Venturing beyond the backyard: Growing the family business internationally

Report prepared for Family Business Australia (South Australian chapter)

by

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List of abbreviations

CEO	Chief Executive Officer
EMDG	Export Market Development Grant
EO	Entrepreneurial Orientation
FBA (SA)	Family Business Australia (South Australian Chapter)
FTAs	Free Trade Agreements
Non-SMFE	SME that is not a family business
SME	Small-to-Medium-Sized Enterprise
SMFE	Small-to-Medium-Family-Owned and Managed Enterprise
ROTA	Return on Total Assets

Executive summary

Over the last two decades, Australian Small-to-Medium-Sized Family-owned Enterprises (SMFEs) have been faced with substantial changes in their competitive environment as the Australian government has successfully negotiated Free Trade Agreements (FTAs) with other countries. The ability of the Australian economy to benefit from these agreements is dependent on SMFEs identifying opportunities and exploiting their competitive advantage in the international marketplace. However of all the businesses in Australia, of which 67 percent are family businesses, only four percent are engaged in exporting which is well below that of most European countries and Canada. As a consequence, the purpose of this study was to explore three issues:

- Are SMFEs taking advantage of growth opportunities in the international marketplace?
- What effect has international expansion had on SMFEs?
- What factors influence the ability of SMFEs to grow internationally?

Although the Australian government has implemented a range of strategies to substantially increase the number of exporting businesses, the results of this study suggest that SMFEs face unique barriers to taking advantage of international growth opportunities. Specifically, compared to their non-family counterparts, SMFEs are less likely to venture into the international marketplace. Furthermore, those that do, do so to a lesser degree when compared to non-SMFEs. This suggests that policy initiatives directed towards the internationalisation of family firms are warranted.

With regard to the benefits of international growth, the study’s findings suggest that, compared to solely focusing on the domestic marketplace, there are some financial benefits to be gained by SMFEs in venturing overseas. These included superior financial performance, and higher growth rates in sales and total assets. These benefits, however, were dependent on having a long-term commitment to internationalisation, as well as the financial resources and managerial capabilities required for international growth. The changes brought about by internationalisation improved the overall competitiveness of SMFEs, enabling them to successfully compete with their domestic and international competitors. However, internationalisation was found to place substantial strain on the family unit, particularly when the firm had limited managerial capabilities, and was often a trigger for conflict within the family and the business.

Although SMFEs may have had an ongoing commitment to internationalisation, their ability to successfully grow internationally was dependent on the ability to configure their resources to create globally relevant capabilities. Production capabilities, international network relationships and overcoming a ‘production mindset’ to build the requisite managerial and marketing capabilities were all found to be critical to the international growth of SMFEs. Marketing capabilities were particularly important for transforming SMFEs from ‘hidden champions’ to high-profile international businesses.

This report concludes with a discussion of the implications of this study’s findings for SMFE owners looking to grow internationally and for policy makers on how SMFEs can be better supported in their international pursuits.

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This report has been prepared by Dr. Chris Graves of the University of Adelaide.

This research would not have been possible without the willingness of a number of family businesses and others to participate in the study. During this research I have met a number of inspirational family business leaders, through whom I have become aware of the significant contribution that Australian family businesses make to Australia’s economic and social fabric.

The Australian Bureau of Statistics permitting access to the confidentialised BLS, and the financial assistance provided by the Australian Research Council and the South Australian Chapter of Family Business Australia, are gratefully acknowledged. The assistance provided by Dr. Jill Thomas (University of Adelaide), Chris Johnston (former chairman of FBA[SA]) and Alan Reddrop (Department of Trade and Economic Development) in various aspects of the study is also acknowledged. The assistance provided by Professor Richard McMahon (Flinders University of South Australia), in “cleaning up” the Business Longitudinal Survey data is gratefully acknowledged.

1.1 Background to the study

Since the 1970s, the pace of the globalisation of commerce has been hastened by the widespread adoption of neoclassical economics (the invisible hand), the importance of economies of scale, and significant advances in technology. On the 11th of September 2000, the Australian Prime Minister, John Howard, spoke at the World Economic Forum outlining Australia's position on globalisation. He argued that globalisation is the ticket to prosperity as it can lead to 'more jobs, more investment and ultimately stronger sustainable economic growth'. Australia must embrace globalisation as it 'is presenting Australian business with exciting new opportunities' and 'enables Australian businesses to find new markets for its *[sic]* products, attract international capital to develop its economic potential, and access better and cheaper business inputs to make domestic enterprises globally competitive.'[1]

Competing globally means competing with world's best practice, resulting in Australian firms becoming more efficient and innovative, adopting and developing global best practice[2]. As a result, the Australian government has opened the Australian economy to the global marketplace through tariff reductions and the establishment of FTAs with other countries. Since 2003, Australia has entered into FTAs with Singapore, Thailand and the USA; and the Australian Government is currently negotiating agreements with four other countries/regions[3].

There is little doubt that the proliferation of FTAs represents both increased opportunities and threats to Australian businesses, a 'double-edged sword'. Although Australian companies have opportunities to expand their markets outside Australia, foreign-based firms are also presented with these opportunities, including greater access to previously protected markets such as Australia. There will be short-term winners and losers among companies and communities in this continuous evolution. It is argued that the ability of

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[1] Sheil (2001, p. 282)
[2] Austrade (2002)
[3] China, Malaysia, United Arab Emirates, Aust./NZ - ASEAN

SMEs to expand internationally is essential for their survival and growth[4]. Although there is little empirical evidence linking exporting and business survival, a number of studies have found that exporting SMEs record significantly higher levels of growth[5]. Nevertheless, the ability of the Australian economy to benefit from these agreements is dependent on Australian businesses identifying international opportunities and exploiting their competitive advantage in the international marketplace. Despite the persuasive arguments for expanding internationally, of all the businesses in Australia, of which 67 percent are family businesses[6], only 4 percent are engaged in exporting, well below the percentage of exporters among businesses in most European countries and Canada[7].

Although geographical distance may explain why Australia lags behind its OECD partners in export activity, it cannot explain the whole gap. As a result, in 2002 the government implemented a range of strategies with the aim of substantially increasing the number of exporting businesses (particularly SMEs). A recent study[8] suggests that compared to their non-family counterparts, family firms face unique barriers when it comes to growing internationally. Therefore research into identifying those factors that limit the ability of family firms to grow internationally, as well as the manner in which these obstacles can be overcome will be of value to both family businesses and the Australian economy.

This study focuses on the international expansion (referred to as 'internationalisation') of small-to-medium-sized family-owned enterprises (SMFEs). Although it is well recognised that the majority of small-to-medium-sized enterprises (SMEs) are family-owned (and often family-managed), and that the complexities associated with managing a family business are not entirely addressed by classical management theory, there is a lack of research on the internationalisation process of SMFEs[9]. Family business literature argues that the complexities unique to family firms influence their propensity for and degree of internationalisation[10]. Yet, to date, the limited empirical testing of such claims has produced conflicting results[11]. Because of the paucity of research into the internationalisation of family firms, little is known as to whether internationalisation of SMFEs lags behind that of

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[4] D'Souza & McDougall (1989)
[5] McDougall & Oviatt (1996), McMahon (2001), Westhead (1995)
[6] Smyrnios & Walker (2003)
[7] Austrade (2002), OECD (1997)
[8] Fernández & Nieto (2005)
[9] Davis & Harveston (2000), Gallo, Arino, Manez & Cappuyns (2002), Gallo & Pont (1996), Gallo & Sveen (1991), Harris, Martinez & Ward (1994), Okoroafo (1999), Zahra, (2003)
[10] Cappuyns & Pieper (2003), Gallo & Pont (1996), Gallo & Sveen (1991)
[11] Fernández & Nieto (2005), Zahra, (2003)

their non-family counterparts, what influences their ability to internationalise and what effect internationalisation has on the owning family and the firm.

1.2 Issues addressed by this study

The purpose of this study was to investigate the following issues:

Issue 1: Is there a difference in the propensity for and degree of internationalisation of SMFEs and non-SMFEs?
Issue 2: What effect has internationalisation had on SMFEs?
Issue 3: What factors influence the ability of SMFEs to grow internationally? Specifically, what role do the firm's strategic management process, resources and capabilities play in the internationalisation process and how does family involvement influence this process?

Of particular interest in this study was whether (and how) family involvement triggers a family business to internationalise, as well as influence the firm's international growth. Based on a review of the relevant family business literature, family members have the potential to influence a family firm's internationalisation process through their involvement in the strategic management process. Through the firm's strategic management process, the appropriateness of an internationalisation strategy is assessed according to its vision fit, strategic fit and family fit. Family members also have the potential to affect the firm's internationalisation through their influence over its resources (e.g. human and financial resources) and capabilities. As a consequence, this study paid particular attention to the strategic management process and resources of family firms.

Details regarding the research method employed in this study can be found in the appendix to this report.

2.1 Issue #1: The propensity for and degree of internationalisation of SMFEs

The results of the analysis of 871 Australian manufacturing SMEs over a three year period indicated that, compared to their non-family counterparts, the propensity for and degree of internationalisation of SMFEs was less than that of non-SMFEs.

As highlighted in Table 2.1, in each of the three years, around 35 percent of SMFEs were involved in selling their goods overseas. This compares with over 51 percent of non-SMFEs. Controlling for the effects of firm age, size, innovativeness, and growth intentions, SMFEs were persistently less likely to internationalise their operations when compared to their non-family counterparts. That is, SMFEs are more likely to solely focus on the domestic marketplace.

Table 2.1 Propensity for and degree of internationalisation of SMFEs and non-SMFEs contrasted

	Year 1		Year 2		Year 3	
Firm type	**SMFE**	**non-SMFE**	**SMFE**	**non-SMFE**	**SMFE**	**non-SMFE**
Internationally active (% of firm type)	**35%**	**57%**	**34%**	**51%**	**36%**	**52%**
Extent of internationalisation (international sales as % of total sales)	**4%**	**10%**	**5%**	**9%**	**5%**	**9%**

Table 2.1 also indicates that the degree of internationalisation of SMFEs was less than that of their non-family counterparts. An examination of the internationally active firms (that is, firms engaged is selling their products overseas) revealed that, on average, 5 percent of an SMFE's sales were made to international markets, compared to 9 percent of a non-SMFE's sales. Controlling for the effects of firm age, size, innovativeness, and growth intentions, the extent of internationalisation of SMFEs was significantly less than their non-family

counterparts in one of the three years examined[12]. This suggests that, those SMFEs that venture overseas, do so to a lesser extent when compared to non-SMFEs.

These findings provide support for the results of recent family business research in other Western countries[13] and suggest that in Australia, compared to non-SMFEs, SMFEs are less likely to venture into the international marketplace. Furthermore, those that do, do so to a lesser degree when compared to non-SMFEs. Reasons as to why this might be are explored in Section 2.3 of this report.

2.2 *Issue #2: The effect of internationalisation on SMFEs*

To date, there has been scant research on the effect of internationalisation on the family firm. As a consequence, the current study examined the financial and non-financial effects of internationalisation on the SMFEs in the Australian context.

2.2.1 Financial outcomes

2.2.1.1 Financial performance

Table 2.2 summarises the Return on Total Assets (ROTA) of SMFEs according to their degree of internationalisation (nil [domestic], moderate and high degrees of internationalisation). In Year 1, there was a clear positive association between ROTA and the degree of internationalisation. However, Years 2 and 3 provided mixed results.

Table 2.2 ROTA of SMFEs according to degree of internationalisation

	Year 1	Year 2	Year 3
Degree of internationalisation	ROTA (median)	ROTA (median)	ROTA (median)
Domestic SMFEs	9.8%	8.9%	9.1%
Moderately internationalised SMFEs	10.7%	11.3%	9.3%
Highly internationalised SMFEs	11.8%	9.3%	9.3%

Controlling for the effects of firm age and size, results from the analysis provided statistical support for the positive association between internationalisation and financial performance. Specifically, internationally active SMFEs exhibited superior financial performance when

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[12] Results from the statistical analysis indicated that there was a moderately statistically significant ($p < 0.1$) negative relationship between the variables family business status and the degree of internationalisation in Year 1 only. However, a persistent negative relationship existed over the three years and overall suggests that the degree of internationalisation of internationally active SMFEs was less than that of non-SMFEs.

[13] Fernández & Nieto (2005), Zahra, (2003)

compared to domestic SMFEs. However, the degree to which an SMFE expands internationally had no observable effect on financial performance, which is contrary to previous Small-to-Medium-Sized Enterprise (SME) research[14]. These findings suggest that, compared to solely focusing on the domestic marketplace, there are some financial benefits to be gained by SMFEs in venturing overseas. As demonstrated by one of the study's case firms:

> Substantial international growth enabled the family owners of Starmould [2nd generation SMFE] to maximise the sales value of their family business, and highlights that internationalisation can be an effective firm value-maximising strategy for family members intending on exiting the business.

Expansion from moderate to high levels of internationalisation may not necessarily result in improved financial performance because of the influence of moderating factors. These may include (but not limited to) the effects of foreign exchange rate movements[15], the type of foreign market entry strategy employed by the firm and the firm's managerial capabilities[16]. During the time period pertaining to the quantitative data examined in this study, the Trade Weighted Index of the Australian dollar remained relatively constant, thereby discounting any influence of exchange rates on financial performance. In this study, one key reason why increased international growth did not always translate into improved financial performance amongst internationally active SMFEs was because of their limited managerial capabilities. SMFEs lagged behind their non-family counterparts in building their managerial capabilities as they grew internationally, and this difference was particularly evident at high levels of internationalisation. This issue was particularly evident in one of the study's case firms:

14 Qian (2002), Qian & Li (2003)

15 During periods when the local currency is strong, SMEs are often forced to lower the prices of exported goods in order to maintain their export sales, decreasing financial performance.(Lu & Beamish, 2001)

16 As a firm grows internationally, the risks associated with exporting increase, making more complex forms of foreign market entry strategies, such as Foreign Direct Investment (FDI) more attractive (Lu & Beamish, 2001). FDI has been found to have a 'U' curve effect on financial performance due to the 'liability of foreignness' (Lu & Beamish, 2001; Majocchi & Zucchella, 2003), which refers to the disadvantages (costs, risks, suboptimal managerial decisions) that flow from conducting business in an unfamiliar market. As a consequence, SME performance has been found to decrease with initial FDI activity but improve as the level of FDI increases (Lu & Beamish, 2001). In order to successfully grow internationally through the implementation of a range of foreign market entry strategies such as exporting and FDI, however, SMEs must develop the requisite managerial capabilities (Lu & Beamish, 2001; Majocchi & Zucchella, 2003).

Despite having limited exporting experience, Polypro [2nd generation SMFE] entered into a joint venture with an overseas firm, which failed due to the limited managerial capabilities of the family management, and resulted in substantial financial losses. This firm also experienced a deterioration in performance in its domestic market, largely because it lacked the managerial capacity to cope with the loss of key members of its management team who spent considerable periods of time overseas establishing the joint venture.

Based on the analysis of the SMFEs that participated in this study, the financial returns associated with internationalisation were largely dependent on:

- Having the managerial capabilities required for internationalisation.
- Having a long-term commitment towards internationalisation. Although there may be positive financial returns in the long-term, there may be periods, particularly in the early stages (or investment phases) of a firm's internationalisation process, where there are no or limited financial returns. Initial setbacks in international expansion provide opportunities for SMFEs to learn and identify the most effective ways to successfully grow both domestically and internationally.
- Having access to, and committing, sufficient financial resources towards international growth.

2.2.1.2 Other financial outcomes

Consistent with previous research[17], internationalisation enabled SMFEs to grow in size. Tables 2.3 and 2.4 summarise the sales growth and asset growth of SMFEs contained in the BLS. These tables highlight that, in each of the three years, highly internationalised SMFEs achieved superior growth in sales and total assets. No relationship was found between the degree of internationalisation of SMFEs and growth in the number of employees.

Table 2.3 Sales growth of SMFEs according to degree of internationalisation

	Year 1	Year 2	Year 3
Degree of internationalisation	Sales growth (%)	Sales growth (%)	Sales growth (%)
Domestic SMFEs	3.5%	3.6%	5.1%
Moderately internationalised SMFEs	7.8%	3.4%	5.2%
Highly internationalised SMFEs	9.7%	8.0%	5.4%

[17] Grant (1987), McDougall & Oviatt (1996)

Table 2.4 Asset growth of SMFEs according to degree of internationalisation

	Year 1	Year 2	Year 3
Degree of internationalisation	Asset growth (%)	Asset growth (%)	Asset growth (%)
Domestic SMFEs	**18.1%**	**11.1%**	**6.8%**
Moderately internationalised SMFEs	**18.1%**	**10.2%**	**8.9%**
Highly internationalised SMFEs	**28.1%**	**17.0%**	**16.8%**

Growing internationally into several different markets enabled SMFEs to reduce the risks associated with being reliant on the domestic marketplace. However, as highlighted in two of the study's case firms, when a substantial proportion of an SMFE's sales are to a single foreign market, internationalisation can increase the financial risk of the firm and threaten its survival when that market experiences a significant and sudden downturn. Therefore, this ability to spread the risk is dependent on an SMFE not having 'all its eggs in one basket' but by selling into several different overseas markets in addition to its domestic market, which often provides the internally generated funds required for future international growth.

International growth, however, was found to place substantial demand on the limited financial resources of SMFEs. The financial strain was often a result of a timing issue where the investment in international growth activities preceded the realisation of international sales. Having a strong domestic base and a willingness to borrow from lending institutions moderated the financial strain brought about by rapid internationalisation.

As highlighted by one highly innovative case firm, when growing internationally, it is important for SMFEs to take the necessary steps in order to protect the intellectual property of their products. Failure to do so may result in financial losses associated with unauthorised use of their designs by competitors.

2.2.2 Non-financial outcomes

A number of non-financial benefits associated with internationalisation were observed in the study's case firms. One of the important outcomes from internationalisation was the acquisition of knowledge and experience, which had positive flow-on effects to other areas of the business, such as the development of the firm's capabilities and overall competitiveness. As observed in one case firm, even failed international joint ventures provided management with opportunities to acquire new knowledge and experience, and enabled the managers to be more competent in their roles. The positive learning outcomes from this experience highlights that failed international ventures can generate useful learning that otherwise would not be available to the firm[18].

In addition to the knowledge and experience gained, internationalisation was often a trigger for positive change, particularly in the development of their organisational capabilities. With regard to production capabilities, internationalisation required the case firms to increase their production capacity, to adopt more cost competitive production methods, develop the ability to produce a range of different product lines and/or increase the quality of their current product lines. With regard to managerial capabilities, internationalisation brought about improvements in the managerial capacity, managerial expertise, and managerial processes of SMFEs. With regard to marketing capabilities, internationalisation enhanced the brand image and reputation of SMFEs, both domestically and internationally, and fostered the development of international business network relationships. Overall the changes brought about by internationalisation improved the competitiveness of SMFEs, enabling them to successfully compete with their local and international competitors.

Two negative non-financial outcomes associated with internationalisation not previously identified in the literature were observed. These included the strain placed on the family and management, and the conflict that it generated between family members and/or family members and employees. As part of a firm's international expansion, family managers were often required to spend considerable time overseas to attend major international trade fairs, meet key foreign customers or to establish a foreign office or joint venture. The demands of international travel not only placed strain on the family managers, but also on their family members, as well as on the management of the business as a whole. The strain placed on the family and management was found to influence the preferred method of foreign market entry.[19]

The changes brought about by internationalisation were found to bring about conflict within the family firms where there were family members or non-family managers resistant to such change. As a consequence, the successful internationalisation of the family firm may

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[18] McGrath (1995)

[19] Family involvement influenced what methods an SMFE used to enter a foreign country as well as the types of businesses they dealt with in those countries. Because of lifestyle issues (for example effect on family relationships), preference for control, their risk averse nature, and limited financial resources, the owners of SMFEs are more likely to utilise agents, distributors and licensing, as opposed to joint ventures and overseas sales offices. Because of sharing similar values and cultures, SMFEs are more likely to do business with other overseas family businesses (such as agents and distributors), and in some cases SMFEs can be sought after because of the advantages associated with family businesses (such as loyalty, trust, long-term orientation).

require overcoming resistance to the required changes, as well as developing mechanisms to manage the associated conflict.

Table 2.5 summarises the financial and non-financial outcomes associated with internationalisation observed in this study.

Table 2.5 Summary of financial and non-financial outcomes associated with internationalisation

Effects of international growth on FBs	
Financial outcomes:	**Non–Financial outcomes:**
+ Financial performance	+ Overall Competitiveness
+ Sales and asset growth	+ Global perspective
+ Survival	+ Knowledge/experience
+ Risk management	+ Managerial capabilities
+ Increased value of firm	+ Capacity
	+ Expertise
- Strain on financial resources	+ Processes
- Effect on domestic market share	+ Production capabilities
- Losses from competitor imitation	+ Capacity
	+ Cost competitiveness
	+ Product development
	+ Quality
	+ Brand image/reputation
	+ Enjoyment/satisfaction
	- Strain on family/management
	- Conflict

KEY: + positive outcomes – negative outcomes

2.3 *Issue #3: Influences on the internationalisation of SMFEs*

As highlighted earlier in this chapter, the propensity for and degree of internationalisation of SMFEs was less than that of their non-family counterparts. To further understand the internationalisation behaviour of SMFEs, the internationalisation process of the eight family case firms was examined. The family's commitment to internationalisation, as well as the firm's financial, human, physical and organisational resources were found to be key determinants of the family firm's internationalisation behaviour.

2.3.1 Commitment to internationalisation

Although successful international expansion required SMFEs to acquire the resources and capabilities required for internationalisation, first and foremost it required management to leverage those resources and capabilities by developing and executing an appropriate international strategy. Failure to do so may expose an internationally competitive domestic SMFE to opportunity costs in the form of unrealised financial and non-financial benefits associated with internationalisation (identified earlier).

Previous SME research highlights that management's commitment is one of the key determinants of international growth.[20] In this study, one of the major determinants as to whether an SMFE leveraged its resources in the international marketplace was whether the owning family had an ongoing commitment towards internationalisation. The owning family's commitment to internationalisation was found to be largely influenced by the following issues:

Firm vision and objectives

A firm's vision was found to be a key influence on the family's commitment to internationalisation. The ongoing commitment to an internationalisation strategy by SMFEs was largely due to the global vision of the family members. One possible reason why family businesses are less likely to venture into the international marketplace is that the family owners do not having a global vision for their business:

> Some people just don't have a need to go and conquer the world. So I suppose you need to look at their vision. I would be prepared to bet that more often those who are operating locally only probably don't have a company vision. Those who are operating globally probably do. (Baldric, Bookworks' family CEO)

As observed in some of the study's case firms, succession to the next generation can bring bout a change in company vision and culminate in a commitment to internationalise the family business. Successors came with a fresh understanding of the importance of internationalisation for achieving firm objectives, including growth and survival. Ultimately, the effect of succession to the next generation on the commitment to internationalisation was dependent on the vision and qualities of the successor.

In order to realise the global vision, it is critical that there is widespread support for such a vision among family members as well as non-family managers. Lack of support was found to hinder the successful implementation of an internationalisation strategy in some of the study's case firms. This finding emphasises the importance for family firms to have a strategic planning process[21] in place so that the needs of both the family and the business can be considered when assessing the appropriateness of an internationalisation strategy.

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[20] Leonidou, Katsikeas & Piercy (1998), Zou & Stan (1998)
[21] See for example the Parallel Planning Process (PPP) proposed by Carlock and Ward (2001).

Consistent with previous research[22], the SMFE's financial objectives of growth, survival and financial return were the most commonly given motivations for the commitment to internationalisation. This was particularly so where they had excess production capacity available and desired to grow but were unable to do so in the domestic marketplace:

> For our continued growth and development as a firm, expanding offshore is absolutely critical. Because the domestic market is a very mature market and the only way we can make serious strides in the domestic market is stealing trade from someone else which is extremely hard to do…Yes we're growth oriented, to not grow is to go backwards. We've got to keep on growing and developing. The best place to do that is in the export arena and that's not neglecting the domestic market, we keep chipping away at that because we lack presence in the domestic market. (Richard, Pioneer Wines' family CEO)

The desire to maximise the value of the business as part of a family's succession strategy (sell the business) was also found to an important reason for aggressively pursuing an international growth strategy[23].

Although the financial objectives of the case firms were found to predominantly encourage the commitment to internationalisation, non-financial objectives were found have mixed effects. In the main, non-financial objectives such as continuing the family tradition of remaining a local producer and concerns for the well-being of [family and non-family] employees were found to weaken a family's commitment to internationalisation:

> I love travelling but I couldn't do it all the time. I wouldn't want to go. That's the thing. You've really got to consider…If I'm going to export to the UK then I've got to be there or somebody appointed has got to be there three or four times a year, if you really want to make it work to the point that it pays dividends. Am I prepared to do that? In my life right now, no. (Wilbur, Woodcraft's family general manager)

However, a family's passion for improving the 'lot of others' was found to increase its commitment. The finding that SMFEs have multiple and complex objectives rather than simple, narrowly focussed goals, offers new insights as to why they may not pursue internationalisation as aggressively as their non-family counterparts.

Financial performance

A firm's domestic and international financial performance was found to influence a family firm's commitment to internationalisation. Poor domestic performance (in terms of sales

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22 OECD (1997)

23 The owners sold their business to another family business during the course of this study.

growth and financial return) was found to encourage family firms to internationalise. Conversely, improved growth prospects in the domestic marketplace can weaken an SMFE's commitment to internationalisation, particularly when the firm has limited production capacity and can attain better profit margins in the domestic market.

Poor international performance (in terms of sales growth and return) was found to weaken the case firms' commitment to internationalisation. The extent to which this affected the firms' ongoing commitment to internationalisation was influenced by the availability of financial resources, as well as the degree to which the family owners took a long-term perspective of performance.

Patient capital

Because of the critical importance of a long-term commitment, family firms with patient capital were found to be more likely to successfully internationalise in the long-term despite poor short-term results from their international activities.

Production capacity

The availability of production capacity for international growth could influence a family firm's commitment to internationalisation. When faced with limited production capacity SMFEs were found to give priority to using their production capacity towards satisfying domestic orders, largely because of superior product margins:

> We know that our product would fit into other markets but we are flat out making products for our own market…We've got three quarters of a million dollars worth of orders. That's on the books now. So why promote yourself overseas when you can't produce…Until we improve the capacity, we don't need to grow the market any more than what it is. (Wayne, founder of Woodcraft)

The drive to increase the production capacity was largely determined by the family's financial (e.g. growth ambitions) and non-financial objectives (lifestyle, commitment to others such as employees) and the financial resources available to expand capacity

2.3.2 Financial resources

The execution of an internationalisation strategy requires access to the necessary financial resources. Financial resources are required to fund activities such as exhibiting at international trade fairs, and to bring about the changes required within the firm for internationalisation, such as the development of its production capabilities. Although many SMFEs had an ongoing commitment to internationalisation, their ability to successfully grow internationally was dependent on access to the required financial resources, as well as their willingness to commit financial resources to internationalisation-related activities.

Access to financial resources were influenced by several factors, including the firm's willingness to borrow funds from financial institutions, the family ownership structure, dividend policy, domestic marketplace performance, and access to government and industry grants. Because of their preference for family control and their risk-averse nature, there was a general reluctance amongst the family owners to raise financial capital through loans from lending institutions or bringing in outside equity. Rather, internally generated funds were the most popular source of finance for international growth strategies. This suggests that family firms adhere to a pecking order when raising additional finance, favouring internally generated equity over long-term debt and outside equity. Because of the pecking order, the performance of family firms in the domestic marketplace largely determined the funds they had available for international growth strategies and therefore the pace of their internationalisation. The self-imposed restrictions on accessing financial capital may partly explain why SMFEs' growth rates were found to be similar to that of 'lifestyle' or 'moderate growth' firms when compared to their non-family counterparts. Because of their lower growth rate, SMFEs may take longer to saturate their domestic marketplace before the need to venture overseas for further growth. Because family firms face self-imposed restrictions to accessing financial capital, government and industry grants were found to be a valuable and effective source of funds to assist them in growing internationally.

Family harmony was also found to influence the funds that a family firm had available for internationalisation, through its influence on the ownership structure and dividend policy. As observed in one case firm, family conflict that results in the pruning of the family ownership tree deprives the firm of much needed funds for internationalisation. Conversely, family harmony can encourage family members to reinvest their dividends in the business to fund future growth.

In addition to having sufficient financial resources, internationalisation of the case firms was also dependent on the willingness of the working family owners to commit financial resources to internationalisation-related strategies. The willingness to commit financial resources to such strategies was influenced by the family's level of commitment to internationalisation as well as its attitude to risk-taking. Those firms with a commitment to internationalisation all exhibited a tension over when to commit financial resources to internationalisation (chicken vs. egg dilemma). Family owners who expressed a greater propensity to take risks were more likely to commit financial resources to internationalisation-related strategies up-front in the hope that such action would be rewarded in terms of international growth. This finding regarding the relationship between management's attitude towards risk-taking and internationalisation is consistent with previous research[24].

In summary, the influence of the availability of, and willingness to commit, financial resources provides new insight as to why the internationalisation of family firms lags behind that of their non-family counterparts. Because of this, family firms may be exposed to the opportunity costs (in the form of unrealised financial and non-financial benefits) associated with under-investing in growth-related strategies such as internationalisation.

2.3.3 Human resources

Analysis of the case firms revealed that a family firm's human resources had a substantial influence over the development of the organisational capabilities required for internationalisation. The human resource issues that influenced the development of the requisite capabilities included the entrepreneurial orientation (EO), knowledge, experience and expertise, and relational abilities of members of the executive management team.

Aspects of the EO of the working family members in leadership positions emerged as an important influence not only on the commitment of financial resources towards internationalisation, but also on the firm's ability to develop and leverage its capabilities in the international marketplace. These included the family leader's attitude towards risk taking, autonomy, innovativeness and proactiveness:

- Risk-taking: as highlighted earlier, the attitude of family owners employed in executive roles influenced the willingness to take on long-term debt as well as to commit financial resources towards internationalisation-related strategies.
- Autonomy: it was also critical that management had the autonomy to execute an internationalisation strategy and to bring about the changes required for internationalisation. An autocratic, domineering style of leadership, the unwillingness of the previous generation to give total control over to the next generation, and conflict between family and non-family managers, all deprived management of the autonomy required to implement internationalisation-related strategies. Although previous research[25] has found the length of a CEO's tenure to inhibit entrepreneurial activity such

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[24] Aaby & Slater (1988), Fillis (2001), Leonidou, Katsikeas & Piercy (1998)
[25] Zahra (2005)

as internationalisation, this study found that the previous family CEO can also inhibit a firm's internationalisation ('failure to let go of the reigns').

- Innovativeness: the innovativeness of the employees (and particularly family members employed by the family business) was found to be critical for firm innovations, an important driver of SMFE internationalisation. This highlights that family members employed by the family firm can play a critical role in the development of firm innovations.
- Proactiveness: internationalisation also required an element of proactiveness, where management sought new business opportunities overseas through the development of new and innovative product lines or brands. These findings highlight the importance of developing and sustaining an entrepreneurial orientation within the family firm, particularly in the areas of risk-taking, autonomy, innovativeness and proactiveness.

The areas of expertise held by family members were found to have a substantial influence over the family firm's ability to develop the capabilities required for internationalisation. One of the key reasons why these firms had survived the test of time was because the family members were highly technically proficient in what they manufactured. However, many of family managers lacked the management expertise required to develop the firm's requisite capabilities for internationalisation, particularly its managerial and marketing capabilities. As a consequence, the employment of competent non-family managers with expertise in these areas of need was able to bring about the changes required to develop the firm's managerial and marketing capabilities, and in turn, international growth. In addition to building a firm's capabilities through the hiring of experienced non-family managers, some firms overcame the limited management expertise of the family managers by utilising the expertise of outsiders. This was achieved in several ways, including the establishment an active board of directors, through an advisory board, the use of consultants, or networking with government and industry associations. This study highlights the important supportive role that outsiders can play in the internationalisation of the family business.

Although family managers in the case firms often lacked expertise in marketing, family involvement played an important role in the development of the family firm's international network relationships, and consequently its internationalisation. Many of the family managers interviewed as part of this study were characterised by their long-term orientation towards business, honesty and integrity, the emphasis on personal relationships, the desire for mutually beneficial business relationships, and accessibility to others. These characteristics were found to facilitate the development of business relationships in the international marketplace, particularly other family business owners who shared similar characteristics. Therefore, it is critically important that family members are willing and able to travel internationally to build such relationships through attending and exhibiting at international trade fairs. However, as reported earlier in section 2.2.2, the demands of international travel not only place strain on the family managers, but also on their partners and children, as well as on the management of the business as a whole. As a consequence, it is an advantage if a family business has family members who enjoy international travel and are competent at networking. It is also critical that the firm has sufficient managerial capacity and expertise to cover family managers while they are overseas.

2.3.4 Physical resources

Although family firms may have a strong commitment to internationalisation, and the financial resources required to execute such a strategy, it is also critical that they have the infrastructure to develop the production capabilities required for internationalisation. These included having sufficient production capacity to meet both domestic and international demand, the ability to reliably produce high quality products at a globally competitive cost, and the ability to develop innovative product lines, or adapt their existing lines, to meet the requirements of international markets.

In order to develop some or all of these production capabilities, family firms included in this study were required to undertake substantial changes (reconfigure, add, discard) to their production infrastructure. The development of these production capabilities would not have been possible unless the family members had been willing to embrace change and commit the firms' financial resources to bring about such change.

In addition to its production infrastructure, information technology resources were found to be important for the internationalisation of the family firm, which is consistent with the findings of previous family business research[26]. The development of a comprehensive company website was important for developing brand awareness in overseas markets, generating direct sales opportunities overseas, and providing timely customer service to international customers. Information technology was an important tool for gathering information on issues such as potential customers, competitors, and product and pricing decisions for particular overseas markets.

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[26] Davis & Harveston (2000)

2.3.5 Organisational resources

In addition to having the requisite production capabilities, it was also essential that SMFEs developed their international network relationships, as well as their managerial and marketing capabilities, which were found to be critical for international growth.

International network relationships

Findings from this study suggest that international growth was substantially influenced by a firm's network relationships with other parties. Although these network relationships took many different forms[27], the substance of the relationship was more important than its form. These relationships not only assisted in the international growth of the family firm, they also assisted in the development of the firm's managerial and marketing capabilities:

> Sean (Starmould's family managing director) asked one of the firm's local clients for an introduction to a distributor in Sweden, who this client knew personally. This introduction led to the formation of a business relationship and the distributor was so impressed with Starmould that he told all his contacts around Europe how good Starmould was. Sean attributes 40 percent of the firm's exports to the business relationship formed with the distributor.

International network relationships often required considerable time and financial resources[28] to develop, however, and should be seen as part of a long-term international growth strategy:

> Firms must commit adequate resources to exporting, or not enter the export markets. The riskiest adventure occurs when the company is not totally committed to internationalisation[29].

Participation in government, industry and export-related associations was found to be a useful way for family firms in their early stages of internationalisation to initiate the development of their international network relationships. Exhibiting (rather than mere attendance) at major national and (particularly) international trade fairs was the most effective way in which family firms developed their international network relationships. This supports previous research that has found frequent visits to overseas markets and trade fairs to be critical for international growth[30]. As highlighted earlier, family members were found to play an important role in the development of the firm's network relationships with other businesses around the world. Family involvement in networking activities, therefore, can be a key strategic advantage for family businesses looking to grow their business

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[27] Formal (e.g. participating in an industry cluster) and informal network relationships (international contacts formed through relatives of a domestic customer)
[28] Such as the time and costs associated with regularly exhibiting at international trade fairs
[29] Moini (1995, p. 22)
[30] Moini (1995)

internationally. Consistent with previous research[31], the international experience of the firm and its management was found to increase the rate at which the family firm developed international network relationships.

Despite the importance of international networks for internationalisation, this study found that compared to their non-family counterparts, SMFEs were less likely to engage in networking with other businesses (27 percent and 16 percent respectively) which is consistent with previous family business research[32] This could be a key reason why the international growth of family firms lags behind that of their non-family counterparts.

Managerial capabilities

Compared to selling products in the domestic marketplace, an international growth strategy to enter multiple countries with different social, commercial, and political systems is clearly more complex and demanding. As a consequence, to successfully grow internationally, it was important that SMFEs develop the requisite managerial capabilities[33]. Despite this, the results of this study suggest that SMFEs face unique barriers to developing their managerial capabilities as they grow internationally. Specifically, compared to their non-family counterparts, SMFEs grew internationally with less managerial capacity (smaller management teams), less managerial expertise (use of outside expertise, management training) and had less managerial processes in place (such as formal strategic planning). Based on the analysis of the study's case firms, limited managerial capabilities not only had a substantial effect on the ability of SMFEs to grow internationally, it also negatively influenced the outcomes (financial and non-financial) of internationalisation. For example:

- Limited managerial capacity reduced the time management had available to plan for and pursue international growth opportunities, such as attending international trade fairs to market the firm as well as build the firm's international network relationships. Firms that did actively pursue international growth opportunities with inadequate managerial capacity suffered a deterioration in performance in their domestic market.
- Lack of managerial expertise in general management as well as in sales and marketing inhibited the development of marketing capabilities in some firms, and was responsible

[31] Leonidou, Katsikeas & Piercy (1998)
[32] Donckels & Frohlich (1991)
[33] In this study, managerial capabilities were defined as the management capacity (human resources available for managerial tasks), management expertise (competencies of managers), and management processes (planning & control techniques used by managers) available to the firm for evaluating, shedding, adding, bundling, and leveraging its resources to achieve a competitive advantage in the international marketplace.

for the substantial financial losses incurred by one case firm as a result of a failed international joint venture.

- Formal business planning was critical for successful internationalisation because it enabled family firms to assess how internationalisation fitted in with the values, vision and objectives of the firm, and gain the necessary support from other family members to enact internationalisation strategies. Because successful internationalisation required a long-term commitment, it was essential that family firms engaged in business planning so that the family could weigh up the costs (financial and non-financial such as effect on family) associated with internationalisation. Business planning was also important for the identification of appropriate internationalisation strategies (appropriate foreign markets and entry methods) and for establishing targets to monitor actual versus planned performance so that corrective action could be taken.

Barriers to building managerial capabilities included the reluctance to commit financial resources to employing additional managers until international sales had materialised (chicken vs. egg dilemma), production mindset of family members and family objectives (such as the desire to remain wholly family-managed). Although formal business education of family managers was found to be a useful way to increase the managerial expertise of the management team, the most expedient way was through the appointment of experienced non-family managers. The employment of competent non-family managers that had previous experience in working in other family businesses was found to be instrumental for bringing about the changes[34] required to grow the business internationally. The employment of non-family managers was also found to assist in communicating an image of being ‘professionally’ managed, which was important for winning contracts with overseas firms. The use of outsiders through an active board of directors or an advisory board was also found to be an effective way of acquiring the requisite managerial expertise.

Based on the findings of this study, the limited managerial capabilities of SMFEs may partly explain why the current study and others have found that the internationalisation of family firms lags behind that of their non-family counterparts.

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[34] Examples of these changes included the shift from a production mindset (refer to page 23) to a customer orientation, reconfiguration of product lines (deletion of unprofitable, import of complementary, and development of new lines), improvements to the firm’s product costing system, branding, marketing materials, website, and introduction of new sales and marketing techniques.

Marketing capabilities

The development of marketing capabilities was critical for the international growth of SMFEs. Limited marketing capabilities place SMFEs at risk of remaining 'hidden champions'; leaders in what they produce but remaining largely unknown on the international stage.

The production mindset[35] of management within family businesses was identified as a key obstacle to the development of their marketing capabilities. The change from a production mindset towards a customer orientation was often brought about by the succession to the next generation, formal management education of family members, or through the appointment of an experienced sales and marketing non-family manager. The transition towards a customer orientation encouraged SMFEs to commit resources towards building marketing capabilities (resources for brand building and visiting international markets). The selection of agents or distributors with whom to enter into business relationships was found to have a significant influence on the family firm's ability to drive international sales. Some family firms saw it as an advantage if the agent or distributor was also a family business because of synergies stemming from common values and an understanding of how each other operated. Nevertheless, it was critical to select a partner with the market knowledge, expertise, and distribution channels (the 'horsepower') to grow the family firm's sales at a rate appropriate for its production capacity.

The current study highlighted, however, that in addition to high quality customer service, the development and marketing of the family firm's brands were essential for international growth. Branding was not well understood by family firms, as evidenced by the fact that the firm's brand (and sub-brands) did not feature prominently on the products that they sold. Although word of mouth advertising of the brand was found to be an effective way of increasing the awareness of the brand internationally, it was important for family firms to build their brands and market them globally in order to drive international growth. The current study highlighted the fact that SMFEs need to investigate effective ways of marketing their brands, including the development of a website, family members exhibiting products at major international trade fairs, and the creation of comprehensive marketing materials.

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[35] A 'production mindset' is one where the owners are preoccupied with carrying on the business from an 'inside out' (if we manufacture it they [the customers] will come) perspective as opposed to an 'outside in' (the customers will come if we give them what they want) perspective. Managers with a production mindset believe that sales growth will occur as a consequence of producing good quality, or innovative, products, rather than through the development, and execution, of appropriate sales and marketing strategies for products that meet the needs of customers in the market segments targeted.

3.1 Implications for SMFEs

It is clear that internationalisation can bring a number of financial and non-financial benefits to an SMFE. Although family firms may benefit in the short-term from taking advantage of international opportunities as they arise (opportunistic exporters), overall the benefits from internationalisation accrue in the medium-to-long-term. Therefore, the family and the business must be willing to make a long-term commitment to internationalisation. Because internationalisation is a long-term strategy, family businesses intending on venturing overseas, or aiming to increase their degree of internationalisation, need to engage in strategic planning. Because internationalisation often requires organisational change, it is essential that the family be fully aware of what is required to develop a successful internationalised family business.

Strategic planning addresses issues such as the fit between the family's aspirations, the vision and objectives of the firm and the intended internationalisation strategy. It is also useful for identifying the resources and capabilities that will need to be acquired or developed in order to execute the intended internationalisation strategy (gap analysis), how they will be obtained, and the organisational change that will need to occur to bring this about.

Through strategic planning, family members can also assess what implications internationalisation has on the family unit, such as the extra workload or travel commitments placed on family members, potential effects on the ownership structure, dividend policy and career development opportunities. A key part of the internationalisation of the firm is strategic management where the strategic plans of the firm are compared with the outcomes so that corrective actions, where necessary, can be taken. For example, strategic management is important to ensure that the risks associated with international business are spread across several markets rather than being concentrated in one geographical region. Mechanisms also need to be in place to effectively manage the conflict that can often arise from bringing about the changes required for internationalisation, which may include establishing an active board of directors with outside expertise, use of an advisory board, and use of a family council.

The findings from the current study suggest that it is essential that the firm acquire and build the requisite resources and capabilities in order to build a successful international family business. These include:

- *financial resources*
  Although government grants, such as the Export Market Development Grant, can be a useful source of finance (and knowledge) for family firms in the early stages of internationalisation, they are not sufficient to build an international family business. Unless a family firm enjoys a dominant position in the domestic marketplace, it will need to raise the necessary funds through industry grants, debt and/or equity finance. This may mean taking greater risks (higher gearing ratios) or the family relinquishing some of its control (outside equity). Failure to raise and commit sufficient financial resources to the execution of an internationalisation strategy may expose the family business to risks greater than that faced by domestically focused family firms.[36]
- *physical resources*
  Family firms need to configure the infrastructure (physical, human and organisational) to develop the production capabilities required for internationalisation. These include having sufficient production capacity to meet both domestic and international demand, the ability to reliable produce high quality products at a globally competitive cost, and the ability to develop innovative product lines, or adapt their existing lines, to meet the requirements of international markets. Because innovation has consistently been shown to be a key driver of internationalisation, it is critical that family firms develop the entrepreneurial culture that supports an ongoing commitment to innovation.
- *human resources*
  Although they may have the technical skills, most family managers will not have the business skills required to grow the business internationally. In addition to formal training (in business management/marketing) of existing family managers, the employment of non-family managers with the necessary expertise and family business experience can be one of the most effective ways to acquire the skills for international growth. One possibility is equipping future successors with the necessary expertise through education and international business experience outside the family business. Because succession to the next generation can bring the revival of the entrepreneurial spirit required for internationalisation, mechanisms (such as an active independent

[36] Moini (1995).

board) should be in place to ensure a family CEO does not stay too long in the job. Not only is it important to acquire the necessary expertise, it is also important to give managers the autonomy to proactively respond to opportunities in their areas of responsibility.

- *organisational resources*

  In order to grow the family business internationally, it is critical that they develop their international business networks and their marketing capabilities. Family manufacturing businesses are often very proficient and innovative in what they produce. The challenge they face is making the transition from a production mindset to a customer orientation. Failure to do so put family firms at risk of remaining ‘hidden champions’: leaders in what they produce but remaining largely unknown in the international stage.

  In addition to developing a family brand and providing superior customer service, it is critical that family firms develop their international business networks, which have been identified as one of the key drivers of SME internationalisation. Forming network relationships with overseas firms with the required ‘horsepower’ to grow the family firm’s sales at a rate appropriate for its production capacity, is one of the most important steps that they can make to internationalise. In addition to developing a comprehensive website, exhibiting at key international trade fairs is one of the key ways a family firm can develop its international networks and build brand awareness. Because they can play an influential role, it is critically important that competent family members are willing and able to travel internationally to build such international business relationships.

  As they grow internationally, it is important that family firms have the managerial capabilities to manage that growth. Through appointing additional managers, management education and adopting modern management processes, the international growth of the family firm can be effectively managed to minimise the strain placed on both the family and domestic operations, as well as releasing family members to represent the firm overseas at trade fairs. It also enables family firms to more effectively manage (and be comfortable with) the risks associated with undertaking additional debt to finance growth.

A summary of the implications of the research for SMFEs is offered in Table 3.1.

Table 3.1 Summary of implications for SMFEs

Implications for SMFEs
o SMFEs need to view internationalisation as a long-term strategy in order to realise the associated benefits.
o The importance of engaging in formal strategic planning so that the needs of both the business and the family can be assessed when evaluating alternative internationalisation strategies. o Strategic planning also important for identifying the resources (e.g. financial) and capabilities (e.g. production capacity) required for internationalisation (gap analysis), how they will be obtained, and the organisational changes required to bring this about.
o Implementation of mechanisms to effectively manage the conflict that may arise from the changes required for internationalisation. These may include the establishment of an active board of directors with outside expertise, use of an advisory board or use of a family council.
o Although government grants (e.g. EMDG) are a useful source of finance for initiating internationalisation strategies, they are not sufficient for building an international SMFE. o Unless an SMFE enjoys a dominant position in the domestic marketplace, it will need to raise the necessary funds to execute internationalisation-related strategies through industry grants, debt and/or equity finance. This may mean taking greater risks (higher gearing rations) or relinquishing some family control (outside equity). o Failure to raise and commit sufficient resources to internationalisation may expose the SMFE to risks greater than if it remained domestically focused.
o Internationalisation requires SMFEs to develop the requisite production capabilities: sufficient production capacity to develop and reliably produce quality products at a globally competitive price.
o Successful internationalisation requires the formation of a management team with the requisite expertise. o Although the requisite managerial expertise can be acquired through formal business education, the most expedient way is through employment of non-family manager who had had prior with family businesses and international markets. o SMFEs contemplating embarking on internationalisation in the future should encourage potential future family successors to gain international management experience outside the family business. o Successful internationalisation also requires the owning family giving the management team the autonomy to utilise their expertise in their areas of responsibility.
o Because of the importance of innovation, risk-taking, autonomy and proactiveness for internationalisation, it is important to foster an EO within the firm. o Succession planning crucial to ensure that the incumbent family CEO does not stay too long in the job and quash the EO within the firm.
o Important for SMFEs to develop the managerial capabilities to effectively grow and manage the complexities associated with internationalisation. Failure to do can place substantial strain on both the business and the family.
o Development of marketing capabilities and international business networks critical to guard against remaining a ‘hidden champion’ and to grow internationally. This may require overcoming management’s ‘production mindset’ towards more of a customer perspective. o Family can play a critical role in the development of international business networks, particularly through representing the firm at key international trade fairs. o Important to form network relationships with overseas firms that can grow the SMFE’s sales at a rate appropriate to its production capacity.

3.2 Implications for policy

As indicated earlier in this report, the Australian government has implemented a range of strategies with the aim of substantially increasing the number of exporting businesses. Because the internationalisation of SMFEs lags behind that of their non-family counterparts, this study confirms that policy initiatives directed towards the internationalisation of family firms are warranted. This study suggests that initiatives in the following areas should be a priority:

- *educating family firms*
  In order to increase the propensity of family firms to internationalise, it is critical to make them aware of the benefits of, and government assistance available to assist them in, internationalisation. Family business research[37] indicates that an awareness of government assistance is low and consequently few family firms use such assistance. As a consequence, it is critical that policy makers and family business associations work together to ensure that family businesses are aware of the support that is available to assist them in their international expansion, particularly financial support since they are limited by their financial resources. To encourage the involvement and commitment of the next generation, family business associations can play a role in promoting the management of an internationalised family firm as a rewarding and challenging career path;
- *financing family firms*
  Because government grants and retained earnings will often not be sufficient to finance a long-term internationalisation strategy, family firms will need to raise additional finance. Through the development of their managerial capabilities, family firms are in a stronger position to manage risk and therefore more likely to take on additional debt finance. To encourage the use of equity financing, family business associations could provide seminars that feature family firms that have benefited from using such finance (such as finance, expertise and access to alternative business networks). Because innovation is a key driver of internationalisation, government and industry bodies could also provide additional research and development grants to assist family firms in developing innovative production processes and products. Family business advisors (such as accountants) can also provide guidance on how family firms can make the most of the limited financial resources they have, such as leasing and minimising inventory levels (i.e. financial bootstrapping methods);
- *developing the managerial capabilities of family firms*
  Because family firms have a preference to retain management within the family, business schools can play a role in offering tailored courses that equip family members with the necessary business management and marketing expertise required for international growth. Family business associations can also play a role in encouraging the next generation to obtain managerial experience outside the business, particularly in the international arena. Because managerial capabilities (such as strategic planning) are important for successful internationalisation, and family firms have limited financial

[37] Okoroafo (1999)

resources to pay consultants, policy-makers can play a key role in providing government-sponsored advisory services. Family business advisors can assist family firms in developing their managerial capabilities through the use of active boards and advisory boards. Family business associations can also play a role in educating family firms on the benefits of appointing non-family executives to the management team and the board of directors, as well as using advisory boards;

- *family business statistics*
  Because of their importance to the Australian economy, ongoing research is required to ascertain how SMFEs can survive and succeed in an increasingly competitive global marketplace. Because of the challenges associated with collecting family business statistics, the ABS should be encouraged to include family business-specific questions in their current SME surveys so that a comprehensive database of Australian SMFEs can be developed.

Suggestions for policy development are summarised in Table 3.2.

Table 3.2 Summary of implications for policy

Implications for policy
o Awareness programs to educate SMFEs of the support available to assist them in growing internationally, such as the Australian government's EMDG and export support services, and export networks. Such programs are also important to promote the financial and non-financial benefits of internationalisation for SMFEs, such as a means to providing a rewarding and challenging career pathway for the next generation;
o Because innovation is a key driver of internationalisation, government and industry associations could provide R & D grants to promote and encourage innovate activity among SMFEs;
o Because SMFEs can be reluctant to direct their limited financial resources towards employing consultants for advice on growth-related issues (e.g. strategic planning, lean manufacturing, brand development), policy-makers can play a key role in providing government-sponsored advisory services;
o The development of a range of seminars or educational programs to assist SMFEs in addressing a number of the implications summarised in Table 3.1. These include: – Strategic planning that encompasses both the needs of the family and the business; – Various options for financing the SMFE for international growth, including the use of actual case studies on family firms that have successfully used equity financing to fund growth; – How to create and use an active board of directors, an advisory board and a family council to manage the needs of the family and the business more effectively; – Lean manufacturing; – Fostering an entrepreneurial orientation within the firm; – Brand and website development; – International marketing;
o The development and promotion of MBA and other management education award programs that assist SMFEs in developing the managerial expertise required for internationalisation;
o Because of the importance for future research on SMFE performance, the ABS should be encouraged to include family business-specific questions in its current SME surveys.

Research methodology

In order to examine the three issues outlined in Section 1.2, a mixed research method design was adopted. Quantitative analysis was used to examine Issue One, while qualitative analysis was used to examine Issue Three. Both quantitative and qualitative analyses were used for examining research Issue Two. The findings from each approach were drawn together to develop the study's overall conclusions.

Quantitative data analysis

The data used for the quantitative analysis was obtained from the Business Longitudinal Survey (BLS), which is the most recently available longitudinal database of Australian businesses. The key advantage of using a longitudinal dataset as opposed to a cross-sectional dataset was that it provided the opportunity to test the persistence of the relationship between variables hypothesised in this study. Also, in an environment where the response rate for survey research has rapidly declined over the last three decades, the BLS has the added benefit of having a high response rate (over 90 percent) of the firms surveyed. The variables used in this study were either categorical in nature, or if metric, exhibited highly non-normal distributions and were subject to extreme values. Because of their robustness in such circumstances, non-parametric statistical techniques and logistical regression analysis were used.

Qualitative data analysis

Eight internationally active Australian SMFEs from high and low internationalisation-intensive manufacturing industries were selected to enable a more in-depth analysis of the issues arising from the quantitative analysis. In this report, these firms are referred to as 'case firms'. A range of generational firms (1st, 2nd, and 3rd + generations) was represented, which assisted in examining the influence of multigenerational issues on the SMFE's internationalisation process. Data were collected over a two year period (2003 and 2004) from a range of sources, including interviews of senior managers from each firm, observations, notes from field visits, questionnaires, firm documents and other archival records such as newspaper articles on each firm. *NVivo* qualitative analysis software was employed when carrying out this research as it assisted the researcher in storing and managing large quantities of data. *NVivo* was a particularly useful tool for 'thinking up' from the data, that is, in linking data with emerging concepts and themes, exploring linkages between concepts within each case, across cases, and with the results from the quantitative analysis, and in developing the overall conclusions of the study.

Definitions

Family business

A key issue that any family business study must address is the question 'what is a family business?' Although a single agreed definition of a family business still remains elusive, in the academic literature there is broad agreement that a business owned and managed by a nuclear family is a family business[38]. This is not to suggest that all businesses owned and managed by a nuclear family are a homogeneous group because family businesses can differ with regard to the degree of family influence. Because the current study was concerned with ascertaining how family involvement influences a family firm's internationalisation process, a broad definition of a family business was used. For the purposes of this study, therefore, a family business was defined as one where:

- a single family or group of families which are relatives of the founding family member(s) control more than 50 percent of the ownership of the business, and
- at least one family owner is present on the management board.

This definition includes first generation businesses, which is consistent with Australian family business research[39] and family business internationalisation research[40], which the current study drew on.

Small-to-medium-sized enterprises (SMEs)

The definition of an SME as defined by the Australian Bureau of Statistics – a non-agricultural business that employs less than 200 people[41] was adopted for the study.

Small-to-medium-sized family enterprises (SMFEs)

Based on the definitions of a family business and an SME outlined previously, an SMFE was defined as a non-agricultural business employing less than 200 people that is majority family-owned with at least one family owner in the management team.

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[38] Chua, Chrisman & Sharma (1999)
[39] Smyrnios, Romano & Tanewski (1997), Smyrnios & Walker (2003)
[40] Davis & Harveston (2000)
[41] Australian Bureau of Statistics (2002)

Internationalisation

For the purposes of this study, internationalisation was defined as:

> …the process by which firms both increase their awareness of the direct and indirect influence of international transactions on their future, and establish and conduct transactions with other countries[42]. (p. 77)

This definition incorporates inward activities, such as importing, and outward international activity, whether it is direct (e.g. exports) or indirect (e.g. sales to local firm which forms part of its exports) in nature.

Delimitations of scope

This study focuses on family businesses in the SME sector rather than on large or all family businesses for three reasons. Firstly, increasing the number of internationally active SMEs is high on the Australian Government's agenda[43]. Secondly, over 90 percent of Australian family businesses are SMEs[44]. Thirdly, because of a historical bias towards the research of the globalisation of large businesses, research into the internationalisation process of SMEs is in an early stage of theory development.

This study focuses on SMFEs in the manufacturing sector for three reasons. Firstly, the manufacturing sector is the largest sector in the Australian economy[45]. Secondly, there is concern about the ability of the Australian manufacturing sector to become and remain internationally competitive as a result of the proliferation of FTAs. Compared to manufacturers located throughout Asia, Australian manufacturers are not cost competitive. This is because their wage rates are substantially higher compared to their Asian neighbours, and Australia's small population limits their ability to generate economies of scale. Thirdly, 99 percent of all manufacturing firms are SMEs[41].

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[42] Beamish (1990, p. 77)
[43] Austrade (2002)
[44] Smyrnios & Walker (2003)
[45] Australian Bureau of Statistics (2003)

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