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The family effect on performance in an institution-based context and the internationalization process of family firms

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Introduction

Although the historical importance of family businesses in the economic, social and political context, only in recent years scholars and researchers have paid them proper attention. As a matter of fact, FBs underpinned the wave of entrepreneurship associated with the economic development in both developing and developed countries. In addition, they represent an important source of employment and they account for a considerable proportion of GDP in important countries such as the USA. The wave of studies concerning family firms have immediately remarked that they are a unique group of organization but they differ within this group: the heterogeneity of family business is one of the main reasons for which a widely accepted family firm definition has not been already found. As a consequence, studies apply different definitions of family firms (by taking account specific criteria such as a certain degree of family involvement in ownership and management) to select the sample analyzed. Importantly, the lack of a universal definition may be one of the reasons for the mixed empirical evidence of family firm performance: for example, a study which finds a positive relation between family firms and performance may consider as family firms companies which are not regarded as such by other studies. However, beyond the definition adopted, there are some attributes that have found to be common among family firms: they are analyzed in chapter one. For instance, family firms typically have a closed and concentrated ownership structure, they are reluctant to sell equity to outsiders and they are characterized by a long-term orientation and risk-aversion. Further, they possess intangible, unique and family-specific resources such as trust or loyalty which stem from the strong ties between family members. In addition, in family firms the type I agency problem (principal-agent) has empirically found to be less severe than in non-family firms as owners and managers of a family business may be the same persons or they may be tied by family kinship. In contrast, family firms face higher type II agency problem (principal-principal) when a small share of the company is owned by external (minority) shareholders. Needless to say, each of these peculiarities has an effect (which may be positive or negative) on the family firms' performance and/or their propensity to grow through internationalization. In this respect, as mentioned, many authors have focused on the relationship between family firm and performance but the result are rather inconclusive probably because of the different family firm definitions adopted by each author studying the relationship. Indeed, as W. Dyer (2006) point out, family firm definitions based on mere percentages of ownership and control will not accurately predict or explain differences of firm performance. Rather, it may be useful to understand what are the type of family which achieve a successful performance. At the same time the level of institutional environment in which family firms play affect have been found to affect family firm performance. Thus, In the second chapter, by exploiting Dyer's typology resulting in four groups of firms (classified using the agency theory and resource-based view), I contextualize these firms into both low and high level of institutional development, giving rise to eight group of family firms. In other words I will observe the joint effect of agency theory, RBV and institution based view on firm performance. To some extent, my typology will answer to the question ": "How can a family firm's behavior and dynamics affect the firm performance in a high/low level of institutional development? ". In the third chapter I will discuss the internationalization process of family firms. Several questions are answered based on the observation of the empirical evidence: what factors spur their internationalization process? What factors specifically affect family firms choice of market entry strategy? How do they choose the destination market and what is the pace of their internationalization? Is there empirical evidence on the relationship between family firm internationalization process and firm performance?. The globalization of markets and the consequent homogeneity in consumer tastes and preferences can no longer be ignored by family firms: they all have to take into account the possibility to internationalize. Resource-based view is exploited when it comes to understand what are the factors that spur or obstacle the internationalization process. Family firms choice of market entry strategy is shaped by specific factors, namely the need of control, risk aversion, number of generations in charge resource availability and long-term vision. Overall, family firms are found to follow a stepwise process when they go international, thus tracking the Uppsala model; these firms are called gradual global firms. However, some family firms internationalize rapidly through countries. It is the case of the so called "born global" firms as for example Inditex group, Walmart, Lego or IKEA. Born global firms are found to differ from gradual global firms because of differences in some internationalization attributes such as the strategy followed or the nature of network of partners (short-term and contingent vs long-term and comprehensive). Surprisingly, no works has focused on the relationship between family firms internationalization and firm performance. In this respect, I will provide some insights by contextualizing the agency theory and the resource based-view in the internationalization process of family firms and how they impact on firm performance.

Chapter I

Family firms corporate governance and main characteristics

1.1 Family firm definition: an issue still searching for a universal solution.

Despite the great number of family firm definitions which have been proposed by several researchers, each of which elaborated by taking into account different combinations of dimensions, there is not still a widely accepted definition in literature. On one hand, definitions focusing on the degree to which the owner's family dynamics influence managerial behavior have been regarded as too inclusive (Lansberg et al., 1988). On the other, definitions that require that both the majority ownership or control of the business reside within a single family, with at least two family members involved in the management of the business, have been claimed as too restrictive (Rosenblatt et al.,1985). One of the main reasons for which such a unique and comprehensive definition has not been found is the heterogeneity of family firms (Arregle et al.,2007). In fact, they are a unique group of organization but they differ within this group; in particular, the degree to which each family is involved in the management and in the ownership structure of the firm is not the same for each single family firm (Hack A. et al.,2012). Indeed, it is also the institutional complexities of different tax, legal, political and social imperatives that have given rise to numerous adaptations in the formal ownership structures of family firms that make the search for a universal definition of family firms such an hazardous task; for example, in some contexts, effective control may require an absolute majority of voting stock to be concentrated in the hands of the family (Carney M.,2005). In others, the use of dual class shares may afford effective control with significantly less than an absolute majority of equity ownership (Carney M.,2005). In addition, as I will discuss later on the agency theory paragraph 1.2.2, the strategic control of a firm's assets can also be attained with the low-ownership levels through the establishment of pyramids and crossholdings (Claessens, Djankov & Lang, 2000). As anticipated, the variety of definitions stems from the selection and the combination of different dimensions; the most important and the most common ones used in prior studies ones includes family ownership, voting control, involvement in management, control of the board, intention for family succession, or a self-perception of being a family business (Chrisman, Chua & Sharma, 2005; Chua et al.,1999; Gomez-Mekia, Larraza-Kintana, & Makri, 2003; Litz, 1995). In Italy, for instance, family influence over large corporations has been maintained through the use of holding companies, agreements, cross shareholdings and the issuing of stocks carrying multiple voting power (Howorth et al.,2010). This allows the founders and their families to raise resources on financial markets, while also controlling the company with only a small proportion of the share capital. (Howorth et al.,2010). Often, the type of definition chosen depends on the scope of investigation that researchers and scholars plan to study. In addition, the choice of family firm definition can have an impact on the scale of the "target group" for policy intervention (Westhead and Cowling, 1998). The type of definition taken into consideration is not irrelevant at all as, for example, family firms in USA generate between 12 and 59 per cent of gross national product depending on the definition chosen (Howorth C. et al.,2010). Further, the lack of consensus relating to a universally respected family firm definition makes comparisons between countries and studies difficult (Howorth C. et al.,2010). In their review of the important trends in family firm research, Chrisman et al. (2005) presented two approaches of how family firms are defined in the reviewed literature. They distinguish between the components-of-involvement approach and the essence approach; although the components-of-involvement approach treats family involvement as a sufficient condition in order to define a firm as a family firm, the essence approach treats it only as a necessary condition. (Hack A. et al.,2010). Following the components-of-involvement approach, a firm can be defined as a family firm when a) a family is the owner, b) the firm is family-managed, or c) the firm is controlled by a family. If one of these three characteristics applies to a firm, it can be defined as a family firm (Hack A. et al.,2010). The essence approach is more restrictive and defines firms only as family firms when family involvement leads to distinctiveness and specific behaviors. Four main characteristics constitute the essence approach: 1) a family's influence regarding the strategy of the firm, 2) a family's vision and intention to keep control and hand the firm over to the next generation, 3) family firm behavior, and 4) distinctive familiness. In order to identify a firm as a family firm these characteristics are required (Hack A. et al.,2010). However, beyond the specific definition chosen, in order to sum up basic traits that identify a family firm I would cite Chua et al.(1999) and Villalong&Amit (2006) which claimed that family ownership, family management and family control of the board are the most important indicators of family business; personally, I also would include as basic the "preference for within firm inter-generational transfers", which is the family willingness to retain ownership and control rights within the family firm across generation. (Bennedsen M, Gonalez F.P. and Wolfenzon D.,2010).

1.1.2 Family and non-family businesses: main differences

Beyond the definition adopted, what mainly differs family business from non-family business is the critical role that family members play in business processes at many levels (Chua et, al.1999) and the fact that family firms are governed and/or managed with a vision of continuing the business across generations (Chua, Chrisman, & Sharma,1999). In particular, in family businesses, family members are not only the owners of the firm but they are also formally or informally actively involved in the enterprise's everyday activities (Mandl I.,2008). In fact, family firms are often associated with the involvement of family members in the ownership and management of the firm, and with the intertwining of family and business objectives (Howorth E. et al.,2010). As a result, family firm objectives are likely to be shaped by the three interdependent sub-systems of family, ownership and management (Hoy and Verser,1994). As a matter of fact, one of the main elements of family businesses is the strong interrelationship between the family and the business; in contrast to non-family business that are mainly influenced by a single owner or a partnership of few partners,(or in publicly owned firms rather by the CEO), in a family businesses (irrespective of the ownership and management structure) the family is at the center of the company, formally or informally influencing the business (Mandl I.,2008). Moreover, whereas a non-family business may be linked to a performance-based system, a typical family firm is more likely to be associated with a relationship-based system (Howorth et al.,2010).

1.1.3 Nowadays economic importance of family firms

Rogoff and Heck (2003) have asserted that family is the oxygen that feeds the fire of entrepreneurship. Approximately, two-thirds of private firms are family owned (IFERA, 2003) and they make a notable contribution to wealth creation, job generation and competitiveness (Astrachan and Shanker, 2003). In fact, family firms play an important role in most nations worldwide because they dominate the economic landscape, not only in terms of number, gross revenues and jobs but also because they are an important engine of growth, prosperity and welfare as well (Heck and Trent, 1999; Astrachan and Shanker, 2003; Sirmon et al., 2008). Family firms have underpinned the wave of entrepreneurship associated with economic development in developed and developing countries (Howorth et al.,2010). In addition, scholars now recognize that family firms are ubiquitous and numerically dominant in many economies and have been so for centuries (Colli, Fernandez-Perez, & Rose, 2003). As a matter of fact, family firms account for around 20 percent of the listed companies in Australia (Mroczkowski and Tanewski 2006; Harijono, Ariff, and Tanewski 2004), approximately one-third of the S&P 500 in the United States (Anderson, Mansi, and Reeb 2003), and more than half of the 250 largest firms on the Paris and Frankfurt bourses are family-controlled (Blondel, Rowell, and Van der Heyden, 2002; Klein and Blondel 2002). It would seem that the economic significance of family firms has been underrepresented by the academic literature (Bartholomeusz S. & Tanewsky G.A.,2006).

1.1.4 Family firms' size and sectors

The above mentioned heterogeneity of family firms is also reflected in their size class. In Europe, for example, while in the majority of countries there exists the widespread awareness that family businesses may also constitute large-scale enterprises and not all small and medium-sized enterprises (SMEs) are family businesses, in some countries family businesses are equated to SMEs in public and policy discussions (Mandl I.,2008). However, the majority of European SMEs ,which constitute the backbone of the European economy, constitute family businesses, while also the majority of family businesses are SMEs; at the same time there exist large, internationally active family businesses (Mandl.,2008). Family business are active in all sectors of the economy (Mandl I.,2008). Nevertheless, data available in Europe shows that they are more prevalent in the traditional and labour intensive sectors such as agriculture, manufacturing/crafts, construction, tourism or retail trade, while they are underrepresented in, for instance, the financial sector (Mandl et al.,2008). Interestingly, this is consistent with the intuition of Micheal Carney (2005) which claimed that parsimony[1], a "propensity generated by family firms governance system", generates advantages in scarce environment. Scarce environments are the product of structural conditions such as labor-intensive production, mature technologies, low barriers to entry and minimal capital requirements: such conditions often stimulate intense competition and leave little room for organizational slack (Carney M.,2005). As value creation in these environment rests on low administrative overhead, efficient organization of low cost-labor, direct supervision simple organization and production processes and the contacts needed to secure bureaucratic permission, family firms tend to prevail in such scarce environments (for example, manufacturing of consumer commodities such as garments and athletic footwear) (Carney M.,2005).

[1] The propensity for parsimony stems from the fact that family firms make strategic decision with the family's personal wealth. Generally, people are more prudent with their own, as opposed to "other people's" money (Carney M.,2005).

1.2 Corporate Governance of family firms

1.2.1 Ownership of family firms

Typically, family firms have a concentrated and closed ownership, where the capital of the organization is in the family' s hands. (Claver E. et Al., 2009). On one hand, in fact, in many family firms the majority of shares is owned by members of the same family (and that leads to an ownership concentration) while on the other hand some family owners are reluctant to sell equity to outsiders and are averse to debt in order to ensure the independence of their firm (which leads to a closed ownership structure) (Howorth C. et Al.,2010). Furthermore, to ensure the total family ownership of the business, family members may make an agreement which do not let them to transfer their shares to non-family individuals. (Westhead P. and Cowling M., 1996). However, such ownership (and management) concentration may retard family firm development and limit the pool of experience (Howorth et Al,2010). In addition, the desire to retain total ownership and control of family business may be in conflict with the long term vision (see below) typical of family firms (Westhead P. and Cowling M.,1996); for example, when family firms need additional capital to exploit good growth opportunities, they are not able to benefit from them because the family is reluctant to dilute its ownership (Hayward S.,1989). Nevertheless, the family's direct control over the firm may even become an aim in itself for the family business (Allen & Panian, 1982). This will probably mean less inclination to risk, which in turn leads to less willingness to take chances in markets with which the firm is not acquainted (Claver E. et al.,2009). Therefore, family firms give up some profitability to ensure that the organization remains under family control (Claver E. et al.,2009). When I have discussed about the issue of family firms definition, I have cited Arregle et al.,2007 to claim that one of the main cause of this problem still searching for a solution is the heterogeneity of family firms. The reason for which family firms are not homogeneous entity is that they differ with regard to their motivation as well as their ownership and management structures. (Howorth et Al.,2010). The way these structures are organized determines whether and which agency problems arise.

1.2.2 Agency theory in family Firms

Inefficiencies may arise when risk bearing (i.e. ownership) and decision-making (management) are separated; agency theory may not apply to closely held and managed family firms associated with little outside influence or representation, where the firm's objectives are entangled with family objectives. (Howorth et al.,2010). As a matter of fact, one of the main characteristics of the typical family firm is the non-separation of ownership and management (Howorth et al.,2010). However, when in a family firm there is the presence of external managers or of external (minority) shareholders, agency conflicts arise. (Hack A. et al.,2012). Some family firms trust in external managers because capable and competent family members are missing or family members cannot come to an agreement about which member should lead the company; in this case, the relationship between the principal (family owner) and the agent (external manager) seems to be similar to non-family firms. (Hack A. et al.,2012) But the appearance is deceptive; because of the long involvement of a family in a firm, it has a good understanding of the operative processes and firm-specific knowledge, so external managers can be monitored more effectively. (Hack A. et al.,2012) This limits, for example, the possibilities of external managers using firm resources for their own purposes; this close and more effective control of external managers can decrease information asymmetries between the family and external managers. In addition, the risk of the opportunistic behavior of external managers and the so-called "free-rider" problem[2] can be mitigated. (Hack A, et al,2012). An agency conflict may also exist between a dominant shareholder and a minority shareholder (Claessens et al.,2002). In this case, information asymmetries and a conflict of interests may exist between the dominant shareholder and the minority shareholder; in particular, in family business groups where a family controls a large number of firms, minority shareholders can be disadvantaged. (Hack A. et al.,2012). These family business groups often use a pyramidal structure in order to separate ownership from control; this means that a family directly controls a firm, which in turn controls other firms, each of which control other firms and so on (Hack et al.,2012). Through this chain of ownership relations, the family achieves control over a large number of firms (Hack et al.,2012). Morck and Yeung (2003, p. 367) state that "such structures give rise to their own set of agency problems, as manager act for the controlling family, but not for shareholders in general." The family at the top of the pyramid can misappropriate minority shareholders' wealth by "self-dealing"[3] or "tunneling"[4] (Hack et al.,2012). Minority shareholders are used to bring in capital, but without receiving a majority of votes in one of the family business group's firms. (Hack et al.,2012).

1.2.3 Stewardship theory in family firms

As I have mentioned before, typically family firms are often managed by family members. In such cases the owners', managers' and employees motives are aligned to those of the organization so that stewardship theory is more applicable (Davis et

[2] The "free-rider" problem often exists in widely held firms, where shareholders are not well informed and refrain from trying to receive more information (Hack et al.,2012)
[3] Self-dealing transactions describe the behavior of a controlling shareholder, who transfers resources from the firm for his or her own benefit. (Hack et al.,2012)
[4] Tunneling describes the expropriation of minority shareholders (Hack et al.,2012)

al.,1997). A strong psychological ownership of the firm and a high occurrence of altruism (Karra et al.,2006) are assumed. To protect family agendas, family owners and managers may focus on non-financial objectives (Zahra et al.,2004), but this behavior may retard firm financial performance (Howorth et al.,2010). However, also in the frequent case of non-separation of ownership and management, agency costs are incurred due to conflicting goals in the family, opportunism, shirking and adverse selection because of altruism, i.e. family members fail to monitor each other. (Dyer,200; Reid/Harris,2004 Rogoff et al.,2003).

1.2.4. Trusteeship and management of family firms

1.2.4.1. Board of directors

The board of directors is a central governance body for the business and perhaps the most researched of all governance structures (Nordqvist M. et al.,2014). The three most common roles attributed to the board are strategic or service role, reviewing and evaluating ideas of the top management; a monitoring role including performance evaluation of the CEO and watching over the interests of the shareholders and other key stakeholders; and a resource-dependence role, helping the top management to link to and/or acquire crucial resources and gain legitimacy (Bammens, Voodeckers, and Van Gils 2011; Zahra and Pearce II, 1989). In family firms, the close relation between the ownership and a family may create other roles for the board such as supporting the generational succession (Corbetta&Salvato 2004). Younger and smaller family firms have been found to voluntarily use a less formal version of this governance mechanism, the advisory board, to reap the insight, resource, and accountability advantages accorded by a formal board of advisors while avoiding the formalities and legalities such as the directors' insurance and compensation (Gersick and Feliu 2014; Ward 1987). In order to maintain independent ownership and managerial control, the owners of family firms may be reluctant to accommodate outsiders on their boards (and external monitoring) (Church,1969). A strategy of internalizing membership of the board to family members alone is highly prevalent in family firms (Westhead P. and Cowling M.,1996). This "insider" strategy ensures family interests are at the forefront of decision making in the business (Westhead and Cowling.,1996). On the downside, a captive board of directors (Donnelley,1964) may retard the development of the family firm (Westhead P. and Cowling M.,1996). Whilst a family firm can benefit from the flexibility afforded by family ties, the use of family members in key position can impose obligations which may contradict economic rationality. (Ram and Holliday,1993). In this respect, I agree with Hoy and Verser (1994), which warn against the establishment of a captive board: they suggest family firms should recruit more outsiders to their boards in order to obtain more varied and objective advice. This is a reasonable point of view especially when insiders lack of experience and skills needed to play such an important task.

1.2.4.2 Management of family firms

In many family firms the locus of decision making is centralized (Gofee and Scase,1985; Leach,1994) and the management team is usually small in size (Stoy, Hayward, 1992; Cromie et al.,1995). In other words, typical family firms have a concentrated ownership (Howorth C. et al.,2010). Many experts explain this family dominance by a lack of willingness to share control with external partners and the fear that external managers lack understanding of the company-inherent principles and values (e.g. Melin/Nordqvist,2000). Other experts claim that family firms are more "inward looking" and do not trust outsiders, even if they are professionally qualified, in order to protect their store of family wealth in family business. (Westhead P. and Cowling M. ,1996). One of the effect of this family dominance is a comparably low management senior management staff turnover, providing a lever for stability of the enterprise. (Mandl l et Al., 2008). Some expert assess this as a barrier for future growth (Kroslakova,2007; Strazovska et al.,2008). After all, the typical family firm characteristically commits itself to the existing power structures, processes and traditions (Anderson and Pain,1975). This may lead to a rigid allocation of resources in some of these firms, which hinders the introduction of changes required to carry out entrepreneurial activities (Zahra,2005) or implement internationalization strategies (Gallo & Garcia Pont, 1996). At the same time, however, some scholars claim that in larger family businesses it is more common to employ managers that are not family members (Mandl I. et Al.,2008). This leads to the assumption that the cost factor is decisive (i.e. external managers are more costly than family members who are willing to accept lower wages for the benefit and sustainability of the firm) (Mandl I. et Al.,2008). In addition, it has to take into account that family businesses are an employer of family members, also those detached from the general labor market. (Mandl I. et al.,2008). Again, the cost factor related to such an employment strategy must not be neglected; particularly in early phases of the company life cycle enterprises (and hence, also family businesses) are often characterized by low initial capital, limited market scope and unclear growth trajectories. As a consequence, it becomes natural to formally employ or informally draw on assistance of family members instead of creating jobs for external persons that are subject to reluctance in economically difficult times.(Mandl I.,2008). As a matter of fact, the employment of staff on the basis of personal relationships rather than due to qualification (i.e. Nepotism) is more widespread in family than in non-family businesses (Bloom/van Reenen, 2006; DGPYME, 2003; ESADE & Family Business Knowledge, 2006) Generally speaking, nepotism and family inertia reduces the firm's efficiency and adversely affects its performance by discouraging the recruitment of family external staff (Westhead et al.,1997).

1.2.4.3 Decision-making in family firms

The mentioned family dominance of the management leads to a value-driven, personal management style where decision making is rather emotional and informal (particularly in smaller business entities) (Mandl et al.,2008). Also Lymann(1991) found that managers of family firms use a more personal approach and rely less on formal written policies. On one hand, decision making in family businesses may be easier and faster than in non-family businesses due to this informality, to a higher level of valuable information transfer and to a different communication style (family members meet more often and discuss business issues "on the kitchen table" which also leads to a more open feedback/input possibility) (Mandl et al,,2008) . Furthermore, as it is mentioned by Dutch experts, family businesses' decision making is rapid as the responsibilities within a family are usually centered with one or two key persons; an advantage to this regard is the alignment of all stakeholders towards the shared business objective, i.e., common values and a common cultural/behavioral basis as well as goals and a very good knowledge of the other team members within the enterprise (Mandl et al.,2008). On the other hand, the lack of formal responsibilities and the higher number of (formally or informally) involved persons in some family businesses' decision-making process (particularly if the enterprise has already undergone several generational changes) may result in a higher complexity of decision making processes and also inherits a certain conflict potential. (Mandl et al.,2008). A family business usually does not make the clear distinction between the relationship of the owners, the board and the executive management. (Mandl et al.,2008). Typically, these three functions are performed by the same family members, making the distinction between these three levels unclear (Melin/Nordqvist, 2000). Further, Chaganti and Schenner (1994) note that planning is less prevalent in family firms. What's more, Daily and Dollinger(1992) find that family firms use significantly fewer control systems. This tendency can be explained by the family firms's wish to maintain personal control instead of using impersonal and formal procedures to follow up personnel behavior and firm processes (Daily and Dollinger,1992).

1.2.4.4 Outside/inside Chief Executive Officer

1.2.4.4.1 Outside CEO

In many firms, CEO is the focal point setting the agenda for the business (Stoy Hayward,1989). The managerial control of a family firm can be delegated to an "outside" CEO not drawn from the kinship group owing the business. (Westhead P. and Cowling M.,1996). This gives rise to some advantages as well as disadvantages. On one hand, "outsiders" may be prepared to work more closely with suppliers, customers, financiers, professional advisers and competitors. (Westhead and P. and Cowling M.,1996). Their wider resource network may enable family firm to adapt to changing market conditions; further, by responding to new technological advances and changes in marketplace they can identify new market opportunities and enhance a family firm performance (Westhead P and Cowling M., 1996). In addition, in order to pursue growth oriented strategy family firms may recruit an outsider directly to the CEO position. (Westhead P and Cowling M. ,1996). Furthermore, a CEO "…brought in from outside the firm may even be better able to deal with the psychological, sociological and structural problems of the organization" (Kesner and Dalton,1994). On the downside, the managerial control of a firm can be used by an outside CEO against the best interest of family owners (Francis,1980). An outside CEO may puruse activities which do not reflect the interests and aspirations of the owners of the firm (Westhead P. and Cowling M.,1996). For instance, family firms are more likely to seek to maximize firm value enabling them to personally realize any gains (Demsetz,1983). In marked contrast, an outside CEO may not pursue profit maximization and growth oriented strategies because he/she prefers to maximize his/her own utility function by pursuing activities which maximize sales revenues (Westhead P. and Cowling M.,1996).

1.2.4.4.2 Relevance of external managers in the internationalization process

The family firm must also ensure its survival through the professionalism of its managers. (Claver E. et Al.,2009). However, the knowledge and skills needed to succeed in the implementation of the internationalization process may not be present in the family, because, as Ward (1997) pointed out, the descendants' motivation is not enough; they must also have a special set of skills. External managers can provide a number of resources that are valuable for the family firm in its efforts to forge ahead in an internationalization process. (Claver E. et al.,2009). Their previous experience in negotiations in different cultural contexts and knowledge about international markets are likely to become important intangible resources and ownership advantages for the firm. (Claver E. et al.,2009) Internationalization can also help to overcome one of the main obstacles to the continuance of nonfamily managers—namely, the perception made by the latter of a limitation regarding their promotion chances inside the company (Gallo, 1995).

1.2.4.4.3 Inside CEO

The family firm is also an important social unit (Ram and Holliday,1993) which can provide family members with the opportunity (if desired) to follow a long term career in the family business (Westhead P. and Cowling M.,1996). Not surprisingly, many family members enter their family businesses at an early age. (Westhead P. and Cowling M,.,1996). The experience gained in the family firm can prepare family members for the CEO position when it falls vacant (Barach et al.,1988). Supporting this view, Goffee and Scase (1985) noted that " the transfer of family ownership and control between generations is often concealed by owners-directors insisting that their sons assume lower grade supervisory positions within the family business and subsequently pursue a reasonably predictable career, gradually acquiring control from their fathers." Moreover, if successors of family members in the top management team are involved early in the family firm, deep levels of firm-specific tacit knowledge can be achieved, which may improve decision quality regarding innovations or other strategic decisions (Hack et al.,2010). This is one of the positive effect of human capital [5], which is identified by Hitt(2003) as a one of the firm-specific resources. Most notably, however, an unsuited and poorly prepared family member can be promoted to the CEO position which is beyond their skill and competence level (Westhead P. and Cowling M., 1996); this, in contrast, is one of the negative effects of human capital: although family members are often highly committed to the firm, relationships are warm and friendly (Horton,1986) and the potential for deep firm-specific tacit

[5] Human capital describes the acquired knowledge, skills, and capabilities of an individual (Coleman,1988).

knowledge is high, and thus the threat of employing suboptimal employees just because of the family affiliation may pose a problem (Hack A. et al.,2010). In addition, the performance and growth of a family firm can be retarded by promoting an incompetent family member to the CEO position (Westhead P and Cowling M.,1996). In order to avoid this problem, some family firms train their family members in a variety of businesses before they are allowed to join the family firm (Stoy Harward,1989; Leach,1994). In this respect, some research findings pinpoint a generally lower formal qualification of family business managers compared to non-family business managers. This is due to the fact that family enterprises have been set up by older generations disposing of comparatively little formal training, and a tendency to change this situation is observed in the framework of generational changes when qualified young people take over (Mandl I.,2008). Thereby, a specific focus is laid on on-the-job training and practical know-how (Glas et al., 2005). Still, a number of cost advantages are associated with an "insider promotion policy" (Westhead P, and Cowling M.,1996). Remarkably, Datta and Guthrie (1994) found " …reduced cost associated with socialization, turnover, compensation and an increased ability to attract and retain employees". Furthermore, inside managers undertake a managerial approach different from those of non-family business because they put particular emphasis on the personal commitment and operative involvement, especially if the company is acting under the family name(Popczyk/Popczyk,1999; Sulkowsky,2004) and/or if the family business is the main income source of the family (Mandl I. et al.,2008). Moreover, family members are ready to sacrifice their personal interests in the name of the family business by, for example, working longer hours or by accepting lower income) (Mandl I. et al.,2008). This rarely happens when we analyze the behavior of non-family (outside) employees and managers; particularly in economically difficult times, this can represent a strength for family business compared to non-family ones. (Mandl I. et al.,2008). Casson(1982) has, however, warned that the quality and experience of the internal pool of family managerial labour may not be able to fulfil the specialist managerial functions that have to be carried out by a CEO.

1.3 Family firm's long-term vision

One of the main distinctive features of family firms, which has been claimed to be one of its main strength, is long-term vision (Daily&Dollinger,1993; Gersick,Davis,Hampton McCollom, &Lansberg,1997; Harris,Martinez,& Ward,1994; Tagiuri & Davis,1992). This vision is the prevailing image regarding the family's involvement in the business in years to come, where prevailing means that the most influential members of the family share this vision (Ward & Aronoff, 1994). Long-term vision leads to development and differentiation and so promotes international success when it results from growth outside the local market (Gallo & Sveen, 1991; Okoroafo, 1999). Long-term vision therefore appears as a driving factor behind the internationalization process (Dyer & Handler, 1994). Some family firms believe that it is impossible to separate the family's vision and goals from the strategy it follows (Claver E. et al.,2009). This approach results in a more unified long-term strategy and a stronger commitment to fulfill it (Habbershon & Williams, 1999). Moreover, a study which has been conducted on Spanish family firms has supported the hypothesis that long term vision will increase the likelihood that family business adopt an entry modes that involve a high level of resource commitment (Claver E. et al.,2009). The peculiar focus on long-term vision implies that family firms are more concerned on long-term sustainability rather than on short-term profits (Mandl I. et al.,2008). Indeed, family business experts believe that one of the main feature which distinguish family business from non-family ones is that they are managed without the intention to sell the business. (Mandl I. et al.,2008). This policy has an impact on the longevity of the firm (in terms of number of generations) and also on the way family firms' managers and owners interact with employees, stakeholders and the local community (Mandl et al.,2008). The majority of family entrepreneurs see themselves as the provisory caretaker of the company who has the responsibility of maintaining and further developing the enterprise for the following genereation (Mandl I. et al.,2008). This last consideration remarks that "the intention to continue the business across generation in a sutainable way" (Chua et al.1999) is one of the undiscussed feature that a family firm has to possess to be considered as such. In marked contrast, non-family business managers often focus their attention of their business only during their own professional life and opt for selling the company if it is a good bargain (Mand I. et al.,2008).

1.3.1. Risk behavior of family firms

As I have discussed, long-term vision implies that family firms are concerned on the long-term sustainability of the business. Moreover, also if not for all family firms, for some of them (e.g in Bulgaria 40% of family business) family business provide full subsistence of the family (University for National and World economics,2006). When these two factors occur together (long-term sustainability of family firm and family business providence of full subsistence of the family) they have a strong impact on the risk behavior of family firms, which result, as a consequence, risk averse because a business failure may dramatically reduce the family budget and restrain the possibilities of future generations (Mandl I. et al.,2008). At the same time and in sharp contrast, however, the long-term vision of family firms may lead to the adoption of long term projects such as radial innovations, which are associated with high risk and uncertainty (Hack et al.,2010). In this context, survivability capital, namely “the pooled personal resources that family members are willing to loan, contribute and, or share for the benefit of the family business”[6] (Sirmon and Hitt,2003) may become an important source for family firms; it can function as a safety net in situations of unpredictable outcomes (Hack et al.,2010).

1.3.2 Family firm’s local commitment

The careful risk behavior in combination with the relative longevity of family businesses is as an explanation of the findings of several national research studies as well as expert opinions that family businesses (particularly the smaller ones) are often strongly anchored in the local community, resulting in a local business focus (i.e., co-operation rather with local suppliers, limited levels of foreign trade, employment of local inhabitants) (Mandl I.,2008). This may go so far that decisions regard the downsizing or even closure of the enterprise are thoroughly considered as the reduction of offered workplaces for local inhabitants is in contradiction with the high commitment to the local community (in which often the family also lives) (Mandl I.,2008). What’s more, the faith to local community results in good customers relations and a deep knowledge of the market conditions but at the same time it clearly constitutes a barrier for the internationalization process of the firm (Mandl I.,2008).

[6] These resources can take the forms of free labor, loaned labor, additionally equity investments, or monetary loans (Sirmon and Hitt,2003).

1.3.3 CSR of family firm

What I have just discussed above leads us to analyze another behavioral feature of the typical family firm, which is the commitment to act in a social responsible way. Graafald(2002), in fact, has observed that family firms act not only in behalf of their interest but also to those of the society. He concludes that larger family businesses (at least 100 employees) are more concerned with CSR than larger non-family businesses while smaller family businesses are less engaged in CSR as they perceive this as additional costs they cannot afford (Ahmed, Montagno and Flenze, 1998, quoted in Déniz and Suárez, 2005). Moreover, according to a study conducted on behalf of the European Commission by Mandl et al.,2008, in many European countries analyzed family businesses realize higher social investments as, for example, further education activities for their employees, offering flexible working arrangements, financial and personal involvement in the community issues (Mandl I.,2008) What's more, family businesses contribute to the CSR activities benefiting their clients by paying attention to the quality of their products, especially if the company acts under the family name (Mandl I.,2008).

1.3.4 Social Capital

Family firms are characterized by the great importance that relationships between individuals' within the firm as well as (given the above discussed family firms local commitment and social responsible behavior), relationships between the firm and other stakeholders (customers, suppliers, employees, local community) assume. Social capital describes exactly the relationships between individuals and between organizations (Burt,1997). Recently, a theory concerning social capital has been used in family firm research(Arregle et al.2007; Chrisman et al., 2005). Such a theory "addresses the importance of the interaction and exchange between individuals in a social network. Social capital can be defined as "the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance or recognition" (Bourdieu,1986) p,51. Many European experts (Mandl et al.,2008) see the social capital as a specific strength thanks to two reasons: first, the strong ties that are created within a family business network favor resilience in the face of volatility: family business employees, also when they do not belong to the family, are typically high loyal to the company and are willing to accept a reduction of their wages in economic downturns. Moreover, thanks to the above mentioned local community commitment and to family business longevity, family firms can exploit their stable relationship with business partners and clients which provide them helpful condition in economically difficult times. For instance, they are allowed to delay suppliers payment, or being guaranteed that business partners and clients will approach the company for business opportunities (Mandl I.,2008). Furthermore, many clients have claimed that they are more willing to work with an organization that has been existing for a long time (Mandl I.,2008). In addition, social capital helps to reduce those agency costs which can arise in some cases (as mentioned before, when for example family firm hires outside managers or also in case in which the responsibility is informally given to a high number of individuals whose goals may be in contrast) because the high commitment of managers and employees limits the danger of following other objectives than those of the company (Mandl I.,2008).

1.4 Family firms financial structure

Family firm financial behavior is often associated with the so called pecking order theory (Myers,1984;Myers and Majiluf,1984). This theory do not analyze family firm ease to access financial sources but rather an internal preference order established within the organization (Clave E. et al.,2009). The typical family firm shows an attitude to use internal financing sources and this, in turn, can hinder the internationalization process and its internationalization capabilities, as well as creating significant opportunity cost (Claver E. et al.,2009). The pecking order theory claims that when family firms has to deal with the choice of the financing source, self-financing is often the first option considered; the use of external fund, provided by financial institutions such as banks , is alleged to be the second option: the latter includes funds provided by the government and other institution as subsidies to the firms (Claver E. et al.,2009). The third option involves using external capital sources thereby allowing investors to enter the firm(Chittenden,Hall&Hutchinson,1996; Gibson,2002). Such a framework is strongly related with the above mentioned reluctance of typical family firms to dilute ownership. Further, family firm owners are willing to keep the information under family control (Claver E. et al.,2009). Pecking order theory reflects the policy that some family firms follow because of their great risk aversion and their wish to maintain the control of the firm in the hands of the family (McConaughy et al., 2001; Mishra & McConaughy, 1999). External finance is not appreciated as it bears the “risk” of also having to share control, management or decision power (e.g. Glas,2003; DGPYME,2003; ESADE& Family business knowledge,2006; Coutts,2005). This is further confirmed by Poutziourious et Al.,1997 according to which the desire for control and independence and privacy leads the family firm to avoid external financing. The closed financial structure of family businesses poses a problem to individual shareholders, if they are willing to seel their share. As most family businesses do not quote the stock exchange there arise difficulties with regard to the valuation of the company as well as finding potential buyers outside the family. (Mandl I. et al.,2008). This situation also hampers the financing of future growth activities by attracting additional external shareholders (DGPYME,2003; ESADE & family business knowledge,2006). The difficulty to access the capital market may also reduce business growth, in markets both national and international (Barry, 1975; Gallo & Vilaseca, 1996; Morck & Yeung, 2003). The latter observation may confirm that the peculiar financial policies adopted by these enterprises, with little indebtness and exclusive self-dependence on self-financing, may have reduced family firms expansion chances. At the same time, however, family firms often reinvest profits in the firm and owners are more willing to wait for a return on their investment (Baaskin,2011): this scheme is known as patient financial capital. Patient financial capital differs from typical financial capital, because it is linked to a longer time of investments and not a threat of liquidation in the short-terms (Dobrzynsy,1993). As innovations are often long-term projects, family firms may benefit from this aspect of their financial structures. (Hack A. et al.,2010). This is supported by research suggesting that firms with patient financial capital are capable of pursuing more creative and innovative strategies (Teece et al.,1997).

1.5 Succession and its effect on family firms internationalization.

Previously I have claimed that family entrepreneurs see themselves as momentary caretakers of the company whose aim is to maintain and further develop the enterprise for the following generations. As a consequence, the intention and realization of generational changes in ownership and management constitutes an important feature of family firms (Mandl I.,2008). In fact, if the business transfer is managed efficiently and effectively in terms of planning, implementation and follow up of the various fields (personal, financial, economic, administrative, employee and stakeholders relations) concerned, it is a pivotal success of factor for future development as the enterprise disposes of experience, networks, reputation and a customer base newly founded companies are lacking (Mandl I.,2008). This is further confirmed by Fox et al.,1997, which claims that the future prosperity of the family and of the family firm can be linked to the business ownership transfer process and the way it is handled. Alternatives to intergenerational succession include selling the firm through a trade sale[7], management buy-in[8] or management buy-out[9], listing the firm or liquidation (Lansberg, 1999; Howorth et al., 2004). Approximately, 30 per cent of family businesses are transferred to second generation family ownership, and only 13 per cent of family businesses survive to third generation family owners (Ward, 1987). Many owners of family firms express the desire to maintain independent ownership of the family firm, to ensure survival of the family firm (Westhead, 1997), and to transfer business ownership to the next generation of family members (Morris et al., 1997). However, some potential successors are not interested in continuing the family firm while in other cases there are no potential family successors and in some others there is no intention to pass the firm into member of the family (Howorth C. et al.,2010). The choice of successor affects family relationships as well as the long-term direction of the business (Howorth C. et al.,2010). The survival of some private family firms has been

[7] A trade sale is the disposal of a company' shares or assets and even liabilities in the whole or in part. It usually refers to the sale of a company in its early stages (Picchi F., Zanichelli 2005).

[8] Management buy-in is an operation through which external entrepreneurs acquire the majority ownership of a firm (Picchi F.,Zanichelli,2005).

[9] Management buy-out is a transaction through which (non-family) managers of a company acquire the majority ownership or the total share capital of the business that they manage.(Picchi F.,Zanichelli 2005).

assisted by the development of buyouts where next-generation family owners are either not available, or unwilling to take on the running of the family firm (Howorth C. et al,2010). In this issue, Scholes, Wright and Westhead present evidence of renewed vigour when the family exit the private family firm through a management buyout. Although business founders are generally authoritarian, conservative, and unable or unwilling to share power (Birley, 1986; Daily & Dollinger, 1991; Geeraerts, 1984; Levinson, 1971), descendants are usually eager to introduce strategic changes, achieve personal independence, and have a chance to prove their skills. Opportunities for value creation and transformation often arise during the transition from one generation to the next, and this is beneficial to the succession process and its ultimate success (Barnes & Hershon, 1976; Sharma, Chrisman, & Chua, 1997). Moreover, family firms in second or successive generations are more likely to be present in international markets (Fernández & Nieto, 2005; Gallo & García Pont, 1996).

1.5.1 Importance of descendants in the internationalization process

Another interesting issue has to do with family firm members' attitudes toward internationalization strategies and knowledge of foreign markets (Claver E. et al.,2009). Obtaining this type of knowledge may prove difficult, though not so much if family members bring themselves to learn foreign languages or travel abroad (Claver E. et al.,2009). In this case, the presence of a successor with proper training and an internationally oriented mentality may facilitate the internationalization process (Claver E. et al.,2009). Such family members can become an important locus of intangible resources (following the resource-based view of the firm; Barney, 1991; Peteraf, 1993) or ownership advantages (from the perspective of the eclectic paradigm; Dunning, 1981). Sending descendants to work abroad or having family members who live in other countries is bound to increase the international commitment of family firms (Gallo & Sveen, 1991; Reid, 1981). Family members are the ones who can best diagnose the opportunities and risks in a market unbeknownst to the organizations (Claver E. et al.,2009). For this reason, these family members may assume the responsibility for developing firm activities in the country where they are living (Gallo & García Pont, 1996).

1.5.2 Family values transfer

When a firm is transferred to the next generation, it is not only financial assets which are passed on, but also social and cultural capital. The latter refers, for example, to the value system. Values such as honesty, credibility, modesty and respect are of vital importance for family businesses (Aronoff/Ward, 2001; Koiranen, 2002b; Stewart, 2003) as they support the long-term vision and contribute to the firm's survival over decades as the company specific values are often explicitly or implicitly communicated towards stakeholders, i.e., employees, clients, the local community, business partners etc.). (Mandl et al.,2008). These values are closely linked to the character traits of the entrepreneur and transmitted to following generations via socialization and exemplary behavior (Mandl et al.,2008). Thereby, often the mother plays the role of a "Chief Emotional Officer" (Lambrecht, 2005; Lansberg, 1999; Muson, 2002; Poza/Messer, 2001) and path dependency is prevalent. At the same time, this may give rise to conflicts, if the older generations stick to traditions and procedures while younger family members opt for innovation and change (Claver E. et al.,2009).

1.6 Family firms environmental and cultural context

A family's (and firm's) external environmental context (that is, cultural, demographic, economic, educational, legal and social) can shape family firm formation, diversity and development. External environmental contexts change over time and, in part, shape variations in the formation, survival and development of private family firms (Winter et al., 2004). Family firms benefit from resource stocks generated by relationships with actors in the external environment (Chrisman et al., 2009). Colli et al. (2003) detected that distinctive national (and regional) family firm behavior was shaped by the interplay between the cultural, economic, institutional and social environments over time. Each family firm is embedded in a society associated with a particular array of values, attitudes, laws and business practices (Howorth C. et al.,2010). At the level of the individual firm, shared family experience can lead to shared understandings and perceptions, which can shape family firm diversity and development (Howorth C. et al.,2010) . An understanding of family and firm history is required to explore variations between family firms with regard to resources, capabilities, behaviour and performance (Howorth C. et al.,2010). Culture can shape the values reported by family firm owners as well as the strategies and relationships within family firms (Howorth and Ali, 2001). Family culture can shape a family firm's ability to be strategically flexible (Zahra et al., 2004). Organizations associated with stronger family commitment are generally more flexible (Zahra et al., 2008). In line with stewardship theory, some family firm owners select organizational cultures and structures that enhance employee commitment and organizational citizenship behaviour by employees (Zahra et al., 2008). A culture of trust within the family and between the family firm and external actors can be nurtured to the firm's competitive advantage. (Howorth et al.,2010.).

1.7. Final comments

The aim of this chapter was to describe the main peculiarities of family firms. However, as we have seen, they are heterogeneous entities and this means that certain peculiarities may not be found in some of them. First, this is because of the fact that they are present in very different institutional, cultural and environmental contexts. As a consequence, there are differences, for example, in the way in which families control companies: as I have mentioned, for instance, in Italy it is common that families control a firm only with a small proportion of the share capital. Further, no universal claim can be made on their size. Even if they are often associated with small-medium enterprise, some family firms are *de facto* corporate giants (e.g. Ikea, Lego, Fiat, Walmart). What's more their size may have an impact also on the composition of corporate management: as I have discussed(section 1.2.4.2)being the cost factor so relevant, it is more likely to find external, expert and skilled managers in large family than in the small ones. Further, there are some paradoxes in family firms: for example their typical long term vision crashes with their peculiar willingness to retain total ownership and control of the business, thus missing important growth opportunities that require external financing to be exploited. Last but not least no universal claim can be made for their business transfer process as empirical evidence shows mixed outcomes (paragraph 1.6). However, only in recent times the academic literature has paid adequate attention to family firms as their economic significance has been underrepresented so far. As a consequence, scholars and researchers are working in order to clarify many controversial aspects.

Chapter 2

The performance of family firms: the joint consideration of agency theory, RBV and institution-based view.

2.1. Family firms' performance: mixed empirical evidence

Although the great number of studies which have been conducted on the performance differences between family and non-family firms in last years, whether family firms outperform their non-family counterparts remains unclear. In particular, most researchers and scholars have focused their attention on the relationship between three variables (both singularly and jointly considered) and firm performance; these three variables represent the three levels of family involvement in a business, namely family ownership, family control and family management.

2.1.1 Family ownership and firm performance

Early researches analyzing the relationship between ownership structure and firm performance date back to 1932 (Berle and Means) and to 1976 (Jensen and Meckling). It is claimed that they underpinned empirical studies focused on this relationship. They concluded that a concentrated ownership structure and/or voting rights increase firm performance. Additional findings came from Morck et al. (1988) and McConnell and Servaes (1990). The results of their empirical studies showed an inverted U-shaped relationship between management ownership and market valuation. Specifically for family firms, family ownership in terms of shares in the firms (often used indicators are the voting rights of the family) is one mean of how a family can influence firm activities and decisions (Hack A.,2010). Indeed, the relationship between family ownership concentration and family firm performance has never been consistent (Liu W. et al.,2010). Both positive (Carney & Gedajlovic, 2002) and negative (Claessens et al., 2002) relationships have been reported. Recently, scholars have found that the relationship between family ownership concentration and firm performance may be complex and nonlinear (Anderson & Reeb, 2003; Claessens et al., 2002; Thomsen & Pedersen, 2000). As the ownership stake increases, the founding family may initially have greater incentives to monitor managers and business activities, provide vital resources, and adopt appropriate strategies to maximize firm values; this is particularly the case when top managers are also family members (Liu W. et al.,2010). As a result, the cost to align owner-manager's goals will decrease dramatically (Liu W. et al.,2010). In line with this, increased market valuation results from converging interests between managers and shareholders, while decreasing market valuation arises from the entrenchment of the management team (Hack et al.,2010). However, as ownership increases beyond a certain point, large family owners gain nearly full control of the company and are powerful enough to use the firm to generate private benefits that are not shared by minority shareholders (Claessens et al., 2000). Such entrenchment effects may even mitigate the positive effects of the reduced monitoring cost, decreasing firm value (Fama & Jensen, 1983). Consistently, Kowaleski et al.(2010) found an inverted U-shaped relationship between family ownership and firm performance; precisely, at the 40 percent level of family ownership, firm performance reaches its maximum. In addition, Anderson et al. (2003) showed, analyzing the S&P 500[10],that firm performance reaches its peak at the 30 percent family ownership. These studies support the hypothesis claimed by Miller and Le Breton-Miller(2006) that when there are too many family members involved in the business, this may lead to conflict and to a drain of funds. Furthermore, Martinez et al. (2007) noticed in a study of 175 Chilean publicly traded firms that family firms have a significantly higher firm performance than do non-family firms. In addition, a Taiwan-based study by Chu W. (2009) clearly showed that when family ownership is combined with active family management involvement, firm performance is improved. The latter finding is consistent with that of Fox and Hamilton (2004) which suggested that family top executives are likely to have a high level of goal alignment with the organizations owned by their families, so that a stewardship-based relationship can be predicted (Davis et al.,1997; Jaskiewicz & Klein,2007). *By contrast*, some studies concluded that family firms show a lower firm performance in comparison to non-family firms (Hack et al.,2010). Miller et al. (2007) analyzed the Fortune 1000[11] and found that US firms that include relatives as owners or managers never outperformed market valuations. Another study of US firms also showed that family firms have a lower ROE, ROA, and Tobin's Q than do non-family firms (Holderness and Sheehan,1988). Górriz and Fumás (2005) did not find any performance differences between family firms and non-family firms regarding Tobin's Q and ROA. In sum, empirical evidence shows mixed results regarding the effect of family ownership on firm performance.

[10] S&P 500 (Standard & Poor's 500) is a stock index that includes the stocks of the 500 largest US companies (Hack et al.,2010)

[11] The Fortune 1000 is a list of the 1000 largest US companies, ranked on revenues alone (Hack et al.,2010)

2.1.2 Family control and firm performance

Firm boards take the responsibilities of monitoring corporate management and provide resources and services (Liu W.,2010). In the family business literature, specific topics that have been investigated include the performance implications of board size, the diffusion of inside and outside directors, patterns of board interlocks between firms, and board capital (Boyd, 1990; Dalton, Daily, Johnson, & Ellstrand, 1999). Studies found that a high proportion of family members on the board decreases firm value (Daily, 1995; Daily & Dalton, 1994a, 1994b), while others found that family directors are in a better position to evaluate CEO strategic decision making, increasing firm value (Cochran, Wood, & Jones, 1985; Kesner, 1987). On one hand, it is claimed that for the board of directors to be effective, it must be independent of management (Liu W.,2010). In fact when there are too many family members on the board, board independence and its monitoring effect would be reduced, undermining the board's responsibility to oversee, evaluate, and discipline top management (Baysinger & Hoskisson, 1990). In addition, the increased proportion of family members brings down the diversity of the board, consequently providing redundant resources. (Liu W. et al.,2010). Too many insiders on the board also influence the legitimacy of the board (Hillman & Dalziel, 2003). Shleifer and Vishny (1997) argued that independent and advisory directors can prevent excessive CEO compensation, flawed decision-making processes, stale strategic planning, and unearned perquisites, while limiting the family's undue influence through enhanced board dynamics and subcommittees of the board. *By contrast*, under the stewardship perspective, for top executives who are stewards, their pro-organizational actions are best facilitated when the corporate governance structure gives them high authority and discretion (Donaldson & Davis, 1991). This situation is attained more readily if family members fill the board positions.(Chu W.,2009). In line with this, Silva and Majluf (2008) argued that family control, specifically, family involvement in the board of directors, has a positive effect on firm performance if the firm's governance institution can take advantage of the diverse opportunities for better coordination, improved communication, and benefit of mutual trust. Furthermore, Bartholomeusz and Tanewski (2006) found that family firms are likely to substitute outsider monitoring with interested bystanders so they have a lower proportion of disinterested or independent directors on their boards than nonfamily firms. In addition, Anderson&Reeb (2004) found that a moderate presence of family members on the board provides a substantial benefits to the firm. Also, Vance (1964) claimed that firms with insider-dominated boards performed better than firms with outsider-dominated board for the successful, large, publicly-owned companies. Again, the empirical evidence shows that family involvement on the board has an impact, but the latter is rather controversial.

2.1.3 Family management and firm performance

The existing literature differentiates family management from non-family management on the basis of CEO appointment (Liu W.,2010). It is believed that family firms run by family CEOs may perform differently from family firms run by non-family CEOs (a hired CEO outside the founding family) (Liu W.,2010). Both agency theory and RBV have been used to examine the relationship between the presence of a family or non-family CEO and firm performance; however, the results are highly inconclusive (Liu W.,2010). Studies adopting agency theory argue that there are significant advantages and also disadvantages in appointing family members as CEOs (Anderson & Reeb,2003). Since the founding family both owns and manages the firm, principal-manager conflict can be reduced greatly (Liu W.,2010). However, when a family member holds the CEO position, principal-principal problem can be severe because family CEOs as inside shareholders may have greater incentives to expropriate[12] minority shareholders (Fama & Jensen, 1983). Studies adopting the RBV emphasize a family CEO's easy access to unique resources through kinship networks, such as human, social, and financial capital; nevertheless, family capital can be detrimental to the firm if managed inappropriately (Liu W.,2010). In fact, sons, daughters, and other relatives who are incompetent or unqualified may be appointed as firm managers, hurting firm performance (Schulze, Lubatkin, & Dino, 2003). Altruism, non-merit-based compensation, and irrational strategic decisions may also offset the benefits of these resource advantages (Gomez-Mejia, Nunez- Nickel, & Gutierrez, 2001; Schulze, Lubatkin, & Dino, 2003). Considering the significant differences between founder-controlled and descendant-controlled firms (Schulze et al., 2003a, 2003b; Villalonga & Amit, 2006), Liu (2010) proposed to differentiate types of CEOs and examine how they influence firm performance. Specifically, he classified family firms into those managed by founder, descendant, or outside CEO (Gedajlovic, Lubatkin, & Schulze, 2004), and considered how their performance impacts vary across institutions.

2.1.3.1 Founder CEO

Compared with descendant CEOs, founder CEO-managed firms enjoy many advantages, including the founder's greater obligation to preserve wealth for the next generation (Bruton, Ahlstrom, & Wam, 2003), tacit knowledge and experience (Lee,

[12] Expropriation is defined as the process of using one's control powers to maximize own welfare and redistribute wealth from minority shareholders (Claessens S., Djankov S., Fan J.,Lang L.,1999).

Lim, & Lim, 2003), and broad social networks (Jayaraman, Khorana, Nelling, & Covin, 2000). Empirical studies confirm that the performance of family firms run by founders actually outperform other firms (Anderson et al., 2003; Anderson & Reeb, 2003b; Villalonga & Amit, 2006).

2.1.3.2 Descendant CEO

Although descendant CEO-managed firms enjoy some benefits of the reduced principal-agent conflict compared with those managed by outside CEOs, the presence of a descendant CEO tends to contribute less to firm performance, since the descendant CEO has been found to: (1) have less sense of stewardship for the business and lack the motivation, commitment, and incentive to sustain it (Andersson, Carlsen, & Getz, 2002); (2) be selected on the basis of family ties rather than professional expertise and is very likely to be unqualified or incompetent (Barth et al., 2005); (3) have difficulties taking over the tacit knowledge, managerial skill (Morck & Yeung, 2003), and social capital from founders (Steier, 2001); and (4) have greater concern about their own welfare and be more likely to expropriate minority investors (Villalonga & Amit, 2006). Empirical evidences on the performance impacts of descendant CEOs are mixed; some studies find that the performance of firms run by descendants are actually below the average (Morck, Strangeland, & Yeung, 2000; Villalonga & Amit, 2006), while some others find no significant performance difference between firms run by descendants and firms run by other managers (Sraer & Thesmar, 2007).

2.2 Reasons for conflicting empirical evidence

As we have seen, empirical evidence regarding family firm performance is controversial. In current literature, researchers have identified common reasons as responsible for the lack of a universal conclusion concerning the effect of family involvement on firm performance. Hack et al. (2010) have classified them into three classes: 1) size, legal form and geographical focus, 2) heterogeneity vs homogeneity, 3) direct vs indirect effects. In addition, as Miller et al.(2012) suggested, another factor which does not allow to draw a comprehensive conclusion regarding family firm performance is the above-discussed[13] problem of family firm definition: there are definitions based on ownership, others based on family involvement in the business, and some combinations of the two. Many of the existing researches have taken the percentage of family ownership as a defining characteristic, however, with very different ownership thresholds and criteria (see e.g., Miller et al., 2007 and Villalonga and Amit, 2006).

2.2.1 Size, legal form and geographical focus

Many researches tied to positive performance findings for family firms has focused on large, American, publicly controlled firms (Anderson and Reeb, 2003; Lee, 2006; McConaughy et al., 1998; Villalonga and Amit, 2006). However, the supposed benefits of family involvement in the business have been questioned in other contexts and different samples, including those of smaller firms (e.g., Cucculelli and Micucci, 2008; Gomez-Mejia et al., 2007; Holderness and Sheehan, 1988; Sciascia and Mazzola, 2008). Previous studies have also differed in the legal form of the family firms analyzed

[13] See Section 1.1

(privately held vs publicly traded companies) and in the geographical context taken into account (e.g. US vs European firms)

2.2.1.1 Size

The focus of many studies are firms that are listed in the S&P 500 or Fortune 1000 indices. Here, size can be the obstacle that dilutes family influence concerning firm performance. (Hack et al.2010). Chrisman et al. (2005b, p. 596) concluded that “the accumulated evidence is persuasive with respect to founding family involvement in large firms but further research is needed to determine whether this is true in small firms and in firms where family involvement is not confined to a founding family” (i.e. family management buy-outs and purchasing an existing business by a family from the outside)**.** However, the concerns over the applicability of these findings on small firms may not be justified as many researchers (e.g. Miller et al.,2012; Chu W.,2009) showed how the association between family ownership and firm performance is likely to be more significant in SMEs than in larger firms. Briefly, this is due to the fact that family firms with small size can maintain a better interface between business and family, so the potential advantages of family ownership are likely to be capitalized (Poza,2007). In addition, the empirical study of Kole (1995) found that the positive relationship between family ownership and firm performance is sustained at a high level for small firms but at a relatively lower level for large firms.

2.2.1.2.Legal form

Basically, legal form concerns arise from the difference between privately held company and their publicly traded counterparts. Privately held companies do not need to publish their financial results as do publicly traded companies, which need to follow the regularities of financial market authorities. These regulations protect minority shareholders and give them more power. In a non-publicly traded company, the same ownership stake gives less power to the owner as the company is independent of financial market regularities. This effect can also be applied to the influence of family management. If a company is not publicly traded, the influence of family management can be higher as strategic management decisions and results do not need to be published and explained to the capital market. The company can thus act more independently. (Hack et al.,2010)

2.2.1.3Geographical focus

Another issue is the focus of the majority of studies on US firms. Only a few studies investigate European samples, even fewer German samples (Hack et al.,2010)

2.2.2 Heterogeneity vs Homogeneity

As I have pointed out in section 1.1., one of the main problems which obstacles the search for a universal definition of family firms is their heterogeneity. In fact, as previously discussed , they are a unique group of organization but they differ within this group; in particular, the degree to which each family is involved in the management and in the ownership structure of the firm is not the same for each single family firm (Hack A. et al.,2012;). Thus, it is important to distinguish between different levels of family influence in general and family involvement based on factors such as ownership, the presence of non-family shareholders and managers, the active involvement of family members in top management or in supervisory board and the number of generations involved (Hack et al.,2010). As a matter of fact, a homogeneous consideration of family firms leads to biased results because the variance in a sample of family firms can be extremely high (Hack et al.,2010). Further, the definitions of what constitutes a family firm varied widely across study: some scholars defined a firm as being a family firm rather subjectively, basing firm classification on whether the respondent believed the firm was a family firm, while other researchers based their definition on more objective criteria such the percentage of family ownership or the number of family members occupying management or board positions. Thus, some studies likely included firms in their "family firm" sample that would not have been included in other studies' samples and this mixing of "apples and oranges" might account for the ambiguous findings (Dyer W.,2006). Thus, it is very important to identify homogeneous group of family firms inside the organizational form of family firms (Hack et al.,2010). So far, some scholars attempted to make classifications which identify several types of family firms (e.g. Corbetta and Salvato,2004; Dyer W.,2006; Constantine,1993). In particular, Corbetta and Salvato (2004) suggested that "future research will benefit from a clear distinction among conceptually sound and empirically validated family firm types." To sum up, the consideration of family firms as a homogeneous group leads to biased results and the need to distinguish between them, also by classifying different homogeneous groups, becomes a pivotal task.

2.2.3 Direct vs indirect effects

The majority of studies that investigate performance differences analyze the direct effects of family influence on firm performance (Chrisman et al.,2008; Rutherford et al.,2008; Sirmon et al.,2008). This approach disregards potential mediating effects; in fact, there is a black box between family influence and firm performance that needs to be considered in future studies (Hack et al.,2010) . Performance driving factors may be directly influenced by family involvement; this indirect effect by a mediating variable has not been observed sufficiently (Hack et al.,2010). For example, unique family firm characteristics such as “familiness” may interact between family input and firm performance as a mediator (Habberson and Willliams.,1999). Familiness describes a unique bundle of resources and capabilities resulting from the interaction of the family unit, business entity, and individual members. (Habberson et al.,2003). These resources and capabilities affect strategic decisions, which in turn influence firm performance (Hack et al.,2010). Here, family involvement has an indirect impact on firm performance through “familiness” (Hack et al.,2010). In some cases, family involvement may also act as a moderating variable between strategy and firm performance (Sirmon et a.,2008). In other cases, family influence may also be moderated by context-dependent variables such as the strategy and structure of an organization (Jones et al.,2008). Sirmon et al. (2008, p. 980) conclude that a “richer understanding of how family involvement affects performance may be gained by developing more comprehensive theory regarding family involvement’s indirect effects.” Rutherford et al. (2008) claim that “more theoretical development about the missing linkages between family involvement and performance is needed.”

2.3 Agency theory, resource-based view and institutional based view as instruments to study the performance of family firms

Most studies have taken into account the agency theory and the resource-based view theory in order to analyze the relationship between family firms and its performance. By contrast, few researchers have taken into consideration the importance of the context (i.e. the institutional environment) in which family firms play in analyzing such a relationship. In the remainder of this chapter I will provide some theoretical background concerning the impact of the institutional environment on the performance and the occurrence of family firms. However, I will not discuss here the well-known and already treated (see chapter 1) agency theory and resource-based view. Then, I will provide a classification of family firms based on the joint impact of different levels of agency costs, family resources and institutional environment on family firms' performance. Finally, the classification will be discussed and some insights will be provided.

2.4 The influence of institutions on family firms performance: does the level of institutional development matter?

2.4.1. Importance of the institutional environment

Family firms behave and perform differently when operating in countries with different institutional environments (Steier, 2009). Studies adopting an institution-based view found that the institutional context has a strong bearing on family business practices and performance (Liu,2010). For example, Peng and Jiang (2006, 2010) found that having a family CEO is value-enhancing in underdeveloped countries, while it has no significant effect in more developed countries. They argued that the benefits and costs of family businesses may be influenced by the institutional environments in different countries, such as the level of legal and regulatory protections for shareholders. A more recent analysis of the relationship between ownership concentration and firm performance have found that ownership concentration is more efficient in regions with less than perfect legal protection of minority shareholders, but less efficient and even redundant in regions with strong legal protection of shareholders (Heugens, van Essen, & van Oosterhout, 2009). In contrast to the more traditional agency theory and RBV, recent corporate governance research has recognized the importance of institutions (Davis, 2005). Institutions make the rules of the game in a society, or, more formally, they devise constraints that shape human interactions (North, 1990). An institution-based view addresses the embeddedness of firms in the institutional environment (Peng et al., 2008, 2009). It is the institutional arrangements or a set of fundamental political, social, and legal rules that shape the strategic behaviors and outcomes of firms across institutions (North, 1990). For example, legal institutions such as corporate laws regulate the internal relationships of firms and their relationships to shareholders, providing legal and regulatory regimes for corporate operation; economic institutions such as the infrastructure for capital distribution influence firms' access to resources and their operation cost in market; political institutions help establish a stable social structure that facilitates economic exchanges among firms (Liu W.,2010). Researchers in the stream of comparative corporate governance have investigated the roles of country-level institutions on firm-level practices in corporate governance (Aguilera & Jackson, 2003; Aoki, 2001; Crouch, 2005). According to them, diversity of corporate governance practices and varieties of capitalism originate from the diverse institutional configurations in these countries (Carney, Gedajlovic, & Yang, 2009; Hall & Soskice, 2001; Morck & Steier, 2005; Steier, 2009). A more recent study by Aguilera, Filatotchev, Gospel, and Jackson (2008) advocated an open-system approach to understand the interdependence between the broader environmental context and governance practices; in particular, how environmental factors shape the costs, contingencies, and complementarities of different corporate governance practices and their effectiveness. Notwithstanding the potential impact of the institutional environment on firm practices and performance, it is surprising to see how little research has paid attention to the institutional impact on family business (Burkart et al., 2003; Jiang & Peng, 2010).

2.4.2 Level of institutional development and occurrence of family business

When the institutions (e.g., takeover markets, legal and regulatory institutions)are underdeveloped, internal family governance represents an effective substitute in the void of market discipline (Steier, 2009). As a matter of fact, managers as agents of owners (principals) may engage in self-serving behavior that is detrimental to the owners' wealth maximization (Fama & Jensen, 1983; Jensen & Meckling, 1976). When the institutions are underdeveloped, the cost of monitoring and enforcing contracts becomes high since the governance vacuum makes it difficult to measure or observe the behavior of agents (Hill, 1995; Williamson, 1985). Family governance, thanks to the non-separation between ownership and management, can, to some extent, circumvent managerial opportunism and therefore be critically needed in an underdeveloped institution (Dharwadkar, George, & Brandes, 2000). Given all this, Liu et al.(2010) claimed that the relationship between the level of institutional development and the likelihood of having a family business is negative; that is, the higher the level of institutional development, the lower the likelihood of having a family business.

2.4.3 Level of institutional development and performance of family businesses

Compared with non-family firms, family owners are motivated to continue their family business (Aguilera et al., 2008; Becht & Roel, 1999), develop longer time horizon (Dreux, 1990; Stein, 1989), and care about family reputation and standing in the society (DeAngelo & DeAngelo, 2000). In contrast, the lack of market discipline for non-family firms is likely to induce opportunistic behavior and decrease firm performance (Li, Wang, & Deng, 2008). Further, it is also harder for non-family firms to raise necessary resources in an underdeveloped institution, while family firms may be able to do so from family connections at a lower cost (Anderson, Mansi, & Reeb, 2003). The above analysis suggests that the reduction of agency costs and the access of family resources may ultimately enable family firms to outperform non-family firms in an underdeveloped institutional environment (Liu W. et al.,2010). As a matter of fact, family resources and involvement may not significantly increase family firm performance in a developed institutional environment since firms can rely on the external market for critical resources and capabilities. Empirical studies find that family firms outperform non-family firms more significantly in countries with underdeveloped institutions such as continental European countries, but less significantly in countries with more developed institutions such as Norway (Barth et al., 2005).

2.4.4 Institutions as determinant of family governance structure

The institution-based view on corporate governance contends that external institutions influence managerial choice of governance structure and practice (Jiang & Peng, 2010; Peng & Jiang, 2010; Young et al., 2008). In an underdeveloped institutional environment, in particular, the weak formal regulatory regimes and restricted product and labor markets often fails to provide market discipline and external support to firms (Liu W. et al.,2010). When there are few rules and procedures to protect their interests and activities, firms are motivated to reduce uncertainty by gaining control of the firm (Jensen, 1993). The desire for power and control thus may lead to a high level of family ownership and control (Jensen, 1993). The controlling family shareholders may even exploit the institutional voids to gain control rights far greater than cash flow rights of the firm through the use of cross-shareholdings and pyramids (Peng & Jiang, 2006, 2010). Moreover, when there is limited access to resources through formal channels (e.g., labor markets or banks), firms are more likely to rely on kin networks and family ties to obtain resources, such as human capital, social capital, financial capital, and other intangible assets (Arregle et al., 2007; Dyer, 2006; Sirmon & Hitt, 2003). Thus, when operating in underdeveloped institutions, family firms are likely to have higher levels of family ownership, involvement in management, and family members on the board, since they can provide better internal control mechanisms and better access to resources (Liu W. et al.,2010). In contrast, when firms operate in developed institutions, such as strong protection of shareholder rights or developed product and labor markets, they rely less on internal control mechanisms and informal family ties to operate business because external governance mechanisms and formal channels are efficient enough in supporting firm operation (Walsh & Seward, 1990). A lower level of family involvement in business operation is more likely to be witnessed (Steier, 2009).

2.4.5 Final insights

A "context free" assumption of prior studies on family business has been inadequate to explain variations of family firm structures and performances across institutions (Davis, 2005). Institutions are more than background conditions, playing critical roles in defining the governance characteristics of family business and regulating their performance impacts (Liu W. et al.,2000). As a matter of fact, family businesses are regulated by the opportunities and constraints imposed by institutions; it is not surprising to see that some areas witness a greater abundance of family business than others, such as East Asia (Steier, 2009).

2.5 Family firms performance: a different perspective

As I have discussed and reported, many scholars and researchers have attempted to analyze whether there exists a relationship between family firms and firm performance and whether family firms perform better than non-family firms but the evidence is mixed and results are cloudy. I have also discussed and summed up the main shortcomings which did not allow researchers and scholars to draw a universal conclusion about the performance of family firms. In this respect, as Dyer W.(2006) suggests, the real question that scholars should ask " is not whether family firms perform better than non-family firm but what type of family firms leads to a high performance". Hence, analyzing the underlying family dynamics and family behavioral aspects is what may really help to understand the type of family firm which achieves a successful performance (Dyer W.,2006). To this aim, the previous works that can be considered relevant are the ones that provide various models of family dynamics; in other words those studies which, through a classification, define family firms under a behavioral perspective and not under a mere percentage of family ownership and management control perspective: for example, Constantine (1993) and Kantor and Lehr (1975) suggest four types of family firms each of which presenting different underlying dynamics : such a typology of families (in addition to many others that have been developed) may help us understand why certain firms owned and managed by families are at a comparative advantage or disadvantage (Dyer W.,2006). A compelling classification has also been proposed by Dyer W.(2006) which take into account two variables: agency costs and family assets. He then claimed that "Clan firms", which are those firms facing low agency cost and endowed with high resources are those who will have the highest performance. By contrast, self-interested firms, which bear high agency cost and have to deal with high family liabilities, are the group which performs worst. Again, such a typology of families let us understand why firms owned and managed by families are at a comparative advantage or disadvantage (Dyer,2006).

2.6. Studying the joint effect of agency costs, family resources and institutional environment on the performance of family firms: a three variables classification

In section 2.4, I have discussed of the active role of institutions and how they can affect (family) firms governance structure and performance. At the same time, I have acknowledged the importance of Dyer W.'s advice (2006) to identify which family firm characteristics lead to a high performance, thus attributing much relevance to the dynamics underlying the behavior of family firms. Given all this, it may be interesting to "contextualize" family governance structure/practices and family level of resources (human, social and financial capital) , observing the impact of such a contextualization on family firm performance. So, exploiting Dyer W. 's typology (briefly described above) , I will add another dimension to that classification, which is the level of institutional development. The combination of these three variables give rise to eight groups of family firms. It must be noted that the following classification are based on *ceteris paribus* assumption, that is, by assuming that all other firm factors are held constant (e.g.industry, legal form).

2.6.1 Family firms playing in an underdeveloped institutional environment

2.6.1.1 ”Best-performing” firms: high family resources, low agency cost, low level of institutional development.

In best performing family firms, the interests and goals of the principal and those of the agents are aligned because they are the same person or very close relatives (e.g. father and son). As a consequence, in such firms owners do not deal with the agency costs arising from monitoring and controlling their agents’ behavior. At the same time, this type of firms show a high sense of loyalty and trust and its members work longer and with more flexibility in order to achieve a successful performance (Rosenblatt et al.,1985). Further, family members are involved in the firm at an early age and this help them to better and quicker understand the nature and the dynamics of the business, its customers and competitors as well as receiving training from family leaders who are knowledgeable and highly skilled (Dyer,1992). Also, these firms have the ability to nurture long-standing relationships across generations and they are able to develop strong and prosperous relationships with stakeholders such as suppliers, customers and employees (Dyer,2006). Moreover, best-performing’s family members provide their firms with the so called survivability capital (Sirmon and Hitt,2003) which means that they provide the firm with their personal assets to strengthen it. The context in which these firms play is a low developed institutional environment; an underdeveloped institutional environment does not offer consistent external governance mechanisms (e.g. external managerial market or market for corporate control). As this group of firms bears low agency costs they are at a comparative advantage relative to non-family firms whose managers, exploiting the lack of market discipline, are likely to assume opportunistic behaviors, increasing agency costs and decreasing firm performance (Li, Wang &Deng,2008). What's more, it is also hard for non-family firms to raise necessary resources in an underdeveloped institution while the best performer firms are able to raise them from family connections at a lower cost(Anderson, Mansi, & Reeb, 2003). In sum, best-performer firms not only enjoy the competitive advantages arising from their specific governance structure (which implies low agency costs) and the possession of resources such as social, human and financial capital but they also play in a context which values and exalts these competitive advantages as non-family firms which would suffer in such a context. Thus, in this context, they are expected to outperform non-family firms.

2.6.1.2 "Worst performing" family firms: low Family resources , high agency cost and low institutional development

Worst-performing [14]firms' members have competing goals and values which lead to conflicts (Davis and Dyer,2003). Here, different views within the family about the distribution of ownership, compensation, risk, roles, and responsibilities may make the family firm a battleground where family members compete with one another (Dyer,2006). This situation is likely to occur in firms where the ownership is widely dispersed among family members thus causing a wedge between the interest of those who lead the firm (owning a controlling interest) and other family owners (Schulze, Lubatkin, Dino,2003). Since there is no equity market for minority family owners to "cash out" and go on their own way, they have incentives to free ride on the controlling owners' equity by shirking or accumulating perquisites (Schulze, Lubatkin, Dino,2003). In other words, these firms are likely to face the principal-principal

[14] Worst performing relative to the underdeveloped institutional environment. As we will see, there are also "worst performer" firms relative to the developed institutional environment.

conflict. Further, in an underdeveloped institution, characterized by a weak protection of shareholders, the potential for the principal-principal conflict is enhanced: the level of institutional protection affects the incentives of the controlling shareholder to extract private benefits of control, defined as the tangible and intangible benefits from firm control that are not shared with other shareholders (Dyck and Zingales, 2004 ; Young et al., 2008). Private benefits of control are experienced by minority shareholders as expropriation (Shleifer and Vishny, 1997) and affect firm performance negatively(Morck et al., 2005). In addition, worst performer firms have a limited pool of recruits and they have low-talented employees to manage the key tasks thus jeopardizing firm performance(Dyer W.,2006). This is particularly true in firms that require highly specialized knowledge of technology and markets (e.g., bioengineering firms) or firms that are sufficiently large and complex enough to require sophisticated knowledge of management systems and processes (Dyer W.,2006). Furthermore, these firms may be characterized by the so called "amoral familism" [15]Thus, those outside one's family are not trusted and may be seen as potential competitors, even enemies; families who create a tight social network that bars outsiders from entry may be unable to secure needed resources to develop their businesses (Dyer W.,2006). Amoral familists are unable to generate "spontaneous sociability," which Fukuyama indicates is essential to organization building. This group of firms take assets out of the business they own thus undermining firm's stability (Dyer W.,2006). What's more, as Haynes et al.(1999) claimed that firms with low family resources are likely to use firm resources for the benefit of the family rather than for that of the firm. This group of firms, as best performer firms, play in an underdeveloped institutional environment: as we have

[15] "..a self-interested, family centric attitude which sacrifices the public good for the sake of nepotism and the immediate family" (Banfield, The moral basis of a backward society,1958)

seen, while this institution development level allows the best performer firms to value their competitive advantages, it is detrimental for worst performer firms as their governance structure (which implies high agency costs) do not fill the institutional void left by low-developed institutions (and as I have discussed, they do not provide the suitable protection for minority shareholders, in case of a dispersed family ownership) nor they can raise (assuming they would be willing to, considering that "family firms are less exposed to external governance mechanisms like the capital market as their financial structure leans toward short-term debt financing and avoidance to sell equity to outsiders"(Hutchinson,1995)) necessary resources such as human and financial capital since the institutional environment do not provide them easily. Thus, the "empirical" proposition claiming that in underdeveloped institutional environment family firms significantly outperform non family firms may be not true for firms presenting the described characteristics.

2.6.1.3 High family resources, high agency costs and low institutional development

They possess valuable human, social and financial capital but they bear high agency costs and play in a low developed environment. However, as they do possess the skills and expertise needed to manage a firm their managers are able to establish a professional control system by using internal control mechanisms thus filling the void left by the underdeveloped institutions and reducing agency conflicts. However, it should be considered that If family members did not adopted a behavior aimed to maximize self-interest, firms' agency costs would decrease making such a category of firms turn into the "best performer" ones and the low institutional development would suddenly represent the most suitable context for their characteristics. Furthermore, their high family resources (e.g. social, human, financial capital) represent a source of a competitive advantage which is emphasized by the low institutional development, since this kind of environment makes it harder for non-family firms to access to such resources, thus valuing and exalting the resource-based competitive advantage of family firms. In sum, I expect these firms to outperform their non-family counterparts in such a context.

2.6.1.4 Low family resources, low agency cost and low institutional development

Their governance structure, similar to the best performing firms, leads to low agency costs. In this respect, taking into consideration the low-developed institutions, they enjoy an advantage compared to their non-family counterparts since the latter cannot rely on external mechanisms to reduce their agency costs.[16] However, similar to the above described firms (section 2.6.1.3), these entities cannot take fully advantage of the context in which they play (meaning that If they had high family resources , the resulting competitive advantage would be exalted by the underdeveloped institutional environment as non-family firms might not access to these resources in such a context) since they have low family resources. In sum, however, these kind of family firms are expected to outperform non-family firms as their governance structure can circumvent, to some extent, managerial opportunism and therefore be critically needed in such an underdeveloped institution (Dharwadkar et al.,2000) while non-family firms cannot.

2.6.2 The previous four group of firms play in an underdeveloped institutional context

In the next four sections, I will describe the groups of family firms playing in a developed institutional context.

[16] As I have claimed before, I am assuming that the lack of market discipline is likely to induce non-family firms' agents to assume opportunistic behavior, thus increasing agency costs for these firms

2.6.2.1 High family resources, low agency cost an high institutional development

This type of firms is very similar to the best performer ones, probably they are the best performer family firms in the developed institutional environment as they praises low agency costs and high family resources. However, the context in which they are embedded (developed institutional environment) does not value the competitive advantages arising from its structure: in such a context, in fact, also non-family firms are provided with mature financial and labor market (e.g. adequate monetary and human supply) (Liu W.,2010) and as a consequence both family and non-family firms access to financial support and human resources easily (though the former internally ,the latter externally). Further, non-family firms may exploit the external government mechanisms to monitor their managers who act opportunistically, thus aligning owners-managers' interests. Here, I could claim that while these family firms do not bear significant agency costs, non-family firms, though mitigating the agency problems through the exploitation of the available external governance mechanisms, probably bear high agency costs. In this respect, these family firms have a governance-based competitive advantage compared to non- family firms. In sum, I expect these family firms to outperform their non-family counterparts

2.6.2.2 High family resources, high agency cost and high institutional development

In these type of firms, agency costs are high because of the attempt to formalize control system and monitor management; however, to the extent that a family implements formal monitoring mechanisms, it also avoid the problems of opportunism and nepotism that afflict many family businesses. (Dyer W.2006). This may be the case as these firms possess high resources and so they can rely on a professional control system which also ensure that family resources are not squandered by the family. (Dyer W.2006). In other words, these firms rely on internal governance mechanisms rather than external ones (I recall that family firms are less exposed to prevalent external control governance mechanisms ensuring the alignment of interests of the family owners and those of other relevant stakeholders (Daily and Dollinger,1993)) thanks to their skilled and professional family managers present in the company. However, to the extent the agency conflicts arise from the principal-principal problem, the developed institutional environment may provide suitable protection to minority shareholders thus avoiding expropriation and benefiting to these firms' performance. Meanwhile, non-family firms can exploit the high institutional development either for the external governance mechanisms provided (e.g. market for corporate control) in order to align owners-managers' interest and for the ease with which they can access human and financial resources. Here, I think that it is difficult to draw a universal claim about whether family firms outperform non family firms, taking into account what it has been analyzed.

2.6.2.3 Low family resources, low agency cost and high institutional development

These firms have the agency advantages of the "best performing" firms, since the family does not have conflicting goals and behavior is monitored largely through close ties (Dyer,2006). However, this kind of firms fail to develop familial assets. There may be the encouragement of nepotism, which lead to the fact that family managers may not be train or have the expertise needed to grow the business; social capital may not be leveraged with customers and suppliers and family's physical or financial assets may not be utilized effectively (Dyer,2006).Thus, while deriving efficiencies from their low agency costs, these firms' performance may be compromised by the low family assets

(Dyer,2006). Here, it should be noted the developed institutional environment may not be exploited by these family firms as they may be characterized by the mentioned "amoral familism" and thus they may be reluctant to, for example, source financial capital from outside institutions or external outside investors (recall the pecking order theory discussed in chapter 1, section 1.4 and similar reasons reported in section 2.6.1.2, when I cited Hutchinson,1995). In addition, they may not be willing to recur to independent external auditors because they may not want outsiders to access family firm information. Similarly, these firms may not want to hire external managers because of nepotism and because of particularistic criteria are used in choosing employees. As a matter of fact, particularistic criteria are likely to be negatively related to performance (Perrow, 2003). Given all this, non-family firms, by exploiting the developed institutional context may outperform family firms.

2.6.2.4 Low family resources, high agency cost, high institutional development

These firms have the same agency cost and level of family resources as the worst-performing firms. Probably, they are the "worst performing firms" in the developed institutional environment context. In fact, they have to deal with conflicting goals between family members thus facing high agency costs. At the same time, they do not possess the skills and expertise needed thus being unable to establish a sound and professional control system. The lack of formal monitoring systems give rise to bad conducts such as opportunism or shirking(the latter, especially from minority shareholders). They are embedded in an institutional context which is well developed but they may exploit it neither for the external control mechanisms nor for the access to human and financial capital; in fact, "family firms are subject only to some degree to external mechanisms ensuring the alignment of interests of owners and their agents"

(Daily and Dollinger,1993). At the same time, the current analyzed group of firms may not source human or financial capital from outside, because of "amoral familism" and reluctance to draw financial supply from outsiders (in short, for the same reasons described for firms in section 2.6.2.2) As a result, non-firms are expected to outperform family firms under such conditions.

The last two kind of firms analyzed, may be outperformed by non-family firms as the latter do not present those characteristics and behavior peculiar to family firms, (e.g. amoral familism, nepotism, use of particularistic criteria, reluctance to draw human and financial capital from outsiders) which hinders the exploitation of high developed institutions and the related external governance mechanisms as well as the adequate monetary and human supply. As I will discuss below, this underline how important the family behavior and its underlying dynamics are and how they can shape family firms' performance in a given institutional environment.

2.7 Discussion of the classification and insights.

The previous classification was based on the joint interaction of three variables, namely the level of 1)agency costs, 2) family resources and 3) institutional development and their effect on family firm performance. Broadly speaking, taking into account the conclusion drawn for each group of firms, I have further supported the empirical findings made by other scholars which claimed that in an underdeveloped institutional environment family firms are likely to significantly outperform their non-family counterparts. (Dharwadkar, George & Brandes,2000; Barth et al,2005). These findings are aimed to show the importance of the institutional context in which (family)firms are embedded and how it may shape (family) firm performance. Importantly, some of these scholars saw the institutional environment even as an antecedent of family businesses (e.g. Liu W. et al.,2010). Similarly, many scholars and researchers have used the agency theory (e.g. Claessens et al.,2002 ; Demsetz & Villalonga,2001) or the resource-based view (e.g. Carney & Gedajilovic, 2002) to study the performance of family firms, thus underlining the importance of the governance structure/practices and that of the endowment of family firm-specific resources (as sources of competitive advantages) in determining family firm performance. Family firms where owner-manager interests' are aligned, low agency costs are born and significant social, human and financial capital is available will likely to achieve a successful performance and outperform their non-family counterparts; conversely, family firms presenting high agency costs (deriving from nepotism or from family members attitude to maximize self-interests) and low family-firm specific resources are likely to present a poor performance and thus being performed by non-family firms. Thus, on one hand the importance of institutions in shaping family firms performance is widely recognized; on the other, the same can be alleged for the agency theory and resource-based view. However, the classification, considering the joint interaction of the three variables, shows how the level of agency costs and family firms'-specific resources may, in some cases, shape family firm performance in a given context: for example, in an underdeveloped institutional environment, as many theorists state, family firms are expected to outperform non family firms. Nevertheless, if family firms have certain characteristics (a widely dispersed ownership through many family members) which lead to high agency costs and they do not possess the needed resources (e.g. the required skills and expertise to effectively manage the business), these firms are not likely to achieve a satisfactory performance and outperform their non-family counterparts even in an underdeveloped institutional environment. Similarly, when a family firm plays in a developed institutional environment, even if empirical evidence support that they will not significantly outperform non-family firms, they might actually do so thanks to a specific governance structure/practices (owner-manager 's interests' aligned, universalistic rather than particularistic criteria) and thanks to a richness of family firm-specific assets (high social capital, skilled family managers, consistent survivability capital).

2.8 Final considerations

The empirical evidence of the impact of family involvement on family firms performance is mixed. I would like to make two final considerations about this statement. First of all, we have seen that there are some specific reasons for which a universal conclusion cannot be stated. In particular, the discussed problem of family firm definition have strong implications also on the reliability of the studies concerning performance comparison between family and non-firms as they may have included some firms which are not regarded as such by other studies. Second, I would personally claim that, taking into account the great number of studies (e.g. Andres 2008; Barontini and Caprio,2006; Ben-Amar and Andrè,2006:Anderson and Reeb,2003) which found that family firms outperform non-family firms and despite the several biases involved, a general though if not definitive inference may be drawn: family firms outperform non family firms in the majority of cases. Further, in this chapter, given the importance of agency costs, firm-specific resources and institutions in determining firm performance, I have classified all the possible combinations of these three variables in order to observe their joint interaction on firm performance in each single case. What I have concluded is that a firm which is "empirically" favored by the institutional environment (i.e. an underdeveloped one) may not actually outperform their competitors or achieve a sound performance if it does not possess the critical resources (patient financial capital, human capital, sound governance structure and practices). At the same time, in a context (i.e. developed institutional environment) where they have to struggle with more powerful non-family firms, as the latter have access to the needed resources and to external governance mechanisms (financial resources, human supply, market for corporate control, labor market), they may indeed outperform non-family firms if they can internally access to critical resources (skilled and expert family members) and assume a proper behavior (reluctance of "amoral familism", alignment of owner-manger's interests, use of universal criteria in choice of employees, reluctance of nepotism) that leads to bear low agency costs. In other words, I wanted to underline not only the importance of the institutional environment, but also (in line with Dyer W.,2006) that of the family behavior and its underlying dynamics (i.e. the encouragement or reluctance of nepotism, the choice of particularistic vs universal criteria, the attitude to maximize family members' individual self–interests or to act as stewards of the company). In particular, I wanted to show how a firm's behavior and its underlying dynamics can negatively (positively) affect firm performance even if the company plays in a context which is "empirically" favorable (less favorable) for it. To some extent, my classification may help to answer the question: "How can a family firm's behavior and dynamics affect the firm performance in a high/low level of institutional development? "

Chapter 3

The internationalization process of family firms

3.1 Globalization of markets and family firms internationalization: an introduction

As many researchers point out, nowadays high globalization level of markets has become so evident that no firms, be they family or non-family, can ignore the huge opportunity represented by the possibility to undertake, sooner or later, an internationalization process. The tendency of the markets toward a greater level of globalization generates a growing homogeneity in consumers tastes and preferences worldwide; this, in turn, leads to an increased number of integration and cooperation processes, as well as strategic alliances (Claver E. et al.,2009). A large number of firms and industries have intensified their global orientation in the last few decades, which has made family firms aware of the vast potential of internationalization as an instrument of expansion and growth (Okoroafo, 1999). Internationalization can prove beneficial to the long-term competitiveness of family firms. It allows the organization to access a larger market, achieve economies of scale, diversify risk, or simply avoid competitive disadvantages (Gallo & Sveen, 1991) but also to bear lower labor costs, lower commodity prices, as well as access to new qualified employees and know-how in foreign industry clusters (Dicken, 2011). Therefore, offering goods and services outside the home country provides fruitful growth opportunities for FBs, gives succeeding generations employment opportunities, or simply increases distributable dividends (Claver, Rienda, & Quer, 2009). However, internationalization is not always associated with advantages. In fact, some organizations think that it is better to abandon the idea of undertaking international projects if doing so entails a risk of losing family values, as well as control over the enterprise (Okoroafo, 1999). After all, internationalization has been defined as the most complex strategy that any firm can undertake: as a matter of fact, although the global economy provides opportunities for growth, it also means increased competitive challenges and requirement for distinctive set of capabilities for companies to successfully internationalize (Zaniewska K.,2012). Among family businesses, the most frequent form of organization in the world, internationalization has also become a growth strategy and many researches confirmed that the internationalization process of family firms may differ from internationalization of firms with different ownership structure (Zaniewska K.,2012). However, as occurred for family firms performance, evidence is mixed. Some authors suggest that family ownership and involvement (with all the consequences it entails) have a positive impact on internationalization (e.g., Carr & Bateman, 2009; Zahra, 2003), while others argue that these family-related factors have a negative impact on internationalization dimensions (e.g., Fernández & Nieto, 2006; Graves & Thomas, 2006). Some other scholars even find no difference between family and nonfamily businesses' internationalization practices (e.g., Cerrato & Piva, 2010; Pinho, 2007). Recent findings on the topic indicate that family firm heterogeneity (again, as occurred for family firm performance) assessed through differences in control and influence of the owner family, explains some of the mixed findings described above (Arregle et al., 2012; Calabrò, Torchia, Pukall, & Mussolino, 2012; Sciascia, Mazzola, Astrachan, & Pieper, 2012, 2012). The main conclusion of this research stream is that external ownership and influence via the board leads to an increase in internationalization activities of family firms, while a complete exemption of family control or influences might turn this effect around (Pukall T. et al.,2013). In any case, I would like to underline that, once again (see what it has been argued for family firm performance in chapter 2), as also noted by some authors and scholars, it is the behavior of family firms which determine whether familiness have a positive or negative impact on internationalization. In fact, familiness can affect internationalization positively and negatively, due to the tendency of family entrepreneurs to have a long-term vision, risk-averse strategies, a fear of losing control when hiring a person from outside the firm or ability to undertake quick decisions (Zaniewska K.,2012). In the following paragraphs, I will report in details the factors which affect family firms' propensity to internationalization and the related (mixed) empirical evidence that has been demonstrated so far.

3.2 Factors affecting the internationalization process of family firms

3.2.1 Ownership

When I described the typical structure of the family ownership in Chapter 1, I have underlined how the closed and concentrated ownership of such firms may retard family firm development and limit the pool of experience (Howorth C. et al.,2010), thus negatively affecting the propensity for internationalization. Moreover, as families try to retain much control over the company as possible, while preserving the wealth for future generations, they may not be able to exploit good growth opportunities (and hence to expand into new markets) because of the reluctance to dilute ownership (Hayward S.,1989). Further, the low risk propensity may lead family firms to be less prone to internationalize. This all is confirmed in many studies (e.g. Donckels & Fröhlich, 1991; Fuentes-Lombardo & Fernandez-Ortiz, 201; Gallo et al., 2004;

Okoroafo, 19990). In contrast, another group of authors finds that FB owners are more prone to risk than their non-FB counterparts, as they are more entrepreneurial and have more support from their surrounding environment when dealing with risks related to the decision to internationalize the business (e.g., Calabrò & Mussolino, 2011; Chen, 2011; Zahra, 2003).

3.2.2 Family involvement

The most popular measure of family involvement is the percentage of family members within the management or in the board of directors (Pukall et al.,2013). The findings concerning this type of involvement are mixed, but predominantly negative (e.g., Casillas & Acedo, 2005; Cerrato & Piva, 2010; Olivares-Mesa & Cabrera-Suárez, 2006; Sciascia & Mazzola, 2008; Yunshi, Lin, & Kuei-Yang, 2011). When the CEO is also part of the owning family, the level of internationalization is supposedly positively influenced, with the notion that the length of tenure turns this effect around, meaning that longer tenures lead to less internationalization (Zahra, 2005).

3.2.2.1 The role of family members in the internationalization process of family firms

When a family firm faces the decision to internationalize, it has to rely on the professionalism of its managers (Claver et al.,2009). Anyway, as discussed in chapter 1, the knowledge and skills needed to succeed in the implementation of the internationalization process may not be present in the family, because the descendants' motivation is not enough: they must also have a special set of skills (Claver et al.,2009). In this respect, family firms may overcome this issue by involving family members in the business when they are still young so that they can learn practices, develop the required skills and accumulate the needed expertise or they may be involved in employees training program. All this may enable family members to achieve the necessary capabilities to implement complex processes such as internationalization. However, external managers can provide a number of resources that are valuable for the family firm in its efforts to forge ahead in an internationalization process (Claver et al.,2009). As a matter of fact, recent publications from Arregle et al. (2012), as well as Sciascia et al. (2012a) and Calabrò et al. (2012), conclude that external influences in the board of directors and also within the ownership of the firm increases its internationalization.

3.2.2.2 The role of descendants in the internationalization propensity of family firms

Descendants involvement in the firm has been positively associated to the internationalization propensity of family firms. As I have also pointed out in chapter 1, many scholars have sustained this positive relationship. If a family firm wants to succeed, it must undertake new strategies in each generation: developing a new firm or division, becoming international, and helping successors to acquire skills that other family members still do not possess (Claver et al.,2009). Although business founders are generally authoritarian, conservative, and unable or unwilling to share power (Birley, 1986; Daily & Dollinger, 1991; Geeraerts, 1984; Levinson, 1971), descendants are usually eager to introduce strategic changes, achieve personal independence, and have a chance to prove their skills. Opportunities for value creation and transformation often arise during the transition from one generation to the next, and this is beneficial to the succession process and its ultimate success (Barnes & Hershon, 1976; Sharma, Chrisman, & Chua, 1997). Moreover, family firms in second or successive generations are more likely to be present in international markets (Fernández & Nieto, 2005; Gallo & García Pont, 1996). Furthermore, if on one hand obtaining knowledge of foreign markets may prove difficult, on the other it may not be so hard if family members bring themselves to learn foreign languages or travel abroad (Claver et al.,2009). In this case, the presence of a successor with proper training and an internationally oriented mentality may facilitate the internationalization process. Such family members can become an important locus of intangible resources (following the resource-based view of the firm; Barney, 1991; Peteraf, 1993) or ownership advantages (from the perspective of the eclectic paradigm; Dunning, 1981). Sending descendants to work abroad or having family members who live in other countries is bound to increase the international commitment of family firms (Gallo & Sveen, 1991; Reid, 1981). Family members are the ones who can best diagnose the opportunities and risks in a market unbeknownst to the organizations (Claver et al.,2009). For this reason, these family members may assume the responsibility for developing firm activities in the country where they are living (Gallo & García Pont, 1996). In addition, as new generations seek to enter the business, they either create "space" for themselves through foreign subsidiaries or generally try to foster the business through international expansion (Fernández & Nieto, 2005; Menéndez- Requejo, 2005; Okoroafo & Perryy, 2010). However, other studies indicate no impact of higher generational involvement on internationalization, an effect that can be explained by the increasing size of the businesses throughout generations (which dilutes the influence of single generations on operations) (Okoroafo & Koh, 2010; Westhead & Howorth, 2006).

3.2.3 Long-term vision

As I have noted in chapter one, long term vision is not only a distinctive feature but also a major peculiar strength of family firms (Daily & Dollinger, 1993; Gersick, Davis, Hampton McCollom, & Lansberg, 1997; Harris, Martínez, & Ward, 1994; Tagiuri &

Davis, 1992). This long term orientation is supposed to have a positive effect on internationalization (Claver et al.,2009) as sustainable growth across borders helps strengthen the business in the long run. As a matter of fact, (as I have already noted in chapter one) long-term vision leads to development and differentiation and so promotes international success when it results from growth outside the local market (Gallo & Sveen, 1991; Okoroafo, 1999). Long-term vision therefore appears as a driving factor behind the internationalization process (Dyer & Handler, 1994). Some family firms believe that it is impossible to separate the family's vision and goals from the strategy it follows. This approach results in a more unified long-term strategy and a stronger commitment to fulfill it (Habbershon & Williams, 1999). In contrast, some family firms have been found to follow a regional orientation. As members of the owning family usually have strong personal local network ties, FBs are keen to invest locally (Pukall et al.,2013). Although export measures remain relatively unaffected by this regional orientation, foreign direct investments suffer (Pukall et al.,2013). In sum, the evidence for the long term orientation is inconclusive; it depends on whether a family firm actually holds a long-term orientation.

3.2.4 Family firms' specific resources

Sirmon and Hitt (2003) distinguished five unique characteristics that differentiate family firms from non-family firms, namely human capital, social capital, survivability capital, patient capital and characteristic governance structures (see chapter 1). Those resources may contribute to family business activities aimed at international expansion in a positive or in a negative way.

3.2.4.1 Human capital

Human capital describes the acquired knowledge, skills and capabilities of family members, including their commitment (Hack et al.,2012; Zaniewska K.,2012; Sirmon and Hitt, 2003). As I have already discussed in chapter one and in the previous section of this chapter (3.2.2.1, 3.2.2.2), when family members possess such capabilities they represent a unique resource which leads family firms to obtain a sustainable competitive advantage and to be more prone to internationalization. On the other hand, however, family firms may lack of competent, open minded and experienced managers; coupled with the possible reluctance of FBs to hire external managers to keep decision control within the family, this may represent a strong limitation for internationalization. After all, as Zaniewska (2012) note, undertaking an internationalization process requires in most cases hiring experienced managers from outside the company. Moreover, the dominating view in the literature at hand is that managerial capabilities and internationalization knowledge of family members working in the business are underdeveloped (e.g., Graves & Thomas, 2004; Okoroafo, 1999).

3.2.4.2 Social Capital

Social capital describes the relationship between individuals or between organizations (Hack et al.,2012). Coupled with other factors/resources such as altruism and trust, social capital can positively influence relationships within the family (e.g., conflict management, faster decision-making processes, shared and participative vision of the internationalization process, etc.), but also relationships of the owning-family with its environment, including FB managers from outside the family, customers, business partners, governmental institutions, as well as other stakeholders (Pukall et al.,2012).

Along with network model, often used in case of family business researches, the internationalization is related to the development of network ties with other firms belonging to a network in a foreign markets and this facilitates foreign market entry (Ruzzier et al.,2006). Another central finding is that it is possible to overcome the problem of lacking financial resources and competence by acquiring needed resources through network relationships (Wright, Filatotchev, Hoskisson, & Peng, 2005). Network ties between firms as well as ties between individuals (e.g., entrepreneurs) thus play an important role in pursuing international opportunities (Brydon & Dana, 2011; Byrom & Lehman, 2009; Crick et al., 2006; Wright & Nasierowski, 1994; Mustafa & Chen, 2010). Multinational organization needs to cope with different cultures and long-distance communication and efficiency may be improved through informal communications, without complicated procedures and difficult forms. Family businesses are known for stable exchange of knowledge and experiences among family members, due to the family involvement in the business. This permanent exchange of information among family members in combination with intensive communication could be viewed as a feature enhancing chances of internationalization. It is found by Zahra and Sharma (2004) that sharing knowledge and experiences typical for family businesses creates trust that supports risk taking strategies. On the other hand, however, in foreign markets a company have to settle ties with different types of subjects such as customers, distributors, suppliers, competitors, and other stakeholders. (Zaniewska,2012). When it comes to networking, family businesses are less likely to form networks with other businesses(Zaniewska,2012). It has been argued that this is due to the strong internal ties of family firms, based on trustful relationships among family members (Roessl,2005). The internal ties between family members are very strong and they affect decisions on the firm's strategy, operations, and administrative structure: as a consequence, they can become a liability, hindering the flow of information and blocking links to new contacts which are required in every internationalization process (Zaniewska,2012). It has been recognized by Kontinen and Ojala (2010) that the extent of an entrepreneur's social network is positively related to opportunity recognition. Social relationships among family members do not lead to increased ability to recognize new opportunities due to the lower industry-specific knowledge and experience of family members (Kontinen and Ojala,2010).

3.2.4.3 Financial structure of family firms: patient financial capital and survivability capital

As I have discussed in chapter one, the patient financial capital is linked to a longer time of investment and not to a threat of liquidation in the short-term (Hack et al.,2010). The patient financial capital of family firms is stemming from their long-term orientation when making decisions regarding any capital intensive investments (Zaniweska,2012). Because of the critical importance of a long-term commitment, family firms with patient capital are found to be more likely to successfully internationalize in the long term even though they indicated poor short term results from their international activities (Zaniewska,2012). Survivability capital regards the family members personal resources they are eager to share for the benefit of the firm and it can function as a safety net in situations of unpredictable outcome (Hack et al.,2012). However, the financial resources of FBs are found to be lower compared with non-FBs, caused by a certain reluctance to over-lever the company with debt and become too dependent on banks, or to sell equity in order to raise fresh funds(recall pecking order theory[17]).This lack of financial firepower, if present, is found to have a negative impact on internationalization efforts (Graves & Thomas, 2008).

3.2.4.4 Governance structure.

Regarding governance structure impact on internationalization, I invite the reader to consult what has been said in paragraph 3.2.1, 3.2.2, 3.2.2.1 and 3.2.2.2.

3.3 Family firms choice of market entry strategies

3.3.1 Theoretical framework

When a firm decides to enter into a foreign market, it has to careful choose the most suitable mode of entry. Agarwal and Ramaswami (1992) claim that the decision to enter a foreign market should be based on balancing the risks and rewards derived from this action. Also, such a choice is determined by resource availability and the need for control. Resource availability refers to the financial and managerial capability that a firm can allocate to a specific foreign market; control refers to a firm's need to influence systems, methods and decisions in that market (Claver et al.,2007). The higher the level of foreign firm ownership, the greater the control, although the associated risk is also higher due to an increase in responsibilities and resources commitment (Claver et al.,2007). Consequently, a wide variety of entry modes are

[17] According to this theory, when the time comes to choose the sources that will finance business activity, self-financing always appears as the first option. The second option is the use of external funds, mainly provided by a financial institution. This includes funds provided by the government or any other institution, as aids or subsidies to the firm. The following option involves using external capital sources, thereby allowing investors to enter the firm (Chittenden, Hall, & Hutchinson, 1996; Gibson, 2002). This scheme has a lot to do with the owner’s refusal to incorporate into the firm any agents who can participate or intervene in its management. The owner’s wish here is to keep all the information about the organization under family control. In fact, this theory reflects the policy that some family firms follow because of their great risk aversion and their wish to maintain the control of the firm in the hands of the family (McConaughy et al., 2001; Mishra & McConaughy, 1999). The difficulty to access the capital market may also reduce business growth, in markets both national and international (Barry, 1975; Gallo & Vilaseca, 1996; Morck & Yeung, 2003).

possible, ranging from exporting to establishing wholly-owned subsidiaries, or joint ventures, which differ in terms of the commitment of the firm's own resources, the risk it is willing to accept and the need to control foreign operations (Douglas and Craig, 1989).

3.3.1.1. Exporting

Companies can export directly or indirectly depending on their involvement with foreign clients. If they use intermediaries, then there are exporting indirectly but when the company interacts with its customers then they are directly exporting. This entry mode does not imply any production process or ownership in the foreign country (Czinkota et al, 1996).

3.3.1.2. Contractual agreements

3.3.1.2.1. Licensing

Contractual entry modes include a broad variety of strategies the most famous of which are licensing and franchising. A licensing agreement is an arrangement whereby a licensor grants the right to intangible property to another entity (the licensee) for a specified period, and in return, the licensor receives a royalty fee from the licensee. (Hill C.,2011). Intangible property includes patents, inventions, formulas, processes, designs, copyrights and trademark.

3.3.1.2.2 Franchising

Franchising is similar to licensing, although franchising tends to involve longer-term commitment than licensing. Franchising is basically a specialized form of licensing in which the franchiser not only sells intangible property to the franchisee but also insist that the franchisee agree to abide by strict rules as to how it does business. As with licensing, franchiser typically receive a royalty payment which amounts to some percentage of the franchisee's revenues. (Hill C.,2011).

3.3.1.3 Foreign direct investment

Foreign direct investment can take the form of a joint venture or of a wholly owned subsidiaries.

3.3.1.3.1. Joint ventures

A joint venture entails establishing a firm that is jointly owned by two or more otherwise independent firms (Hill C.2011).

3.3.1.3.2 Wholly owned subsidiaries

In a wholly owned subsidiaries the firm owns 100 percent of the stock. The firm can either set up a new operation in that country, offered referred to a greenfield venture, or it can acquire an established firm in a host nation and use that firm to promote its products (Hill C.,2011).

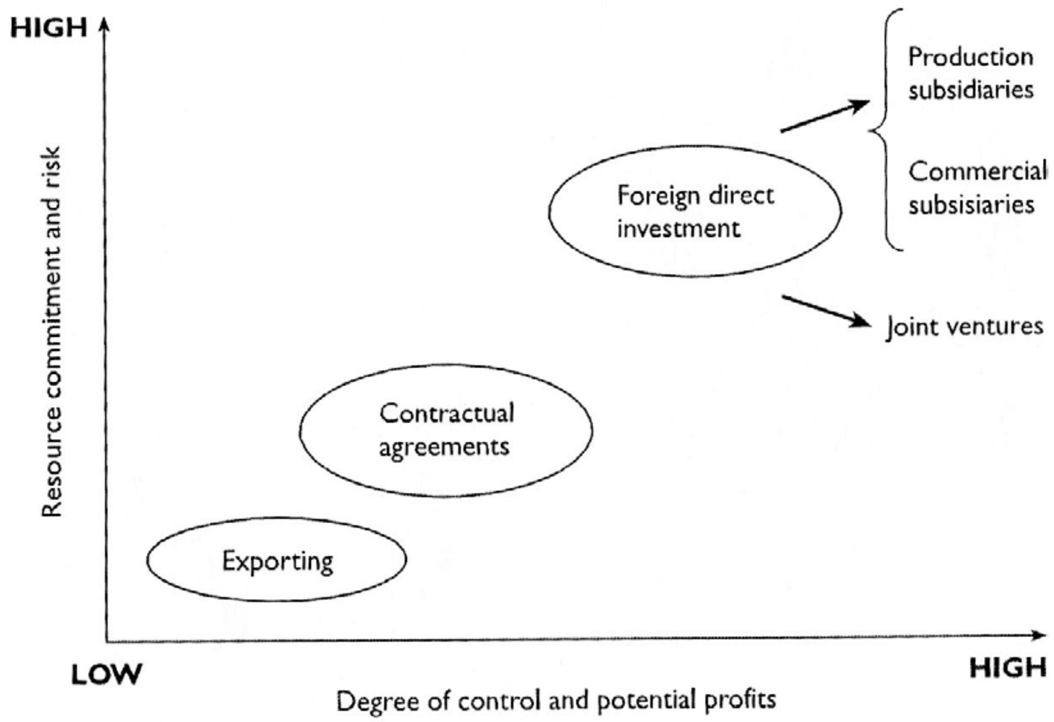

Figure 1: Market entry strategies

Source: Claver E. et al.,2007

3.3.2 Other factors affecting firms' choice of market entry strategies

In section 3.1 I only have reported three main factors that affect firms' choice regarding the entry mode in a foreign market. These are the risk propensity, the need for control and the resource commitment. However, there are other factors which have to be taken into consideration. I will briefly report them in the following sections, dividing them into internal and external.

3.3.2.1 Internal Factors

This category certainly includes the above mentioned factors namely risk propensity, need for control and resource availability.

3.3.2.1.1 Firms international experience

According to the literature, firms are more likely to opt for wholly-owned subsidiaries if they have international experience, since greater experience leads to a reduction in the level of uncertainty towards foreign markets and enhanced operational skills (Claver et al.,2007). Moreover, according to Agarwal and Ramaswami (1992), foreign direct investment (FDI) as an entry strategy is chosen by larger firms that have greater international experience, in regions that are perceived to have high potential.

3.3.2.1.2 Firm size

Firm size is strictly connected with the resource availability, as the bigger the company, the greater its resources available. Dubin (1975) and Wilson (1980) found that that smaller firms tend to acquire more frequently than larger firms, as the later ones are able to allocate more resources to Greenfields. Nevertheless Caves and Mehra (1986) consider that as companies are bigger they prefer acquisitions over greenfield. On the other hand, smaller companies use to have fewer opportunities than big companies. These resources are not just monetary as managerial, marketing or technology skills are also critical factors when choosing the appropriate entry strategy (Sharma and Erramilli, 2004).

3.3.2.2 A "mixed" internal and external factor: industry technological level

As industry characteristics varies from one country to another, firms may have a higher level of technology than the market in one country and a lower level in another. This affect its choice of market entry strategy: for example if a company has a higher level of technology compared to the market, it may be reluctant to look for partners (e.g.

joint venture) in order to preserve its technology advantages. Conversely, it may be willing to search for a partner whether its technology level is lower than the market. I have classified this factor as internal/external as it depends on an external dimension (the level of technology of the market) but also on an internal dimension (the level of technology of the firm).

3.3.2.2. External factors

3.3.2.2.1. Cultural /physical factors

Often, cultural distance corresponds to the physical distance. Generally speaking, large cultural distance favor low commitment entry modes, as a consequence of the lack of knowledge of a country specific values, language, social structure and behavior. In the light of this, firms are generally found to prefer entering in cultural close markets.

3.3.2.2.2 Environmental factors

They include factors such as country risk, competitive and demand conditions: Root (1987) identified four kind of country risks namely 1) political risk, which arise from political fluctuations, 2) ownership risk, arising from government intervention 3) operation risk, arising from local requirements and 4) transfer risk, arising from currency fluctuations. Needless to say, when the level of risk is high the company prefers to limit the resources commitment to the market, limiting also its ownership (Bradley,1977).

3.3.2.2.3 Transaction-specific factors

Transaction-specific factors are based mainly in the relevance of transaction costs, as some companies might have intangible assets like know-how and they want to keep their competitive advantage in the market (Dunning, 1981; Rugman, 1981) The risk of dissemination, depending on the nature of the know-how, constitutes an important determinant in choosing licensing or Joint ventures as partners can use their advantages in an opportunistic way and so firms would lose their advantage. Alternatively, companies can specify the rights and obligations in the contract although costs incurred when negotiating, monitoring and enforcing the contracts are significant. (Heres R.,2007). As a result, some authors conclude that if transaction costs arising from a contractual mode are higher than the ones of setting a wholly owned subsidiary, companies would prefer the latter alternative (Hennart, 1982).

3.3.3 Family firms and entry strategy factors: implication for family firms choice.

So far, I have provided a theoretical perspective of determinants which affect the choice of market entry strategies. Holding that all the above-described factors have an influence over family firms as well as over no-family firms, it is now time to analyze the factors which are particularly relevant in determining such a choice in family firms. I would claim that only some internal factors specifically affect family firms while external ones have no particular implications on family firms, meaning that they have the same impact as for non-family firms.

3.3.3.1 Need for control

Family business peculiar desire to control the firm, with the consequent fear of losing it. This may affect the choice of partner, which in the majority of the cases are also family firms, as well as the legal structure of the alliance. Moreover, the permanent desire to keep control can affect the relationship with the partner, which in turn may have an impact on the process of building up trust (Claver et al.,2007). As a matter of fact, FBs tend to choose foreign market entry modes that do not threaten their independence. Although export is the most popular form, strategic alliances and joint ventures seem to be avoided, as they not only require resources but also the relinquishment of control. (Pukall et al.,2012). This aloofness is turned around when the involved partner is another FB, because of shared values concerning trust, loyalty, and continuity (Fuentes-Lombardo & Fernandez-Ortiz, 2010; Swinth & Vinton, 1993).

3.3.3.2. Risk propensity

Notably, family firms are associated with risk aversion. Therefore, creativity and innovation are generally less important for these firms (Donckels& Frohlich,1991). For this reason, Claver et al.(2007) think that family businesses find exporting to be the most attractive entry strategy. Similarly, the firms' conservative, risk-averse nature means that their international expansion tends to follow a sequential process, as stated by the Uppsala School (Johanson and Wiedersheim-Paul, 1975; Johanson and Valhne, 1977, 1990).

3.3.3.3 Resource availability.

As I have already discussed, the typical family firm may have a problem of poor resources, not only in terms of financial sources (pecking order theory) but also in terms of managerial capabilities and skills. As Reid (1983) noted, if a firm opts for an occasional or indirect exports (through agents) few resources are needed. However, the establishment of production subsidiaries requires a surplus of these resources. That is why family firms are found to begin their internationalization process with exporting activities intro countries with low psychological and geographical distance and then incrementally, as knowledge and resources accumulate, expand into more remote markets (Claver et al., 2007; Kontinen & Ojala, 2010; Olivares- Mesa & Cabrera-Suárez, 2006)

3.3.3.4 Long-term vision

I have already discussed this factor in section 3.2.3 when I have identified the factors which may spur the internationalization process of family firms. Here I claim that long-term vision may also affect the level of internationalization commitment: in fact, as Dyer& Handler (1994) claim, it is impossible to separate the family's vision and goals from the strategy it follows. Thus, assuming a long-term orientation means pursuing long-term strategy and a stronger commitment to fulfil it (Habbershon & Williams,1999).

3.3.3.5 Successive generations

Generally speaking, the entry on the scene of new generations is perceived to have a positive influence on internationalization (Zaniewska K.,2012). It is mostly explained by the acquired abilities and knowledge by the subsequent generations and the impatience of those generations to demonstrate those capabilities by looking for strategic changes, such as internationalization (Fernandez and Nieto,2006). Graves and Thomas (2008) suggest that the commitment to internationalization is dependent on the vision and qualities of the successor. Family member successors come often to the business with understanding the importance of internationalization for achieving firm's main objectives (Zaniewska K.,2012).

3.3.4. Overall family firms approach to international commitment

3.3.4.1. "Gradual global" family firms

Many studies found family businesses to follow a stepwise internationalization process. These firms are likely to choose geographically close countries when expanding globally and locate their operations close to the residence of family members (Harris et al.,1994). In this respect, they seem to follow the Uppsala model proposed by Johanson and Vahlne (1977). Based on this traditional method, firms learn and gain knowledge about a specific market with time and experience in different stages of the process. As the firms gain knowledge, their level of commitment to invest in more resources increases, though it is a gradual and incremental process (Jonsson 2008). This can be termed as a 'gradual global' process (Bhardawaj et al.,2011). Firms that internationalize utilizing this strategy, emphasize having a strong base in the home market before trading internationally (Chetty and Hunt 2004). This implies that the Uppsala model is based on time and experience and this influences the internationalization process (Bhardawaj et al.,2011).

3.3.4.2 "Born global" family firms

However, on the other hand, there are some family firms which internationalize rapidly to different countries. These firms are called "born global" firms (Knight and Cavusgill,1996). Examples of such firms are the Intidex group (owner of the fashion brand Zara), Ikea, Fiat, Lego or Walmart.

3.3.5 Gradual global vs traditional or born global (family) firms

Chetty and Hunt (2004) divided firms into gradual and born global by taking into some attributes among which there are 1) how firms approach to domestic market and their degree of risk propensity, 2) firm internationalization strategy and time horizon of network of business partners and 3) psychic distance

3.3.5.1. Firm approach to domestic market and risk propensity

Born global firms are found to perceive the world as a one marketplace and may/may not have a strong domestic market as support to the internationalization process (Chetty and Hunt,2004). Moreover, these firms' managers have a high risk-taking ability which results in adapting to new environment more quickly: what's more their learning to internationalize occurs rapidly because of their superior internationalization experience (Chetty and Hunt,2004). On the other hand, gradual global firms need stability and as a consequence they perceive domestic market as a strong support for internationalization process (Chetty &Hutt,2004). Moreover, they are risk-averse: this slows the learning process and make them to build on experience and gain knowledge about foreign markets gradually (Chetty and Hutt,2004).

3.3.5.2 Firm internationalization strategy and networks of business partners

Born global firms consider the marketplace as homogeneous throughout the world and keep the products standardized (Chetty and Hutt,2004). This approach may be associated to the global standardization strategy, where the need for cost reduction is high. In addition, rapid development of global reach requires rapid, comprehensive network of partners On the other hand, gradual global firms consider its marketplace as heterogeneous and may develop customized products based on target location (Chetty and Hutt,2004). Thus, the related strategy adopted by these firm may be the localization strategy which emphasizes the customization of firm’s good or services in order to match the tastes and preferences in different national markets. Here, in fact, the need for local responsiveness is high. In addition, network of business partners are used by gradual global firms in early stages of internationalization and gradually replaced with the firm’s own resources.

3.3.5.3. Psychic distance

When I have reported the external factors affecting a firm’s choice of entry strategy, I have considered cultural factors. Psychic distance is the degree to which one culture is comfortable dealing with another culture, and has been defined and operationalized in different ways by different researchers (O’Grady and Lane 1996). In this respect, while born global firms emphasize that psychic distance is irrelevant for internationalization, gradual global firms assume that the entrance into new markets is a function of the psychic distance to the firm’s prior experience. In fact, gradual global firms follow a stepwise process as suggested by the Uppsala model (Valhne and Johanson,2003).

Table 1.
Salient Differences Between Traditional and Born-Global Views of Internationalization

Internationalization Attributes	Traditional Stages View	Born-Global View
Home market	Domestic market developed first	Domestic market largely irrelevant (this study requires 75% export ratios)
Prior internationalization experience	None expected	Founder has extensive experience in relevant international markets
Extent of internationalization	International markets developed serially	Many international markets developed at the same time
Pace of internationalization	Gradual	Rapid
Psychic distance	In order of psychic distance	Psychic distance irrelevant
Learning to internationalize	At a pace governed by the ability to learn from (slowly) accumulated experience	Learning occurs more rapidly because of superior internationalization knowledge
Firm strategy	Not central to the firm's motivation to internationalize	Realization of competitive advantage requires rapid, full internationalization; product-market scope is focused/niche
Use of information and communications technology	Not central to internationalization	Key role as enabler of global market reach and learning
Networks of business partners	Used in early stages of internationalization and gradually replaced with the firm's own resources	Rapid development of global reach requires rapid, comprehensive network of partners
Time to internationalize	Not crucial to firm success; slow	Crucial to firm success within a few years of inception (e.g., two years)

Figure 2: Differences between traditional and born-global views of internationalization

Source: Chutt S. & Hunt C.C., 2004

3.6 The relationship between family firm internationalization and firm performance

The relationship between family firm internationalization and performance has received no attention so far, despite the relationship between internationalization and firm performance has been one of the most discussed and studied topic in the internationalization business literature. However, if one exploits agency theory in the context of family firm internationalization process some insights concerning family firm performance may be achieved.

3.6.1 Family firm internationalization and performance: insights from agency theory

In considering the agency theory within the a firm's internationalization process context, several insights which may have implications for a (family) firm performance come out. First, although both the cost and difficulty of monitoring management increase due to the high uncertainty and complexity of the managerial tasks associated with internationalization, family members, who commonly hold large a stake in the firm, have strong incentives to collect information and oversee managers and thus reduce managerial discretionary behavior associated with internationalization (Tsao S.& Lien W.,2011). Second, families' superior access to information reduces the information asymmetry between shareholders and managers, which, in turn, reduces the conflicts of interest between shareholders and managers that arise from internationalization (Tsao S. &Lien W.,2011). Third, because family owners tend to have a longer investment horizon, they are able to travel farther along the firm's learning curve; in other words, they acquire skills and abilities necessary for greater information-processing capacity, which allow them to solve the complex problems of internationalization (Tsao S. &Lien W.,2011). Thus, family owners of multinational firms may be more inclined or capable of maximizing the gains of international expansion while minimizing the relevant costs (Tsao&Lien W.,2011). Accordingly, founding families' lengthy tenure permits them to have greater information-processing capacity with which to solve large and complex problems while accentuating the performance of internationalization. (Tsao & Lien,2011). These arguments suggest that, as noted by Tsoao & Lien (2011) due to less severe Type I (principal-agent) agency problems, the impact of internationalization on firm performance will be stronger for family firms relative to nonfamily firms. However, internationalization may provide the opportunity for entrenched families to expropriate value from the minority shareholders (Hack et al.,2010; Tsao &Lien ,2011). As the separation between control rights and cash flow rights increases, the incentive for family owners to expropriate value from the firm also increases because they share in the firm's success while the other shareholders bear the cost of failure (Tsao &Lien,2011). Family owners may, for example, take on too much risk in international investments; in addition, when family firms have access to free cash flow, family owners may choose to spend it unwisely rather than return it to investors (Jensen 1986). Family owners can also waste cash by over-diversifying the firm globally, which deteriorates the performance impact of internationalization (Tsao& Lien,2011). In sum, the different impacts of internationalization on firm performance between family and nonfamily depends on which of these two agency problems is more detrimental to shareholder value (Tsao &Lien,2011) In general, if the firms' Type I agency problems arising from internationalization outweigh their Type II agency problems, family firms would experience fewer total agency problems arising from internationalization than nonfamily firms and vice versa (Tsao & Lien 2011). Given all this, I would claim the following proposition: if the benefits arising from the reduction of type I agency problem outweigh the drawbacks associated with an increase of Type II agency problem, family firm will enjoy a higher[18] impact of internationalization on firm performance. Overall, the insights reported above show us how "agency dynamics" are very important in the FBs internationalization process context and how they may also impact family firms performance.

[18] Compared to non-family firms

3.6.2 Family firm internationalization and performance: insights from resource-based view

In section 3.2.4 I have discussed how family firm-specific resources may affect the likelihood that a family firm internationalizes. I would claim that those factors which spur a family firm to go international may also be those which help the family business to achieve a successful performance abroad. For example, if a family firm owns high human capital, this may not only push the firm into the internationalization spiral but also may be one of the reason of that firm (hypothetical) success in foreign countries. For instance, as I have discussed in section 3.2.2.2 a family firm which have high skilled and well trained descendants may send them abroad in order to obtain knowledge of foreign markets (and this represent a factor spurring internationalization process) but later on descendants' skills and competencies may be helpful to solve problems which arises during internationalization process and this in turn may enhance performance.

3.7 Final comments

The aim of this chapter was to describe the internationalization process of family firms. Among the other factors, it is basically the family firm-specific resources which determines whether a family firms may engage in cross-border operations or not. Resources such as human capital, social capital and financial capital may affect family firm's propensity to go internationally either positively and negatively. Further, I have discussed of the determinants of family firms level of commitment when it expands into new markets. Among the factors which are identified in literature and which are common for all kind of firms, some are specifically connected with family firms namely the need for control, risk propensity, resource availability (connected with firm size), number of successive generations and long-term vision. As discussed in chapter one, typical family firms have closed ownership, meaning a great desire to retain total control. Furthermore, they are typically risk-averse. This explain that family firms most common entry strategy is exporting; moreover, because of their risk aversion they follow a stepwise process, thus following the Uppsala model. However, we have seen that there are also family firms which are characterized by a high speed of growth in foreign markets: the so-called born global firms. Gradual global firms basically differs from born global firms in the approach chosen in undertaking the internationalization process. Finally, no work has focused on the relationship between family firms internationalization and performance. However, Tsao and Lien (2011), by contextualizing the agency theory in the internationalization process context, have claimed that if the firms' Type I agency problems arising from internationalization outweigh their Type II agency problems, the impact of internationalization on firm performance will be stronger for family firms than for non- family firms. From this, I have claimed that when the benefits associated with the reduction of Type I agency problem outweigh the drawbacks associated with the increase in the Type II agency problem, we are provided with a circumstance which positively affect the impact of family firms internationalization on firm performance, especially if compared with those of non-family firms. Last but not least I have provided some insights regarding the impact of family firms internationalization process on firm performance from a resource-based view perspective. These two perspective (agency theory and resource based view) may be seen as the starting point to begin the research on family firms internationalization impact on firm performance.

Conclusions

Family firms have received increasing attention in recent years because of their pivotal role in today's economic, social, political and environmental context. I would like to point out three aspects. First, family firms have specific resources which may be the source of competitive advantages as well as competitive disadvantages. Sirmon and Hitt (2003) have identified five family firms specific resources, namely human capital, social capital, survivability capital, patient financial capital, and governance structure. Some resources may benefit family firms; at the same time, they may have a detrimental effect. For example, family firms typically possess unique intangible resources such as trust and loyalty stemming from strong family ties between family members. Familial ties may also lead to the presence of shared language, norm and practices which improve the internal processes of family firms. However, the presence of strong familial bonds lead to some disadvantages as, for example, the Edward Banfield theorized "amoral familism". Amoral familists do not trust outsiders which are seen as competitors, even enemies. A family which bars outsiders from entry may be unable to secure needed resources to develop its business. In addition, family firms present peculiar features which are in contrast between them. An example may be represented by the contrast between one of the main family firms strengths, i.e. long-term vision, and family businesses' reluctance to sell equity to outsiders. Because of such reluctance, a family firm may lose good growth opportunities when the latter require additional capital to be exploited. This is clearly in sharp contrast with one of the family firms' peculiar attributes, namely the long-term orientation. Second, the empirical evidence regarding the relationship between family firm and performance is mixed. However, different family firms definitions may represent one of the main reasons for such inconclusive results. Family firms definitions are often based on the degree to which family members are involved in ownership and management. In any case, definitions based on mere percentages of ownership and control will not accurately predict or explain differences of firm performance. In this respect, W. Dyer's (2006) opinion to identify firms from a behavioral perspective may really help to understand which are family firms characteristics which lead to successful performance. At the same time, scholars have paid little attention on the impact of institutional development level on firm performance which may actually play a crucial role in determining a family firm's performance. Thus, in the second chapter, I have contextualized the four types of firms identified by Dyer W. (2006) (which were classified according to their behavioral aspects, exploiting agency theory and resource based view) in both low and high institutional development level context, giving rise to eight types of firms. What I have concluded is that a family firm which is "empirically" favored by the institutional environment (i.e. an underdeveloped one) may not actually outperform their competitors or achieve a sound performance if it does not possess the critical resources (patient financial capital, human capital, sound governance structure and practices). At the same time, in a context (i.e. developed institutional environment) where they have to struggle with more powerful non-family firms, as the latter have access to the needed resources and to external governance mechanisms (financial resources, human supply, market for corporate control, labor market), they may indeed outperform non-family firms if they can internally access to critical resources (skilled and expert family members) and assume a behavior (reluctance of "amoral familism", alignment of owner-manger's interests, use of universal criteria in choice of employees, reluctance of nepotism) that leads to bear low agency costs. In other words, I wanted to show how a family firm's behavior and its underlying dynamics can negatively (positively) affect firm performance even if the family company plays in a context which is "empirically" favorable (less favorable) for it. Third, I have analyzed the internationalization process of family firms. Also here, resource-based view is empirically exploited to identify factors which spur or obstacle internationalization. Similarly to what I have claimed above, some family firms specific resources may result beneficial for the internationalization process while others may result detrimental for it. For example, sending descendants to work abroad or having family members who live in other countries is bound to increase the international commitment of family firms (Gallo & Sveen, 1991; Reid, 1981). Family members are the ones who can best diagnose the opportunities and risks in a market which is unknown to the organizations. In contrast, family managers may not possess those skills and capabilities which are needed to manage a complex process as internationalization. In addition, I have analyzed the which are those factors which specifically affect family firms choice of market entry strategies. These family firm-specific determinants are the need for control, risk propensity, resource availability , presence of successive generation and long-term vision. Overall, family firms seem to follow a stepwise process, thus tracking the Uppsala model. These firms are called gradual global firms. However, in contrast, empirical evidence provide some examples of family firms which internationalize rapidly into new markets: they are the so called born global firms (IKEA, Walmart, Intidex group, Lego). In this respect, what mainly differs these two kind of firms are attributes such as the internationalization strategy as well as the nature of network with business partners, risk propensity or the pace of internationalization. Born global firms are found to perceive the world as a one marketplace and may/may not have a strong domestic market as support to the internationalization process. Moreover, these firms' managers have a high risk-taking abilities which results in adapting to new environment more quickly: what's more their learning to internationalize occurs rapidly because of their superior internationalization experience. Born global firms consider the marketplace as homogeneous throughout the world and keep the products standardized and consider psychic distance irrelevant. On the other hand, gradual global firms need stability and as a consequence they perceive domestic market as a strong support for internationalization process. Moreover, they are risk-averse: this slows the learning process and make them to build on experience and gain knowledge about foreign markets gradually. In addition, gradual global firms consider its marketplace as heterogeneous and may develop customized products based on target location. Also, their entrance into new markets is a function of the psychic distance. Furthermore, rather surprisingly, no works have been conducted on the relationship between family firms internationalization and firm performance. In this respect, Tsao and Lien (2011), by contextualizing the agency theory in the internationalization process context, have claimed that if the firms' Type I agency problems arising from internationalization outweigh their Type II agency problems, the impact of internationalization on firm performance will be stronger for family firms than for non- family firms. From this, I have claimed that when the benefits associated with the reduction of Type I agency problem outweigh the drawbacks associated with the increase in the Type II agency problem, we are provided with a circumstance which positively affect the impact of family firms internationalization on firm performance, especially if compared with those of non-family firms. Lastly, I have used the resource based view to provide some insights regarding the impact of family businesses internationalization on firm performance. Intuitively, factors such as high human, social and patient financial capital may not only spur family firm to internationalize opting for entry modes which imply a high level of commitment, but they may also help family firms to achieve a satisfactory performance. In any case, given the importance of family businesses in today's economic, social and political context and taken into consideration the globalization of markets which is increasing the number of family firms which undertake an internationalization process, researchers should begin to explore the relationship between family firms internationalization and firm performance.

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