, may influence the decision to undertake international activities. The discussion of the factors that promote or inhibit the internationalisation of the family business has not come to unambiguous results yet.

Keywords: corporate governance; internationalisation; family businesses.


Biographical notes: Elena Cristiano is an Assistant Professor of Accounting at the Department of Business Economics and Law at University of Calabria, Italy. Her main research interests concern small business economics and accounting, with a particular focus on family SMEs, their corporate governance and family succession. In this respect, she published some articles and books.

This paper is a revised and expanded version of a paper entitled ‘Internationalization in family businesses. A case study’ presented at SIW – Innovations in Corporate Governance and Performance Management, Rome, 21–22 April 2016.
1 Introduction

The term corporate governance includes all the instruments which allow a business to be run effectively and efficiently. That means using the additional resources, which are allocated, so as to keep all stakeholders satisfied and, if necessary, reducing them, without, however, jeopardising the business performance and survival (Strange et al., 2009).

The propensity to internationalisation of family businesses is often limited by the focusing on domestic markets (Gallo and Garcia Pont, 1996), by the inadequate monitoring of the global market and by the lacking orderliness of evaluation of the international context (Okoroafo, 1999). Such factors, besides the widespread strategic orientation (Coda, 1988) based on the conservation and continuity and besides the primary objective of keeping the independence and the business control, would make family businesses less oriented to search for opportunities of expansion abroad. That would make the level of family businesses’ internationalisation lower than other business contexts. Anyway, there are also other different analyses. Based on a study of 490 US manufacturers, Zahra (2003) observes that the family ownership of the business and its systems of governance, with the involvement of family members in the management, positively correlate with internationalisation.

2 Literature review

Corporate governance as a system of bodies and functions by which companies are controlled and directed (Cadbury, 1992; OCSE-OECD, 1999), includes all the individual or collective bodies (the shareholders’ meeting, the board of directors, the managing director, the director-general, the manager), which preside over the maximum decision making prerogatives. In terms of entrepreneurship, in small and medium-sized enterprises (SMEs) the system of governance represents a source of resources since governance authorities are composed of financial capital-bearing subjects and of human capital, in terms of entrepreneurship, know-how and managerial skills, decision making and relational abilities. Moreover, it is an instrument in order to organise the same resources, since it presides over the ways of allocation and coordination of resources. In the new global economic scenario, the internationalisation process has to be adequately planned in order to allow the development of the distinctive resources, sources of new competitive advantages. For this purpose it becomes fundamental to provide governance authorities with skills and resources appropriate for supporting the necessary processes of international development. The entrepreneur’s personal characteristics, the system of social relationships which he/she is in and, therefore, his/her ability to foresee the business development potentialities in an international perspective (Caroli and Lipparini, 2002; Chandler and Hanks, 1994; Collins, 1991; Shane et al., 1993; Philp, 1998; Gallo and Sveen, 1991), often determine the opening of a SME abroad. The effect of such elements on the business strategy options is much higher if the business size is smaller. The complexity of the governance structures of SMEs in general and of the family ones in particular is determined by the institutional overlap of three systems, which obviously should represent different logics, that is, the family, the ownership and the business (Lansberg, 1983). The level of involvement of the family in the ownership and/or in the management determines some situations of mutual conditioning of the three systems, thus
Internationalisation and corporate governance in family businesses

influencing the level and the scope of the division-of-labour processes, the choice of the control mechanisms and of the performance measurement systems, the effectiveness of the official bodies (first among everything, the board of directors) (Montemerlo, 2010). The fusion among emotions, feelings and mechanisms of allocation of governance powers, which characterises the specificity and complexity of small and medium-sized family businesses’ governance, conditions the capacity of the entrepreneur and of his/her family members to reconsider their own roles, in relation to the needs of the business development. Especially in the presence of greater competitive and strategy complexities, the entrepreneur is often inhibited by the symbiosis between family and business. The different configurations of corporate governance of businesses in general and of the family ones in particular, given the cultural and institutional peculiarities which characterise them, influence their strategy, competitive and operating performance, assessed through various indicators, such as for example, the strategic changes, the organisational changes, the productive innovations, the financial and operating results (Norburn and Birley, 1988; Zahra and Pearce, 1989; Baysinger and Hoskisson, 1990; Hambrick and D’Aveni, 1992; Wiersema and Bantel, 1992). The internationalisation processes are conditioned by the different level of risk and of strategic, organisational and management involvement in the international competitive context. Numerous scientific contributions prove that in family businesses such processes develop gradually and progressively in most cases, only after having taken all the opportunities offered by national markets (Calabrò and Mussolino, 2011). Nevertheless, there are some cases of family businesses, the so-called born global firms, which are already internationalised at the beginning (Knight and Cavusgil, 2004; Wright et al., 2007). The international entrepreneurship theory provides useful elements in order to understand the international behaviour of family businesses, especially as regards the role played by the main decision makers (Andersson, 2000). Family businesses are often characterised by the presence of a sole decision maker (that is, the founder) (Westerberg et al., 1997), who often finds himself/herself to face two forces of opposite nature. On the one hand, he/she has to pursue the opportunities beyond the national boundaries (therefore, he/she has to expand the activity) and on the other hand, he/she has to keep the business (and the family’s) total or majority control, thus following low-risk projects in the traditional/local market. Many scholars suggest that often the second force prevails over the first one, thus causing the poor propensity of many family businesses to expand their activities beyond the national boundaries (Okoroafo, 1999; Fernández and Nieto, 2005). Nevertheless, there are also some cases of family businesses which succeeded in reaching an equilibrium between the growth in foreign markets and the decision making centralisation, or the internationalisation process of which is triggered by a particular event of a family business’ life cycle, such as, for example, the generational passage and the subsequent involvement of the new generations in the business activity. The creation of new products/services, the achievement of new markets and the international sale transactions are some of the activities which may be carried out by the new generations (Sharma et al., 1997). Therefore, the presence of the second force and/or of the following generations may be beneficial to reach a new successful entrepreneurial impulse (Salvato, 2004). The role of the main decision makers, the dedication and experience, the changes in the ownership, the composition of the board of directors often represent the stimulating element for a change in the strategy in such direction. Consequently, it is undeniable that the advent of new generations in a family business may positively influence the propensity towards international entrepreneurial activities (that is, the creation of new
products/services, the achievement of new markets and the international sale transactions). In order to understand the international dynamics of family businesses, it is useful to examine the hypotheses underlying the stewardship theory, which make reference to compliant behaviours, in which the interests of the different stakeholders are aligned with the business ones (Corbetta and Salvato, 2004; Eddleston and Kellermanns, 2007; Eddleston et al., 2008). With regard to the theory of the firm, such approach better adapts to the particular nature of family firms (Jensen and Meckling, 1976; Fama, 1980), if compared to the agency theory, the hypotheses of which suggest the opportunistic behaviour by the economic agents. In fact, in family businesses there are different levels of altruism in line with the hypotheses of the stewardship theory, such as the long-term orientation, the presence of systems of values shared between the family and the business, the direct identification of the family with the business (Davis et al., 1997), the reciprocity relationship, the participatory decision making process, the shared control in the business governance system (Eddleston and Kellermanns, 2007). The different decision makers, variously involved in the strategic direction of the family business, may act in the interest of the company (and be some stewards), thus fostering and supporting the strategy option of becoming international. Everything develops in logic of sharing of the entrepreneurial risks related to such strategy option (James, 1999) and in the presence of a direct and open communication system (McCollom, 1988). Therefore, the role played by the family business’ founder/owner is fundamental. He/She may have two typologies of behaviours. If his/her interests are completely aligned with the specific needs of the business, it is not difficult to obtain the full support by the other family’s members. On the contrary, if his/her interests are egoistical and opportunistic, some conflicting mechanisms are triggered: these mechanisms may damage both the family and the business (Schulze et al., 2001). Possible conflicts between the family’s objectives (that is, to safeguard the family control for the future generations) and the business specific objectives (for example, to develop in a global market), related to the decision to internationalise or not the activities, may be softened by the presence of altruism and trust that, moreover, also facilitate the propensity to the inherent risk related to the international activities (Zahra, 2003). The mutual trust may be the result both of an emotional bond with another person (Lewis and Weigert, 1985; Rempel et al., 1985; Drolet and Morris, 2000), and of the awareness of the skills and reliability of the other party (Cook and Wall, 1980; Butler, 1991). In the case of family businesses the trust relationships existing between the founder/owner and the other subjects involved in the decision making process (the family and non-family members) may be based on the recognised competence (the competence-based trust) and/or on the moral integrity (the integrity-based trust). In the competence-based trust the different members (the family and non-family ones), involved in the decision making process related to the family business’ internationalisation, develop an adequate level of trust on the founder/owner’s skills, on the basis of the indications provided by him/her in relation to the ways through which internationalisation may be pursued (Dutton and Duncan, 1987; Bantel and Jackson, 1989). The development of a participatory decision making process consolidates, in the other stakeholders involved in the process, the certainty as regards the correct implementation of the internationalisation strategy (Fryxell et al., 2002), thus letting the level of the risk perception reduce: a level which is connected to the decision to internationalise. In the integrity-based trust the founder/owner, despite the involvement of many other subjects, is often the main decision maker (Corbetta and Salvato, 2004; Gedajlovic et al., 2004). The emotional bonds with the founder/owner may
Internationalisation and corporate governance in family businesses

influence the decision to become international. The presence of the integrity-based trust should guarantee simpler decision making processes and allow the whole organisation to rapidly adapt to the pressure of the external environment, thus guaranteeing a greater level of elasticity to know how to take the opportunities (with the related risks), which each time arise. Therefore, in family businesses where this trust typology is developed, the different members (the family and non-family ones), involved in the decision making process, are more willing to support the decisions made by the owner/founder, the choice of internationalisation of the family business included. In such case, the level of the risk perception connected to the decision to internationalise is reduced. Generational involvement, altruism and trust existence in the decisions are, therefore, at the basis of the system of governance informal mechanisms which may, in a different way, influence the international growth of family businesses (Calabrò and Mussolino, 2011).

3 Methodology

This article is structured in two parts. In the first part, the analysis of the existing literature on the relationship between the characteristics of corporate governance and the process of internationalisation of family businesses is conducted, with particular attention to the international entrepreneurship theory and the stewardship theory. The use of this latter, as the theoretical grounds for the study of the internationalisation of family businesses, contributes to better clarifying some research questions that remain open. These questions include, for example, if and to what extent, the decision to internationalise may be influenced by the generational involvement, the presence of altruism and trust among family members. The second part makes an empirical verification of theories highlighted in the first part, through the study of a family business that, with the takeover of the new generation, has successfully pursued its international expansion. The analysis was conducted in two phases: an analysis of second data based on documents (e.g., financial statements, directors’ reports, etc.) provided by the examined enterprise; semi-structured interviews to the controlling family’s members. In order to study the internationalisation process the degree of internationalisation, measured in terms of the correlation between foreign sales and total sales (foreign sales/total sales), and the different adopted forms of internationalisation (direct export, consortia among enterprises, technical-productive collaboration agreements and subcontracting agreements) have been evaluated.

3.1 The internationalisation of Minisci businesses – empirical evidence

Consistently with numerous qualitative studies (Eisenhardt, 1989; Yin, 2003), conducted by using the case study analysis, with the awareness of the limits that such applied methodology has and far from providing absolute generalisations, the following study aims at examining in-depth the knowledge on the topics, objects of investigation, and at contributing to providing with an empirical verification.

A precious pearl, nestled in the pleasant and solar Piana di Sibari (the Plain of Sibari, in the province of Cosenza, Calabria), Minisci represents one of the most significant agricultural-and-food family businesses of Calabria. This business promotes the organic farming and the traditional products, it has the BIO SUISSE certification, it satisfies the IFOAM standards requirements and it meets the requirements provided for by the
Technical Specifications of NOP relative to the USDA organic standards. Organic products, controlled by Ethical and Environmental Certification Institute (ICEA), comply with the rules provided for by the EEC Regulation no. 2092/91. All the production processes are rigorously inspected and recognised with a quality certification, since all productions have to be excellent. Spirit of the ancestors, expression of a millennial culture, custodian of the refined and genuine tastes of the present, Minisci’s businesses developed in a unique and precious territory. Sibari, the ‘heart’ of Magna Graecia, is a mosaic of culture, art, tradition and innovation. Corigliano Calabro, the center of the area of Sibaritide (an area which includes the Municipalities of Calopezzati, Cassano allo Ionio, Corigliano Calabro, Crosia, and Rossano), is a fertile and vital land. Starting from its etymological origin (chorion elaión, the town of olive trees), it reveals its ancient vocation for the cultivation of the olive tree, a gift of nature. Since the beginning, the respect for the land and its fruits, the love for nature and good tastes have been important inputs, aimed at obtaining the best from a land which is so dedicated to the ‘beautiful’ and ‘good’ aspects, fostered by a mild and temperate climate which allows cultivations of any type. The will to protect the quality of the fruits that nature nobly offers led the business to practise a form of agriculture, which is careful about preserving the quality and genuineness of cultivations, thus offering healthy and traditional products on the market. Moreover, the business stands out for its will to constantly improve its products and to continuously optimise its know-how. It is an entrepreneurial organisation, which is well-structured commercially and industrially. It also follows some cooperating strategies with small local producers, who focus on cultivation. This choice allows the provision of high-quality raw material, which is aligned with the business production standards.

The business was set up in 1946, when the activity of the olive-press started. It was used for the animal-traction milling of its own olives and of the local farmers’ ones. With the generational passage, there was the first technological change with the introduction of the ‘crusher hydraulic’ press. In 1987, in the business, there was the introduction of the first heir with the creation of the partnership ‘La Molazza S.a.s.’ (a limited partnership). The business activities of ‘La Molazza S.a.s.’ are the following: the olive purchase and milling, as well as the bottling and packaging of oil; the production, the processing, the marketing of agricultural-and-food products, of Calabrian traditional products; the production and processing of vegetables preserved in oil, of dried and seasonal fruit, of jams, of fruit in syrup and of drinks in general. And finally, there is the marketing of its own products and not only, on its own and on behalf of a third party, with its own brand. Between 1991 and 1995 the generational passage was completed with the involvement of the other heirs. Currently, the business is managed skillfully and enthusiastically by three family Minisci’s members, one son and two daughters: Angelo who is the person in charge of the organisational-commercial sector; Maria Grazia who is the person in charge of the administrative-accounting sector; Anita, who is the person in charge of the commercial sector of fruit and vegetables. The changeover was gradual and the atmosphere has always been serene and collaborative, marked by the right equilibrium between the founders’ sound traditional values and the heirs’ technological and organisational innovation. The introduction of the son and daughters in the business implicated a productive revolution, especially in the sector of the oil production and in the product marketing. Over the years the partnership has uninterruptedly operated on the business functions, thus proceeding with important investments, which, nowadays, characterise it as one of the most representative businesses with regard to the oil production chain in the province of Cosenza. Over the years, besides the commitment in
terms of financial resources which have concerned the modernisation of the production processes, also other important promotion campaigns of the business brand have been launched. Nowadays, this brand is well-known both in Italy and abroad. In 1992 the business started the activity of bottling and packaging of olive oil, which, currently, covers 70% of the marketed product (the remaining 30% of the product represents an ‘unpackaged product’). Over the years the business, besides processing the olives coming from the partners’ family businesses, has acquired a very high number of customers, thus currently arriving at producing, between virgin and extra virgin olive oil, about 6,000 (six thousand) quintals of olive oil in the whole oil campaign. Today the business produces extra-virgin olive oil in three different lines: PDO, and from organic and conventional farming. Starting from the local market, the family business expanded the reference market, thus arriving at supplying the national and foreign market (Germany, Great Britain, Belgium, Switzerland, Austria, the USA, Japan, Canada, Brazil, Lithuania, Taiwan).

**Figure 1** Incidence of the percentage of foreign and national sales on the total of sales

The conducted analysis shows that the business focused, at the beginning and for a long time period, on the national market (National Sales/Total Sales), thus opening up towards foreign markets only over the last years. The degree of internationalisation, calculated by comparing foreign sales with total sales for every year, in fact, indicates a greater concentration on the national market. On the whole, in the examined five-year term, the relationship between foreign sales and total sales is equal to 20%. Nevertheless, consistently with the strategy elaborated by the leadership, in the analysed five-year term, an increasing incidence of such indicator may be observed, thus directing greater attention to foreign markets (Figure 1).

In 2015 (the last examined year), compared with 2010 (the first examined year), for an increase of 27% in total sales, an increase of 98% in the relationship between foreign sales and total sales and a decrease of 40% in the relationship between national sales and total sales were observed (Figure 2).
Considering the foreign sales of the whole examined five-year term, the greater percentage of foreign sales was observed in 2015 (Figure 3).

In 2005 the partnership ‘La Molazza’, a wholly family-owned business, created the cooperative enterprise ‘OP Carpe Naturam’, a limited liability consortium (a Consortium Ltd.). The ownership structure, in which the family business held a majority stake, opened up towards outside, thus involving a substantial number of other leader businesses in the sector of fresh fruit and vegetables, located in the areas of the Alto Ionio and of the Sibaritide. Through well-known brands, today the group (Carpe Naturam, Biosybaris, Acinapura Bio) aims at marketing fresh fruit and vegetables, organic products and high-quality integrated farming products all over the world. The products are certified and marketed through the national and foreign Mass Distribution Channel (the Italian ‘GDO’, Grande Distribuzione Organizzata). Differently from ‘La Molazza S.a.s.’, initially and mainly the Consortium turned to foreign markets, which were more open to the idea of the organic product, as, in Figure 4, it is shown by the greater incidence of foreign sales, compared with the national ones on the total amount of sales. Nevertheless, starting from 2013 a greater opening towards the national market may be observed. In fact, though the percentage of sales abroad was still predominant, a growing trend of national sales, compared with total sales, was recorded (Figure 4). Such
trend corresponded to a change in the strategy of the leadership which, once strengthened the position abroad, aimed at reinforcing its own presence on the national market, in which, over the last years, if compared to the past, a greater request for the organic products may be observed.

**Figure 4** Incidence of the percentage of national and foreign sales on the total of sales

![Figure 4](image)

*Source:* Processing on data of ‘Carpe Naturam’ – years 2010–2014

Considering the foreign sales of the whole examined four-year term, the greater percentage of foreign sales was registered in 2014 (Figure 5).

**Figure 5** Percentage of foreign sales in the four-year term 2010–2014

![Figure 5](image)

*Source:* Processing on data of ‘Carpe Naturam’ – years 2010–2014

In the family business, over the decades, members have acquired much experience with regard to the soil cultivation, the processing of fruit and vegetables, and their preservation. The third generation has a deep respect for its father’s work; whom the generation esteems (trusts) very much, especially for the high moral integrity, which characterises him. The family culture deeply influences the family and the whole organisation. The new generation is characterised by the continuing vocational training, skills and orientation, incentivised by the predecessor, who also passed down to the new generation a participatory leadership style. Decisions are discussed and made collectively. In the case of ‘La Molazza S.a.s.’ the international activity has allowed to go beyond the critical aspects related to the saturation of the reference national market, whereas in the case of ‘Carpe Naturam’ the international activity has allowed to take
advantage of the greater maturity of foreign markets, if compared to the Italian ones, in terms of preferences and financial soundness.

4 Concluding comments

Family businesses may find, in the opening up of their governance outside, a precious source of resources (also financial ones) and skills, necessary to become international successfully. Similarly, it would be desirable to involve the new generations, above all considering the fact that the generational passage is a very delicate situation in the business activity. The premature entrance of young successors into the business not only promotes the field training of the same and encourages an appropriate succession planning, but it might foster the business expansion abroad. The success of a business is connected with the human capital quality of its employees, consequently the possibility that the young successors actually represent an opportunity of growth and renewal might depend on their level and type of education, as well as on their real experience matured inside the business. The development of interpersonal dynamics based on altruism and trust increases the propensity to share the risks related to the decision to internationalise the business (and the family). In such way, the main decision makers of family businesses reach their awareness of what are the factors which may intervene in the decision making dynamics relating to the internationalisation processes. The timing, the choice of the target markets and the ways of internationalisation may vary with relation to the particular phase of the life-cycle in which the family business is, to the level of the generational involvement, to the founder’s point of view and to other specific characteristics of governance.

References
Internationalisation and corporate governance in family businesses


