



University of Navarra

# *Working Paper*

---

WP No 230

June, 1992

INTERNATIONALIZATION OF  
FAMILY BUSINESSES

Miguel A. Gallo\*  
M<sup>a</sup> José Estapé\*\*

---

*Published by the Chair of Family Business*

\* Professor, General Management, IESE

\*\* Research Assistant

IESE Business School - Universidad de Navarra

Avda. Pearson, 21 - 08034 Barcelona. Tel.: (+34) 93 253 42 00 Fax: (+34) 93 253 43 43

Camino del Cerro del Águila, 3 (Ctra. de Castilla, km. 5,180) - 28023 Madrid. Tel.: (+34) 91 357 08 09 Fax: (+34) 91 357 29 13

Copyright© 1992, IESE Business School.

## **INTERNATIONALIZATION OF FAMILY BUSINESSES**

(Exploration of the differences between Family Businesses and Non-Family Businesses)

### **Abstract:**

The internationalization of Family Businesses (FBs), that is, the peculiarities of FBs when it comes to designing and implementing the “export and internationalization” process, the differences between FBs and Non-Family Businesses (NFBs), and possible reasons for such differences, is a relatively neglected field of study. As this paper is based on a sample of just 37 companies, consisting of 62% FBs and 38% NFBs, the results reported here should be regarded as purely exploratory. Nevertheless, the data obtained from this sample support the view that FBs start the internationalization process later and progress more slowly than NFBs.

**Keywords:** Family business, internationalization, business strategy, export, import

## INTERNATIONALIZATION OF FAMILY BUSINESSES

(Exploration of the differences between Family Businesses and Non-Family Businesses)

### Introduction

The internationalization of Family Businesses (FBs), that is, the peculiarities of FBs when it comes to designing and implementing the “export and internationalization” process, as well as the differences between FBs and Non-Family Businesses (NFBs), and possible reasons for such differences, is a relatively neglected field of study.

In their study of a sample of 746 companies, obtained randomly from among the universe of Spanish companies with a total sales turnover exceeding 200 million pesetas in 1988, Gallo and García Pont (1989) found the following data for exports as a percentage of sales and total exports by FBs.

Sales turnover: (million pesetas)	200-500		501-1,000		Entire sample	
	FB	NFB	FB	NFB	FB	NFB
Exports as a percentage of sales	5.99	7.1	6.83	6.06	8.17	9.01

Sales turnover: (million pesetas)	200-500	501-1,000	1,001-5,000	More than 5,000
Number of FBs (in percent)	74	71	69	53
95% confidence interval (in percent)	68-78	65-77	52-82	18-86
Sales of FBs as a percentage of total sales of the group of FBs & NFBs	74	71	67	48
95% confidence interval (in percent)	70-78	65-77	54-80	15-81
Exports of FBs as a percentage of total sales of the group of FBs & NFBs	70	58	56	45
95% confidence interval (in percent)	66-74	51-64	41-70	12-78

Gallo and Estapé (1991), in a comparison of the FBs and NFBs among the 1,000 largest Spanish companies by sales turnover, found the following information upon dividing the sample into 5 groups of 200 companies:

Sales turnover between: (million pesetas)	740,000 and 32,788		32,500 and 18,621		18,600 and 13,200		13,155 and 10,000		10,000 and 8,000		Entire sample	
	FB	NFB	FB	NFB	FB	NFB	FB	NFB	FB	NFB	FB	NFB
Exports as a percentage of sales	3	16	10	12	10	17	13	14	12	14	8	17

Sales turnover between: (millon pesetas)	740,000 and 32,788	32,500 and 16,621	18,600 and 13,200	13,155 and 10,000	10,000 and 8,000	Entire sample
Number of FBs (in percent)	10	12	20	22	19	17
Sales of FBs as a percentage of total group sales	6	12	20	22	19	10
Exports by FBs as a percentage of total group sales	2	11	15	23	22	6

Although corporate internationalization has more dimensions than the level of exports (for example, direct investment abroad, association with foreign investors, technology transfer, strategic alliances, multinational origin of managers and shareholders, etc.), within the internationalization process of companies, exporting is usually one of the first steps taken and the volume of exports is one of the main indicators of the degree of internationalization achieved.

The above data suggest that the smaller FBs tend to much less internationalized than the NFBs, that the large FBs export significantly less than the NFBs, that the behavior of medium-sized FBs and NFBs is similar, and that, on the whole, NFBs export somewhat more than FBs.

The purpose of this paper, based on a sample of 37 companies, is to improve our ability to identify differences, not only in export levels but also in rigidity towards internationalization, which Luostarinen and Gallo (1992) assume is greater in FBs than in NFBs, due to FBs' having a more local culture and a greater resistance to change.

Given the size of the sample and the fact that its composition does not allow any comparison between FBs and NFBs of the same size or operating in the same industry, the results of this study should be regarded as purely exploratory, expanding the body of information available on the subject and helping to find new lines of study.

## Features of the Sample

The sample is composed of 37 Argentinian companies that answered a questionnaire sent in 1991 to 300 exporting companies whose CEO had done an advanced training course at IAE, in Buenos Aires.<sup>1</sup>

Considering Family Businesses to be all firms in which a family owns more than 51% of the shares, the distribution of the sample companies between NFBs and FBs is as follows:

	Number	Percentage
Family Business	23	62%
Non-Family Business	14	38%
Total	37	100%

In 6 of the 14 NFBs, most of the capital stock belonged to foreigners; in the remaining 8, the owners were Argentinians.

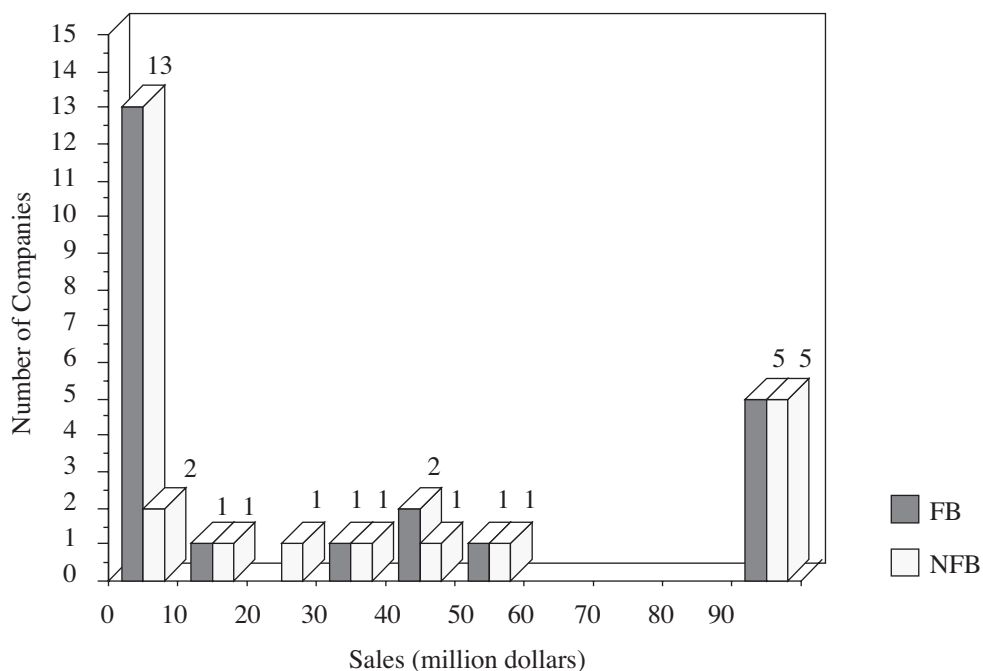
In the case of the Family Businesses, the percentage of shares held by a single family was distributed as follows:

% Shares	No. Companies	Percentage
100	17	74%
≥ 90 < 100	2	9%
≥ 80 < 90	1	4%
≥ 70 < 80	1	4%
≥ 60 < 70	2	9%
	23	100%

The sales turnover of the firms included in the sample ranges between \$687 million and \$650,000, as follows:

<sup>1</sup> The IAE (Instituto de Altos Estudios Empresariales) is considered to be one of the leading business schools in Latin America.

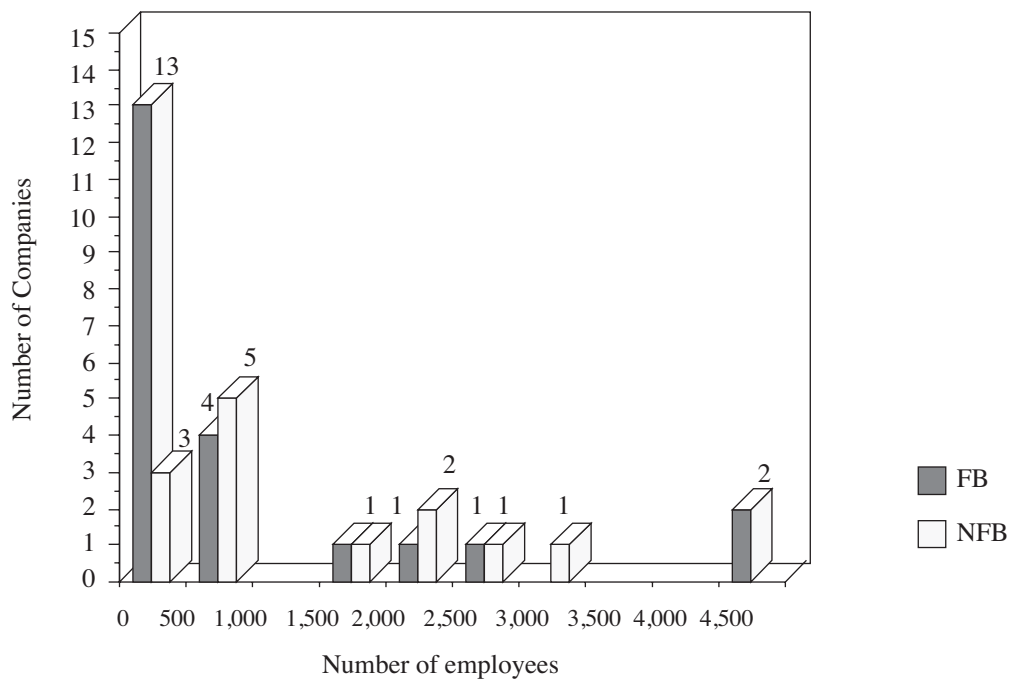
### Sales



(Two NFBs did not answer this question.)

The workforce ranges between 6,567 and 11 employees, as follows:

### Workforce



(One FB and one NFB did not answer this question.)

A comparison of the FBs and NFBs as regards sales volume and number of employees gives the following results:

<b>Entire sample</b>	<b>Total</b>	<b>FB</b>	<b>NFB</b>
<b>Number of companies</b>	37 100%	23 62%	14 38%
<b>Combined sales</b> (million dollars)	3,347 100%	1,313 39%	2,034 61%
<b>Mean sales per company<sup>2</sup></b> (million dollars)	96	57	169
<b>Combined workforce</b> (number of people)	40,062 100%	24,146 60%	15,916 40%
<b>Mean workforce per company<sup>2</sup></b> (number of people)	1,145	1,098	1,224
<b>Mean sales per person</b> (in dollars)	83,546	54,378	127,796

The following table corresponds to a “subsample” from which 15 small companies (annual sales less than 10 million dollars) have been excluded.

<b>Subsample of companies with sales greater than 10 million \$</b>	<b>Total</b>	<b>FB</b>	<b>NFB</b>
<b>Number of companies</b>	20 100%	10 50%	10 50%
<b>Combined sales</b> (million dollars)	3,126 100%	1,252 40%	1,875 60%
<b>Mean sales per company<sup>2</sup></b> (million dollars)	156	125	187
<b>Combined workforce</b> (number of people)	34,636 100%	22,434 65%	12,202 35%
<b>Mean workforce per company<sup>2</sup></b> (number of people)	1,732	2,243	1,220
<b>Mean sales per person</b> (in dollars)	90,262	55,791	153,639

<sup>2</sup> The mean values for “Sales” and “Workforce” apply to the companies that answered the questionnaire.

In line with previous studies, the percentage of FBs in this sample is that usually found in random samples (Gallo & García Pont, 1988), but considerably higher than that found in samples that rank a country's leading companies by size.<sup>3</sup>

Upon grouping the companies in the general sample by industry, the following distribution is obtained:

Industry	FB		NFB	
	no.	%	no.	%
Miscellaneous activities	2	50%	2	50%
Food	3	43%	4	57%
Drink	1	100%	0	0%
Cement	1	50%	1	50%
Construction	1	50%	1	50%
Mechanical constructions	2	100%	0	0%
Consulting	2	100%	0	0%
Publishing	1	33%	2	67%
Containers and packaging	1	100%	0	0%
Finance	0	0%	2	100%
Pharmaceutical material	2	100%	0	0%
Metallurgy	1	100%	0	0%
Oil	1	100%	0	0%
Chemicals	2	67%	1	33%
Insurance	1	100%	0	0%
Textile	1	50%	1	50%

<sup>3</sup> 35% of the 500 top industrial companies in the United States are FBs (*Business Week*, 1988). Between 18% and 27% of the North American corporations included in the PIMS database are FBs (Ward, 1983). 17% of the top 1,000 companies in Spain are FBs (Gallo & Estapé, 1991). 76% of the top 8,000 companies in England are FBs (Leach, 1990).



### Exports and Imports: Comparison between FBs and NFBs

The following table gives the main data for imports and exports for the general sample:

Entire sample	Exports			Imports		
	Total	FBs	NFBs	Total	FBs	NFBs
<b>No. of companies</b>	37 100%	23 62%	14 38%	37 100%	23 62%	14 38%
<b>Combined exports/imports (million dollars)</b>	346 100%	121 35%	225 65%	87 100%	37 43%	50 57%
<b>Mean exports/imports per company (million dollars)</b>	9.35	5.28	16.10	2.35	1.62	3.59
<b>Percentage of sales</b>	10.34%	9.25%	11.08%	2.60%	2.84%	2.47%
<b>Mean exports/imports per person (million dollars)</b>	8.640	5.030	14.160	2.170	1.540	3.160

The data corresponding to the subsample in which the small-sized companies have been excluded are shown in the table below:

Subsample of companies with sales above 10 million \$	Exports			Imports		
	Total	FB	NFB	Total	FB	NFB
<b>No. of companies</b>	20 100%	10 50%	10 50%	20 100%	10 50%	10 50%
<b>Combined exports/imports (million dollars)</b>	289 100%	120 41%	169 59%	74 100%	32 43%	42 57%
<b>Mean exports/imports per company (million dollars)</b>	14.44	11.96	16.93	3.70	3.17	4.24
<b>Percentage of sales</b>	9.24%	9.56%	9.03%	2.37%	2.53%	2.26%
<b>Mean exports/imports per person (million dollars)</b>	8.34025	5.33175	13.8715	2.13906	1.4143	3.47157

An analysis of the two tables elicits the following comments:

- In spite of the origin of the sample (exporting companies), as in the samples quoted in the introduction, the small FBs “contribute” little to the sample’s total export volume. A “contribution” of 35%, which is the percentage exports by all the FBs in the sample, increases to 41% when the small-sized companies are excluded from the sample. The level of exports as a percentage of total sales by all the FBs in the sample (9.25%) increases to 9.56% when the small-sized companies are excluded.
- The larger the FBs and NFBs being compared, the greater the similarity in the volume of exports and imports as a percentage of total sales.
- Exports per person are markedly lower in the FBs than in the NFBs, but, as can be seen in the table below, it must be remembered that, as in larger samples (Gallo & Estapé, 1991), it is very likely that the FBs in this sample have a lower degree of vertical integration and lower investment per employee, as sales per employee are considerably lower than in the NFBs in this sample, too.

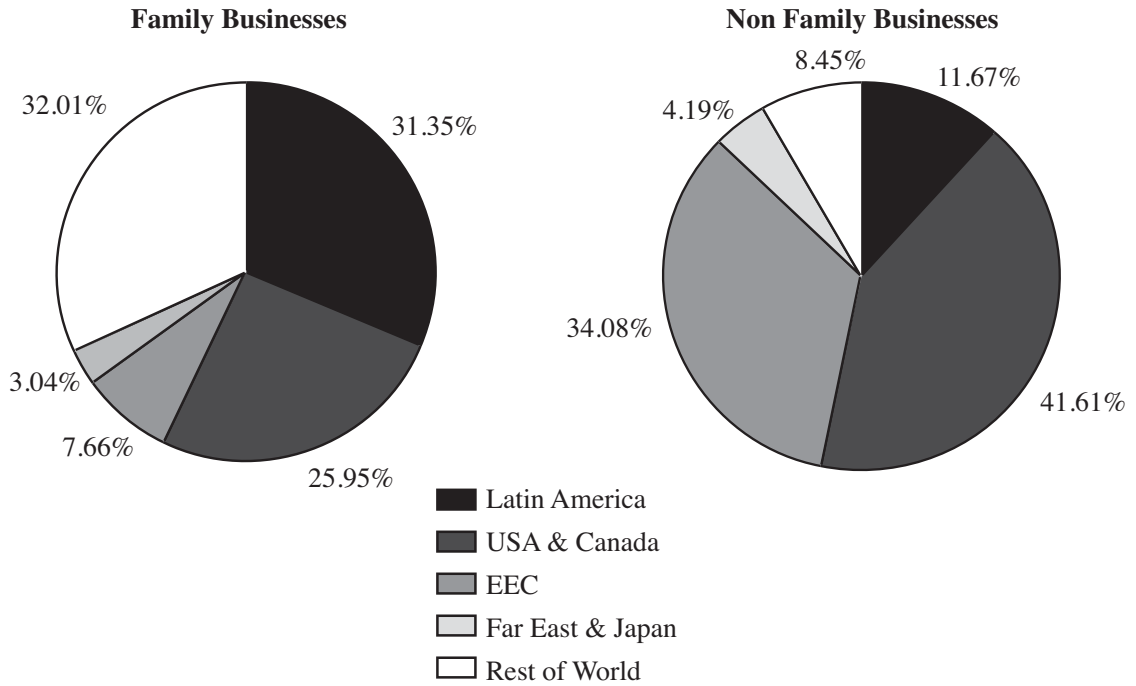
		<b>FB</b>	<b>NFB</b>	<b>NFB/FB</b>
Entire Sample	Mean Sales per person (dollars)	54,378	127,796	2.35
	Mean Exports per person (dollars)	5,030	14,160	2.82
Subsample	Mean Sales per person (dollars)	55,791	153,639	2.75
	Mean Exports per person (dollars)	5,330	13,870	2.6

The comparison of the “Exports/Imports” ratio, which tends to increase as a company increases its degree of vertical integration, its sales activity on foreign markets and its use of local production factors, shows –as is indicated by the following table– that the FBs, per unit sale, import more than the NFBs, which suggests that the NFBs make greater use of local production factors.

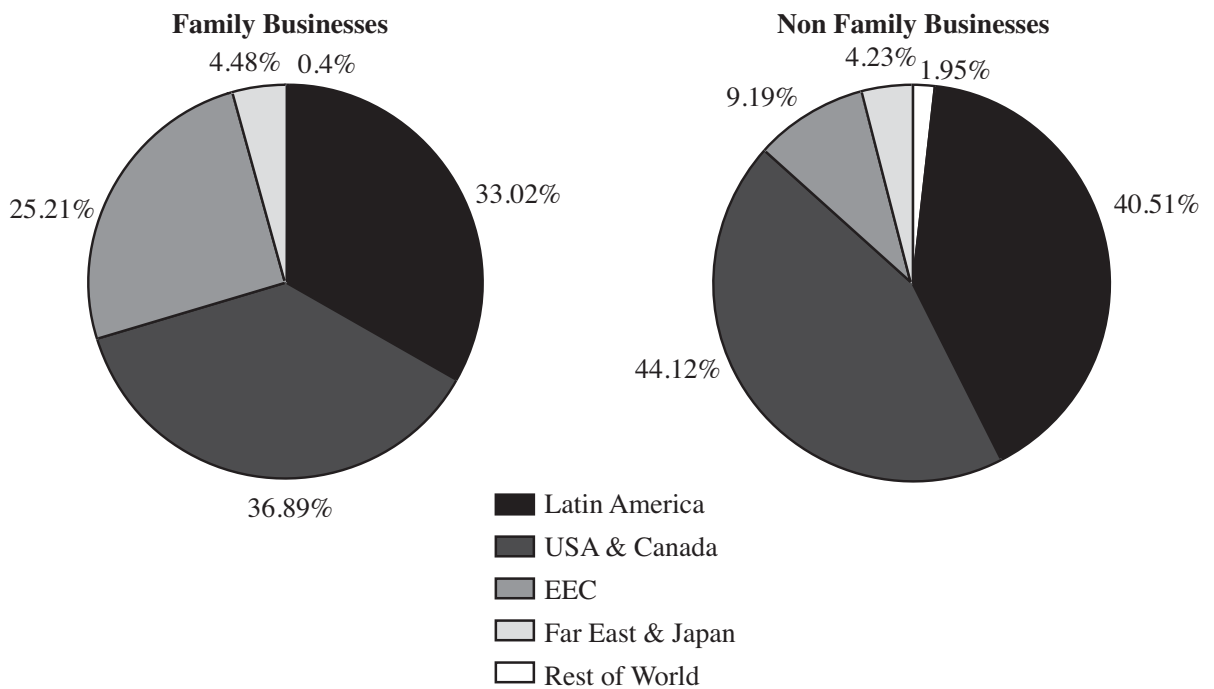
		<b>FB</b>	<b>NFB</b>	<b>NFB/FB</b>
<u>Exports</u> <u>Imports</u>	Entire Sample	3.26	4.49	1.38
	Subsample	3.77	4.00	1.06

As regards the “Destination of exports” and “Origin of imports”, the comparison between the FBs and NFBs in the general sample gives the following results:

**Destination of Exports**



**Origin of Imports**



A substantial difference will be observed in the percentage of exports to Latin America by the FBs (31.35%) and the NFBs (11.67%), which is consistent with the hypothesis that, as Latin America is an area of less “psychological distance” for Argentinian FBs, they are likely to direct their internationalization towards “psychologically close” countries.

With regard to this concept of psychological distance, it would be interesting to ascertain why the FBs export so little to the EEC, considering that a large part of the Argentinian population is of Spanish or Italian descent and that the EEC accounts for a large part of their imports. Perhaps it is due to the types of products exported by Argentinian companies, the difficulties in exporting agricultural produce due to EEC regulations, the lack of practical development of the Hispano-Argentinian and Italo-Argentinian treaties, and Argentina’s traditionally greater economic and financial dependence on the United States.

### Other Components of Internationalization

In order to obtain more information on other aspects of internationalization, such as the type and duration of the relationships held by the companies, the questionnaire included a further two blocks of questions.

The first block was aimed at finding out more about the existence, duration (years) and importance (high, moderate, low) for the company of four types of international relationships: Investments abroad. Purchase of technology. Sale of technology. Other strategic alliances.

Family Businesses (23 Companies)	Importance (a)			N. A. (b)	Years (c)
	High	Medium	Low		
1. Investment abroad by the company (number of answers)	1	3	4	15	9
2. Purchases of technology, know-how, etc. (ditto)	2	9	3	9	23
3. Sales of technology, know-how, etc. (ditto)	0	0	6	17	10
4. Strategic alliances (ditto)	2	5	2	14	9

(a) The figures indicate the number of respondents that gave each score for importance.

(b) N.A. Not answered.

(c) Average number of years of experience with the partner (max/min).

Non Family Businesses (14 Companies)	Importance (a)			N. A. (b)	Years (c)
	High	Medium	Low		
1. Investment abroad by the company (number of answers)	2	0	4	8	21
2. Purchases of technology, know-how, etc. (ditto)	3	5	1	5	42
3. Sales of technology, know-how, etc. (ditto)	0	1	5	8	3
4. Strategic alliances (ditto)	1	2	2	9	30

- (a) The figures indicate the number of respondents that gave each score for importance.  
(b) N.A. Not answered.  
(c) Average number of years of experience with the partner (max/min).

The higher levels of importance given by the NFBs to all four types of relationships (which are different from the relationships created in traditional export situations), the number of “not answered” questions, and the longer experience of NFBs (except in “sales of technology”, which is not surprising, as several NFBs are subsidiaries of foreign companies), suggest that FBs center their internationalization much more on the export of physical goods and less on investing abroad, selling technology, or forming international alliances with other companies.

The second block was aimed at ascertaining how important the relationships with several types of organizations usually aimed at promoting overseas trade had been for the companies’ internationalization and how important those relationships were going to be in the future.

Family Businesses (23 Companies)	Past importance (a)			N.A. (b)	Future importance (a)			N.A. (b)
	High	Medium	Low		High	Medium	Low	
1. Official Argentinian bodies (number of answers)	9	4	5	5	5	5	7	6
2. Official bodies in other countries (ditto)	1	0	6	16	1	3	2	17
3. Argentinian employers associations (ditto)	7	7	5	4	8	7	3	5
4. Services companies (ditto)	3	6	6	8	6	4	3	10

- (a) The figures indicate the number of respondents that gave each score for importance.  
(b) N.A.: Not answered.

Non Family Businesses (14 Companies)	Past Importance (a)			N.A. (b)	Future Importance (a)			N.A. (b)
	Alta	Medium	Low		Alta	Medium	Low	
1. Official Argentinin bodies (number of answers)	4	3	2	5	3	2	4	5
2. Official bodies in other countries (ditto)	0	0	2	12	0	1	1	12
3. Argentinian employers associations (ditto)	6	3	3	2	7	2	3	2
4. Services companies (ditto)	3	2	2	7	2	4	1	7

(a) The figures indicate the number of respondents that gave each score for importance.  
(b) N.A.: Not answered.

These answers suggest that, in comparison with the NFBs, the FBs have less experience and have progressed less in the internationalization process. In fact, they still give considerable importance to support from government bodies, which are no longer so “useful” for the NFBs, as they have evolved beyond that stage in their internationalization process. FBs rely less on services companies.

## Conclusions

The data provided by this sample of companies add support to the statement that FBs are more “local” in character than NFBs. In other words, they tend to be less internationalized, to start the internationalization process later, to progress at a slower rate, and to target psychologically closer markets.

In a world in which globalization of business seems inevitable and most companies will have to grow and evolve to survive, it would be desirable to ascertain the reasons for FBs’ inflexible approach to internationalization.

As FBs, numerically speaking, represent a majority of the companies in any developed country and have a very significant impact on the national economy, in order to promote complete internationalization by FBs, we need to know the answers to the following questions: Is this lack of flexibility due to FBs’ corporate culture? Is it due to the dynamics of the growth phases, succession problems, or the structural crises that sometimes mark the development of FBs? Is there any way we can reduce that inflexibility and speed up the internationalization process?

**REFERENCES**

- Business Week*. "The new nepotism: Why dynasties are making a comeback". April, 1988.
- Gallo, Miguel A. and Estapé, María José. "La Empresa Familiar entre las 1000 mayores empresas españolas". IESE, 1991.
- Gallo, Miguel A. and García Pont, Carlos. "The Family Business in the Spanish Economy". IESE, Working Paper No. 143, 1988.
- Johanson, J. and Vahlne, J.E. "The Internationalization Process of the Firm". *Journal of International Business Studies*, 1977.
- Luostarinen, R. "Lateral Rigidity in International Business Decision-Making". Helsinki School of Economics, FIBO working paper, 1978.
- Luostarinen, R. and Gallo, M.A. "Internationalization: a challenging change for family business". Proceedings of the 2nd Family Business Network Conference, Barcelona 1992.
- Ward, John L. "The Impact of private ownership on marketing strategy and performance: A first look at the PIMS data base". Loyola University.