



2 POINT

3 The myth of the stay-at-home family firm:
 4 How family-managed SMEs can overcome
 5 their internationalization limitations

6 Jean-François Hennart¹,
 7 Antonio Majocchi² and
 8 Emanuele Forlani³

9 ¹ *Tilburg University Center for Research in*
 10 *Economics and Business, Heuvelstraat 14,*
 11 *5131AP Alphen, The Netherlands;* ² *Dipartimento*
 12 *scienze economiche e aziendali, Università di*
 13 *Pavia, Pavia, Italy;* ³ *Dipartimento di Scienze*
 14 *economiche, Università di Bologna, Bologna, Italy*

15 **Correspondence:**
 16 **J-F Hennart, Tilburg University Center for**
 17 **Research in Economics and Business,**
 18 **Heuvelstraat 14, 5131AP Alphen, The**
 19 **Netherlands.**
 20 **Tel: +31-13-5081831;**
 21 **e-mail: j.f.hennart@uvt.nl**
 22

23

Abstract

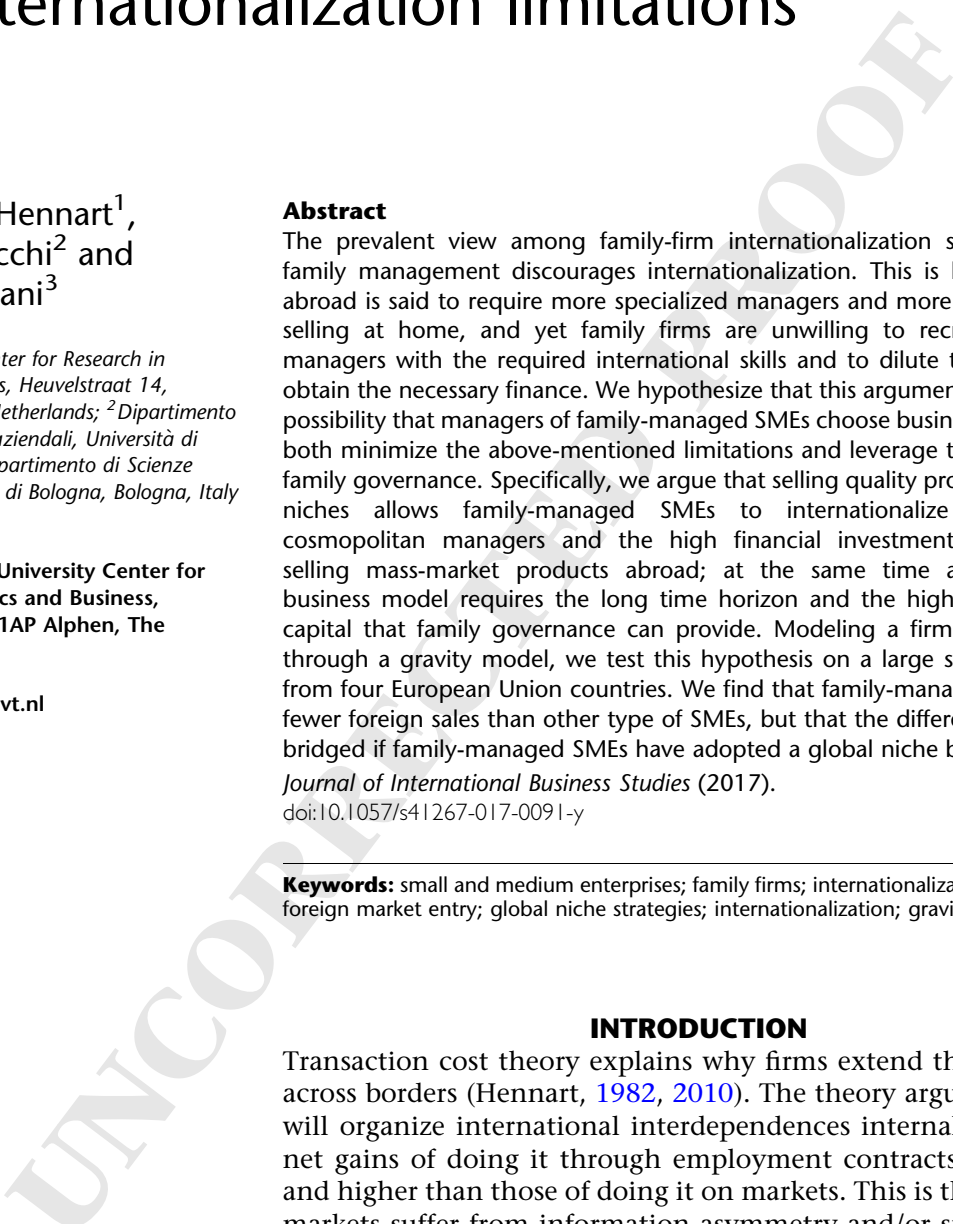
The prevalent view among family-firm internationalization scholars is that family management discourages internationalization. This is because selling abroad is said to require more specialized managers and more resources than selling at home, and yet family firms are unwilling to recruit managers with the required international skills and to dilute their control to obtain the necessary finance. We hypothesize that this argument overlooks the possibility that managers of family-managed SMEs choose business models that both minimize the above-mentioned limitations and leverage the strengths of family governance. Specifically, we argue that selling quality products in global niches allows family-managed SMEs to internationalize without the cosmopolitan managers and the high financial investments required for selling mass-market products abroad; at the same time a global niche business model requires the long time horizon and the high level of social capital that family governance can provide. Modeling a firm's foreign sales through a gravity model, we test this hypothesis on a large sample of SMEs from four European Union countries. We find that family-managed SMEs have fewer foreign sales than other type of SMEs, but that the difference is partially bridged if family-managed SMEs have adopted a global niche business model. *Journal of International Business Studies* (2017). doi:10.1057/s41267-017-0091-y

Keywords: small and medium enterprises; family firms; internationalization theories and foreign market entry; global niche strategies; internationalization; gravity models

INTRODUCTION

Transaction cost theory explains why firms extend their footprint across borders (Hennart, 1982, 2010). The theory argues that firms will organize international interdependences internally when the net gains of doing it through employment contracts are positive and higher than those of doing it on markets. This is the case when markets suffer from information asymmetry and/or small number conditions. The theory thus predicts whether markets or firms will be the optimal mode to organize interdependences, and while making allowance for cases where managers choose the wrong modes, it assumes that competition between actors will eventually eliminate inefficient choices, either because it will force the firm to

Author Proof





Author Proof

66 switch to more efficient ones, or because the firm
67 will go bankrupt if it fails to do so.

68 While the theory explains how the characteristics
69 of the interdependence determine the optimal
70 make-or-buy decisions, it does not explicitly take
71 into account the context in which these decisions
72 are made. Yet decisions to sell in foreign markets or
73 to concentrate on home markets are made by
74 managers responding to specific incentives, which
75 are themselves determined by the way the firm is
76 organized, by its governance (Filatotchev, Dyo-
77 mina, Wright, & Buck, 2001). One would expect,
78 for instance, owner-managers of family firms eager
79 to pass on the business to their heirs to make
80 different decisions than professional managers in
81 firms with widely dispersed stock ownership whose
82 identification with the firm is obviously much
83 more tenuous. Hence, a firm's governance is likely
84 to affect its strategies.

85 The most common type of firm governance
86 worldwide is the family firm (La Porta, Lopez-de-
87 Silanes & Shleifer, 1999). Family ownership and
88 management is particularly common among small
89 and medium enterprises (SMEs). In the last fifteen
90 years, scholars have started to investigate whether
91 family-owned and managed firms differ from firms
92 with dispersed ownership and professional man-
93 agement in their strategies, such as whether they
94 diversify into new products (Anderson & Reeb,
95 2003), engage in mergers and acquisitions (Miller,
96 Le Breton-Miller, & Lester, 2010), embrace corpo-
97 rate social responsibility initiatives (Berrone, Cruz,
98 Gomez-Mejia, & Larraza-Kintana, 2010), and inter-
99 nationalize (e.g., Gomez-Mejia, Makri, & Larraza-
100 Kintana, 2010).

101 While the literature has advanced arguments for
102 and against a positive impact of family governance
103 on internationalization, most reviews conclude
104 that family firms are less likely to internationalize
105 than firms with other governance structures (Kon-
106 tinen & Ojala, 2010; Pukall & Calabrò, 2014;
107 Fernández & Nieto, 2013; Arregle, Duran, Hitt, &
108 van Essen, 2016). This is because the desire of
109 family-managed firms to hire family members as
110 managers (Gallo & Sveen, 1991; Verbeke & Kano,
111 2010, 2012) clashes with the need that interna-
112 tionalizing firms are said to have for managers with
113 knowledge of foreign countries. These are typically
114 not found within the owner's family (Graves &
115 Thomas, 2006; Gomez-Mejia et al., 2010). Selling
116 abroad is also thought to necessitate investments
117 that are too large to be internally funded and hence
118 require funding from non-family sources, such as

external shareholders, banks, or venture capitalists. 119
Recourse to these external parties is typically 120
shunned by families eager to keep control (San- 121
chez-Bueno & Usero, 2014). 122

It is clear that these arguments apply mostly to 123
family-managed SMEs as we would expect large 124
family-owned firms to have typically surmounted 125
these problems by hiring professional managers 126
and by opening themselves to outside shareholders 127
(Verbeke & Kano, 2012). In this article, we therefore 128
focus on SMEs. 129

The results of empirical studies on the impact of 130
family governance on internationalization are 131
mixed. Some qualitative studies have shown that 132
family-managed SMEs exhibit a low propensity to 133
sell abroad (e.g., Thomas & Graves, 2005), while 134
others have uncovered the opposite (e.g., Marinova 135
& Marinov, 2017). While most large-scale empirical 136
studies comparing the internationalization of fam- 137
ily firms to that of non-family firms have found 138
that family firms are less internationalized than 139
non-family firms (e.g., Fernández & Nieto, 140
2005, 2006; Graves & Thomas, 2006; Gomez-Mejia 141
et al., 2010; Majocchi & Strange, 2012; Arregle, 142
Naldi, Nordqvist, & Hitt, 2012; Calabrò, Torchia, 143
Pukall, & Mussolino, 2013; Pukall & Calabrò, 2014; 144
Scholes, Mustafa, & Chen, 2015; D'Angelo, Majoc- 145
chi, & Buck, 2016), some have found the reverse 146
(Carr & Bateman, 2009; Zahra, 2003), while a third 147
group (Sciascia, Mazzola, Astrachan, & Pieper, 148
2012; Liang, Wang, & Cui, 2014) has uncovered 149
an inverted-U relationship between family gover- 150
nance and internationalization. A recent meta- 151
analysis of these empirical findings comes to the 152
conclusion that "the association between firm's 153
ownership (i.e., family vs non-family) and interna- 154
tionalization is null" (Arregle et al., 2016: 23). 155

The latest thinking is that this lack of robust 156
findings may be caused by heterogeneity within 157
family firms (e.g., Chua, Chrisman, Steier, & Rau, 158
2012; Arregle et al., 2016). Rather than comparing 159
family firms with non-family firms dichotomously, 160
scholars have suggested measuring family involve- 161
ment continuously, for example, by the share of 162
family members in top managerial positions (e.g., 163
Cerrato & Piva, 2012; Liang, Wang, & Cui, 2014). 164
They have also advised to look at the factors that 165
may moderate the relationship between family 166
governance and performance. Arregle et al. (2012) 167
and Majocchi and Strange (2012), for example, 168
argue that having non-family members as owners 169
or as members of the board of family firms has a 170
positive impact on their internationalization; 171



Author Proof

172 Calabrò, Campopiano, Basco, and Pukall (2017)
 173 focus on the impact of the owner's international
 174 entrepreneurial orientation; and Kano and Verbeke
 175 (forthcoming) show that the extent and forms
 176 taken by internalization hinge on the degree to
 177 which family firms are subject to a bifurcation bias
 178 (i.e., on the extent to which they afford preferential
 179 treatment to family members and to resource
 180 bundles to which they attach positive emotional
 181 value).

182 In this article, we consider another source of
 183 heterogeneity within family firms, the type of
 184 business model pursued (Hennart, 2014). We con-
 185 tend that the argument that family SMEs are less
 186 likely to internationalize rests on the widely shared
 187 assumption in the IB literature that selling abroad
 188 requires specialized managerial expertise and more
 189 resources than selling at home because products
 190 need to be adapted to each foreign target market
 191 and manufactured abroad (Arregle et al., 2012;
 192 Gomez-Mejia et al., 2010). Internationalization of
 193 this type is difficult for family-managed SMEs
 194 because it forces them to take in outside managers
 195 with the requisite expertise and to dilute their stake
 196 to acquire additional capital. But just like firms
 197 faced with high market transaction costs may
 198 decide to switch to hierarchical organization, we
 199 would expect some family-managed SMEs faced
 200 with the difficulties inherent in this type of inter-
 201 nationalization to switch to business models that
 202 better fit their resources. One such business model
 203 is one based on global product niches. As we will
 204 show, the foreign sale of niche products differs
 205 substantially from that of mass-market products.
 206 Buyers of niche products tend to have more
 207 homogeneous tastes and a more price-inelastic
 208 demand curve. Hence, sellers of niche products do
 209 not have to adapt their products to each target
 210 country and locate production there, but can
 211 instead serve foreign markets through exports.
 212 Selling niche products abroad thus makes less
 213 demand on those resources—experienced interna-
 214 tional managers and external capital—that family
 215 firms have in short supply. At the same time, it
 216 requires a long-term orientation and extensive
 217 social capital, which family-managed firms usually
 218 have. Hence, while we would expect family-man-
 219 aged SMEs to be on average less internationalized
 220 than non-family firms, following global niche
 221 business models may allow them to compensate
 222 for this disadvantage.

We test this hypothesis on a large sample of SMEs
 based in four European countries. Our results are
 supportive, as we find that while family-managed
 SMEs tend to be less internationalized on average
 than non-family firms, those that follow global
 niche business models tend to be more interna-
 tionalized than those that do not.

We make both theoretical and methodological
 contributions. On the theory side, we show that the
 type of internationalization strategy used is an
 important factor that needs to be taken into
 account when explaining the internationalization
 performance of family-managed SMEs. Specifically,
 we show that a global niche business model is
 compatible with the capabilities and resources of
 these firms. Failure to allow for the diversity of
 business models used by firms may explain the
 mixed empirical results noted above.

On the methodology side, most past studies of
 the impact of family governance on international-
 ization have relied on single country samples. This
 makes it difficult to generalize if, as Arregle et al.
 (2016: 16) argue, the relationship between family
 management and internationalization is affected
 by a country's institutional context. Our sample
 pools 9,214 SMEs in four European countries,
 allowing us to control for home country effects.
 Previous studies have also measured a firm's degree
 of internationalization by the ratio of its foreign
 sales to total sales (FSTS), a measure that has been
 heavily criticized (Arregle et al., 2012; Hennart,
 2011). We use instead a gravity model and show
 that it is a finer-grained measure of international-
 ization. We also deal with endogeneity caused by
 the fact that actors do not randomly choose
 between family and non-family governance (Dem-
 setz & Lehn, 1985; Villalonga & Amit, 2010).

Arregle et al. (2016) stress the importance of
 carefully measuring both internationalization and
 family management. Hence, in the next section, we
 explain how gravity models provide a more com-
 prehensive measure of internationalization than
 the usual ones, such as FSTS. Next we argue that the
 main impact of family governance on internation-
 alization comes from family involvement in man-
 agement and hence that our main independent
 variable should measure that involvement. We
 then develop our hypotheses, followed by our
 methods and our results. We conclude by restating
 our contribution and suggesting directions for
 further research.



THEORY AND HYPOTHESES

277 Measuring Internationalization

278 Asking whether family governance stimulates or
 279 impairs internationalization is asking whether
 280 family firms are efficiently exploiting their inter-
 281 nationalization potential. A firm that does will
 282 respond to opportunities offered by foreign mar-
 283 kets by selling in each market the optimal amount
 284 as defined below. A firm that fails to sell in some
 285 potentially profitable foreign markets does not
 286 have the right internationalization breadth; one
 287 that sells in these markets below the optimal
 288 amount does not have the right internationaliza-
 289 tion depth. Neither fully exploits its internation-
 290 alization potential. For example, if a firm can
 291 profitably sell \$50 million in China, we would
 292 consider it below its internationalization potential
 293 if it had no sales in that country or sold only \$10
 294 million.

295 FSTS, the ratio of foreign sales to total sales, has
 296 been used to measure internationalization in most
 297 studies (Zahra, 2003; Thomas & Graves, 2005;
 298 Fernández & Nieto, 2006; Gomez-Mejia et al.,
 299 2010; Sciascia et al., 2012; Arregle et al., 2012;
 300 Cerrato & Piva, 2012; Calabrò et al., 2013; Segaro,
 301 Larimo, & Jones, 2014; Sanchez-Bueno & Usero,
 302 2014). FSTS has four main limitations (Verbeke &
 303 Forootan, 2012). First, it is a ratio, and hence is
 304 likely to be affected by changes in both the
 305 numerator (foreign sales) and denominator (do-
 306 mestic plus international sales), raising the possi-
 307 bility that changes in FSTS are due to changes in
 308 domestic sales only. Second, it may reflect the
 309 internationalization of different stages of the value
 310 chain. Third, it measures internationalization
 311 depth, but not its breadth. Consider a firm located
 312 in Basel that sells half of its output in its home
 313 country, Switzerland, and the other half to German
 314 customers just across the border. The breadth of
 315 internationalization of such a firm is very low
 316 because all of its foreign sales go to only one
 317 country. Yet this firm's FSTS is exactly the same as
 318 that of another Swiss firm that would sell half of its
 319 output in twenty foreign countries located in all of
 320 the world's continents. FSTS is therefore a very
 321 blunt measure of the real extent of international-
 322 ization because it does not tell us the breadth of a
 323 firm's foreign sales (Hennart, 2011), which is
 324 measured both by the number of countries where
 325 the firm sells and by their distance (geographic,
 326 psychic) to the firm's home country, another
 327 dimension of internationalization missed by FSTS.¹

Conversely, measuring the degree of international- 328
 ization by the number of countries in which a firm 329
 sells, as in Zahra (2003), fails to account for 330
 internationalization depth because with this mea- 331
 sure a firm with small subsidiaries in ten countries 332
 making each negligible sale has the same level of 333
 internationalization as one with substantial manu- 334

facturing plants in the same ten countries. 335
 Gravity models have many advantages in this 336
 regard. First, they consider the level of foreign sales, 337
 not its ratio to total sales, and hence the measure is 338
 unaffected by domestic sales. Second, gravity mod- 339
 els simultaneously capture both the breadth and 340
 depth of internationalization. Third, they take into 341
 account the distance of foreign sales, that is the 342
 extent to which they go to geographically and 343
 psychically distant countries. 344

Gravity models predict what a firm's sales to a 345
 country or region should be, given the sales potential 346
 of that region and the costs involved in taking 347
 advantage of that potential. IB scholars have suc- 348
 cessfully used gravity models to predict a country's 349
 international trade and investment flows (for a 350
 review see Zwinkels & Beugelsdijk, 2010). Newton's 351
 famous law of gravity states that the attraction 352
 between two objects is proportional to their mass 353
 and inversely proportional to their distance. By 354
 analogy, it makes sense to see economic transactions 355
 between two countries as depending on the eco- 356
 nomic size of the countries, typically measured by 357
 their GDP, and on the distance between them 358
 (Tinbergen, 1962). Distance generates both objective 359
 and subjective costs that lower the profitability of 360
 doing business and hence reduce flows. Geographic 361
 distance increases the costs of transporting goods 362
 and services and hence reduces the optimal level of 363
 sales. Likewise, differences in language, political 364
 systems, religion, education, culture, and economic 365
 development hinder the flow of information 366
 between home and target countries, increase the 367
 costs of negotiating with foreign trade partners, 368
 make it more difficult to understand local business 369
 customs and regulations, require adapting products 370
 to local conditions, increase the cost of monitoring 371
 foreign employees, and hence may, everything else 372
 remaining constant, decrease the flow of goods 373
 across countries (Dow & Karunaratna, 2006). 374

Following previous economic studies applying 375
 gravity models at the firm level (Head & Mayer, 376
 2014), we model a firm's absolute value of foreign 377
 sales in a foreign region as dependent on the 378
 economic size of that region, on its geographic and 379
 psychic distance from the firm's home country, and 380

Author Proof



381 on firm characteristics such as its size, age, business
 382 model, and type of governance. Thus, everything
 383 else remaining constant, we expect that, for a firm
 384 based in France, sales to the China/India region will
 385 be larger than those to Central and South America
 386 because the economic size of the China/India region
 387 is larger than that of Central and South America.
 388 Similarly, foreign sales will be lower, *ceteris paribus*,
 389 the larger the geographic and psychic distances to
 390 the target region. We also expect that a firm's
 391 absolute level of foreign sales will be higher the
 392 larger the firm and, if selling abroad requires expe-
 393 riential knowledge, as argued by the Uppsala model
 394 (Johanson & Vahlne, 1977, 2009), the older it is. By
 395 entering in a gravity model the extent to which a
 396 firm is family-managed, we are able to measure how
 397 this impacts the absolute level of foreign sales to a
 398 given region when holding all target region charac-
 399 teristics—such as their economic size and their
 400 geographic and psychic distance to the firm's home
 401 country—as well as other firm level characteristics—
 402 size, age, etc.—constant. In other words, a gravity
 403 model allows us to test whether family management
 404 makes foreign sales deviate from their optimum
 405 level, with a positive coefficient telling us that family
 406 management has a positive impact on foreign sales
 407 to a given region—keeping constant all other factors
 408 that may influence the level of such sales—and a
 409 negative one that it causes firms to be below their
 410 internationalization potential.

411 Defining Family Firms

412 The firm internationalization literature has used
 413 various definitions of family firms. Clearly there must
 414 be a substantial level of family ownership. However,
 415 as many scholars have noted (e.g., Arregle et al., 2016;
 416 Verbeke & Kano, 2012; Sciascia & Mazzola, 2008),
 417 what is distinctive about family firms is that, in
 418 contrast to firms with dispersed ownership, their
 419 managers have family-centered goals which confer
 420 unique characteristics to their strategies (Carney,
 421 2005). The implementation of such family-centered
 422 goals is facilitated if family owners take an active role
 423 in management. Hence, along with Zahra (2003),
 424 Arregle et al. (2016), and Gomez-Mejia et al. (2010),
 425 we consider family-managed firms, i.e., firms in
 426 which family members have substantial ownership
 427 and take an active role in management.

428 What then are the differences between family-
 429 managed firms and other types of firms—firms with
 430 dispersed ownership and family firms run by non-
 431 family managers—that may affect their business
 432 model?

In family-managed firms, owners are also man- 433
 agers. This solves, at least in part, the principal- 434
 agent problem that arises in non-family firms when 435
 hired managers, with limited or no ownership, 436
 manage the firm (Jensen & Meckling, 1976). 437
 Another important implication is that in firms 438
 with dispersed ownership owners seek to maximize 439
 profits so as to be able to spend them in the private 440
 consumption sphere. In contrast, owners who are 441
 also managers are in a position to indulge in on- 442
 the-job consumption. In other words, they can use 443
 the firm's profits to satisfy their personal prefer- 444
 ences (Demsetz & Lehn, 1985).² Le Breton-Miller 445
 and Miller note that one frequent preference is an 446
 "attachment to a substantive (i.e., nonfinancial) 447
 mission or craft that a family has long embraced 448
 and come to take pride in" (2006: 737). Keeping a 449
 good reputation is one of these nonfinancial goals,³ 450
 and it often takes the form of selling products of 451
 high quality. Typical is this quote from Andrea Illy, 452
 CEO of Illycaffè S.p.A., one of the world's top 453
 quality coffee manufacturer: "When grandfather 454
 Francesco founded the company he wanted to sell 455
 the best coffee in the world, and we are still 456
 working on it" (Forbes, 2013). Koiranen (2002) 457
 asked the leaders of centenary Finnish family firms 458
 to rank the values that guided their behavior. 459
 Quality in products and activities was ranked 4th, 460
 topped only by honesty, credibility, and obeying 461
 the law, and far and away above economic return to 462
 owners (which was ranked 39th). 463

Second, the income of family members in family- 464
 managed firms jointly depends on firm success. 465
 This can impart greater cohesion within the man- 466
 agement team. Monitoring managers can also be 467
 easier in family-managed firms than in firms 468
 employing professional (non-family) management 469
 because in family-managed firms economic rela- 470
 tionships are entwined with personal ones, and 471
 hence a wider range of sanctions is available to 472
 discipline errant managers: they can, for example, 473
 be ostracized (Pollak, 1985). Mutual monitoring is 474
 also facilitated by the fact that managers in family- 475
 managed firms are family members, and hence are 476
 better known to each other than external hires. The 477
 dominant HRM culture in family-managed SMEs is 478
 one of paternalism, in which leaders treat their 479
 employees as family (Dyer, 1988; Pellegrini & 480
 Scandura, 2006). The latter generally reciprocate 481
 with a high degree of commitment (Miller & Le 482
 Breton-Miller, 2003). 483

Third, many family-managed firms bear the 484
 name of the family (Feldman, Amit, & Villalonga, 485



Author Proof

486 2016). This identification between family and firm
 487 makes it more likely that the firm’s leaders will seek
 488 to uphold a good reputation (De Massis, Kotlar,
 489 Mazzola, Minola, & Sciasca, 2016). It also makes it
 490 possible to use the personal reputation of family
 491 members for business purposes, thus facilitating the
 492 accumulation of social capital. Reputation can also
 493 be passed on across generations, which further
 494 facilitates that accumulation (Arregle, Hitt, Sirmon,
 495 & Very, 2007). It is therefore not surprising that
 496 researchers have found that family-managed firms
 497 benefit from a better reputation than other types of
 498 firms (Deephouse & Jaskiewicz, 2013).

499 Fourth, owners–managers of family firms often
 500 wish to pass on their firm to successive generations.
 501 They tend therefore to maximize in the long run,
 502 avoid sharing control with others, and reserve
 503 management positions for family members (Ver-
 504 beke & Kano, 2012).

505 The disadvantages of family managed firms are
 506 the flip side of some of their advantages. The fact
 507 that in family-managed firms owners manage the
 508 firm may lead them to aim for high-quality prod-
 509 ucts and for a strong reputation, but also to indulge
 510 in other preferences which may negatively impact
 511 profit and survival—what has been called the self-
 512 control issue (Schulze, Lubatkin, Dino, & Buch-
 513 holtz, 2001). Joint ownership and management by
 514 family members, while it results in high cohesion,
 515 makes family firms more vulnerable to personal
 516 conflicts between family members. Affective ties
 517 between family members may also discourage
 518 mutual discipline (Dyer, 2006; Verbeke & Kano,
 519 2012). Preference for selecting managers from
 520 within the family may reduce both the quantity
 521 and the quality of the managerial talent pool
 522 available. The desire to keep control within the
 523 family limits access to outside capital, and hence
 524 curtails the range of feasible business models.

525 Family Firms and Internationalization

526 Johanson and Vahlne (1977, 2009) have argued
 527 that there are large differences between countries in
 528 “business climate, cultural patterns, structure of the
 529 market system, and characteristics of the individual
 530 customer firms” (Johanson & Vahlne, 1977: 26). A
 531 firm wanting to sell abroad needs to learn about
 532 these differences. However, such knowledge is
 533 experiential, in the sense that the only way to
 534 accumulate it is by operating in the foreign country
 535 (Johanson & Vahlne, 1977, 2009). Firms that lack
 536 this country-specific knowledge will not be able to

successfully sell abroad unless they can hire exper- 537
 ienced managers from the outside. 538

Because of this need for managers with special- 539
 ized skills, and because of the unwillingness of 540
 family-managed SMEs to hire them on the outside, 541
 family firm internationalization scholars (see the 542
 surveys by Kontinen & Ojala, 2010, Fernández & 543
 Nieto, 2013 and Pukall & Calabrò, 2014) have 544
 predicted that family-managed firms will sell less 545
 abroad than non-family firms. Graves and Thomas 546
 (2006: 210–11), for instance, argue that differences 547
 between domestic and foreign markets in 548

customer attitudes, business practices, distribution channels, 549
 languages, marketing strategies and exporting documenta- 550
 tion and procedures will often require employing outside 551
 expertise and/or the training of the current management 552
 team. However, compared to non-family business, others 553
 have found that family businesses are less likely to hire 554
 nonfamily “professional” managers because of founders’ 555
 reluctance to relinquish control (Boeker & Karichalil, 2002; 556
 Davis & Harveston, 1999), their entrenched nepotism (Kets 557
 de Vries, 1996), and their preference for privacy (Gersick, 558
 Davis, Hampton, & Lansberg, 1997). Family businesses are 559
 also less likely to put their management through regular 560
 formal training (Cromie, Stephenson, & Montieth, 1995). 561

Banalieva and Eddleston (2011: 1065) similarly 562
 write that “family leaders, who are quasi-automat- 563
 ically selected from a narrow pool of family mem- 564
 bers, often do not have the expertise needed to 565
 address new challenges imposed by distant global 566
 environments.” And Liang, Wang and Cui (2014: 567
 129) state that “firms with high levels of family 568
 involvement in management tend not to have 569
 incentives to hire outside managers and as a result 570
 lack the necessary managerial resources and capa- 571
 bilities required for international expansion.” 572

In addition to managers with country-specific 573
 experience, selling abroad is thought to require 574
 substantial additional capital because of the need to 575
 adapt products to foreign customers and to set up 576
 production and distribution facilities in each target 577
 country. Foreign operations may also have to be 578
 subsidized until the firm learns how to adapt to 579
 foreign conditions. Arregle et al. (2012: 1118), for 580
 example, write that “internationalization requires 581
 extensive financial... resources, especially to over- 582
 come the ‘liability of foreignness’, which stems 583
 from doing business in unknown markets.” Yet 584
 family-managed firms are said to be unwilling to 585
 seek external funding for their internationalization 586
 because it dilutes family ownership and gives power 587
 to outside investors. Sanchez-Bueno and Usero 588
 (2014), for instance, write that 589



590 Family firms are reticent to open up financially to the
 591 outside because it could compromise their independence
 592 (Basly, 2007), but entering new markets requires firms to
 593 avail themselves of financial resources. Such resources are
 594 often scarce in family-owned firms... because such firms
 595 depend mainly on internal funding and avoid the use of
 596 external financial resources that may be obtained by access-
 597 ing capital markets or incurring debt (Claver et al., 2009;
 598 Gallo et al., 2004; Gomez-Mejia et al., 2011; Fernández &
 599 Nieto, 2006; Muñoz-Bullon & Sanchez-Bueno, 2012). Family
 600 firms avoid using external financing because it is often seen
 601 as a factor that could increase the risk to both financial and
 602 socioemotional wealth, and it allows keeping authority and
 603 power in the hands of family members. (Gomez-Mejia et al.,
 604 2011).

605 Similar arguments are made by Graves and Thomas
 606 (2006: 210) for whom family-managed firms “lack
 607 the financial resources required for international
 608 growth” and by Gomez-Mejia et al. (2010: 229) who
 609 write that “international diversification requires
 610 more external funding than domestic diversifica-
 611 tion. Dilution of family holdings, in turn, transfers
 612 more real or perceived power to outside investors,”
 613 something the family firm will resist.

614 In sum, because scholars believe that family-
 615 managed firms do not have—and are unwilling to
 616 acquire—the type of managers and the funds
 617 needed for international expansion, they will have
 618 fewer foreign sales than non-family firms. Hence,
 619 our first hypothesis is

620 **H1:** Keeping constant all other factors that
 621 affect foreign sales, family-managed firms will
 622 have fewer foreign sales than other types of firms.

623 Business Models and Internationalization

624 Why has the family-firm literature argued that
 625 selling abroad requires specialized managers and
 626 substantial investments? This is because, as we have
 627 shown, it has assumed along with Graves and
 628 Thomas (2006: 210) that firms eager to sell abroad
 629 must make considerable investments in advertising
 630 their products, must adapt them to “differences
 631 between domestic and foreign markets in customer
 632 attitudes, business practices, distribution channels,
 633 languages, regulations, and exporting documenta-
 634 tion and procedures,” and must set up production
 635 and service facilities in the countries in which they
 636 want to sell (Johanson & Vahlne, 1977, 2009).
 637 Hence, these firms require specialized managers
 638 with cross-cultural skills (Bartlett & Ghoshal,
 639 1998)—typically unavailable inside the family—
 640 and considerable investments, only available from
 641 outside sources (Fink & Kraus, 2007). Given the
 642 reluctance of family-managed SMEs to hire

internationally qualified outside managers and to
 seek outside capital, it is easy to see why they would
 have difficulty internationalizing.

But is it true that firms always need to have
 internationally experienced managers and to make
 huge investments to sell abroad? Hennart (2014)
 argues that the level and type of resources necessary to
 sell abroad depends on the firm’s business model. He
 lists the tasks a firm wanting to sell its product abroad
 must perform—identify their likely customers, per-
 suade them to buy, adapt the product to their tastes
 and environments, provide them with repair and
 after-sales service (and sometimes credit), and bring
 the product within their reach. He shows that how
 much time, expense, and specialized skills this
 requires depends on the business model used. Take
 the case of Volvo, one of the firms whose interna-
 tionalization experience forms the basis of the Upp-
 sala internationalization model (Johanson &
 Wiedersheim-Paul, 1975). When entering foreign
 countries, Volvo does not fully know which cus-
 tomers might be attracted to its cars and why. The
 firm must therefore undertake market research to
 identify likely customers and to be able to contact
 them, and—through mass advertising and a network
 of local dealers—persuade them to buy its cars. Local
 dealers are also needed to provide advice and make
 repairs. In addition, because of country-level differ-
 ences in road conditions, air pollution regulations,
 and consumer tastes, Volvo needs to adapt its cars to
 each foreign country. As argued by Johanson and
 Vahlne (1977), the knowledge required for this
 adaptation comes from actual experience in the
 specific country. High transportation costs and trade
 barriers make it also often necessary for sellers of mass-
 market goods such as Volvo to manufacture their
 products close to their foreign customers. In sum, to
 sell abroad Volvo must rely on managers with cross-
 cultural skills and make substantial investments.

Contrast this with a firm selling high-quality
 niche products and services. Niche products are
 unique products that serve specialized needs and
 cater to particular tastes (Toften & Hammervoll,
 2013). The source of the uniqueness can be
 advanced technology—such as specialized software
 (e.g., Bell, 1995)—artistic design and high-quality
 workmanship, as in the case of clothing, textiles,
 and furniture (e.g., Falay, Salimaki, Ainamo, &
 Gabrielsson, 2007)—or high-quality ingredients
 (often linked to specific provenance), as in the case
 of food (e.g., Evers, 2010). Global niche products
 and services are generally expensive and appeal to a

Author Proof

↓

↓

↓



Author Proof

695 subset of knowledgeable customers dispersed
696 throughout the world. We show below why firms
697 that sell such products are likely to have high
698 foreign sales.

699 The first reason why firms selling high-quality
700 global niche products are likely to have higher
701 foreign sales, at a given size and age, than those
702 selling mass-market products, is that customers of
703 niche products are likely to be more geographically
704 dispersed than those of mass-market products. In
705 other words, a higher proportion of them are likely
706 to be located outside the selling firm's home
707 country. Take the case of exercise bikes. Assume,
708 for the time being, that the minimum efficient
709 scale (MES) to manufacture such bikes is 20,000
710 units and assume away for the time being shipping
711 costs and the costs of adapting products to foreign
712 markets. Now consider the Ciclotte, a luxury exer-
713 cise bike made in Bergamo, Italy. In contrast to
714 mass-market exercise bikes that are not particularly
715 attractive, the Ciclotte is beautifully designed and is
716 made of high-quality carbon fiber; it fits well in a
717 high design bedroom, living room, or office.
718 Depending on the version, it retails for \$10,000 to
719 \$13,000. Clearly this is not a mass-market product,
720 and its high quality and high price restrict its
721 appeal to a subset of affluent individuals—potential
722 Ciclotte customers are perhaps one in a million.
723 This means that, with 60 million Italians, Ciclotte
724 will sell 60 bikes in Italy and, given our assumed
725 MES of stationary bike manufacturing, must find
726 the remaining 19,940 customers outside Italy. On
727 the other hand, if we make the reasonable assump-
728 tion that one in a thousand Italians will purchase a
729 standard exercise bike retailing at around \$700,
730 then there are 60,000 potential buyers for standard
731 bikes in Italy. Even if our standard bike maker is
732 sharing the market with another firm, it will be able
733 to reach MES (20,000 bikes) without having to sell a
734 single bike abroad.

735 Hence, a substantial share of customers for high-
736 quality niche products like the Ciclotte is likely to
737 be located outside of the manufacturer's home
738 base. But can a high-quality niche firm like the one
739 making the Ciclotte sell profitably to these foreign
740 customers? One can think of three main challenges
741 to selling abroad, and we can show that, while they
742 are significant in the case of mass-market products,
743 they do not cause major problems to sellers of high-
744 quality niche products.

745 The first challenge is to make customers aware of
746 one's offerings. Mass-market products typically
747 have substitutes, and the firm expanding abroad

748 must persuade foreign consumers to buy its prod-
749 ucts rather than those of competitors. This is less of
750 a problem for niche products, as they have few or
751 no direct substitutes (Kotler, 2003). Furthermore,
752 and in contrast to customers of mass-market prod-
753 ucts, buyers of niche products—luxury products
754 like the Ciclotte or specialized BtoB products like
755 specialized software or machinery—tend to belong
756 to communities of knowledgeable users who
757 exchange information on preferred suppliers and
758 on their offerings. As a result, consumers of niche
759 products will generally seek out sellers, allowing the
760 latter to spend relatively little on market research,
761 advertising, and sales promotion (Hennart, 2014).
762 Marinella, a third generation Italian family firm
763 known for its high-quality silk ties, “sells \$4.5
764 million a year worth of neckties without spending a
765 cent on advertising” (Businessweek, 2009).

766 A second potential challenge to firms selling
767 abroad is having to adapt the marketing mix to
768 country-specific differences. This is a costly propo-
769 sition that seriously limits foreign sales (Levitt,
770 1983). However, in contrast to customers of mass-
771 market products, buyers of high-quality niche prod-
772 ucts have needs and tastes that are specific to their
773 industry or to their social status and lifestyles, but
774 not to the country in which they are located, thus
775 minimizing the need for country-specific marketing
776 mix adaptations (Fan & Phan, 2013). This is the case
777 for all niche buyers, whether they are buying highly
778 technical products—such as oil prospecting software
779 (Bell, 1995) or radar technology (Boter & Holmquist,
780 1996)—or just high-quality ones, such as top-quality
781 seafood (Evers, 2010).

782 The last challenge facing firms selling abroad is
783 that of delivering the product to the customer. The
784 costs of shipping products to geographically distant
785 customers are likely to be high. This is why manu-
786 facturers of mass-market products generally set up
787 costly foreign production facilities rather than
788 export. High-quality niche products like the Ciclotte
789 have few substitutes, and hence their demand is very
790 inelastic. This means that Ciclotte customers will be
791 more willing to absorb shipping costs than those of
792 ordinary exercise bikes. This makes it possible for
793 Ciclotte to serve its customers by exporting from its
794 home base without the need for foreign production
795 facilities, which are costly to set up and need to be
796 managed by staff with cross-cultural skills. Indeed,
797 exporting from the home base makes sense for high-
798 quality niche firms, since provenance is often crucial
799 to the appeal of the product.⁴ Bulthaup, a 500-em-
800 ployee, third generation, German family firm



801 making high-quality kitchen furniture generates
802 over 80% of its turnover abroad, and everything is
803 exported from its German factory (German Design
804 Council, 2014).

805 For all these reasons, one would expect, every-
806 thing else remaining constant, that selling abroad
807 quality niche products would not require the
808 country-specific expertise and substantial external
809 financial resources required for mass-market prod-
810 ucts. While customers of high-quality niche prod-
811 ucts may be fewer in number and more
812 geographically dispersed than those of mass-market
813 products, the cost of selling to them is much lower.
814 As a result, keeping a firm's age and size constant, a
815 firm that focuses on high-quality niche products
816 and services will have a higher volume of foreign
817 sales than one selling lower quality mass-market
818 goods. Hence, our second hypothesis is

819 **H2:** Keeping constant all other factors that
820 affect foreign sales, firms selling high-quality
821 niche products will have more foreign sales than
822 firms selling lower quality products and services.

823 Quality Niche Products and Family-Managed 824 Firms

825 We have seen that a greater share of the customers
826 of high-quality niche products are likely to be
827 foreign than in the case of mass-market products,
828 but that the cost of serving them is likely to be less.
829 To sum up, firms that sell high-quality niche
830 products will be able to serve their customers
831 through exports rather than through foreign pro-
832 duction subsidiaries, thus reducing the need for
833 managers with cross-cultural skills and for a signif-
834 icant amount of external capital. High quality
835 niche products require less marketing support and
836 less country-specific adaptation, thus again less
837 capital and fewer internationally experienced man-
838 agers. Hence, the argument that family-managed
839 firms will not internationalize because interna-
840 tional expansion requires hiring non-family man-
841 agers and diluting the stake held by the family does
842 not apply to family firms that pursue business
843 models based on high-quality niche products and
844 services. Family-managed firms that sell such prod-
845 ucts can therefore expand abroad with less capital
846 and fewer internationally experienced managers
847 than those that sell less distinctive mass-market
848 products.

849 While they allow for easy internationalization,
850 niche business models have one disadvantage. The
851 firms that follow them run the risk of being evicted

852 from their product space by large firms with greater
853 resources (Shani & Chalasani, 1992). To defend
854 against this, niche players typically use two isolat-
855 ing mechanisms (Rumelt, 1984): they continuously
856 improve their product to maintain its uniqueness,
857 and they establish strong relationships with their
858 customers. In the next paragraphs we argue that
859 family-managed firms should be particularly good
860 at implementing these isolating mechanisms. Con-
861 sequently, the positive impact of niche business
862 models on foreign sales will be particularly strong
863 in family-managed firms.

864 Superior quality contributes to product unique-
865 ness, and hence protects the product against com-
866 petitors. This is summarized by the CEO of Flexi, a
867 German family SME that has a 70% share of the
868 global market for retractable dog leashes: "we do
869 only one thing, but we do it better than anyone
870 else" (Simon, 2014) (see also Mascarenhas, 1999;
871 Zucchella & Palamara, 2006). This, however,
872 requires continuous upgrading. Babolat, a French
873 family firm, developed natural gut strings for tennis
874 racquets in 1875 and still sells them to professional
875 players. This SME of 340 employees, which exports
876 85% of its production, has continued to lead the
877 industry with technological innovations. In 2012,
878 it was the first to introduce a racquet with sensors
879 that can be used to analyze a player's movements
880 (Desmet, 2015; Couturier & Sola, 2014).

881 User feedback is crucial for this continuous
882 upgrading (Von Hippel, 1986). Maintaining high
883 quality and uniqueness is facilitated if the firm can
884 co-develop products with its customers—the motto
885 of Alfred Kaercher, a German family firm which is
886 the world leader in cleaning equipment is "we
887 convert customer problems into products" (Venohr
888 & Meyer, 2007: 21). The co-development of prod-
889 ucts with users requires that both parties be abso-
890 lutely sure that neither will disclose strategic
891 information to competitors. These close relation-
892 ships with customers, established through direct
893 personal contact, offer another isolating mecha-
894 nism (Fisher, 1991). They raise buyer switching
895 costs and are difficult for outsiders to imitate, as
896 they take years to cultivate.

897 Family governance is well suited to high product
898 quality and closeness to customers. Achieving high
899 quality—through superior design, superior produc-
900 tion processes, or advanced technology—requires a
901 consistency of purpose and cooperative relation-
902 ships with suppliers and customers. Managers of
903 firms with dispersed ownership are forced by their
904 shareholders to maximize the short-term financial



Author Proof

905 bottom line. They are often hired from other
 906 firms—and even other industries—and see their
 907 mission as “managing the firm,” with no particular
 908 attachment to its specific product or service, in
 909 contrast to leaders of family firms, who often have a
 910 craft mentality and are dedicated to the pursuit of
 911 high product quality (Le Breton-Miller & Miller,
 912 2006). The latter often socialize their children to
 913 whom they want to pass on the business in the
 914 pursuit of this value (Le Breton-Miller & Miller,
 915 2006; Carney, 2005). For Piero Antinori, the CEO of
 916 Antinori wines, a 26th generation family-managed
 917 firm producing high-quality wines, “... the small
 918 details, the obsession with quality—these are all
 919 things that stay within our DNA, and I hope I have
 920 been able to transfer them to my daughters and I
 921 hope they will pass them onto their children”
 922 (Wine Enthusiast, 2000). While managers of non-
 923 family firms may also have a passion for quality,
 924 CEOs of family-managed firms are in a unique
 925 position to sustain it over the long term since they
 926 are freer from pressures by external shareholders to
 927 maximize short-term returns (Aguilera & Crespi-
 928 Cladera, 2012; Carney, 2005).

929 There are also good reasons why family-managed
 930 firms should excel at developing the lasting bonds
 931 with suppliers and customers necessary to co-de-
 932 velop products with them. These bonds also protect
 933 niche players against customer defection to com-
 934 petitores. Establishing and maintaining these bonds
 935 requires stability, continuity, and consistency in the
 936 relationship (Nahapiet & Ghoshal, 1998). Family-
 937 managed firms can be particularly good at achieving
 938 this for the following reasons. First, the identifica-
 939 tion of firm with family in family-managed firms
 940 allows the latter to leverage the personal reputation
 941 of the managing family. In many family SMEs, the
 942 firm bears the name of the family. Any lapse in
 943 reliable behavior by the family firm directly impacts
 944 the personal reputation of the family. This provides
 945 strong incentives to owners–managers of family
 946 firms to conduct business in a reliable manner
 947 (Colli, 2011). This is in contrast to other types of
 948 firms where shorter tenure and weaker identification
 949 with the firm tends to uncouple the personal
 950 reputation of managers and employees from that
 951 of the firm in which they work, and where unreliable
 952 behavior by the firm causes less damage to the
 953 personal reputation of decision-makers (Child,
 954 Rodrigues, & Frynas, 2009).⁵ Establishing a good
 955 reputation takes time and repeated interactions
 956 (Coleman, 1990). The long tenure of family

members as managers of the firm and the passing
 957 of the baton to the next generation facilitates the
 958 building of social capital. Reputation is also a public
 959 good that is vulnerable to free-riding by all those
 960 sharing it. Family-managed firms have here a poten-
 961 tial advantage over non-family firms because in
 962 family-managed firms the family members who
 963 manage the firm are also its owners and hence have
 964 more to lose from damaging the firm’s reputation.
 965 As argued earlier, families have also a wider range of
 966 sanctions to ensure cooperation. The long tenure
 967 and the close relationships in family firms between
 968 the managing family and its employees also moti-
 969 vate all members of the firm to uphold its reputation
 970 (Miller & Le Breton-Miller, 2005; Simon, 2009). This
 971 is more difficult to instill in other types of firms
 972 where the identification of employees with the firm
 973 is harder to achieve (Pellegrini & Scandura, 2006;
 974 Miller & Le Breton-Miller, 2003). Lastly, reputation
 975 is vulnerable to last period defection, because a party
 976 who contemplates leaving the game has incentives
 977 to free ride. The desire of owners of family-managed
 978 firms to pass on their business to their progeny
 979 alleviates this problem because it extends the
 980 “shadow of the future” to the next generations
 981 (Richman, 2002). 982

In conclusion, we have shown that the limita-
 983 tions that affect family firms selling mass-market
 984 products overseas—lack of managers with interna-
 985 tional skills and limited access to finance—do not
 986 apply to those selling high-quality niche products.
 987 What the leaders of those firms need is an in-depth
 988 knowledge of the product, a commitment to
 989 upholding its quality, and an ability to forge long-
 990 term relationships with suppliers and customers.
 991 Owners–managers of family firms, raised in the
 992 business, and expecting a long tenure, are in a
 993 position to accumulate such knowledge, to have a
 994 commitment to high-quality, and to benefit from a
 995 valuable reputation that allows for trusting rela-
 996 tionships with customers and suppliers. Hence,
 997 while family-managed firms may not be good at
 998 selling abroad mass-market products, they have the
 999 potential to excel at selling high-quality niche
 1000 products in foreign markets. Consequently 1001

H3: Selling high-quality global niche products
 1002 moderates the relationship between family-man-
 1003 aged firms and foreign sales, such that the impact
 1004 of family management on foreign sales will be
 1005 less negative when family-managed firms opt for
 1006 high-quality global niche business models. 1007
 1008

1 = and are likely to have

2 = and services



1010

METHODS

1011 Data

1012 Most of our data derive from the European Firms in
 1013 a Global Economy (EFIGE) project, a survey sup-
 1014 ported by the European Union Commission.⁶ Data
 1015 given are for 2008. Our sample includes almost
 1016 10,000 firms from four different countries (Ger-
 1017 many, France, Italy, and Spain), with each country
 1018 accounting for a roughly equal share of the total
 1019 sample. Most firms are SMEs: only 1.20% of the
 1020 firms are quoted on stock markets, and they have
 1021 41 employees on average. Almost all of them
 1022 (96.8%) are in manufacturing. To increase the
 1023 homogeneity of the sample, we excluded the few
 1024 firms with more than 1000 employees (around
 1025 0.1% of the original sample), firms with less than
 1026 100,000€ in sales, and those with R&D expendi-
 1027 tures greater than revenues. We also excluded
 1028 foreign-owned firms, i.e., firms with more than
 1029 25% foreign ownership. We ended up with 9,214
 1030 firms for which we have complete information on
 1031 the independent variables.

1032 Dependent variable

1033 As in standard gravity models, we define our
 1034 dependent variable, *Foreign Sales*, as the natural
 1035 logarithm of a firm's foreign sales in each of eight
 1036 world regions in 2008. *Foreign Sales* measures the
 1037 value of goods and services sold abroad through
 1038 exports and foreign production. The EFIGE data file
 1039 includes detailed information on total revenues,
 1040 exports, and foreign production, which allows us to
 1041 calculate a firm's foreign sales in eight regions: (1)
 1042 the fifteen countries of the European Union (EU) in
 1043 2008; (2) other EU countries; (3) other non-EU

European countries; (4) China and India; (5) other 1044
 Asian countries; (6) the USA and Canada; (7) 1045
 Central and South America, and (8) other countries 1046
 (Africa and Australia). The maximum number of 1047
 observations available for the regression is 73,712 1048
 (9,214 firms x 8 regions) since our dependent 1049
 variable is a firm's sales in each of the eight regions. 1050
 There are 4,671 firms with positive foreign sales in 1051
 at least one of the eight regions. 1052

Main independent variables

1053 As recommended by Chua et al. (2012) and follow- 1054
 ing Cerrato and Piva (2012) and Liang, Wang, and 1055
 Cui (2014), we measured the extent to which the 1056
 firm is managed by the family (*Share Family Man-* 1057
agers) by the percentage of its top managers who are 1058
 members of the owning family. Respondents to the 1059
 EFIGE survey were asked the percentage and number 1060
 of managers (including middle-level managers) who 1061
 were related to the family owning the company and 1062
 those who were unrelated. This way of measuring 1063
 the family character of a firm, its 'familiness', has 1064
 specific advantages. First, it avoids the drawbacks of 1065
 using a dichotomous measure—family vs non-fam- 1066
 ily firms (Daily & Dollinger, 1993). Second, our first 1067
 hypothesis posits that one major limitation of 1068
 family-managed firms is that they overly rely on 1069
 internationally inexperienced family members, 1070
 while our third one argues that family members 1071
 have specific advantages in implementing quality- 1072
 focused business models. Both these hypotheses are 1073
 about family management, not ownership, since 1074
 family-owned firms could use internationally expe- 1075
 rienced outside managers. Consequently, a measure 1076
 of the extent to which family members are running 1077
 the firm is appropriate in our context. Table 1 1078

Table 1 Average values for sample firms

	FRA	GER	ITA	SPA	Full sample
Number of firms	2413	1901	2706	2194	9214
% firms in the sample	26.08	20.56	29.25	23.72	100
% family managers	0.30	0.38	0.64	0.35	0.47
Age	36.61	44.01	27.77	24.65	32.87
Employment	42.58	55.09	34.68	36.37	41.54
R&D/sales	2.70	3.78	3.87	3.13	3.52
Labor productivity (000 €)	103.19	147.36	146.14	89.71	129.21
Turnover (000 €)	6661.06	9702.54	6904.84	5744.20	7200.76
Product quality	83.10	93.23	79.97	89.37	85.55
% firms with foreign sales	0.41	0.42	0.62	0.47	0.51
Foreign sales (000 €)	3432.47	3042.39	3344.32	2030.94	3078.35

Notes % family managers is the sample average of the % of managers with family ties to the firm owner(s) over a firm's total number of managers. Foreign sales are average of total foreign sales (sum of sales across 8 regions): average is computed only on the sample of firms with foreign sales. Quality is measured in absolute values, since the country average is by definition equal to 1.



Author Proof

1079 reports average values for firms in the estimation
 1080 sample. In order to identify companies following a
 1081 niche business model we use data on the quality of
 1082 their products. High quality is an important com-
 1083 ponent of niche business models (Dalgic & Leeuw,
 1084 1994; Ward, Bickford, & Leong, 1996; Echols & Tsai,
 1085 2005). It allows a firm to differentiate its products
 1086 from those of competitors (Calantone & Knight,
 1087 2000) and has been used as a criterion to define
 1088 niche business models. Swaminathan (2001), in his
 1089 study of winemakers, identified niche players as
 1090 those with a reputation for high quality. The EFIGE
 1091 questionnaire asks respondents to rank the quality
 1092 of their own product between 0 and 100, with that
 1093 number representing the best product in the cate-
 1094 gory. We use this information to define a variable
 1095 that we label *Niche* and that measures self-reported
 1096 quality, taking into account a country's cultural
 1097 bias. We rescale self-reported quality by the relative
 1098 average quality of the country of origin to take into
 1099 account national differences in self-confidence. The
 1100 relative indicator of quality for firm *i* is measured as
 1101 follows:

$$Niche_{ic} = \frac{1/n_c \sum_c^C \text{quality}}{1/N \sum \text{quality}} * \text{quality}_{ic}$$

where the numerator is the average level of self- 1103
 reported quality in country *c*, and the denominator 1104
 the overall average level of quality across our four 1105
 countries (i.e., France, Germany, Italy, and Spain). 1106
 We enter *Niche* in natural logs. 1107

Table 2 compares the family-managed and non- 1108
 family managed SMEs in our sample. Family-man- 1109
 aged firms have lower sales and employment and 1110
 are generally older than non family-managed firms. 1111
 Total foreign sales are lower for family-managed 1112
 firms. The products of family-managed firms in 1113
 Germany and Italy (but not in France and Spain) 1114
 are of higher quality. 1115

Other gravity model variables 1116

Since we use a gravity model to estimate the effects 1117
 of family management and niche strategy on the 1118
 level of internationalization, we include the usual 1119
 gravity model variables, i.e., the economic size of 1120
 the target region (*GDP Destination Region*), mea- 1121
 sured by the natural log of each region real GDP in 1122
 2005 dollars at purchasing power parity (PPP) 1123
 exchange rates, and the geographic and psychic 1124
 distances between them. Geographic distance from 1125
 each home country to each region (*Geographic* 1126
Distance to Region) is the natural logarithm of the 1127

Table 2 Descriptive statistics by type of governance

	France			Germany		
	Non family	Family	Diff.	Non family	Family	Diff.
Age	30.69	40.87	-10.17*** (1.372)	41.97	45.56	-3.589 (3.016)
Employment	54.49	42.30	12.19*** (3.579)	97.37	59.96	37.41*** (8.484)
Turnover	9437.1	5477.5	3959.5*** (803.0)	28274.8	11114.7	17160.1*** (4725.1)
Product quality (Niche)	83.29	83.36	-0.0626 (0.540)	91.86	93.58	-1.720** (0.856)
Labor productivity	107.9	94.57	13.28*** (4.374)	234.0	145.6	88.44*** (31.98)
% firms with foreign sales	430	433	-0.00362 (0.0225)	484	405	0.0793** (0.0370)
R&D/sales	2.852	2.647	0.205 (0.263)	5.063	3.278	1.786*** (0.480)
Total foreign sales	5477.5	2845.8	2631.7** (1444.9)	6705.1	3010.8	3694.5*** (826.4)
	Spain			Italy		
	Non family	Family	Diff	Non family	Family	Diff
Age	24.50	25.94	-1.439 (1.042)	26.39	28.99	-2.604*** (0.900)
Employment	57.69	34.70	22.99*** (3.528)	50.83	37.86	12.97*** (3.077)
Turnover	12048.4	4753.2	7295.2*** (1117.8)	11460.9	8023.0	3437.9*** (972.6)
Product quality (Niche)	89.88	89.39	0.491 (0.582)	78.73	80.39	-1.653* (0.974)
Labor productivity	121.9	89.19	32.74*** (7.396)	153.6	147.4	6.234 (7.560)
% firms with foreign sales	508	489	0.0188 (0.0261)	619	644	-0.0249 (0.0219)
R&D/sales	3.313	3.089	0.223 (0.353)	3.916	3.868	0.0481 (0.316)
Total foreign sales	4907.1	1650.2	3256.9*** (791.0)	6585.1	4663.7	1921.4** (986.4)

Notes Family firms are those owned and managed by a family. Turnover and foreign sales in thousand euros. Foreign sales are average of total foreign sales (sum of sales across 8 regions): average is computed on the sample of firms with foreign sales. Labor productivity is value-added per employee (000 €). Column Diff. reports the differences between family and non-family. Standard errors of estimated mean difference are reported in parenthesis. Significance level: * 0.10 > *p* value, ** 0.05 > *p* value, *** 0.01 > *p* value.



Author Proof

1128 weighted sum of the great-circle distance from the
 1129 home country's largest city to the largest city of
 1130 each country included in a region, where the
 1131 weights are the share of each country's GDP to
 1132 the total GDP of the region (in dollars at PPP
 1133 exchange rates in 2000). We used the CEPII
 1134 GeoDist database (Mayer & Zignago, 2011).

1135 Following Dow and Karunaratna (2006), psychic
 1136 distance is measured along five dimensions: (1)
 1137 political systems, (2) religion, (3) language, (4)
 1138 education, and (5) per capita income at PPP. Data
 1139 for items (1), (2), (3) and (4) were taken from
 1140 Douglas Dow's website ([www.mbs.edu/home/dow/](http://www.mbs.edu/home/dow/research)
 1141 [research](http://www.mbs.edu/home/dow/research)). Item (1) is the single factor solution for
 1142 differences in political systems. Items (2), (3) and
 1143 (4) are three item factor scores for differences in
 1144 religion, language and education, respectively.⁷
 1145 Item (5) is a single item measure of differences in
 1146 economic development using per capita GDP at
 1147 PPP exchange rates for 2005 (IMF, 2012). We added
 1148 Hofstede's five dimensional measure of cultural
 1149 distance (Hofstede, 2001), and aggregated all five
 1150 elements using the Kogut and Singh's (1988) for-
 1151 mula. We calculated both psychic and cultural
 1152 distances for each target region by weighing each
 1153 item for each country by the share of each coun-
 1154 try's GDP to the total region GDP (in dollars at
 1155 PPP). Following Dow and Ferencikova (2010), we
 1156 combined our measures of psychic and cultural
 1157 distance into a single composite index of psychic
 1158 distance stimuli (*Psychic Distance to Region*) by tak-
 1159 ing the simple mean of these two measures.

1160 Control variables

1161 The literature has identified size and age as the
 1162 main determinants of an SME's volume of foreign
 1163 sales (Andersson, Gabrielsson, & Wictor, 2004).⁸
 1164 We therefore included the natural log of a firm's
 1165 age (*Age*) and number of employees (*Employment*) in
 1166 2008. Data are from the EFIGE database.⁹ Following
 1167 the literature in international trade (Bernard &
 1168 Jensen, 1999), we also included a firm's labor
 1169 productivity, measured by the natural log of its
 1170 value-added per worker (*Labor Productivity*). Value-
 1171 added is included in the EFIGE dataset and is equal
 1172 to revenues minus non-labor inputs minus depre-
 1173 ciation. We divided value-added by the number of
 1174 employees to obtain value-added per worker.
 1175 Finally, we entered the firm's R&D to sales ratio
 1176 (*R&D to sales*) to control for the impact of innova-
 1177 tion on foreign sales (Golovko & Valentini,
 1178 2011, 2014). Data were obtained from the EFIGE

1179 database. Because the level of transportation costs,
 1180 the degree of product adaptation, and the height of
 1181 tariff and non-tariff barriers vary systematically
 1182 across products and services, affecting the level of
 1183 foreign sales, we also included a dummy for the
 1184 industry of the firm's main product using the NACE
 1185 classification at the two-digit level.

1186 Estimation Procedure

1187 Most gravity models use its log-linear form (Head &
 1188 Mayer, 2014). However, the log transformation
 1189 requires that all variables be positive and different
 1190 from zero. Our dependent variable, the absolute
 1191 value of a firm's foreign sales to each of our eight
 1192 regions, is by definition always positive, but not
 1193 always different from zero since a large number of
 1194 firms do not have foreign sales in all the eight
 1195 regions. In fact 86% of our observations have a zero
 1196 value. We addressed this problem by adding 1 to all
 1197 observations for the dependent variable. Our com-
 1198 plete equation takes the following form:

$$\begin{aligned} \ln(\text{Foreign Sales})_{ij} = & \alpha_0 + \beta_1(\text{Share Family Managers})_i \\ & + \beta_2(\text{Niche})_i + \beta_3(\text{Share Family Managers})_i \\ & * (\text{Niche})_i + \beta_4 \ln(\text{GDP Destination Region})_i \\ & + \beta_5 \ln(\text{Geographic Distance to Region})_{ij} \\ & + \beta_6 \ln(\text{Psychic Distance to Region})_{ij} \\ & + \beta_7 \ln(\text{Employment})_i + \beta_8 \ln(\text{Age})_i \\ & + \beta_9 \ln(\text{Labor Productivity})_i \\ & + \beta_{10}(\text{R\&D to Sales})_i + \lambda_s + \phi_c + \varepsilon_{ij}, \end{aligned}$$

1200 where $\ln(\text{Foreign Sales})_{ij}$ is the natural logarithm of
 1201 the value of foreign sales of firm i to region
 1202 j (ranging from 1 to 8). The parameters β_{ij} are the
 1203 coefficients to be estimated, λ_s is a set of industry
 1204 dummies and ϕ_c a set of 4 country dummies, while
 1205 ε_{ij} is the usual error term.

1206 Since our dependent variable cannot take values
 1207 lower than zero and our sample contain a high
 1208 proportion of zeroes, we cannot use OLS. When the
 1209 dependent variable is censored the conditional
 1210 mean of the dependent variable is a nonlinear
 1211 function of the exogenous variables and an OLS
 1212 estimator would produce biased and inconsistent
 1213 coefficient estimates (Wiersema & Bowen, 2009).
 1214 Therefore we estimate our model with a Tobit
 1215 estimator and we set zero as lower bound (Bowen &
 1216 Wiersema, 2005). Table 3 reports the correlation
 1217 between the main continuous variables. The low
 1218 values of the correlation coefficients show that
 1219 multicollinearity is not a concern.



Table 3 Correlations (Obs: 9251)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
ln(Foreign sales) (1)	1							
Share family managers (2)	-0.026**	1						
ln(Age) ((3)	0.107**	0.01	1					
ln(Employment) (4)	0.27**	-0.26**	0.19**	1				
ln(Labor productivity) (5)	0.21**	-0.02**	0.04**	0.04**	1			
R&D/sales (6)	0.15*	-0.04**	-0.02**	0.05**	0.004	1		
Product quality (Niche) (7)	-0.03**	-0.04**	0.03**	0.06**	-0.03**	0.02**	1	
Divorce rate (8)	-0.16**	-0.28**	0.07**	0.03**	0.14**	-0.04**	0.0004	1

Note ** p value <0.05 , * $0.10 > p$ value.

Author Proof

1220 **RESULTS**
 1221 Family management is a form of firm governance.
 1222 Transaction cost economics (Hennart, 1982; Wil-
 1223 liamson, 1985) and property rights theory (Demsetz
 1224 & Lehn, 1985; Villalonga & Amit, 2010) tell us that
 1225 forms of governance—family-managed SMEs in our
 1226 case—are not randomly chosen, but are selected in
 1227 specific circumstances. If some of these circum-
 1228 stances also affect foreign sales, then our results
 1229 would be biased (Reeb, Sakakibara, & Mahmood,
 1230 2012). To control for this possible estimation bias,
 1231 we used an instrumental variable approach (Reeb
 1232 et al., 2012). We first estimated a firm’s share of
 1233 family members in management (*Share Family*
 1234 *Managers*) and then used these estimated values as
 1235 an instrument in our second-stage gravity equa-
 1236 tions. Since *Share Family Managers* is bounded at
 1237 both ends, we used a Tobit regression. A good
 1238 instrumental variable should be strongly correlated
 1239 with the endogenous variable (*Share Family Man-*
 1240 *agers*) but not with the second stage error term (i.e.,
 1241 with the main dependent variable, *Foreign Sales*). In
 1242 order to fulfill this condition in our first stage, we
 1243 predict the determinants of family management
 1244 using the divorce rate as an instrumental variable.
 1245 Pollak (1985: 587) has noted that any factor that
 1246 disrupts the stability of the family is likely to reduce
 1247 the attractiveness of family-managed firms. Divorce
 1248 is detrimental to family-managed SMEs because in
 1249 most European countries the family business is the
 1250 sole source of income for the family, and divorce
 1251 generally results in substantial payments to one of
 1252 the spouses, making it difficult to continue the
 1253 business. Because both spouses and their kin are
 1254 often involved in the management of family-man-
 1255 aged SMEs, a divorce also leads to the exit of part of
 1256 the management team. Employees and customers
 1257 loyal to the “out” spouse may also defect (Galbraith,
 1258 2003). For all these reasons, one would expect that

Table 4 Determinants of a firm’s share of family managers (first stage)

	(1) Share of family managers Tobit
Regional divorce rate	-.285*** (.0107)
Product quality (Niche) (standardized)	.108** (.0423)
ln(Age)	.082*** (.0101)
ln(Employment)	-.256*** (.0103)
ln(Labor productivity)	-.235*** (.0485)
R&D/sales	-2.9e-03** (.0012)
Obs.	9214
R ²	.084
Wald test	704.76***
F test	652.86***

Notes Country and sector dummies included. Weighted robust standard errors are reported in parenthesis. Significance level of t statistic: *** p value <0.01 , ** p value <0.05 , * p value <0.1 . Wald test: value of the Wald statistics for the statistical significance of the instrument (divorce rate). F test: value of F statistic for the statistical significance of the instrument (divorce rate) from the corresponding OLS estimation.

the attractiveness of choosing family governance to 1259
 run an SME would be lower in regions where 1260
 legislation and custom make divorce easier to obtain 1261
 and more legitimate. Previous research (Hsu, Huang, 1262
 Massa, & Zhang, 2014) has shown that the divorce 1263
 rate has a significantly negative effect on the likeli- 1264
 hood that a business is family owned. Divorce rates 1265
 vary significantly across the European regions in our 1266
 sample, and are influenced by legislation, religion, 1267
 and custom (they are highest in France and lowest in 1268
 Southern Italy). In our case, while the divorce rate is 1269
 a significant and negative determinant of our 1270
 endogenous variable, *Share Family Managers* (see 1271
 Table 4), thus fulfilling the relevance condition, it is 1272
 weakly (0.16) correlated with our dependent vari- 1273
 able, thus satisfying the exclusion condition (Bettis, 1274



1275 Gambardella, Helfat, & Mitchell, 2014; Semadeni,
1276 Withers, & Certo, 2014).

1277 We enter the 2007 divorce rate (divorces per
1278 thousand marriages) in the European region where
1279 the firm is located.¹⁰ Data were obtained from
1280 national statistical offices websites and from Euro-
1281 stat. We also entered the firm-specific variables
1282 used in the second stage such as the firm's business
1283 model (*Niche*), and the natural logs of a firm's age
1284 (*Age*), number of employees (*Employment*), labor
1285 productivity (*Labor Productivity*), and R&D to sales
1286 (*R&D to Sales*), as defined above.

1287 Our regression takes the following form:

$$\begin{aligned} &FS \text{ Share Family Managers}_i \\ &= \alpha_0 + \beta_1(\text{Regional divorce rate})_i + \beta_2(\text{Niche})_i \\ &+ \beta_3 \ln(\text{Labor Productivity})_i + \beta_4 \ln(\text{Age})_i \\ &+ \beta_5 \ln(\text{Employment})_i + \beta_6(\text{R\&D to Sales})_i + \varepsilon_i, \end{aligned}$$

1289 where *FS Share Family Managers*_{*i*} is the share of
1290 managers of the _{*i*} firm who are family members.

1291 Table 4 shows the results of our Tobit model
1292 predicting a firm's share of family members among
1293 its top managers. The instrumental variable *Regional*
1294 *Divorce Rate* has good explanatory power and the
1295 F-test is well above the threshold of 16 (Stock & Yogo,
1296 2005). As predicted, the coefficient of the regional
1297 divorce rate (−0.285) is negative and significant at the
1298 0.01 level. *Product Quality*, our proxy for global niche
1299 business models, has a positive impact on the share of
1300 family members in the management team (the
1301 coefficient 0.108 is significant at the 0.01 confidence
1302 level). Family-managed firms tend to have lower
1303 labor productivity (the coefficient of *Labor Productiv-*
1304 *ity*, −.235, is negative and significant at the 0.01
1305 confidence level). This suggests that they are less
1306 capital intensive than non-family managed firms, a
1307 result consistent with those of Demsetz and Lehn
1308 (1985) and Villalonga and Amit (2010) who argue
1309 that family firms tend to avoid capital intensive
1310 businesses since they require external financing that
1311 dilutes family control. The same argument explains
1312 why R&D intensive firms are less likely to be family-
1313 managed—and indeed we find the coefficient of *R&D*
1314 *to Sales* to be negative and significant at the .01
1315 confidence level. The need for owners of family-
1316 managed firms to hold a blocking share of the capital
1317 explains why family-managed firms should be smal-
1318 ler on average than other types of firms, and this is
1319 what we find (the coefficient of *Employment*, −.256, is
1320 negative and significant at the 0.01 confidence level).
1321 Lastly, older firms are more likely to be family

1322 managed (the coefficient of *Age*, 0.082, is positive
1323 and significant at the 0.01 confidence level).

1324 The next step is to plug the predicted value of
1325 family management (*FS Share Family Managers*) in
1326 the second stage estimation of our gravity model.
1327 The results of our two-stage Tobit estimations are
1328 reported in model 5 of Table 5 and models 1–4 of
1329 Table 6a. In a Tobit framework the relation
1330 between the dependent variables and the explana-
1331 tory variables is nonlinear. Hence, the coefficients
1332 do not measure the change of the dependent
1333 variable due to a change in the regressor since this
1334 value is estimated by the marginal effects. However,
1335 the coefficients have the same sign as the marginal
1336 effects allowing us to test our hypotheses. At the
1337 bottom of each table we report the number of
1338 observations, the Pseudo R^2 , and the p value for a
1339 Wald test of the joint significance of parameters.

1340 Table 5 reports the results for the all-country
1341 sample. The dependent variable is a firm's level of
1342 foreign sales in each of our eight target regions.
1343 Because we have eight observations per firm, we
1344 cluster errors at the firm level. All models include
1345 sectoral and country dummies. In model 5, the
1346 two-stage Tobit, we enter the fitted probabilities of
1347 the share of family managers obtained from our
1348 first stage (Table 4). The coefficients of the gravity
1349 model variables (*Psychic Distance to Region*, *Geo-*
1350 *graphic Distance to Region*, and *GDP Destination*
1351 *Region*) all take the expected sign and are highly
1352 significant. As expected, older firms have larger
1353 foreign sales and the productivity of a firm's labor
1354 force has a positive effect on foreign sales. Consis-
1355 tent with the literature on SME exports (Verwaal &
1356 Donkers, 2002; Majocchi, Bacchiocchi, & Mayrho-
1357 fer, 2005), larger firms have larger foreign sales (the
1358 coefficient of *Employment* is positive and significant
1359 at the .01 level).

1360 Our first hypothesis is that family-managed SMEs
1361 will have lower foreign sales in our eight regions
1362 than other types of firms (i.e., family-owned but
1363 not managed and non-family owned SMEs) given
1364 the region's market size and geographic and psy-
1365 chic distances to the home country, and keeping
1366 firm age, size, labor productivity, research intensity,
1367 and product quality constant. We find that this is
1368 the case, as the coefficient of *Share Family Managers*
1369 (−8.92) is negative and statistically significant at
1370 the .01 confidence level, thus providing support for
1371 H1. Our second hypothesis is that SMEs that follow
1372 a global niche business model are likely to have
1373 greater foreign sales than those that do not. The



Table 5 Impact of a firm's share of family managers on sales to 8 world regions

	(1) Tobit	(2) Tobit	(3) Tobit	(4) Tobit	(5) 2 stage tobit
ln(Psychic distance to region)	-2.96*** (.0282)	-2.96*** (.0283)	-2.96*** (.0284)	-2.97*** (.0285)	-2.98*** (.0284)
ln(Geographic distance to region)	-3.03*** (.0023)	-3.03*** (.0023)	-3.03*** (.0024)	-3.03*** (.0024)	-3.03*** (.0024)
ln(GDP Destination region)	1.49*** (.0021)	1.49*** (.0021)	1.49*** (.0021)	1.49*** (.0022)	1.49*** (.0022)
ln(Age)	.978*** (.0052)	.983*** (.0053)	.983*** (.0053)	.983*** (.0054)	1.41*** (.0054)
ln(Employment)	1.55*** (.0049)	1.53*** (.005)	1.53*** (.005)	1.53*** (.005)	-.071*** (.005)
ln(Labor productivity)	5.75*** (.0095)	5.72*** (.0097)	5.75*** (.0098)	5.76*** (.0099)	4.14*** (.0099)
R&D/sales	.119*** (6.2e-04)	.118*** (6.2e-04)	.117*** (6.3e-04)	.118*** (6.3e-04)	.098*** (6.2e-04)
Share family managers		-.157*** (.0158)	-.18*** (.016)	-2.07*** (.0199)	-8.92*** (.0316)
Product quality (Niche) (Standardized)			.948*** (.0178)	-.027 (.018)	.789*** (.0182)
Share family managers * product quality (Niche)				1.89*** (.0187)	2.51*** (.0293)
Constant	-92.2*** (.0185)	-92.2*** (.0188)	-93.3*** (.0191)	-92.2*** (.0192)	-87.8*** (.0193)
Obs.	73712	73712	73712	73712	73712
R ²	.099	.099	.099	.099	.1
Wald-1	1.00E+10***	8.50E+09***	7.90E+09***	7.60E+09***	7.50E+09***
Wald-2				1.80E+06***	6.50E+06***

Notes Country and sector dummies included. Share family managers in column 5 is the predicted value from first stage estimation (see Table 4). Weighted robust standard errors are clustered at firm level and reported in parenthesis. Wald-1: Wald test of joint significance for all the explanatory variables reported in the table. Wald-2: Wald test of joint significance for share of family managers, product quality, and interaction term. Significance level: *** p value <0.01, ** p value <0.05, * p value <0.1.

Table 6 Impact of a firm's share of family managers on sales to 8 world regions: two-stage Tobit

	(1) GER	(2) SPA	(3) ITA	(4) FRA
ln(Psychic distance to region)	-.144** (.061)	-5.8*** (.0861)	-3.5*** (.0341)	-2.98*** (.08)
ln(Geographic distance to region)	-3.61*** (.0058)	-3.37*** (.0061)	-3.03*** (.0026)	-2.27*** (.0065)
ln(GDP Destination region)	1.85*** (.0052)	1.22*** (.0056)	1.59*** (.0024)	1.2*** (.0059)
ln(Age)	.724*** (.0124)	1.43*** (.015)	2.28*** (.0062)	2.3*** (.0143)
ln(Employment)	.411*** (.0109)	.91*** (.0129)	2.86*** (.0057)	1.87*** (.0128)
ln(Labor productivity)	5.03*** (.0236)	5.62*** (.0265)	1.69*** (.0108)	6.73*** (.0279)
R&D/sales	.123*** (.0014)	.104*** (.0014)	.039*** (6.9e-04)	.125*** (.0018)
Share family managers	-3.69*** (.101)	-14.1*** (.1213)	-22.9*** (.0423)	-16*** (.1176)
Product quality (Niche) (standardized)	3.42*** (.0456)	1.3*** (.0488)	1.64*** (.0195)	1.48*** (.051)
Share family managers * product quality (Niche)	3.08*** (.0987)	7.78*** (.1171)	3.95*** (.038)	1.7*** (.1142)
Constant	-91.1*** (.0466)	-79.8*** (.0501)	-28.5*** (.0214)	-50.5*** (.0527)
Obs.	15208	17552	21648	19304
R ²	.075	.096	.077	.101
Wald-1	4.50E+09***	4.20E+09***	1.60E+10***	7.80E+08***
Wald-2	4.30E+05***	3.20E+06***	6.30E+07***	1.30E+06***

Notes Country and sector dummies included. Share family managers is the predicted value from first stage (see Table 4). Robust standard errors are clustered at firm level and reported in parenthesis. Wald-1: Wald test of joint significance for all the explanatory variables reported in the table. Wald-2: Wald test of joint significance for share of family managers, product quality, and interaction term. Significance level: *** p value <0.01, ** p value <0.05, * p value <0.1.

1374 coefficients of *Product Quality (Niche)* (0.789) is 1375 positive and significant at the 0.01 level, support-1376 ing the view that producing high-quality goods

attracts a subset of customers located all over the 1377 world, and that these customers will pull the firm 1378 into having a large volume of international sales. 1379

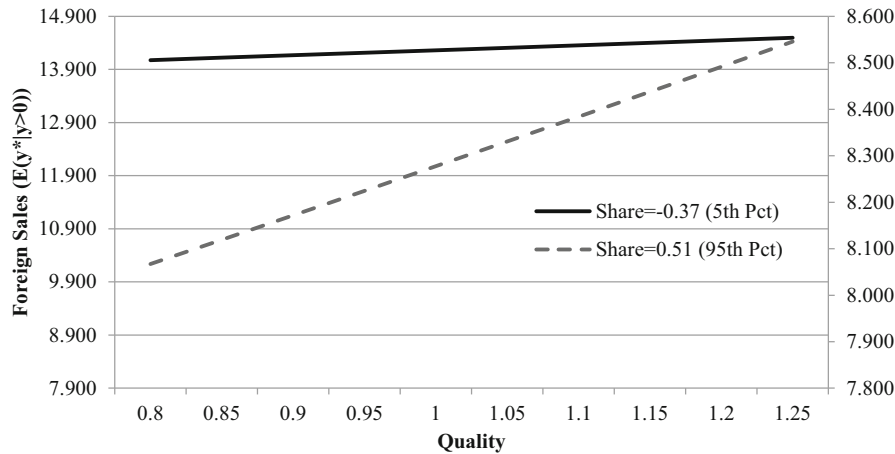


Figure 1 Predicted foreign sales by type of firms and quality level (with correction for endogeneity).

1380 Our results thus support H2. Our third hypothesis is
 1381 that following global niche business models (prox-
 1382 ied by product quality) reduces the negative impact
 1383 of family management on foreign sales. We test this
 1384 by entering the interaction between *Product Quality*
 1385 (*Niche*) and *Share Family Managers*. We expect a
 1386 positive sign for this interaction variable. As pre-
 1387 dicted by H3, the coefficient of the variable *Share*
 1388 *Family Managers* Product Quality (Niche)* (2.51) is
 1389 positive and significant at the .01 level.

1390 We can compute the predicted value of foreign
 1391 sales (conditional on positive foreign sales) for
 1392 different level of standardized quality and level of
 1393 family involvement. This allows us to ascertain
 1394 how foreign sales vary with a firm's share of family
 1395 managers and level of product quality. In Figure 1
 1396 we show how the value of foreign sales varies with
 1397 quality when the share of family managers is high
 1398 or low. We can see that firms with a high share of
 1399 family managers (family-managed SMEs) sell less
 1400 abroad than non-family-managed SMEs at each
 1401 level of quality. However, an improvement in
 1402 standardized quality (from 0.8 to 1.25) raises
 1403 foreign sales by 6% for family-managed SMEs but
 1404 only 3% for non-family-managed SMEs. So we can
 1405 conclude that while family-managed SMEs always
 1406 sell less abroad than non-family managed ones (as
 1407 per H1), the more family-managed SMEs specialize
 1408 in selling high-quality niche products, the smaller
 1409 the difference foreign sales between them and non-
 1410 family managed SMEs.

1411 Table 6 presents the results of the two-stage Tobit
 1412 for Germany, Spain, Italy and France, the four
 1413 countries in our sample. All models include sectoral
 1414 dummies. The results are consistent with those of
 1415 the all-country sample. The gravity variables are all

significant and take the expected sign: for all 1416
 countries geographic and psychic distances reduce 1417
 foreign sales, while the economic size of the target 1418
 region increases them. Older SMEs have higher 1419
 foreign sales. German, Spanish, Italian and French 1420
 SMEs that have higher labor productivity and 1421
 higher R&D have also higher foreign sales. Turning 1422
 now to our main hypotheses, German, Spanish, 1423
 Italian and French SMEs managed by family mem- 1424
 bers have lower foreign sales, thus providing sup- 1425
 port for H1 (the coefficient of the predicted share of 1426
 family managers is negative and significant at the 1427
 0.01 confidence level for all countries). We find also 1428
 support for H2: In Germany, Spain, Italy and 1429
 France, SMEs that sell high-quality products have 1430
 higher foreign sales. Moreover, French, German, 1431
 Spanish, and Italian family-managed SMEs that sell 1432
 high-quality products have higher foreign sales, 1433
 thus providing support for H3. Overall the results of 1434
 both the all-country and the national samples 1435
 confirm our hypotheses. 1436

Table 7 reports the marginal effects by country. 1437
 The table shows the increase in foreign sales that 1438
 results from an increase in product quality. The first 1439
 row shows that increasing product quality from the 1440
 lowest to the highest level increases the foreign 1441
 sales of non-family managed SMEs from 0% in 1442
 Spain to 3.6% in Germany. The second row shows 1443
 that the increase in foreign sales due to an increase 1444
 in product quality is much more significant in the 1445
 case of family-managed SMEs and ranges from 6% 1446
 in France to 12% in Spain. 1447

Robustness Tests

To test for robustness, we entered the absolute level 1448
 of self-reported quality without correction for 1449
 1450



Table 7 Expected change in foreign sales from low quality (0.8) to the highest quality (1.25) by share of family managers (SFM) (predicted)

	(2) GER	(3) SPA	(4) ITA	(5) FRA
Low SFM (5th percentile)	0.036	-0.009	0.024	0.024
High SFM (95th percentile)	0.080	0.120	0.078	0.062

Note Percent variation of the average expected foreign sales (conditional to observed positive values) due to a change in Quality (standardized). Low SFM is the 5th percentile of the predicted value for Share Family Managers (see Table 5) in the corresponding estimation sample. High SFM is the 95th percentile of the predicted value for Share Family Managers (see Table 5) in the corresponding estimation sample.

Author Proof

1451 potential national bias. The results for the all-
 1452 country sample and for each of our four countries
 1453 were unchanged. We also ran our models using the
 1454 most common measure of internationalization in
 1455 the literature, the ratio of foreign sales to total sales
 1456 (FSTS). Our dependent variable was the ratio of a
 1457 firm's sales to each region over total sales. The
 1458 results for the all-country sample and for each
 1459 national sample did not change when using this
 1460 alternative measure of internationalization.¹¹
 1461 Lastly, because it is somewhat arbitrary to group
 1462 Oceania and Africa into a destination area, we ran
 1463 our models excluding this area. The results were
 1464 unchanged.

DISCUSSION AND CONCLUSIONS

1465 The IB literature has argued that selling abroad
 1466 requires large-scale investment and experiential
 1467 knowledge of foreign markets. Family-managed
 1468 firms do not usually have the funds needed for
 1469 such investments nor the country-specific skills
 1470 necessary to adapt products to foreign environ-
 1471 ments and to run foreign subsidiaries. Obtaining
 1472 such financial and human resources would force
 1473 them to dilute family ownership and to recruit
 1474 external managers, both of which they are reluc-
 1475 tant to do. Hence, researchers have theorized that
 1476 family firms will be less internationalized than non-
 1477 family firms. Empirical results have not been fully
 1478 supportive, however, with a recent meta-analysis
 1479 (Arregle et al., 2016) finding no statistically signif-
 1480 icant difference in the extent of internationaliza-
 1481 tion between family and non-family firms.

1482 The recent thinking is that this may be due to the
 1483 presence of heterogeneity within family firms (Ar-
 1484 regle et al., 2016; Chua et al., 2012; Verbeke &
 1485 Kano, 2012). While a number of potential sources
 1486 of heterogeneity have been explored (e.g., Majocchi
 1487 & Strange, 2012; Kano & Verbeke, forthcoming),
 1488 one that not been considered so far is heterogeneity
 1489 in the business models pursued.

We propose in this article that the argument that 1491
 family-managed firms will be less internationalized 1492
 than other types of firms is based on the erroneous 1493
 assumption that all firms produce mass-market 1494
 goods, for which expanding abroad necessitates 1495
 the setting up foreign production plants, substan- 1496
 tial marketing expense, and the adaptation of the 1497
 marketing mix to each target country—in short 1498
 significant investments and specialized managers. 1499
 But, as we have shown, this is not the case for firms 1500
 that follow global niche, high product quality 1501
 business models. For such firms serving foreign 1502
 markets does not entail heavy marketing invest- 1503
 ments, marketing mix adaptation, nor foreign 1504
 production subsidiaries. It does require substantial 1505
 investments in building up deep relationships with 1506
 customers and in continuous product improve- 1507
 ment, but they draw on resources and capabilities 1508
 available in family-managed SMEs. The failure to 1509
 consider the impact of a firm's business model on 1510
 its internationalization, in addition to the use of 1511
 rather coarse-grained measures of internationaliza- 1512
 tion, may account for the lack of robust findings in 1513
 the family firms/internationalization literature. 1514

We argue therefore that while family manage- 1515
 ment may in fact hinder foreign sales of mass- 1516
 market products, family firms that sell high-quality 1517
 goods and services should be able to reduce this 1518
 disadvantage. We test this hypothesis on nearly 1519
 10,000 SMEs from four European countries, Ger- 1520
 many, Spain, Italy, and France. We use a gravity 1521
 model to measure whether family-managed firms 1522
 sell more or less abroad than other types of firms as 1523
 this approach allows us to simultaneously measure 1524
 a firm's depth and breadth of internationalization. 1525
 Controlling for endogeneity, we find that, for our 1526
 total sample, family management results in fewer 1527
 international sales. Selling high-quality niche prod- 1528
 ucts allows family-managed firms to partially com- 1529
 pensate for this disadvantage. We obtain similar 1530
 results when we run the model for each country 1531
 separately. 1532



1533 The realization that firms pursue different busi-
1534 ness models, and that these impact the ease with
1535 which they internationalize (Hennart, 2014), helps
1536 reconcile the two main perspectives on the impact
1537 of family management on strategy and perfor-
1538 mance, the restrictive and the facilitative (Verbeke
1539 & Kano, 2012; Arregle et al., 2016). The former
1540 perspective sees family governance as hindering
1541 internationalization because it limits the firm's
1542 access to external resources. The latter one stresses
1543 that family-managed firms are characterized by a
1544 long-term orientation and a superior ability to
1545 accumulate social capital. Our study shows that
1546 both perspectives are valid, but that their impact on
1547 internationalization depends on the specific busi-
1548 ness model chosen. The arguments put forth by
1549 proponents of the restrictive view are valid if the
1550 family-managed firm pursues mass-market business
1551 models, while those of the facilitative perspective
1552 can explain why family-managed firms can be
1553 especially good at pursuing business models based
1554 on global niches.¹² For example, placing family
1555 members in management positions may hinder
1556 foreign sales if family-managed SMEs pursue mass-
1557 market internationalization, but has many advan-
1558 tages if the firm is targeting global high-quality
1559 niches. Global niche business models are based on
1560 superior and consistent product quality, distinc-
1561 tiveness, and service, achieved through close and
1562 trusting relationships with customers. Passing on
1563 the business to descendants helps build the neces-
1564 sary trust because it extends the shadow of the
1565 future and makes it possible to inculcate values into
1566 the next generation, thus providing the stability
1567 and consistency necessary to build social capital.

1568 Our study also throws light on the contention of
1569 Wright, Chrisman, Chua, and Steier (2014) and
1570 Arregle et al. (2016) that home country environ-
1571 ments moderate the negative relationship between
1572 family management and internationalization. We
1573 are, as far as we know, the first to be able to
1574 investigate this contention, as we can make reliable
1575 comparisons across four European countries, since
1576 the national subsamples were collected using similar
1577 procedures. After controlling for endogeneity, we
1578 find no significant differences between firms in
1579 Germany, Spain, Italy and France. In all four coun-
1580 tries family-managed SMEs have a lower propensity
1581 to internationalize, but those that pursue high-
1582 quality niche business models are able to compen-
1583 sate in part for this disadvantage. While these four
1584 countries are at a similar level of economic devel-
1585 opment, they have different legal systems and

informal institutions.¹³ We surmise that some of
the observed intercountry differences in the
strength and in the direction of the relationship
between family governance and internationaliza-
tion may be due, at least in part, to endogeneity.

Like any study, ours has some limitations. While
EFIGE provides us with a large sample of firms
based in four countries—up to now researchers
have generally focused on one-country samples—a
drawback is that the EFIGE survey was undertaken
for other purposes than ours, and thus the ques-
tions asked imperfectly suit our purposes. Hence,
while our measure of the extent to which firms
used niche-based business models, the self-reported
level of product quality, is a well-established one,
we would have liked to be able to triangulate it with
other measures, such as the number of customers or
competitors. One must also keep in mind that the
EFIGE survey was primarily addressed to SMEs, and
that our sample is limited to four European coun-
tries. Further studies may want to investigate
whether our results also obtain for larger firms, for
firms based in other European countries, and for
those based outside Europe.

Nevertheless, our study has important implica-
tions for further research. First, we throw new light
on the research that has linked firm governance to
internationalization. We show that, because it has
been unduly influenced by large manufacturers of
mass-market products, the IB literature has tended
to see family firms as unable to internationalize.
Family firms have been seen as inherently conser-
vative and as preferring to stick to domestic mar-
kets. Our findings show, on the other hand, that
the family form of governance can be particularly
suited to some business models, specifically those
based on the international sale of high-quality
products. This suggests that it is important to
consider a firm's business model when assessing
the impact of its governance on performance.

Our findings also throw light on the factors that
lead entrepreneurs to exploit international oppor-
tunities. We find that some small, family-managed
firms can be highly internationalized. This finding
is consistent with the literature on “hidden cham-
pions” and “pocket multinationals” which has
uncovered small, but highly internationalized fam-
ily firms (e.g., Simon, 2009; Colli, Garcia-Canal, &
Guillen, 2013). It is also compatible with authors in
the Born Global literature who have argued that
firms selling niche products internationalize early,
quickly, and widely (Hennart, 2014; Zucchella &
Palamara, 2006). Not all these firms sell high-



1639 technology products, so this suggests that deep
 1640 internationalization is made possible by a narrow
 1641 focus on high-quality products sold to customers
 1642 with homogeneous tastes. These products can, but
 1643 need not, be high-technology ones. More research
 1644 is needed to identify the whole range of business
 1645 models that allows some firms to sell a major share
 1646 of their output to foreign customers over long
 1647 periods of time.
 1648

ACKNOWLEDGEMENTS

1649 The authors gratefully acknowledge helpful comments
 1650 from Alain Verbeke and an anonymous referee, and
 1651 from Eleanor Westney and Jorma Larimo, as well as
 1652 from participants at seminars at Hanken, the University
 1653 of Bologna, the University of Sussex, the Global
 1654 Strategy Journal Workshop on Family Firms in the
 1655 Global Economy at Politecnico de Milano, and from
 1656 reviewers and participants at the Academy of Interna-
 1657 tional Business, the European International Business
 1658 Academy, the 6th Aalborg Conference on Interna-
 1659 tional Business, and the 10th Workshop on Family Firm
 1660 Management Research at the University of Bergamo.
 1661 The authors also acknowledge the financial support
 1662 from the Cariplo Foundation International Recruitment
 1663 Call "The internationalization of Italian firms: the role
 1664 of intangibles, managerial resources, and corporate
 1665 governance," and thank the Centro Studi Luca
 1666 d'Agliano for allowing access to the EFIGE database.
 1667

NOTES

1669 ¹The same criticisms can be levied toward the ratio of
 1670 foreign assets to total assets used by Bhaumik, Driffield,
 1671 and Pal (2010). The entropy measure used by Majocchi
 1672 and Strange (2012) is an improvement, since it mea-
 1673 sures the dispersion of a firm's international sales, but it
 1674 has two weaknesses. First, one would not expect the
 1675 foreign sales of a fully internationalized firm to be evenly
 1676 distributed between world areas, but instead to be
 1677 proportional to their market potential, as measured, for
 1678 example, by their GDP. Second, an ideal measure of
 1679 internationalization should not only measure the dis-
 1680 persion of foreign sales, but also their absolute level.
 1681 Entropy does not do this. Hence, a firm with total
 1682 foreign sales of \$100 million with 20% of its sales in each
 1683 of the world's continents has exactly the same entropy
 1684 index as one with the same distribution but foreign sales
 1685 of only \$1million. A few studies (e.g., Sanders &

Carpenter, 1998) integrate internationalization depth
 and breadth into a composite indicator. However the
 weights given these two dimensions of internationaliza-
 tion are arbitrary.

²This may have negative consequences for minority
 shareholders.

³There is evidence that family-managed firms are
 more socially responsible (Berrone et al., 2010) and
 more philanthropic (Déniz-Déniz & Cabrera-Suarez,
 2005) than non-family firms.

⁴Ciclotte's website emphasizes that the product is
 made in Italy (see www.ciclotte.com).

⁵As Kano and Verbeke (2015) note, many failures to
 fulfill commitments are not necessarily due to overt
 opportunism, but are also caused by good faith lapses.
 Failure to make good on good faith promises may, for
 example, be due to 'divided engagement,' i.e., a lack
 of coordination between the managers involved in
 implementing the promise. We think this is more likely
 to be the case in managerially run firms because power
 is more diffuse, and personal reputation more atten-
 uated, than in family-managed firms.

⁶See: <http://www.bruegel.org/datasets/efigedataset/>.

⁷For more information on these variables see Dou-
 glas Dow's website.

⁸Note that our dependent variable is a firm's value of
 foreign sales by world region, not the ratio of its
 foreign sales to total sales (its foreign sales intensity).
 Hence, we are not assuming here that size affects
 foreign sales intensity.

⁹The original source is Bureau Van Dijk's Amadeus
 database.

¹⁰There were 16 regions in Germany, 17 in Spain,
 20 in Italy and 22 in France.

¹¹Results are available from the authors.

¹²We do not argue that all family-managed firms will
 be able to carry out business models based on global
 niches, but only that the specific features of family
 governance are potentially favorable for the pursuit of
 such business models.

¹³Arregle et al. (2016) argue that a home country's
 informal institutions, measured by the level of trust for
 people of other countries, positively moderates the
 relationship between family firms and internationaliza-
 tion. They measure trust by the response to question
 V107 in the World Values Survey (2010–2014). The
 responses show significant differences between German
 and Spanish respondents, with 34% of German respon-
 dents answering they did not trust or did not trust very
 much foreigners, vs. 50% of Spanish respondents (data
 were not available for France and Italy).

Author Proof





REFERENCES

- 1755 Aguilera, R., & Crespi-Cladera, R. 2012. Firm family firms: 1825
1756 Current debates of corporate governance in family firms. 1826
1757 *Journal of Family Business Strategy*, 3(2): 66–69. 1827
- 1758 Anderson, R. C., & Reeb, D. M. 2003. Founding-family owner- 1828
1759 ship, corporate diversification, and firm leverage. *Journal of* 1829
1760 *Law and Economics*, 46(2): 653–684. 1830
- 1761 Andersson, S., Gabrielson, J., & Wictor, I. 2004. International 1831
1762 activities of small firms: Examining factors influencing the 1832
1763 internationalization and export growth of small firms. *Canadi- 1833
1764 an Journal of Administrative Sciences*, 21(1): 22–34. 1834
- 1765 Arregle, J. L., Duran, P., Hitt, M., & van Essen, P. 2016. Why is 1835
1766 family firms' internationalization unique?. A meta-analysis. 1836
1767 *Entrepreneurship Theory and Practice*, doi:10.1111/etap.12246. 1837
- 1768 Arregle, J. L., Hitt, M., Sirmon, D. G., & Very, P. 2007. The 1838
1769 development of organizational social capital: Attributes of 1839
1770 family firms. *Journal of Management Studies*, 44(1): 73–95. 1840
- 1771 Arregle, J.-L., Naldi, L., Nordqvist, M., & Hitt, M. 2012. 1841
1772 Internationalization of family-controlled firms: A study of the 1842
1773 effects of external involvement in governance. *Entrepreneur- 1843
1774 ship Theory and Practice*, 36(6): 1115–1143. 1844
- 1775 Banalieva, E., & Eddleston, K. 2011. Home regional focus and 1845
1776 performance of family firms: The role of family vs. non-family 1846
1777 leaders. *Journal of International Business Studies*, 42(8): 1060–1072. 1847
- 1778 Bartlett, C., & Ghoshal, S. 1998. *Managing across borders: The* 1848
1779 *transnational solution*. Boston: Harvard Business School Press. 1849
- 1780 Basly, S. 2007. The internationalization of family SMEs: An 1850
1781 organizational learning and knowledge development perspec- 1851
1782 tive. *Baltic Journal of Management*, 2(2): 154–180. 1852
- 1783 Bell, J. 1995. The internationalization of small computer software 1853
1784 firms: A further challenge to the stage theories. *European* 1854
1785 *Journal of Marketing*, 29(8): 60–75. 1855
- 1786 Bernard, A., & Jensen, J. 1999. Exceptional exporter perfor- 1856
1787 mance: Cause, effect, or both? *Journal of International* 1857
1788 *Economics*, 47(1): 1–25. 1858
- 1789 Berrone, P., Cruz, C., Gomez-Mejia, L. R., & Larrazza-Kintana, M. 1859
1790 2010. Socioemotional wealth and corporate responses to 1860
1791 institutional pressures: Do family-controlled firms pollute less?. 1861
1792 *Administrative Science Quarterly*, 55(1): 82–113. 1862
- 1793 Bettis, R. A., Gambardella, A., Helfat, C., & Mitchell, W. 2014. 1863
1794 Quantitative empirical analysis in strategic management. 1864
1795 *Strategic Management Journal*, 35(7): 949–1101. 1865
- 1796 Bhaumik, S., Driffield, N., & Pal, S. 2010. Does ownership 1866
1797 structure of emerging market firms affect their outward FDI? 1867
1798 The case of the Indian automotive and pharmaceutical sectors. 1868
1799 *Journal of International Business Studies*, 41(3): 437–450. 1869
- 1800 Boeker, W., & Karichail, R. 2002. Entrepreneurial transitions: 1870
1801 Factors influencing founder departure. *Academy of Manage- 1871
1802 ment Journal*, 45(2): 818–825. 1872
- 1803 Boter, H., & Holmquist, C. 1996. Industry characteristics and 1873
1804 internationalization processes in small firms. *Journal of Business* 1874
1805 *Venturing*, 11(6): 471–487. 1875
- 1806 Bowen, H., & Wiersema, M. 2005. Foreign-based competition 1876
1807 and corporate diversification strategy. *Strategic Management* 1877
1808 *Journal*, 26(12): 1153–1171. 1878
- 1809 Businessweek, International edition. 2009. Handmade in Naples, 1879
1810 *Businessweek*. November 15, 1999. Retrieved July 1, 2015 1880
1811 from [http://www.businessweek.com/1999/99_46/b3655202.](http://www.businessweek.com/1999/99_46/b3655202.htm) 1881
1812 [htm](http://www.businessweek.com/1999/99_46/b3655202.htm). 1882
- 1813 Calabrò, A., Campopiano, G., Basco, R., & Pukall, T. 2017. 1883
1814 Governance structure and internationalization of family-con- 1884
1815 trolled firms: The mediating role of international entrepre- 1885
1816 neurial orientation. *European Management Journal*, 35(2): 1886
1817 238–248. 1887
- 1818 Calabrò, A., Torchia, M., Pukall, T., & Mussolino, D. 2013. The 1888
1819 influence of ownership structure and board strategic involve- 1889
1820 ment on international sales: The moderating effect of family 1890
1821 involvement. *International Business Review*, 22(3): 509–523. 1891
- 1822 Calantone, R., & Knight, G. 2000. The critical role of product 1892
1823 quality in the international performance of industrial firms. 1893
1824 *Industrial Marketing Management*, 29(6): 493–506. 1894
- Carney, M. 2005. Corporate governance and competitive 1825
1826 advantage in family-controlled firms. *Entrepreneurship Theory* 1827
1828 *and Practice*, 29(3): 249–265. 1829
- Carr, C., & Bateman, S. 2009. International strategy configura- 1830
1831 tions of the world's top family firms. *Management International* 1832
1833 *Review*, 49(6): 733–758. 1834
- Cerrato, D., & Piva, M. 2012. The internationalization of small 1835
1836 and medium-sized enterprises: The effect of family manage- 1837
1838 ment, human capital and foreign ownership. *Journal of* 1838
1839 *Management and Governance*, 16(4): 617–644. 1839
- Child, J., Rodrigues, S., & Frynas, G. 2009. Psychic distance, its 1840
1841 impact and coping modes: Interpretations of SME decision 1841
1842 makers. *Management International Review*, 49(2): 199–224. 1842
- Chua, J., Chrisman, J., Steier, L., & Rau, S. 2012. Sources of 1843
1844 heterogeneity in family firms: An introduction. *Entrepreneur- 1844
1845 ship Theory and Practice*, 36(6): 1103–1253. 1845
- Claver, E., Rienda, L., & Quer, D. 2009. Family firm's interna- 1846
1847 tional commitment: The influence of family-related factors. 1847
1848 *Family Business Review*, 22(2): 125–135. 1848
- Coleman, J. 1990. *Foundations of Social Theory*. Cambridge, MA: 1849
1850 Harvard University Press. 1850
- Colli, A. 2011. Business history in family business studies: From 1851
1852 neglect to cooperation? *Journal of Family Business Manage- 1852
1853 ment*, 1(1), 15–25. 1853
- Colli, A., Garcia-Canal, E., & Guillen, M. 2013. Family character 1854
1855 and international entrepreneurship: A historical comparison of 1855
1856 Italian and Spanish 'new multinationals'. *Business History*, 1856
1857 55(1): 119–138. 1857
- Couturier, J., & Sola, D. 2014. *Babolat: Innovation and Heritage* 1858
1859 *in Tennis*. Case Center case 314-080-1. Berlin: ESCP Europe. 1859
- Cromie, S., Stephenson, B., & Montieth, D. 1995. The 1860
1861 management of family firms: An empirical investigation. 1861
1862 *International Small Business Journal*, 13(4): 11–34. 1862
- D'Angelo, A., Majocchi, A., & Buck, T. 2016. External managers, 1863
1864 family ownership and the scope of SME internationalization. 1863
1865 *Journal of World Business*, 51(4): 534–547. 1864
- Daily, C., & Dollinger, M. 1993. Alternative methodologies for 1865
1866 identifying family versus nonfamily-managed businesses. *Jour- 1865
1867 nal of Small Business Management*, 31(2): 79–90. 1866
- Dalgic, T., & Leeuw, M. 1994. Niche marketing revisited: 1867
1868 Concept, applications, and some European cases. *European* 1868
1869 *Journal of Marketing*, 20(1): 39–55. 1869
- Davis, P., & Harveston, P. 1999. In the founder's shadow: 1870
1871 Conflict in the family firm. *Family Business Review*, 12(4): 1870
1872 311–323. 1871
- De Massis, A., Kotlar, J., Mazzola, P., Minola, T., & Sciasca, S. 1872
1873 2016. Conflicting selves: Family owners' multiple goals and 1873
1874 self-control agency problems in private firms. *Entrepreneurship* 1874
1875 *Theory and Practice*, doi:10.1111/etap.1225.7. 1875
- Deephouse, D., & Jaskiewicz, P. 2013. Do family firms have 1876
1877 better reputations than non-family firms? An integration of 1876
1878 socioemotional wealth and social identity theories. *Journal of* 1877
1879 *Management Studies*, 50(3): 337–360. 1878
- Demsetz, H., & Lehn, K. 1985. The structure of corporate 1879
1880 ownership: Causes and consequences. *Journal of Political* 1879
1881 *Economy*, 93(6): 1155–1171. 1880
- Déniz-Déniz, M., & Cabrera-Suarez, K. 2005. Corporate social 1881
1882 responsibility and family business in Spain. *Journal of Business* 1882
1883 *Ethics*, 56(1): 27–41. 1883
- Desmet, P. 2015. *Pricing policy for an innovation: Babolat play* 1884
1885 *pure drive, the first connected racquet*. Case Center case 1885
1886 515-082-1. Cergy-Pontoise: Essec Business School. 1886
- Dow, D., & Ferencikova, S. 2010. More than just national 1887
1888 cultural distance: Testing new distance scales on FDI in 1887
1889 Slovakia. *International Business Review*, 19(1): 46–58. 1888
- Dow, D., & Karunaratna, A. 2006. Developing a multidimen- 1889
1890 sional instrument to measure psychic distance stimuli. *Journal* 1889
1891 *of International Business Studies*, 37(5): 578–602. 1890
- Dyer, W. 1988. Culture and continuity in family firms. *Family* 1891
1892 *Business Review*, 1(1): 18–24. 1892



Author Proof

1895 Dyer, W. 2006. Examining the 'family effect' of firm perfor-
1896 mance. *Family Business Review*, 19(4): 253–273.

1897 Echols, A., & Tsai, W. 2005. Niche and performance: The
1898 moderating role of network embeddedness. *Strategic Man-
1899 agement Journal*, 26(3): 219–238.

1900 Evers, N. 2010. Factors influencing the internationalization of
1901 new ventures in the Irish aquaculture industry: An exploratory
1902 study. *Journal of International Entrepreneurship*, 8(4): 392–416.

1903 Falay, Z., Salimaki, M., Ainamo, A., & Gabriellsson, M. 2007.
1904 Design-intensive born globals: A multiple case study of
1905 marketing management. *Journal of Marketing Management*,
1906 23(9–10): 877–899.

1907 Fan, T., & Phan, P. 2013. How product attributes influence
1908 internationalization: A framework of domain and culture
1909 specificity. *Management International Review*, 55(1): 53–76.

1910 Feldman, E. R., Amit, R., & Villalonga, B. 2016. Corporate
1911 divestitures and family control. *Strategic Management Journal*,
1912 37(3): 429–446.

1913 Fernández, Z., & Nieto, M. 2005. Internationalization strategy of
1914 small and medium-sized family businesses: Some influential
1915 factors. *Family Business Review*, 18(1): 77–89.

1916 Fernández, Z., & Nieto, M. 2006. Impact of ownership on the
1917 international involvement of SMEs. *Journal of International
1918 Business Studies*, 37(3): 340–351.

1919 Fernández, Z., & Nieto, M. 2013. Internationalization of family
1920 firms. In L. Melin, M. Nordqvist, & P. Sharma (Eds.), *The Sage
1921 Handbook of Family Business*. Los Angeles: Sage.

1922 Filatotchev, I., Dyomina, N., Wright, M., & Buck, T. 2001.
1923 Effects of post-privatization governance and strategies on
1924 export intensity in the former Soviet Union. *Journal of
1925 International Business Studies*, 32(2): 853–871.

1926 Fink, M., & Kraus, S. 2007. Mutual trust as a key to interna-
1927 tionalization of SMEs. *Management Research News*, 30(9):
1928 674–688.

1929 Fisher, R. J. 1991. Durable differentiation strategies for services.
1930 *Journal of Services Marketing*, 5(1): 19–28.

1931 Forbes. 2013. Illy's espresso revolution: A luxury business model
1932 and the search for the perfect coffee, December 10, 2013.
1933 Retrieved November 10, 2015 from [http://www.forbes.com/
1934 sites/afontevacqua/2013/12/10/illys-espresso-revolution-a-
1935 luxury-business-model-and-the-search-for-the-perfect-coffee/](http://www.forbes.com/sites/afontevacqua/2013/12/10/illys-espresso-revolution-a-luxury-business-model-and-the-search-for-the-perfect-coffee/).

1936 Galbraith, C. 2003. Divorce and the financial performance of
1937 small family businesses: An exploratory study. *Journal of Small
1938 Business Management*, 41(3): 296–309.

1939 Gallo, M., & Sveen, J. 1991. Internationalizing the family
1940 business: Facilitating and restraining factors. *Family Business
1941 Review*, 4(2): 181–190.

1942 Gallo, M., Tapiés, J., & Cappuyns, K. 2004. Comparison of
1943 family and non-family business: Financial logic and personal
1944 preferences. *Family Business Review*, 17(4): 303–318.

1945 German Design Council. 2014. *Gerd bulthaup. Liberating space*.
1946 Retrieved July 2, 2015 from [http://www.german-design-
1947 council.de/fileadmin/Bilder/German_Design_Award/German_
1948 Design_Award_2014/Presstexte/GerdBulthaup_Liberating
1949 Space.pdf](http://www.german-design-council.de/fileadmin/Bilder/German_Design_Award/German_Design_Award_2014/Presstexte/GerdBulthaup_Liberating_Space.pdf).

1950 Gersick, K., Davis, J., Hampton, M., & Lansberg, I. 1997.
1951 *Generation to generation: Life cycles of the family business*.
1952 Boston: Harvard Business School Press.

1953 Golovko, E., & Valentini, G. 2011. Exploring the complemen-
1954 tarity between innovation and export for SMEs' growth.
1955 *Journal of International Business Studies*, 42(3): 362–380.

1956 Golovko, E., & Valentini, G. 2014. Selective learning-by-export-
1957 ing: Firm size and product versus process innovation. *Global
1958 Strategy Journal*, 4(3): 161–180.

1959 Gomez-Mejia, L. R., Cruz, C., Berrone, P., & de Castro, J. 2011.
1960 The bind that ties: Socioemotional wealth preservation in
1961 family firms. *Academy of Management Annals*, 5(1), 653–707.

1962 Gomez-Mejia, L., Makri, M., & Larraza-Kintana, M. 2010.
1963 Diversification decisions in family-controlled firms. *Journal of
1964 Management Studies*, 47(2): 223–252.

Graves, C., & Thomas, J. 2006. Internationalization of Australian
1965 family firms: A managerial capabilities perspective. *Family
1966 Business Review*, 19(3): 207–224.

1967 Head, K., & Mayer, T. 2014. Gravity equations: Workhorse,
1968 toolkit, and cookbook. In G. Gopinath, E. Helpman, & K.
1969 Rogoff (Eds.), *Handbook of international economics*, vol. 4.
1970 Amsterdam: Elsevier, pp. 131–195.

1971 Hennart, J. F. 1982. *A theory of multinational enterprise*. Ann
1972 Arbor: University of Michigan Press.

1973 Hennart, J. F. 2010. Transaction cost theory and international
1974 business. *Journal of Retailing*, 86(3): 257–269.

1975 Hennart, J. F. 2011. A theoretical assessment of the empirical
1976 literature on the impact of multinationality on performance.
1977 *Global Strategy Journal*, 1(1–2): 135–151.

1978 Hennart, J. F. 2014. The accidental internationalists: A theory of
1979 born globals. *Entrepreneurship Theory and Practice*, 38(1):
1980 117–135.

1981 Hofstede, G. 2001. *Culture's consequences*. Thousand Oaks, CA:
1982 Sage.

1983 Hsu, P., Huang, S., Massa, M., & Zhang, H. 2014. The new lyrics
1984 of the old folks: The role of family ownership in corporate
1985 innovation, <http://ssrn.com/abstracts=2487083>.

1986 IMF. 2012. *World economic outlook database, April*. Washington,
1987 DC: International Monetary Fund.

1988 Jensen, M., & Meckling, W. 1976. Theory of the firm: Manage-
1989 rial behavior, agency costs and ownership structure. *Journal of
1990 Financial Economics*, 3(4), 305–360.

1991 Johanson, J., & Vahlne, J. E. 1977. Internationalization process of
1992 firm—A model of knowledge development and increasing
1993 foreign market commitments. *Journal of International Business
1994 Studies*, 8(1): 23–32.

1995 Johanson, J., & Vahlne, J. E. 2009. The Uppsala international-
1996 ization process model revisited: From liability of foreignness to
1997 liability of outsidership. *Journal of International Business Studies*,
1998 40(3): 1411–1431.

1999 Johanson, J., & Wiedersheim-Paul, F. 1975. The international-
2000 ization of the firm: Four Swedish cases. *Journal of Management
2001 Studies*, 12(3): 305–322.

2002 Kano, L., & Verbeke, A. 2015. The three faces of bounded
2003 reliability: Alfred Chandler and the micro-foundations of
2004 management theory. *California Management Review*, 58(1):
2005 97–122.

2006 Kano, L., & Verbeke, A. forthcoming. Family firm internation-
2007 alization: Heritage assets and the impact of the bifurcation
2008 bias. *Global Strategy Journal*.

2009 Kets de Vries, M. 1996. *Family business: Human dilemmas in the
2010 family firm*. London: International Thomson Business Press.

2011 Kogut, B., & Singh, H. 1988. The effect of national culture on
2012 the choice of entry mode. *Journal of International Business
2013 Studies*, 19(3): 411–432.

2014 Koiranen, M. 2002. Over 100 years of age but still
2015 entrepreneurially active in business: Exploring the values and
2016 family characteristics of old Finnish family firms. *Family
2017 Business Review*, 15(3): 175–187.

2018 Kontinen, T., & Ojala, A. 2010. The internationalization of family
2019 business: A review of extant research. *Journal of Family Business
2020 Strategy*, 1(2): 97–107.

2021 Kotler, P. 2003. *Marketing management* (11th ed.). Upper
2022 Saddle River, NJ: Prentice Hall.

2023 La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. 1999. Corporate
2024 ownership around the world. *Journal of Finance*, 54(2):
2025 471–517.

2026 Le Breton-Miller, I., & Miller, D. 2006. Why do some family
2027 businesses out-compete? Governance, long-term orientation,
2028 and sustainable capability. *Entrepreneurship Theory and Prac-
2029 tice*, 30(6): 731–746.

2030 Levitt, T. 1983. The globalization of markets. *Harvard Business
2031 Review*, 61: 92–102.

2032 Liang, X., Wang, L., & Cui, Z. 2014. Chinese private firms and
2033 internationalization: Effects of family involvement in
2034





- 2035 management and family ownership. *Family Business Review*,
2036 27(2): 126–141.
- 2037 Majocchi, A., Bacchicchi, E., & Mayrhofer, U. 2005. Firm size,
2038 business experience and export intensity in SMEs: A longitudi-
2039 nal approach to complex relationships. *International Business*
2040 *Review*, 14(6): 719–738.
- 2041 Majocchi, A., & Strange, R. 2012. International diversification:
2042 The impact of ownership structure, the market for corporate
2043 control and board independence. *Management International*
2044 *Review*, 52(6): 879–900.
- 2045 Marinova, S., & Marinov, M. 2017. Inducing the international-
2046 ization of family manufacturing firms in a transition context.
2047 *European Business Review*, 29(2): 181–204.
- 2048 Mascarenhas, B. 1999. The strategies of small and large interna-
2049 tional specialists. *Journal of World Business*, 34(3): 252–266.
- 2050 Mayer, T., & Zignago, S. 2011. *Notes on CEPII's Distances*
2051 *Measures: The GeoDist Database*. CEPII Working Paper 2011-25.
2052 Paris: CEPII.
- 2053 Miller, D., & Le Breton-Miller, I. 2003. Challenge versus advan-
2054 tage in family business. *Strategic Organization*, 1(1): 127–134.
- 2055 Miller, D., & Le Breton-Miller, I. 2005. *Managing for the long run:
2056 Lessons in competitive advantage from great family businesses*.
2057 Boston, MA: Harvard Business School Press.
- 2058 Miller, D., Le Breton-Miller, I., & Lester, R. H. 2010. Family
2059 ownership and acquisition behavior in publicly-traded compa-
2060 nies. *Strategic Management Journal*, 31(2): 201–223.
- 2061 Muñoz-Bullon, F., & Sanchez-Bueno, M. 2012. So family ties
2062 shape the performance consequences of diversification? Evi-
2063 dence from the European Union. *Journal of World Business*,
2064 47(3): 469–477.
- 2065 Nahapiet, J., & Ghoshal, S. 1998. Social capital, intellectual
2066 capital, and the organizational advantage. *The Academy of*
2067 *Management Review*, 23(2): 242–266.
- 2068 Pellegrini, E., & Scandura, T. 2006. Leader-member exchange
2069 (LMX), paternalism and delegation in the Turkish business
2070 culture: An empirical investigation. *Journal of International*
2071 *Business Studies*, 37(2): 264–279.
- 2072 Pollak, R. 1985. A transaction cost approach to families and
2073 households. *Journal of Economic Literature*, 23(2): 581–608.
- 2074 Pukall, T. J., & Calabrò, A. 2014. The internationalization of
2075 family firms: A critical review and integrative model. *Family*
2076 *Business Review*, 27(2): 103–125.
- 2077 Reeb, D., Sakakibara, M., & Mahmood, I. P. 2012. Endogeneity
2078 in international business research. *Journal of International*
2079 *Business Studies*, 43(3): 211–218.
- 2080 Richman, B. 2002. *Community Enforcement of Informal Contracts:
2081 Jewish Diamond Merchants in New York*. Harvard Law School
2082 John M. Olin Center for Law and Economics Discussion Paper
2083 Series No. 384.
- 2084 Rumelt, R. 1984. Towards a strategic theory of the firm. In R.
2085 Lamb (Ed.), *Competitive Strategic Management*. Englewood
2086 Cliffs, NJ: Prentice Hall, pp. 556–570.
- 2087 Sanchez-Bueno, M., & Usero, B. 2014. How may the nature of
2088 family firms explain the decisions concerning international
2089 diversification? *Journal of Business Research*, 67(7): 1311–1320.
- 2090 Sanders, W., & Carpenter, M. 1998. Internationalization and
2091 firm governance: The roles of CEO compensation, top team
2092 compensation, top team composition, and board structure.
2093 *Academy of Management Journal*, 41(2): 158–178.
- 2094 Scholes, L., Mustafa, S., & Chen, S. 2015. Internationalization of
2095 small family firms: The influence of family from a socioemo-
2096 tional wealth perspective. *Thunderbird International Business*
2097 *Review*, 58(2): 131–146.
- 2098 Schulze, W., Lubatkin, M., Dino, R., & Buchholtz, A. 2001.
2099 Agency relationships in family firms: Theory and evidence.
2100 *Organization Science*, 12(2): 99–116.
- 2101 Sciascia, S., & Mazzola, P. 2008. Family involvement in
2102 ownership and management: Exploring nonlinear effects on
2103 performance. *Family Business Review*, 21(4): 331–345.
- 2104 Sciascia, S., Mazzola, P., Astrachan, J., & Pieper, T. 2012. The
2105 role of family ownership in international entrepreneurship:
Exploring nonlinear effects. *Small Business Economics*, 38(1): 2106
15–31. 2107
- 2108 Segaro, E., Larimo, J., & Jones, M. 2014. Internationalisation of
2109 family small and medium sized enterprises: The role of
2110 stewardship orientation, family commitment culture and top
2111 management team. *International Business Review*, 23(2),
2112 381–395. 2113
- 2114 Semadeni, M., Withers, M. C., & Certo, S. T. 2014. The perils of
2115 endogeneity and instrumental variables in strategy research:
2116 Understanding through simulations. *Strategic Management*
2117 *Journal*, 35(7): 1070–1079. 2118
- 2119 Shani, D., & Chalasani, S. 1992. Exploiting niches using
2120 relationship marketing. *The Journal of Services Marketing*,
2121 6(4): 43–52. 2122
- 2123 Simon, H. 2009. *Hidden champions of the 21st century*. Berlin:
2124 Springer. 2125
- 2126 Simon, H. 2014. The global success of mid-sized companies. *The*
2127 *German Times for Europe*, May 30, 2014. Retrieved June 30,
2128 2015 from [http://www.german-times.com/index.php?option](http://www.german-times.com/index.php?option=com_content&task=view&id=43501&Itemid=244)
2129 [=com_content&task=view&id=43501&Itemid=244](http://www.german-times.com/index.php?option=com_content&task=view&id=43501&Itemid=244). 2130
- 2131 Stock, J., & Yogo, M. 2005. Testing for weak instruments in
2132 linear IV regression. In D. Andrews (Ed.), *Identification and*
2133 *Inference for Econometric Models*. New York: Cambridge
2134 University Press, pp. 80–108. 2135
- 2136 Swaminathan, A. 2001. Resource partitioning and the evolution
2137 of specialist organizations: The role of location and identity in
2138 US wine. *Academy of Management Journal*, 44(6): 1169–1185. 2139
- 2140 Thomas, J., & Graves, C. 2005. Internationalisation of the family
2141 firm: The contribution of an entrepreneurial orientation.
2142 *Journal of Business and Entrepreneurship*, 17(2): 91–113. 2143
- 2144 Tinbergen, J. 1962. *Shaping the World Economy*. New York:
2145 Twentieth Century Fund. 2146
- 2147 Toften, K., & Hammervoll, T. 2013. Niche marketing research:
2148 Status and challenges. *Marketing Intelligence and Planning*,
2149 31(3): 272–285. 2150
- 2151 Venohr, B., & Meyer, K. 2007. The German miracle keeps
2152 running: How Germany's "hidden champions" stay ahead in
2153 the global economy. Available at SSRN, [http://ssrn.com/](http://ssrn.com/abstract=991964)
2154 [abstract=991964](http://ssrn.com/abstract=991964) or doi:10.2139/ssrn.991964. 2155
- 2156 Verbeke, A., & Forootan, M. 2012. How good are multination-
2157 ality-performance (M-P) empirical studies? *Global Strategy*
2158 *Journal*, 2(4): 332–344. 2159
- 2160 Verbeke, A., & Kano, L. 2010. The transaction cost economics
2161 theory of the family firm: Family-based human asset specificity
2162 and the bifurcation bias. *Entrepreneurship Theory and Practice*,
2163 34(6): 1173–1182. 2164
- 2165 Verbeke, A., & Kano, L. 2012. Transaction cost economics (TCE)
2166 and the family firm. *Entrepreneurship Theory and Practice*,
2167 36(6): 1183–1205. 2168
- 2169 Verwaal, E., & Donkers, B. 2002. Firm size and export intensity:
2170 Solving an empirical puzzle. *Journal of International Business*
2171 *Studies*, 33(3): 603–613. 2172
- 2173 Villalonga, B., & Amit, R. 2010. Family control of firms and
2174 industries. *Financial Management*, 39(3): 863–904. 2175
- 2176 Von Hippel, E. 1986. Lead users: A source of novel product
2177 concepts. *Management Science*, 32(7): 791–805. 2178
- 2179 Ward, P., Bickford, D., & Leong, G. K. 1996. Configurations of
2180 manufacturing strategy, business strategy, environment and
2181 structure. *Journal of Management*, 22(4), 597–626. 2182
- 2183 Wiersema, M., & Bowen, H. 2009. The use of limited dependent
2184 variable techniques in strategy research: Issues and methods.
2185 *Strategic Management Journal*, 30(6), 679–692. 2186
- 2187 Williamson, O. 1985. *The economic institutions of capitalism:
2188 Firms, markets, relational contracting*. New York: Free Press. 2189
- 2190 Wine Enthusiast. 2000. Interview with Marchese Piero Antinori,
2191 *Wine Enthusiast Magazine*, April. Retrieved October, 30,
2192 2015 from [http://www.winemag.com/April-2000/Exclusive-](http://www.winemag.com/April-2000/Exclusive-Interview-with-Marchese-Piero-Antinori/)
2193 [Interview-with-Marchese-Piero-Antinori/](http://www.winemag.com/April-2000/Exclusive-Interview-with-Marchese-Piero-Antinori/). 2194
- 2195 Wright, M., Chrisman, J., Chua, J., & Steier, L. 2014. Family
2196 enterprise and context. *Entrepreneurship Theory and Practice*,
38(6): 1247–1260. 2197



2177 Zahra, S. 2003. International expansion of US manufacturing
2178 family businesses: The effect of ownership and involvement.
2179 *Journal of Business Venturing*, 18(4): 495–512.
2180 Zucchella, A., & Palamara, G. 2006. Niche strategy and export
2181 performance. *Advances in International Marketing*, 17(1):
2182 63–87.
2183 Zwinkels, R., & Beugelsdijk, S. 2010. Gravity equations: Work-
2184 horse or Trojan horse in explaining trade and FDI patterns
2185 across time and space? *International Business Review*, 19(1):
2186 102–111.
2187

Antonio Majocchi is a full-time Professor of International Business at the University of Pavia (Italy). His main research interests are the internationalization strategies of SMEs and larger firms, and the impact of corporate governance on these strategies. He has held visiting positions at the Northeastern University (US), the University of Valencia (Spain), and Fribourg University (Switzerland).

ABOUT THE AUTHORS

 **Jean-François Hennart** is an Extramural Fellow at CentER,  the Tilburg University. His research focuses on the scope and governance of MNEs (born globals, family firms, emerging market multinationals), as well as on modes of foreign market entry. His 1982 book, *A Theory of Multinational Enterprise*, pioneered the application of transaction cost theory to international business.

Emanuele Forlani is a Junior Assistant Professor in Economics at the University of Bologna. His research focuses on firms' internationalization and competitiveness, and applied industrial organization. He has been visiting researcher at the London School of Economics and is resident researcher at the Centro Studi Luca d'Agliano.

Accepted by Alain Verbeke, Editor-in-Chief, 11 June 2017. This article has been with the authors for two revisions.

UNCORRECTED PROOF

Author Proof

Journal : **41267**

Article : **91**



Author Query Form

Please ensure you fill out your response to the queries raised below and return this form along with your corrections

Dear Author

During the process of typesetting your article, the following queries have arisen. Please check your typeset proof carefully against the queries listed below and mark the necessary changes either directly on the proof/online grid or in the 'Author's response' area provided below

Query	Details Required	Author's Response
AQ1	Table citation 45 has been changed to Table 4 in Table 5 footer. Please check and confirm.	
AQ2	Tables 6a and 6b have been changed to Tables 6 and 7 to ensure sequential order in text. Please check and confirm.	
AQ3	Reference World Values Survey (2010–2014) is cited in text but not provided in the reference list. Please provide reference in the list.	

This version of the article has been accepted for publication, after peer review (when applicable) and is subject to Springer Nature's [AM terms of use](#), but is not the Version of Record and does not reflect post-acceptance improvements, or any corrections. The Version of Record is available online at: <https://doi.org/10.1057/s41267-017-0091-y>