

The impact of family involvement degree on internationalization: Evidence from China

Reporter : Lihua Bi

Lingnan College, Sun Yat-Sen University



SUN YAT-SEN UNIVERSITY
中山大學 嶺南(大學)學院
LINGNAN (UNIVERSITY) COLLEGE



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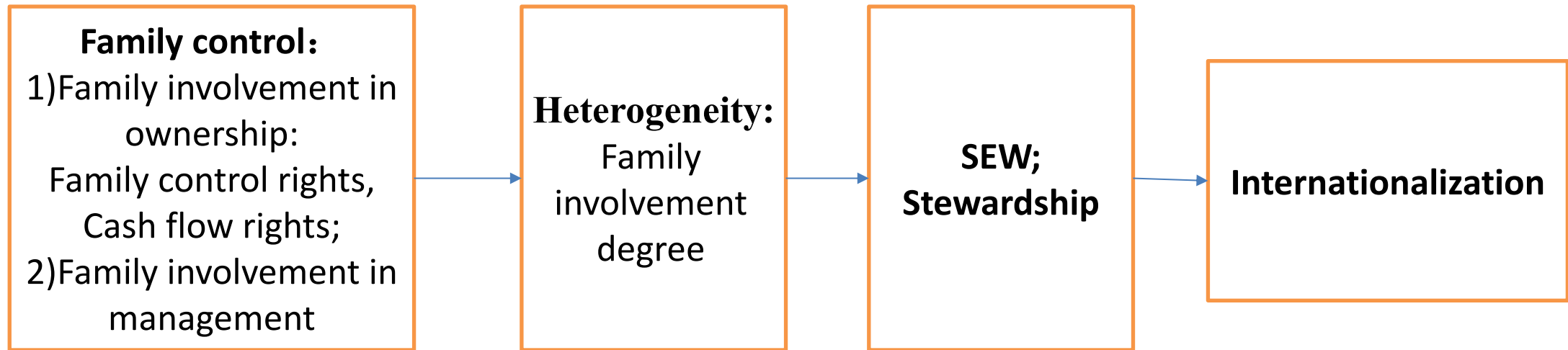
1. Research question

- Family businesses play a major role in driving economic growth throughout the world (Astrachan & Kolenko, 1994; Sharma et al., 1996; Gomez-Mejia et al., 2001; Zahra, 2003).
- However, research on internationalization has mostly relied on samples comprising private firms or small and medium-sized enterprises, and has mainly focused on comparisons of family and nonfamily firms (Arregle et al., 2017; Sciascia et al., 2012).



- **Family involvement:** greater degree of heterogeneity and diversity among family firms——family involvement in **ownership and management** (Banalieva & Eddleston, 2011).
- Particularly in emerging economies: imperfect institutional environments and their weaker protection of property (Shleifer & Vishny, 1997), **family firms typically enhance their control via property and management rights** arrangements such as crossholdings and pyramid structures (Tsao & Lien, 2013).
- Family control rights ——voting rights ; cash flow rights——income rights.
- To maintain control over the operation and decisions: family members to serve in management positions





- Generally, the higher the degree of family involvement in the ownership and management——more SEW——more act as stewards of the firms (Davis et al., 1997), which may make them more likely to adopt risky and long-term-oriented strategies.
- Therefore, it is essential to research the impact of different degrees of family involvement in ownership, control rights, and management on internationalization.



- While current research has focused either on family firms with unilateral family control or on family firms with a 5% or even lower degree of family ownership or with family members who hold the key management positions, neglecting the distribution of ownership and management rights among family members.
- This leads the current researches have obtained positive, negative, or nonlinear results on the effect family involvement on internationalization (Zahra, 2003; Carr & Bateman, 2009; Sciascia et al., 2012; Tsao & Lien, 2013; Liang et al., 2014).
- So, first we define a family firm (whose ultimate control rights can be traced back to a natural person or a family). Then we manually collected data (the degree of family involvement), and analyzed the heterogeneity of family involvement on internationalization .



2. Theory and hypotheses

- **Stewardship theory**: Family businesses have the unique characteristics of stewardship. The deep connections between the family and the business means a large amount at stake such as reputation, family assets (Davis et al., 1997). They are intrinsically motivated by higher-level needs or altruistic motives to act for the collective good of their firms, even at the cost of personal sacrifice (Davis et al., 2000).
- **SEW theory (socioemotional wealth)** : Family involvement is a source of SEW , which focuses on the non-monetary rewards derived by family owners from their firms, such as their emotional connections to the firm, the family values, their altruistic behavior (Gomez-Mejia et al., 2011), and the sense of having a family asset to pass along.



2.1 Family involvement in ownership

- **First**, a higher shareholding portion means that family wealth is concentrated in the enterprises. Lin (2012) found internationalization to help family firms obtain new opportunities for creating value.
- **Second**, with an increase in family control rights, a family will hope to pass on the family business to the next generation to achieve SEW goals such as sustainable development and an enduring family dynasty. Going global is conducive to helping families provide employment, allocate resources and improve the competitiveness(Tihanyi et al., 2003).
- **H1 :The degree of family involvement in ownership is positively associated with internationalization.**



2.2 Family involvement in management

- Based on the **stewardship theory perspective**, compared with nonfamily-firm managers, family managers more often act as stewards of their firms (Davis et al., 1997), reducing opportunistic behaviors. Instead, family managers tend to focus on the long-term interests of the business (Zahra, 2003).
- More family members serving in management **encourages mutual sharing of information and experience** through intense family interactions (Craig and Dibrell, 2006). The information advantage and efficiency of problem-solving promote long-term risk-taking activities.
- **H2: The degree of family involvement in management is positively associated with internationalization.**

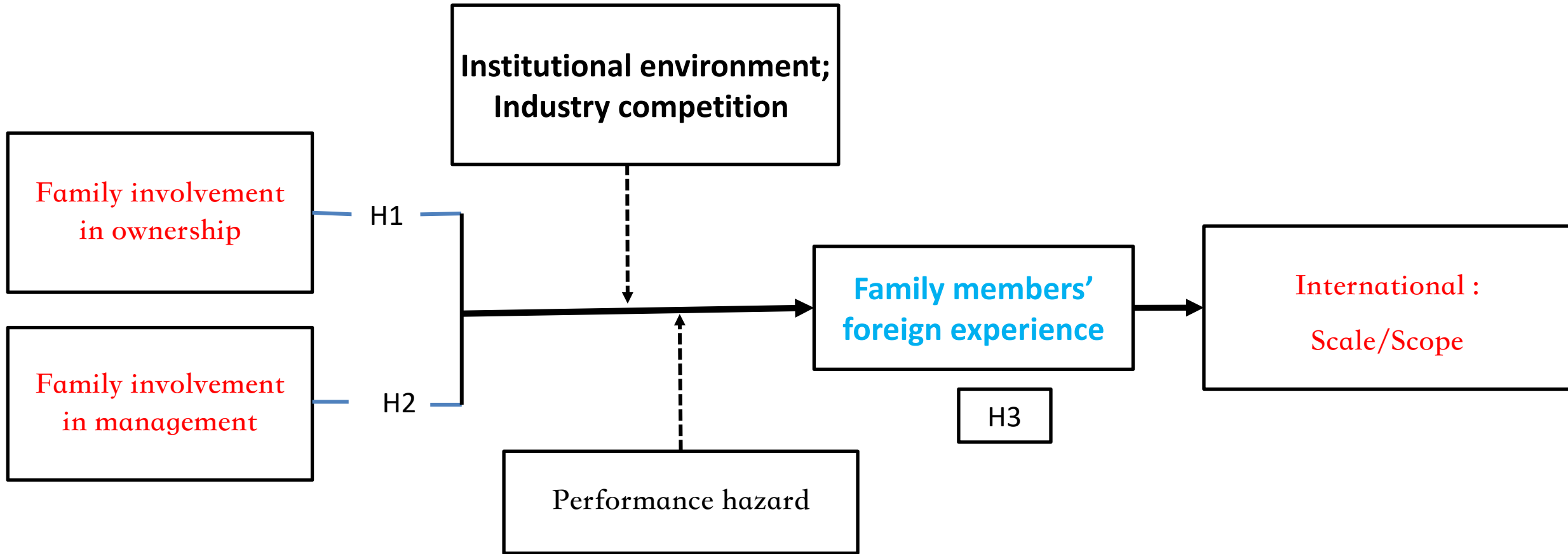


2.3 The mediating role of family members' foreign experience

- Internationalization requires extensive financial, managerial, and knowledge resources to overcome the “liability of foreignness” (Hitt et al., 2006). Family members with foreign experience have a much broader global vision and superior internationalization resources and social networks (Cui et al., 2015; Zhou et al., 2016).
- Ray et al.(2016) found foreign ownership can improve family management capabilities and knowledge; Giannetti et al. (2015) also found that directors with foreign experience facilitate the internationalization of enterprises.
- **H3: Family members with foreign experience mediate the relationship between family involvement and internationalization.**



Research model



3. Research design

According to La Porta (1999) , we compute family involvement degree as follows:

- **Family involvement in ownership:**

(1) Family control rights = $\sum_{i=1}^m \prod_{j=1}^n (a_{ij})$

(2) Family cash flow rights = $\sum_{i=1}^m \prod_{j=1}^n (a_{ij})$

- **Family involvement in management:** the ratio of family members in the top management teams.

According to Sullivan (1994), internationalization:

(a) international scale, the ratio of foreign sales to total sales;

(b) international scope, the ratio of overseas subsidiaries to total subsidiaries.



- **Model:**

Internationalization

$$\begin{aligned} &= \alpha_0 + \alpha_1 \textit{Family_involvement} + \alpha_2 \textit{Foreign_ownership} \\ &+ \alpha_3 \textit{Firmsize} + \alpha_4 \textit{LnAge} + \alpha_5 \textit{Lev} + \alpha_6 \textit{Nonfamily_ownership} \\ &+ \alpha_7 \textit{Growth} + \textit{Industry Effects} + \textit{Year Effects} + \varepsilon_{i,t} \end{aligned}$$

- **Sample :**

Use Chinese family firms listed on China's Small and Medium-sized Board and Second-board Market for the period spanning 2004 to 2012 as samples.



4.Results

Baseline results:

Table 4 Family involvement and internationalization (scale and scope)

	(1)	(2)	(3)	(4)	(5)	(6)
	Scale	Scope	Scale	Scope	Scale	Scope
Family_ownership1	0.0618** (2.03)	0.0849*** (4.71)				
Family_ownership2			0.0645** (2.17)	0.0906*** (5.17)		
Family_management					0.0906*** (3.02)	0.0348* (1.92)
Control variables	Yes	Yes	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes	Yes	Yes
_cons	-0.1509 (-1.12)	-0.5239*** (-7.79)	-0.1701 (-1.24)	-0.5501*** (-8.05)	-0.1562 (-1.17)	-0.4965*** (-7.49)
N	2500	2400	2500	2400	2500	2400
r ² _a	0.1524	0.1432	0.1526	0.1453	0.1542	0.1372
F	31.1783	15.7781	31.1293	15.6308	29.9326	14.5187



The mediating role of family members' foreign experience

- First stage:

Table 5 Family involvement and family members' foreign experience

	(1)	(2)	(3)
	Foreign_experience	Foreign_experience	Foreign_experience
Family_ownership1	1.5250*** (4.00)		
Family_ownership2		1.5313*** (4.24)	
Family_management			1.3406*** (3.84)
Control variables	Yes	Yes	Yes
Industry	Yes	Yes	Yes
Year	Yes	Yes	Yes
_cons	-6.3953*** (-3.57)	-6.8024*** (-3.77)	-6.2480*** (-3.48)
N	2500	2500	2500
Pseudo R ²	0.1009	0.1017	0.1003
LR chi ²	270.7061	272.7286	269.1014



Second stage:

Table 6 The mediating role of family members' foreign experience

	(1) Scale	(2) Scope	(3) Scale	(4) Scope	(5) Scale	(6) Scope
Foreign_experience	0.0992^{***} (7.89)	0.0785^{***} (9.79)	0.0994^{***} (7.89)	0.0782^{***} (9.75)	0.0987^{***} (7.83)	0.0800^{***} (9.91)
Family_ownership1	0.0446 (1.43)	0.0677^{***} (3.56)				
Family_ownership2			0.0356 (1.17)	0.0687^{***} (3.72)		
Family_management					0.0636^{**} (2.08)	0.0087 (0.44)
Control variables	Yes	Yes	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes	Yes	Yes
N	2500	2300	2500	2300	2500	2300
r ² _a	0.1739	0.1874	0.1737	0.1879	0.1747	0.1833
F	25.2238	16.0316	25.1978	16.0021	24.9911	15.9093



5. Further analysis

- Besides, Lin and Wang (2019) and Arregle et al. (2012) found that environmental uncertainty, performance, and research and development (R&D) investment affect the degree of internationalization.
- So we also **examine the moderating role of institutional environment ,industry competition, performance hazard and R&D investment.**



- Table 7 The moderating role of institutional environment

	(1) Scale	(2) Scope	(3) Scale	(4) Scope	(5) Scale	(6) Scope
Family_ownership1	-0.0826* (-1.90)	0.0858*** (3.35)				
Market	-0.0602** (-2.13)	0.0315* (1.89)	-0.0392 (-1.54)	0.0206 (1.42)	0.0200 (1.51)	0.0146* (1.72)
Market×Family_ownership1	0.2303*** (4.01)	0.0089 (0.25)				
Family_ownership2			-0.0762* (-1.74)	0.0659*** (2.62)		
Market×Family_ownership2			0.2051*** (3.67)	0.0350 (1.05)		
Family_management					-0.0185 (-0.42)	-0.0476** (-2.03)
Market×Family_management					0.1581*** (2.72)	0.1262*** (3.52)
Control variables	Yes	Yes	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes	Yes	Yes
_cons	-0.0222 (-0.17)	-0.4536*** (-6.45)	-0.0347 (-0.26)	-0.4649*** (-6.47)	-0.0663 (-0.51)	-0.4141*** (-5.96)
N	2500	2400	2500	2400	2500	2400
r ² _a	0.1603	0.1510	0.1598	0.1520	0.1594	0.1490
F	23.9464	13.0191	24.3612	12.5688	26.1654	12.6833



Table 8 The moderating role of industry competition

	(1) Scale	(2) Scope	(3) Scale	(4) Scope	(5) Scale	(6) Scope
Family_ownership1	-0.0684 (-1.56)	0.0438* (1.80)				
HHI	-0.0757*** (-2.68)	-0.0131 (-0.92)	-0.0319 (-1.24)	-0.0117 (-0.97)	-0.0038 (-0.28)	0.0026 (0.38)
HHI×Family_ownership1	0.2333*** (4.05)	0.0619** (2.04)				
Family_ownership2			-0.0284 (-0.66)	0.0494** (2.15)		
HHI×Family_ownership2			0.1532*** (2.69)	0.0647** (2.29)		
Family_management					-0.0337 (-0.83)	-0.0039 (-0.16)
HHI×Family_management					0.2125*** (3.64)	0.0818** (2.36)
Control variables	Yes	Yes	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes	Yes	Yes
_cons	-0.0360 (-0.27)	-0.5431*** (-8.64)	-0.0658 (-0.48)	-0.5675*** (-8.77)	-0.0678 (-0.52)	-0.5196*** (-8.33)
N	2500	2400	2500	2400	2500	2400
r ² _a	0.1577	0.1566	0.1550	0.1595	0.1583	0.1511
F	23.8981	16.0129	25.4133	16.1130	26.0856	15.5482



Table 9 The moderating role of R&D investment

	(1) Scale	(2) Scope	(3) Scale	(4) Scope	(5) Scale	(6) Scope
Family_ownership1	-0.0898 (-1.43)	-0.1449 (-1.51)				
RD	-3.6290*** (-3.10)	0.4182 (0.20)	-3.6267*** (-3.80)	-0.6675 (-0.37)	-0.5501 (-0.95)	1.5527* (1.75)
RD×Family_ownership1	8.5672*** (3.33)	2.2371 (0.51)				
Family_ownership2			-0.0956 (-1.61)	-0.1479 (-1.62)		
RD×Family_ownership2			9.7071*** (4.08)	5.2311 (1.30)		
Family_management					0.0174 (0.28)	0.0136 (0.18)
RD×Family_management					4.1656 (1.52)	-0.7397 (-0.23)
Control variables	Yes	Yes	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes	Yes	Yes
_cons	-0.1297 (-0.86)	-0.2124 (-1.04)	-0.1522 (-1.00)	-0.2505 (-1.21)	-0.1913 (-1.29)	-0.2967 (-1.52)
N	2200	605	2200	605	2200	605
r ² _a	0.1500	0.1621	0.1528	0.1599	0.1490	0.1564
F	27.8504	6.9312	27.8714	6.8974	27.7264	7.3981



- Table 10 The moderating role of performance hazard

	(1) Scale	(2) Scope	(3) Scale	(4) Scope	(5) Scale	(6) Scope
Family_ownership1	0.1146*** (2.87)	0.1152*** (5.04)				
Performance_hazard	0.0698** (2.54)	0.0274* (1.73)	0.0826*** (3.39)	0.0331** (2.44)	0.0208 (1.60)	0.0073 (0.97)
Performance_hazard × Family_ownership1	-0.1133** (-1.99)	-0.0653* (-1.95)				
Familyownership2			0.1389*** (3.66)	0.1328*** (5.84)		
Performance_hazard × Family_ownership2			-0.1572*** (-2.85)	-0.0872*** (-2.73)		
Family_management					0.1005** (2.43)	0.0635** (2.54)
Performance_hazard × Family_management					-0.0242 (-0.38)	-0.0645* (-1.72)
Control variables	Yes	Yes	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes	Yes	Yes
_cons	-0.1977 (-1.45)	-0.5337*** (-7.85)	-0.2307* (-1.67)	-0.5669*** (-8.23)	-0.1810 (-1.34)	-0.5024*** (-7.48)
N	2500	2400	2500	2400	2500	2400
r ² _a	0.1541	0.1439	0.1559	0.1474	0.1547	0.1377
F	29.6015	15.0989	29.8613	14.8336	27.9745	13.6460



6.Conclusion

- (1) Family involvement in ownership and management are positively associated with the scale and scope of internationalization, and family members' foreign experience mediates this relationship.
- (2) Moreover, we find that family firms located in better institutional environments, with greater industry competition or higher R&D investment are more likely to internationalize. And when family firms are facing performance hazard, they are less likely to internationalize.



- **Contributions:**

- (1) First, drawing on the stewardship and SEW theories, we examine the impact of family involvement in ownership and management on internationalization, which expands the field of research **on the heterogeneity of family firms**.
- (2) Our study contributes to the literature on internationalization. To date, research on internationalization strategies has mainly focused on **the direct impact of family involvement**. This paper considers **the mediation mechanism of the overseas experience of family members**.
- (3) Our study enriches research on the influence of **R&D investment or environmental heterogeneity** on internationalization (Arregle et al., 2012; Lin & Wang, 2019).
- (4) Fourth, we use **Chinese family firms** as our research sample, thus providing new evidence based on **the world's largest emerging economy** and further enriching the field of internationalization (Liang et al., 2014; Ray et al., 2017).



Thanks!



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