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Internationalization of Family Small and Medium Sized Enterprises

*Impact of Ownership, Governance and
Top Management Team*

ACTA WASAENSIA NO 268

BUSINESS ADMINISTRATION 107
MARKETING

UNIVERSITAS WASAENSIS 2012

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Julkaisija Vaasan yliopisto	Julkaisuajankohta Syyskuu 2012	
Tekijä(t) Ethiopia Legesse Segaro	Julkaisun tyyppi Monografia	
	Julkaisusarjan nimi, osan numero Acta Wasaensia, 268	
Yhteystiedot Vaasan yliopisto Markkinoinnin yksikkö PL 700 65101 VAASA	ISBN 978-952-476-414-8	
	ISSN 0355-2667, 1235-7871	
	Sivumäärä 168	Kieli englanti
Julkaisun nimike Pienten ja keski suurten perheyriytsten kansainvälistyminen: Omistuksen, hallinnon ja johtoryhmän vaikutus		
Tiivistelmä <p>Pienet ja keski suuret perheyriytokset (pk-perheyriytokset) kansainvälistävät liiketoimintaansa vakiinnutettuaan ensin asemansa kotimarkkinoilla. Tämä pk-perheyriytosten näennäinen ristiriitaisuus eli niiden pyrkimys ankuroitua paikallisesti ja kuitenkin samalla toimia kansainvälisesti johdatti tutkimaan, mitkä pk-perheyriytosten tyypilliset piirteet suhteessa omistukseen, johtoryhmään ja hallintoon määrittelevät niiden kansainvälistymistä.</p> <p>Teoriakatsauksen pohjalta kehitettiin teoreettinen viitekehys, useita hypoteeseja sekä tutkimuksen käsitelmä. Hypoteeseja testattiin hyödyntämällä kahdeksankymmenen suomalaisen, kansainvälistä toimintaa harjoittavan, tehdasteollisuudessa toimivan pk-perheyriytoksen kokemuksia. Tutkimuksessa käytettiin varianssipohjaista rakenneyhtälömallia (Structural Equation Modeling), PLS:ää.</p> <p>Tutkimuksen empiirinen osa osoittaa, että perheen sitoutumiskulttuurin yhteys kansainvälistymisasteeseen oli negatiivinen. Stewardship-suuntautuneisuus oli odotusten mukaisesti positiivisesti yhteydessä perheen sitoutumiskulttuuriin, johdon kokemukseen teollisuudesta sekä johdon strategiseen joustavuuteen. Johdon strateginen joustavuus ja teollinen kokemus olivat lisäksi positiivisesti yhteydessä kansainvälistymisasteeseen. Tämän tutkimuksen pääantti auttaa osaltaan ymmärtämään omistajuuden ”pehmeämpää ulottuvuutta”, esimerkiksi perheen sitoutumisen roolia pk-perheyriytosten kansainvälistymisessä. Toiseksi, tämä tutkimus edistää pk-perheyriytosten kansainvälistymisen ja resurssipohjaisen teorian ymmärtämistä, koska sen tulokset osoittavat, että perheen sitoutumiskulttuuri ja stewardship-aseennoituminen saattavat sisäänpäin suuntautumisensa vuoksi toimia kansainvälistymistä vastaan. Toisaalta yhdistettynä johdon strategiseen joustavuuteen stewardship-aseennoituminen on ulospäin suuntautunutta ja vaikuttaa myönteisesti kansainvälistymiseen. Kolmanneksi, stewardship-suuntautuneisuuden käsitteellistäminen ja sen empiirinen soveltaminen kansainvälistymiseen edistävät hallinnon ja ohjauksen teorian (governance theory) sekä kansainvälisen yrittäjyyden ymmärtämistä pk-perheyriytosten kontekstissa. Tämä tutkimus ei edistä pelkästään teoriaa vaan tarjoaa suosituksia myös käytännön johtamistyöhön pk-perheyriytosten kansainvälistymisen kehittämiseksi.</p>		
Asiasanat Kansainvälistyminen, pk-perheyriytokset, hallinto, johtoryhmä, strateginen joustavuus		

Publisher Vaasan yliopisto	Date of publication September 2012	
Author(s) Ethiopia Legesse Segaro	Type of publication Monograph	
	Name and number of series Acta Wasaensia, 268	
Contact information University of Vaasa Department of Marketing P.O. Box 700 FI-65101 VAASA FINLAND	ISBN 978-952-476-414-8	
	ISSN 0355-2667, 1235-7871	
	Number of pages 168	Language English
Title of publication Internationalization of family small and medium sized enterprises: Impact of ownership, governance and top management team		
Abstract <p>Family small and medium-sized enterprises (FSMEs) internationalize their business after consolidating their position in their domestic market. This seeming discrepancy in family SMEs of their propensity to be locally anchored while internationally active has prompted this study to investigate what aspects typical to family SMEs in relation to ownership, top management team (TMT) and governance determine family SME internationalization.</p> <p>Theoretical review was conducted in order to develop a theoretical framework, several hypotheses and a conceptual model for this study. Hypotheses were tested by utilizing 80 family SMEs involved in international activity from the manufacturing sector in Finland. This study utilized the variance based structural equation modeling, PLS.</p> <p>The empirical results of this study reveal that family commitment culture was negatively associated with degree of internationalization. As proposed, stewardship orientation was positively associated with family commitment culture, TMT's industry experience, and TMT's strategic flexibility. Strategic flexibility of TMT and TMT industry experience were positively associated with the degree of internationalization. The main contributions of this study pertain to increasing our understanding of the role of "softer dimension" of ownership such as family commitment culture on internationalization of family SMEs. Secondly, it contributes to our understanding of the internationalization of family SMEs and resource based theory (RBT) as the finding suggests that family commitment culture and stewardship orientation may operate against internationalization because of their inward orientation. However, when coupled with the strategic flexibility of top management team, stewardship provides an outward orientation and positively impacts internationalization. Thirdly, by conceptualizing stewardship orientation and adapting it empirically to the internationalization context, it contributes to governance theory and international entrepreneurship of family SMEs literature. This study contributes not only to theory but also provides managerial implications for the development of internationalization of FSMEs.</p>		
Keywords Internationalization, Family SMEs, Governance, Top Management Team (TMT), Strategic Flexibility		

ACKNOWLEDGMENTS

Now that I have completed the journey of writing this PhD dissertation, I can look back with great satisfaction. When I began my research journey, the charting of this new path involved navigating interesting and challenging terrains. First and foremost, I would like to thank God for giving me wisdom and guidance throughout my life.

I would like to thank my supervisor, Professor Jorma Larimo for supporting my research, conference activities, and other practical arrangements needed to complete this PhD dissertation. I would also like to thank Professor José C. Casillas, University of Seville, one of the pre-examiners of my PhD dissertation. I also would like to thank Professor Jarna Heinonen, University of Turku my second pre-examiner. My dissertation has benefited from their valuable comments. I would like to thank Professor José C. Casillas for accepting to act as the opponent to my dissertation.

I would like to express my gratitude to Professor Marian Jones, University of Glasgow, who has commented on so many versions of this work. I would like to thank her for her time, effort, and valuable comments. There are so many people, who have given me constructive comments on how to proceed with my dissertation in different conferences. I would like to thank Professor Antonella Zucchella, University of Pavia. There are also others at different conferences who have given me valuable comments, to name some of the conferences: International family enterprise research (IFERA), family enterprise research conference (FERC), and McGill conference on international entrepreneurship (Denmark). I would like to thank all of those who have given me feedback in these conferences.

I would also like to thank the international marketing group Professor Peter Gabrielsson, Minnie Kontkanen, Saba Khalid, Johanna Hallbäck, Sami Rumpunen, Ahmad Arslan, Samuel Ato Dadzie, Tahir Ali, Markku Heiskanen, Alphonse Ak-lamanu, Wang Yi, Nnamdi Oguji and Helena Olsobo. I would also like to thank Henna Huovinen for her help in reviewing the questionnaire of this study and Tarja Salo for formatting this dissertation.

I would like to acknowledge the financial support from *Finnish Graduate School in International Business* (FIGSIB), Yksityisyrittäjien Säätiö, Markus Wallenberg foundation and University of Vaasa (Department of Marketing) towards my research, conference participation and other dissertation related activities.

VIII

Finally, I would like to thank my mother Mrs. Adanetch Kelbiso, my father, Mr. Lapiso Segaro, my brother Paulos Segaro and my sister Genet Segaro for their support and encouragement. It meant a lot to me. Lastly, I would like to remember my grandparents Mrs. Ada (Sedame) Hogego, Mr. Segaro Seleto, and Mrs. Ashame Nademe for the example of faith in God, hard work and perseverance they have laid down for me.

Vaasa, August 29, 2012

Ethiopia L. Segaro

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Abbreviation

CMO	Customer orientation
DOI	Degree of internationalization
EIA	Employees that spend 50% of their time in international activity
EMO	Employee orientation
FA	Firm Age
FB	Family business
FCC	Family commitment culture
FDI	Foreign direct investment
FS	Foreign sales
FSz	FSz
FSME	Family small and medium sized enterprises
FSTSR	Foreign sales to total sales (Ratio)
GSR	Geographic Scope
IB	International business
LTO	Long-term orientation
OC _o	Organizational commitment
OC _u	Organizational culture
OECD	Organization for Economic Co-operation and Development
PLS	Partial Least Squares
RBT	Resource based theory
sfTMT	Strategic flexibility of TMT
SME	Small and medium sized enterprises
SO	Stewardship orientation
TMT	Top management team
TMT _{he}	Top management team heterogeneity
TMT _{ie}	TMT industry experience
Tsf	strategic flexibility (total)

1 INTRODUCTION

1.1 Background of the Study

Small and medium-sized enterprises (SMEs) play an important role in most advanced economies of the world. In these economies, SMEs account for 95% of manufacturing enterprises and two-thirds of private sector employment and are the main creators of jobs (OECD 2005). According to the definition of EU, companies classified as SMEs are those companies with fewer than 250 employees and with an annual turnover of up to 50 million euro, or a balance sheet total of no more than 43 million Euros (EC 2003). It is also estimated that in the enlarged EU consisting of 25 countries, SMEs account for 99% of all enterprise (SME User Guide 2005). All these evidences from several studies conducted show the importance of SMEs in the economies of countries worldwide.

Family firms, in general, represent the majority of all businesses worldwide (e.g. Shanker & Astrachan 1996; Gersick et al. 1997; Astrachan & Shanker 2003; IFFERA 2003; Casillas et al. 2007) but until recently were under-represented in scholarly research (e.g. Sharma, Chrisman, & Gersick 2012). Several studies report that family small and medium sized enterprise (SMEs), in particular, represent the majority of SMEs worldwide (Shanker & Astrachan 1996; Astrachan & Shanker 2003; IFFERA 2003; Casillas et al. 2007). Despite the fact that the majority of firms worldwide are family firms, family firm focus has often been relatively neglected (Casillas & Acedo 2005; Voordecker et al. 2007; Dyer & Dyer 2009; Segaro 2012). Several researchers suggest that not taking into account the family in family business research can lead to incomplete and misleading findings (Voordecker et al. 2007; Sciascia et al. 2012; Dyer & Dyer 2009; Segaro 2012). For example, previous studies report mixed results regarding the influence of family ownership and management on performance and the degree of internationalization (Voordecker et al. 2007; Sciascia et al. 2012; Dyer & Dyer 2009; Sciascia et al. 2012, Segaro 2012).

Internationalization of the firm remains as one of the most extensively researched topic in international business (IB) literature (e.g. Keupp & Gassmann 2009; Jones et al. 2011). Within this stream of research, several studies have focused on internationalization of SMEs (e.g. Coviello & McAulley 1999; Bell, McNaughton, Young & Crick 2003; Chetty & Campbell-Hunt 2003; Coviello & Jones 2004; Clercq, Sapienz & Crijns 2005; Papadopoulos & Martín 2010). However, IB researchers seem to have neglected the role of the family involvement in ownership and management in the internationalization of family SMEs (FSMEs) (e.g.

Menéndez-Requejo 2005; Fernández & Nieto 2005, 2006; Graves & Thomas 2006, 2008; Casillas et al. 2007; Larimo 2011; Segaro 2012). Family business (FB) literature has not paid enough attention on how and why some FSMEs continue to renew their strategy (Hall 2003) by internationalizing their business abroad (Prashantham 2008), while other family businesses (FBs) do not.

The paucity of research on FB internationalization in general may be partly due to assumptions that they are not well suited to the uncertain and risky process of internationalization based on evidence that they are risk averse, conservative, non-growth oriented, conflict riddled, and may attach lower importance to the creativity and innovation of their business (e.g. Donckels & Frölich, 1991; Kets de Vries 1993; Miller, Breton-Miller & Schonick 2008). Examining internationalization of FSMEs, however, will help us to identify the typical behavior of FSMEs that allows them not only to survive but may increase their business activities abroad. In addition, it will also help us unlock what may restrict the internationalization of FSMEs.

The main question of strategy is: why do some firms perform better than other firms (Nelson 1991: 64). In FB literature, when we take the stagnation view (Miller, Breton-Miller & Scholnick 2008), FBs are extensively characterized as risk averse, conservative, resistant to change, less growth oriented, less innovative, resource starved, conflict riddled, with misguided family objectives, nepotism and cronyism (Donckels & Fröhlich 1991; Kets de Vries 1993; Miller et al. 2008). Why FSMEs lag behind from their non-family counterparts in their internationalization was usually attributed to these often cited shortcomings.

But another stream of research is emerging that looks at family ownership and management as a resource (e.g. Habbershon & Williams 1999; Chrisman, Chua & Steier 2005). More specifically, FB literature has begun to assess the strategic advantages of family firms by utilizing the resource-based theory (RBT) of the firm for achieving competitive advantage (e.g. Habbershon & Williams 1999; Ensley & Pearson 2005). Sirmon and Hitt (2003) suggest that FSMEs are different from non-FSMEs due to their unique resources such as survivability capital, patient capital, social capital, human capital, and governance structures (Segaro 2009a,b). Danes et al. (2009: 201) argue that Sirmon and Hitt's (2003) conceptualization of survivability capital as an integration of human, social and financial capital, can be taken as one type of social capital similar to resilience capacity. This leads us to the question as to why some FSMEs are able to continue to expand abroad while others do not or at times even cease to exist.

Though, strategic flexibility can be valuable to all firms; it can be a key source of competitive advantage for family firms leading to success, resilience, and expan-

sion abroad (Zahra et al. 2008). Strategic flexibility can be defined as the degree to which firms react to opportunities and threats within their competitive environment (Barringer & Bluedorn 1999; Zahra et al. 2008). Strategically flexible FSMEs can be involved in a flexible and proactive continuous capability development, which can allow them to effectively realize opportunities and manage threats in their competitive environment. They can also reinvent themselves and overcome barriers to change and be able to develop multiple sources of competitive advantage (Hamel & Valikangas 2003: 55; Reinmoeller & Baardwijk 2005: 61). In one of the earlier studies in internationalization of family firms, Gallo and Sveen (1991) suggest that the company culture of the FB can be taken as a basis for strategy formulation and implementation. Thus, it is argued in this study that FSMEs with strategically flexible top management team may not only cope but may expand abroad. Westhead et al. (2001) confirm that specific industry know-how is a strong predictor of the firm's ability to export. We can then assume that TMTs who are strategically flexible with industry experience are more likely to internationalize their business than others.

Organizational culture literature suggests that founders/owners of organizations create organizational culture (Shein 1995). What type of organizational culture then allows the development of strategic flexibility and industry experience in top management teams in FSMEs, which could subsequently enable them to pursue entrepreneurial activity such as internationalization? Organizational culture can be defined as the pattern of basic assumptions that a given group has invented, discovered, or developed in learning to cope with its problems of external adaptation and internal integration, a pattern of assumptions that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems (Schein 1995: 222). In strategic leadership literature, the leading coalition or top management team (TMT) are found to influence organizational outcomes (Hambrick & Mason 1984; Carpenter, Geletkanycz & Sanders 2004; Hambrick 2007). Though, organizational culture can be a source of competitive advantage but it can also become a source of competitive disadvantage (e.g. Kets de Vries 1993). Organizational culture can also be perceived as a resource that FSMEs may mobilize effectively (Habbershon & Williams 1999), if it triggers strategic flexibility (Zahra et al. 2008) in TMTs of FSMEs to pursue opportunities abroad.

In contrast, in a FB context, organizational culture may also serve as a reservoir of tradition that has worked well in the past providing them with the needed stability in a constantly changing and increasingly complex economic environment. This aspect, however, can inhibit growth both domestically and abroad. Empirical

findings in the internationalization of FSMEs suggest that FSMEs lag behind non-FSMEs in their internationalization (e.g. Graves & Thomas 2006; 2008).

In FSMEs, whereby ownership and management are not usually separated, stewardship theory which explains governance in FBs (Miller & Breton-Miller 2005; Miller et al. 2008; Eddleston & Kellermanns 2007; Zahra et al. 2008) has been increasingly utilized to explain behaviors of successful firms with top managers not pursuing their self-interest as in agency relationship (e.g. Fama 1980; Fama & Jensen 1983; Eisenhardt 1989; Clarke 2004; Huse 2000; 2007) but behaving pro-organizationally (Davis, Schoorman & Donaldson 1997; Eddleston & Kellermanns 2007; Miller et al. 2008). Miller et al. (2008: 53-57) conceptualize stewardship where there is unusual devotion to the continuity of the business. Secondly, there is more emphasis placed in nurturing of a community of employees. Thirdly, there is a seeking out of closer connections with customers to sustain the business. In this study, based on Miller et al.'s (2008) conceptualization of stewardship, stewardship orientation can be defined as an orientation reflected in customer orientation, employee orientation, and long-term orientation in FSMEs. While stewardship orientation if coupled with strategic flexibility can be taken as potentially contributing to an outward orientation in FSMEs, but with family commitment culture, it can be seen as potentially contributing to inward orientation. The next section provides the research gap in the extant FSME internationalization literature.

1.2 Research Gap

In FB literature, the most commonly researched areas are ownership, management, governance and succession (e.g. Westhead, Howorth & Cowling 2002; Chrisman, Chua & Steier 2005; Chrisman, Kellermanns, Chan & Liano 2010). In large firms, ownership and management are more clearly separated. In contrast, in most SMEs ownership and management are not separated and most SMEs are closely held (Schulze et al. 2001; Schulze, Lubatkin & Dino 2002, 2003; Westhead et al. 2002). Relatively little is known about the relationship between FSME's ownership, governance, top management team (TMT) and internationalization (IFERA 2003; Casillas et al. 2007; Zahra et al. 2007). The upper echelon theory suggests to us that we may need to look at the dominant coalition of organization, in particular, the top management team to partly predict different strategic organizational outcomes (Hambrick & Mason 1984; Gersick et al. 1997; Tihanyi et al. 2000; Hambrick, Finkelstein & Mooney 2005; Hambrick 2007; Segaro 2012).

Though there has been increasing research in IB literature regarding internationalization of SMEs, there is a paucity of research on FB internationalization (e.g. Menéndez-Requejo 2005; Fernández & Nieto 2005, 2006; Graves & Thomas 2006, 2008; Casillas et al. 2007; Larimo 2011; Segaro 2012). Thus, there is a need to examine FSME internationalization. This is because FB literature finds that FBs are different from their non-FB counterparts (e.g. Sirmon & Hitt 2003; Carney 2005; Chrisman, Chua & Sharma 2003; Danes, Stafford, Haynes & Amarpurkar. 2009). In the extant literature, what makes a FB different from a non-FB is considered to be the involvement of the family in the ownership and management of the business (e.g. Handler 1989). Chua, Chrisman and Sharma (1999: 22) argue that what makes a FB unique is the pattern in which ownership, governance, management and succession substantially influences firm's goals, strategies, structure and the manner in which each is formulated, designed and implemented. Chrisman, Chua and Sharma (2003) state that a FB exists because of the reciprocal economic and non-economic value created through a combination of the family and the business systems. They suggest that the confluence of these two systems lead to hard-to-duplicate capabilities or "familiness" that makes family firms suited to survive and grow.

Familiness of the firm can be defined as the summation of the resources and capabilities in a given firm (Habbershon & Williams 1999: 11). Familiness also explains the nature of family influence on performance outcomes (Habbershon & Williams 1999; Habbershon, Williams & MacMillan 2003). The specific familiness that is the bundle of resources and capabilities in a given firm provides a potential differentiator for firm performance. The interaction between individual family members, the family unit, and the business is expected to lead to systemic synergies, known as distinctive familiness with a potential to create competitive advantage for the firm (Chrisman, Chua & Steier 2005: 238). It may also lead to diseconomies, known as constrictive familiness, with the potential to create competitive disadvantage for a firm (Chrisman, Chua & Steier 2005: 238). The FB dynamics may also create the environment to develop stewardship orientation in the FSMEs (Zahra 2003; Segaro 2009a,b, 2012; Sciascia et al. 2012).

Similarly, Sirmon and Hitt (2003) point out that a family firm's uniqueness arises from the integration of the family and the business life. The integration of the family and the business life creates several salient and unique characteristics. As mentioned earlier, Sirmon and Hitt (2003) suggest five unique characteristics that can differentiate family firms from non-family firms: human capital, social capital, survivability capital, patient capital, and governance structures. They further contend that resources by themselves will not produce sustainable competitive advantage, but that a resource should be managed appropriately to produce value.

They point out that these five major resources and unique attribute of family firms that differentiate them from their nonfamily counterparts can also be seen as providing them with an entrepreneurial spirit. Sirmon and Hitt (2003) describe the profile of these family firms as entrepreneurially led family firms (Davis & Harveston 2000), and high performing firms (e.g. Upton, Teal & Felan 2001). These firms are differentiated by their desire for growth and wealth creation (Sirmon & Hitt 2003).

Furthermore, in his study on corporate governance and competitive advantage in family controlled firms, Carney (2005) examined different governance structures such as managerial governance, alliance governance and family governance. Carney (2005) argues that family controlled firms' competitive advantage arises from their system of corporate governance. Corporate governance system consists of incentives, authority patterns, and norms of legitimating. This governance system may produce organizational propensities, which in turn, may lead to competitive advantages/disadvantages. According to Carney (2005), family controlled rights over firm's assets generates three dominant propensities namely parsimony, personalism, and particularism. These three dominant propensities may give rise to advantages under scarce resource environment, facilitate the creation and utilization of social capital and engender opportunistic investment processes (Segaro 2009a,b; 2012).

Parsimony refers to the propensity that stems from the family firm's making strategic decisions such as resource deployment decisions with the family's personal wealth (Carney 2005: 253; Chrisman, Chua & Steier 2005: 240). This is attributed to the unification of ownership and control in family firms resulting in interest alignment, which may in turn reduce agency costs. Thus, family firms can be seen as possessing a strong incentive to ensure that capital is deployed carefully and prudently allowing resource conservation and allocation (Carney 2005: 253; Chrisman, Chua & Steier 2005: 240). Personalism stems from the intertwining of ownership and control in family firms. This aspect in family firms usually concentrates and incorporates organizational authority in the person of owner-manager or the family (Carney 2004: 254; Chrisman, Chua & Steier 2005: 240). As a result, owner-managers are able to operate under fewer internal constraints due to the exemption from internal bureaucratic constraints. In addition, owner-managers are less subject to external constraints pertaining to accountability, disclosure, and transparency, which may allow them to personalize authority in order to pursue their vision (Carney 2004: 254; Chrisman, Chua & Steier 2005: 240).

Particularism results from the propensity to personalize authority and stems from the tendency of owner-managers viewing the firm as "our business" (Carney 2005:

255; Chrisman, Chua & Steier 2005: 240). Family control rights allow the family owners-manager not to be encumbered by authority fragmentation and thus to intervene in the activities of the family firm with "particularistic", more flexible criteria (Carney 2005: 255; Chrisman, Chua & Steier 2005: 240). These three propensities identified by Carney (2005) in family governance system, besides other earlier mentioned factors such as human capital, social capital, survivability capital, patient capital (Sirmon & Hitt 2003), differentiate between family and non-FB. A FB is, thus, distinct from non-FB due to these unique resources and capabilities that accrue to it from the family involvement in ownership, governance, and management.

It is argued in this study that these unique FB characteristics may have implications on how FSMEs, conduct their business including how they expand their business abroad. How then can we identify the degree of familiness in family firms that result in distinctive/constrictive familiness? Ensley and Pearson (2005) point out the challenge and complexity of identifying the degree of familiness in family firms. They argue that it is within the complex web of social involvement and interactions embedded in the social structure of the family that the advantages of the family form of organization can be identified. Even though, the difficulty of capturing familiness concept has been pointed out, empirical evidence suggests that there is a difference between family and non-family firms when FBs were viewed in relation to their "familiness" in ownership, management, and in their intention of succession (trans-generational sustainability) (e.g. Chrisman, Chua & Steier 2002; Andersen & Reeb 2003; Segaro 2009a,b, 2012) and the role of familiness in FB success (e.g. Tokarczyk, Hansen, Green & Down 2007; Segaro 2009a,b, 2012).

If the degree of familiness is tied with the social structure of the FB, it would thus become important to identify what type of culture, orientation(s) and tendencies could engender and strengthen the distinctive familiness in FB while mitigating constrictive familiness in FSME internationalization. It is argued in this dissertation that the distinctive familiness with the potential to create competitive advantage for the FB, may also affect the internationalization of FSMEs. It is also important to note that certain conditions in FBs may prompt constrictive familiness with the potential to create competitive disadvantage for family firms (Chrisman, Chua & Steier 2005: 238, Segaro 2009a,b, 2012).

According to Miller et al. (2008) based on the stagnation view of FB, for instance, FBs can become risk averse, less growth oriented, conservative, and less innovative (Donckels & Fröhlich 1991; Miller et al. 2008). On the other hand, when taking the stewardship perspective, stewardship orientation can be manifested in a

care for continuity of the business (long-term orientation), the building up of community of employees (employee orientation), and maintaining consistency in customer relationship (customer orientation). It is suggested in literature that stewardship can be strongly manifested in small business context (Miller et al. 2008). Thus, the degree of familiness and the level of stewardship orientation in SMEs context and how FSMEs behave in their strategic decision making process (flexibly or rigidly) will help us unlock not only variance in firm performance in general among FSMEs but also variance in their level of internationalization (Segaro 2009a,b, 2012). In recent studies, stewardship has been found to differentiate between those who are entrepreneurial and not entrepreneurial in FBs (Eddleston et al. 2012). Chrisman, Chua and Steier (2005: 238) state that questions about how ownership, management, and trans-generational intentionality interact to create characteristics unique to family organizations have not yet been answered, nor are the answers to questions concerning the types of familiness, both distinctive and constrictive, that emanate from those characteristics fully apparent. Heeding to their call, this study aims to explore ownership (family commitment culture), governance (stewardship orientation), and top management team related factors and their contribution to internationalization of FSMEs.

Despite the presence of a large number of studies on the internationalization of SMEs, there is still limited study on the internationalization of FBs in general (Crick, Bradshaw & Chaudhry 2007; Zahra 2003; Graves & Thomas 2003; Casillas & Acedo 2005; Jones, Coviello & Tang 2011). To date, specifically, there has been limited study in regards to what influences the internationalization of FSMEs (Graves & Thomas 2008: 154). In previous studies, earlier focus was paid on comparing FB with non-FB (e.g. Graves & Thomas 2004; 2006; Fernández & Nieto 2005; Menéndez-Requejo 2005; Crick, Bradshaw & Chaudhry 2006; Pinho 2007). The emphasis then relatively moved to family ownership and internationalization (Zahra 2003); types of ownership and internationalization (Fernández & Nieto 2006); and the level of ownership and internationalization (Sciascia et al. 2012). Some studies report that ownership influences internationalization negatively (Fernández & Nieto 2005; 2006).

Drawing from the stewardship perspective, Zahra's (2003) study states that due to altruism, the individual and interactive effects of ownership and involvement are positively associated with internationalization. This positive relationship was attributed to the specific capabilities that the family ownership brings to the internationalization process (e.g. Zahra 2003). A more recent study on the internationalization of FB in general has argued that the conflicting results may emanate from not taking the family ownership and family involvement in management aspect

separately and identifying its effect on the internationalization of the FB (e.g. Sciascia et al. 2012).

In small business context, one can expect stewardship orientation that might have implications towards internationalization of FSMEs (Miller et al. 2008). The main purpose of this study is to find out, whether FSMEs with stewardship orientation have different levels of influence on internationalization when coupled with family commitment culture, strategic flexibility of TMT and industry experience of TMT. In his study on the international expansion of U.S. manufacturing FBs, Zahra (2003: 495-496) argues that owner managers are likely to act as good stewards of the firm's resources during internationalization. We can then deduce that depending on the level of their stewardship orientation family firms may expand abroad if coupled with strategic flexibility of TMT.

Ownership provides managers the power to make decisions speedily about the level and scope of their firm's operation (Zahra 2003). Zahra (2003) also suggests that future researchers need to consider other dimensions of stewardship perspective besides altruism and establish their impact on the family firm's strategic choices. Similarly, Graves and Thomas (2008) point out the need to consider stewardship perspective in the study of FSME internationalization. In line with these previous studies, this study suggests the use of three dimensions of stewardship as proposed by Miller et al. (2008: 53-57) to study FSME internationalization. The three dimensions can be manifested in a care for continuity of the business (long-term orientation), building community of employees (employee orientation), and maintaining consistency in customer relationship (customer orientation).

More recently, FB internationalization literature is increasingly examining the role of intangible resources that may accrue to FSMEs due to family ownership such as the role of entrepreneurship orientation of family firms (Thomas & Graves 2005), family related factors (Claver et al. 2009; Segaro 2012) networks (Basly 2007; Kontinen & Ojala 2011b, c), social capital (Kontinen & Ojala 2011a; Segaro 2012) in the internationalization of FSMEs. While Zahra (2003) finds that family ownership is positively related to internationalization, Fernández and Nieto (2006) find negative relationship between family ownership and internationalization. Furthermore, Sciascia et al. (2012) find inverted curvilinear relationship between the level of ownership and degree of internationalization. But Sciascia et al. (2012) also find that a higher level of involvement in management was positively related to the degree of internationalization. These mixed results suggest to us in relation to ownership to carefully examine the "softer dimension" of ownership, by putting back the family into FB research (Dyer & Dyer 2009)

and thus examine the role of family commitment culture in FSME internationalization.

According to the stagnation view (Miller et al. 2008), FSMEs might be perceived to be locally embedded and risk averse (e.g. Kets de Vries, 1993; Kontinen & Ojala, 2011). These assertions, however, do only partially explain FB's behavior as there are some FSMEs that exhibit entrepreneurial behavior in seeking out and recognizing opportunities not only in the domestic market but also in the international market due to their stewardship behavior (Miller et al. 2008; Eddleston et al. 2012). This is because FSMEs are not homogenous (Sharma 2003: 2; Westhead & Howorth 2007: 407), exhibiting differences in their degree of internationalization (Graves 2006). Except some notable theoretical studies that emphasized the role of strategy, culture, management and control (Swinth & Vinton 1993), strategy, general objectives, and company culture (Gallo & Sveen 1991), the role of entrepreneurial orientation in FB internationalization (Thomas & Graves 2005), recent studies, seem to pay little attention to the role of organizational culture in FB. In addition, they seem to pay little attention to the role of strategic flexibility of top management having diverse functional background in FB. Thus, when we seek to examine the role ownership, we may need to move towards exploring the cultural aspects in internationalization of FSMEs, for example, by exploring the role of "family commitment culture" in internationalization of FSMEs. In relation to governance, the aim of this study is to explore the role of stewardship orientation in FSME internationalization.

As the family system interacts with business system, the stewardship oriented organizational culture has been found in previous literature to moderate family commitment - strategic flexibility relationship (Zahra et al. 2008). Strategic flexibility refers to the ability to pursue new opportunities and respond to threats in the competitive environment (Zahra et al. 2008), which may contribute to internationalization of FSMEs. I argue in this dissertation that one may relatively expect high stewardship orientation in small business context that may in turn have positive association with FSME internationalization when coupled with strategic flexibility of TMT.

It would thus be important to take into account how FSMEs develop and renew their strategy by having strategically flexible TMTs. One possibility is that incorporating the succeeding generation in the top management team may trigger strategic renewal initiatives (Hall 2003) that bring in a level of strategic flexibility needed for the family firm. As part of the strategic renewal initiatives pursued by the succeeding generation (e.g. Dess et al. 2003), internationalization of the FSME may occur. Alternatively, if succession has already taken place in a family

firm and if the family firm has taken the necessary preparation to groom family successors, the industry knowledge of the family successor (e.g. Royer, Simons, Boyd, Rafferty 2008) may facilitate international expansion of FSMEs. The next section will present the research question and research objectives of this study.

1.3 Research Question and Research Objectives

Due to the potential differences in business objectives between FBs and non-FBs', FBs may vary in their overall business approach from non-FBs (Graves 2006). FBs may seek to pursue non-financial family objectives such as providing employment for the family, protection of the family wealth, and to pass the business to the next generation (Westhead & Howorth 2006). Sirmon and Hitt (2003) point out that FB's uniqueness arises from the integration of the family and the business life. The integration of the family and the business life creates several salient and unique characteristics. As mentioned earlier, Sirmon and Hitt (2003) suggest five unique characteristics that can differentiate FBs from non-FBs: human capital, social capital, survivability capital, patient capital, and governance structures. They contend that resources by themselves will not produce sustainable competitive advantage but that resources should be managed appropriately to produce value. These five major resources can also be categorized as providing FSMEs with an entrepreneurial spirit.

In FB literature, FB's business objective may include non-economic social goals and more precisely, it may include family related objectives such as providing employment for family members and conserving wealth for intergenerational transfer or maintaining social emotional wealth of the FB (e.g. Gomez-Mejia, Makri & Kintana 2010). Besides business objectives that might be the same or different between family and non-FSMEs, FBs are found to be relatively more long-term oriented, and different in their risk taking propensities and also their propensity to be more locally anchored (e.g. Graves 2006; 2008; Miller et al. 2008). Though FBs may have a limitation in terms of human, financial, and technological resources, their intangible assets such as brands, organizational culture and reputation may provide them with competitive advantage (Menéndez-Requejo 2005: 122). Thus, FBs can also become more committed to their business as not only their financial but also their social resources such as social capital and reputation are tied up and are dependent upon the success of the business much more directly than non-FBs (e.g. Labaki 2007; Segaro 2009a,b, 2012).

In FSME internationalization literature, what contributes to FSMEs to have a higher level of internationalization while others lag behind, has not received

enough attention (Graves & Thomas 2006; 2008). In the extant FB literature, FSMEs are found to internationalize their business after consolidating their position in their domestic market incrementally (e.g. Gallo & Pont 1996; Yeung 1999; Fernández & Nieto 2005; 2006; Graves & Thomas 2006; 2008). More specifically, the first generation can be entrepreneurial but initially with a primary emphasis to perform, consolidate, and survive in their domestic market (e.g. Okoroafo 1999: 146). Thus, study aims to examine ownership, TMT, and governance related factors with emphasis on organizational culture on internationalization in FSMEs. Among those FSMEs who have internationalized their business, why do some manage to have a higher level of internationalization while others do not? More precisely, what are the factors that contribute to differences in the degree of their internationalization? According to the aim of this study to examine ownership, TMT, and governance related factors with emphasis on organizational culture in the FSME context and specifically looking at their effect on the degree of internationalization, the research question of this study can be stated as: what aspects typical to FSMEs in relation to ownership, top management team and governance determine FSMEs internationalization? Therefore, main research objectives are as follows:

1. To contribute to internationalization of FSMEs literature by looking at ownership, governance and TMT related factors.

Subsequently, in relation to ownership, it focuses on the organizational culture typical to FSMEs. Based on FB literature review, it focuses on the softer dimensions of ownership by taking into account organization culture and family based behavior, such as family commitment culture (e.g. Zahra et al. 2008). This study aims to contribute to organizational culture literature. By conceptualizing stewardship orientation (e.g. Miller et al. 2008) and adapting it to internationalization study, it aims to contribute to governance literature. By focusing on TMT related factors such as strategic flexibility of TMT (e.g. Zahra et al. 2008) and TMT industry experience (e.g. Barringer & Bluedorn 1999), it contributes to strategic management and more specifically to upper echelon literature. In general, it contributes to internationalization of FSMEs literature by focusing on ownership, governance, and TMT related factors.

2. To explore the relationship between ownership specific factor such as family commitment culture by focusing on the softer dimension of ownership and degree of internationalization.

In ownership, the main emphasis is not on ownership level (e.g. Zahra 2003; Fernández & Nieto 2006; Sciascia et al. 2012), but rather on the softer dimension related to ownership. More specifically, the focus of this study is on how the level

of ownership could actually be looked at on a deeper level. By exploring ownership not on the basis of percentage of ownership or types of ownership but by taking an organizational cultural perspective that emanates from family ownership and involvement in management, this study examines the role of family commitment culture of FSMEs. By infusing their values into the family business (FB), family commitment culture may further be embraced throughout the organization, resulting in the continuous formation and maintenance of the organization culture of the FSME (Zahra et al. 2008). This study attempts to propose the need to investigate on how the level of family involvement in ownership and management could be explored by taking an organizational culture perspective by focusing on family commitment culture in FSMEs.

3. To explore the role of stewardship orientation, a governance related behavior, on the internationalization of FSMEs.

In FB literature, stewardship perspective is increasingly used to examine performance variability among FBs (e.g. Miller & Le Breton-Miller 2005; Eddleston & Kellermann 2007; Miller et al. 2008). In internationalization studies, stewardship perspective has been used to explain, for instance, why family ownership is related positively to internationalization (e.g. Zahra 2003), positive relationship between moderate levels of family ownership and internationalization (e.g. Sciascia et al. 2012), but to date, it has not been empirically explored as a construct in internationalization of the FB literature. More recently, a study by Eddleston et al. (2012) finds that stewardship culture differentiates entrepreneurial behavior among FBs. Thus, this study aims to explore the role of stewardship orientation by conceptualizing it as employee orientation, customer orientation, and long-term orientation (adapted from Miller et al. 2008) on internationalization of FSMEs.

4. To investigate the role of top management team (TMT) related factors such TMT strategic flexibility and TMT industry experience on the degree of internationalization.

Strategic flexibility refers to the degree to which firms recognize opportunity and threat within the competitive environment of a firm (Barringer & Bluedorn 1999; Zahra et al. 2008). A TMT that is comprised of top management team members from different functional background is more likely to exhibit strategic flexibility. This is because the differences in their functional background will likely compensate the potential adverse effects of commitment entrapment (Chrico 2007), or lateral rigidity (Luostarinen 1980/1979). As top management team members, drawing from the upper echelon theory, are mostly involved in strategic decision-making process, the strategic flexibility of TMT is a construct that needs to be

explored in relation to its association with internationalization of FSMEs. In addition, the top management managerial capability (Graves & Thomas 2006) has been explored in comparing FSMEs with non-FSMEs. By taking the industry experience of top management team, and exploring its impact on internationalization, we may be able to identify the variance in internationalization among FSMEs. The following section will provide the key terms of this study.

1.4 Definitions of Key Terms

The main focus of this study is on the role of ownership, governance, top management team (TMT) on internationalization. At the outset, regarding the definition of FBs, it would be important to point out that there have been several different definitions in FB literature (Litz 1995; Sharma et al. 1997; Westhead & Cowling 1998; Sharma 2004; Chrisman, Chua & Sharma 2005). Table 1 provides the list, definition, and sources of the key terms of this study.

The involvement of the family in ownership and management in FBs is increasingly used to categorize whether a firm is a FB or not (e.g. Fernández & Nieto 2006). For conceptualization of stewardship orientation, this study relies on Miller et al. 2008 conceptualization of stewardship. It adapts it to internationalization of FSMEs context and defines it to enable empirical assessment of the stewardship orientation construct in FBs.

1.5 Positioning and Contribution of the Study

This section first provides the theoretical positioning of this study. This study utilizes internationalization theories pertinent to FSME internationalization (e.g. incremental approach (e.g. Johanson & Wiedersheim 1975; Johanson & Vahlne 1977; 1990; Graves & Thomas 2008), network approach (e.g. Coviello & Munro 1997; Yeung 1999; 2000; Johanson & Vahlne 2003; 2009; Kontinen & Ojala 2011b), and international entrepreneurship in general (e.g. Bell et al. 2008; Thomas & Graves 2005; Graves & Thomas 2008; Sciascia et al. 2012; Kontinen & Ojala 2011b). The main theoretical underpinnings are presented in Figure 1.

This study focuses on international entrepreneurship and FSME context. It relies on the resources based theory (RBT) of the firm in achieving competitive advantage (e.g. Wernerfelt 1984; 1995; Barney 1986; 1991; Peteraf 1993; Foss 1998; Barney, Wright & Ketchen 2001; Peng 2001; Barney et al. 2011; Helfat & Winter 2011). More specifically, this study utilizes resource-based theory in the

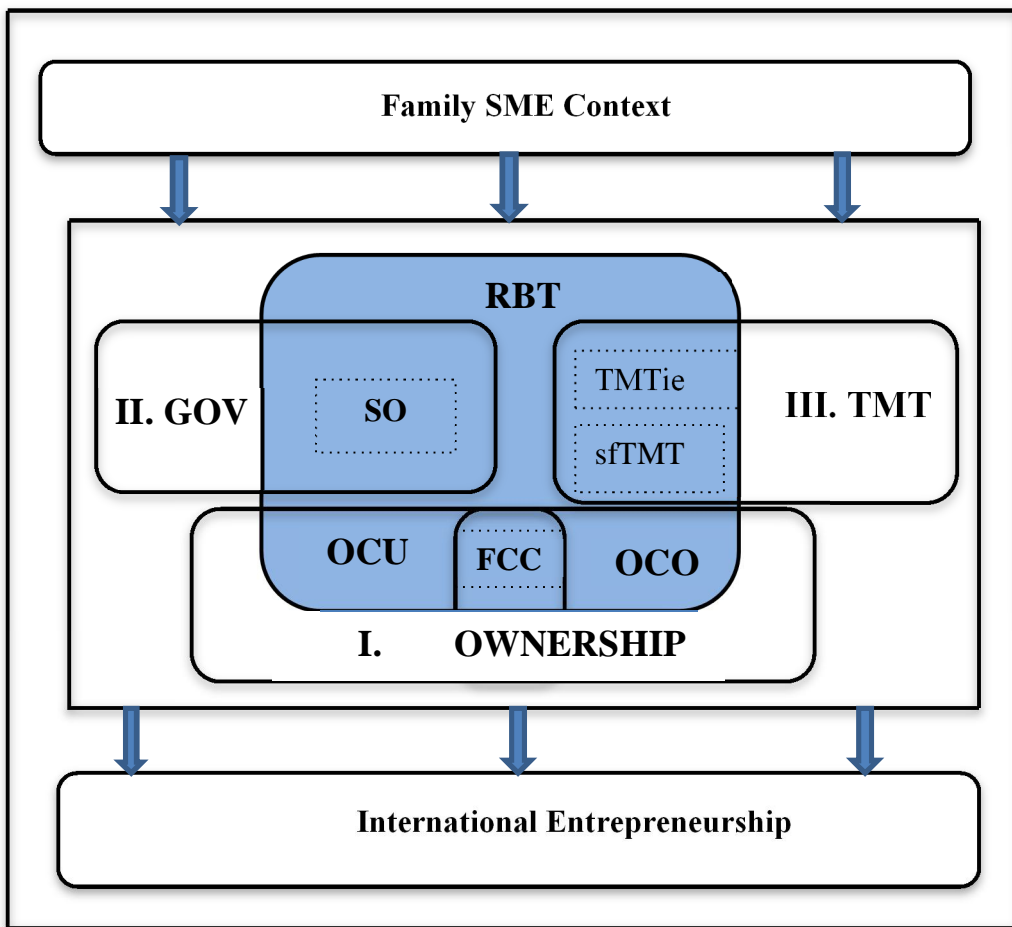
FB context that may lead to competitive advantage/disadvantage (e.g. Habbershon & Williams 1999; Habbershon, Williams & MacMillan 2003; Zahra, Hayton & Salvato 2004; Carney 2005; Klein, Astrachan & Smyrnois 2005; Chrisman et al. 2005; Eddleston, Kellermans & Sarathy 2008; Rutherford, Kuratko & Holt 2008).

Table 1. Definitions of key terms of this study

Key term	Definition	Sources
Family SME (FSME)	A family business can be conceptualized as a small and medium-sized enterprise that belongs to a family with one or more family owners in managerial positions. In addition, the firm must view itself as a FB.	Fernández & Nieto 2006: 345; Casillas, Moreno & Barbero, 2010: 9).
Small and medium sized enterprises (SMEs)	Companies classified as SMEs are those companies having fewer than 250 employees and having an annual turnover of up to 50 million euro, or a balance sheet total of no more than 43 million Euros.	European Commission 2005
Internationalization	Can be defined as the process of adapting firms' operations (strategy, structure, resource, etc.) to international environment	Calof & Beamish 1995: 116
Stewardship orientation	Can be defined as employee orientation, customer orientation and long-term orientation in FSMEs	adapted from Miller et al. 2008
Familiness	Can be defined as the summation of the resources and capabilities in a given FB.	Habbershon & Williams 1999: 11
Organizational culture	can be defined as the pattern of basic assumptions that a given group has invented, discovered, or developed in learning to cope with its problems of external adaptation and internal integration, a pattern of assumptions that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems	Schein 1995: 222
Organizational commitment	defines commitment as an affective attachment to the goals and values of an organization, to one's role in relation to goals and organization for its own sake	Buchanan 1974: 533
Family commitment culture	The extent to which the values of the business and family overlap, as well as the family's commitment to their business	Astrachan, Klein, & Smyrnois, 2002; Klein, Astrachan, & Smyrnois, 2005; Zahra et al. 2008: 1042
Strategic flexibility of TMT	The degree to which a functionally diverse top management is willing to change its strategy in response to opportunities, threats, and changes in the environment	Barringer & Blue-dorn 1999; Zahra et al. 2008; Boeker & Wiltbank 2005

The study theoretically explores stewardship theory, one of the governance theories, and empirically explores stewardship orientation, which is expected to shed more light in our understanding of stewardship orientation (Zahra et al. 2008) and its relationship with internationalization. The study empirically investigates the

softer dimension of ownership “family commitment culture”. Theoretically, organizational culture and organizational commitment theories are incorporated to examine family commitment culture in FSMEs. In addition, this study covers the upper echelon theory (e.g. Hambrick & Mason 1984; Finkelstein & Hambrick 1990; Hambrick 1994; 2007; Tihanyi et al. 2000; Reuber & Fisher 2002; Carpenter et al. 2004; Ensley & Person 2005; Kellermanns & Floyd 2005) as it deals with top management team (TMT) issues such as TMT industrial experience and strategic flexibility of TMT. It will empirically explore TMT industrial experience and strategic flexibility of TMT. Stewardship orientation and family commitment culture can be taken as culture/orientations (see Figure 1).



Key: RBT= Resources Based Theory; Gov = Governance; SO= Stewardship Orientation; TMT = top management team (upper echelon; strategic management); sfTMT= Strategic Flexibility of TMT; TMTie= Industry experience of top management team; OCU= Organizational Culture; OCO= Organizational Commitment; FCC = Family Commitment Culture

Figure 1. Theoretical positioning of the study

Examining these typical behaviors FSMEs will help us to understand the internationalization of FSME. In order to discuss the positioning of this study, it will be important to point out what were emphasized and what were the findings in earli-

er studies in internationalization of FB (see Table 2). In the extant FB internationalization, early studies were theoretical in nature. Gallo and Sveen (1991) focused on influencing/restraining factors for internationalization, which are deemed to affect a company' ability to change such as 1) strategy and general objectives; 2) organizational structure and systems; 3) company culture; 4) development stages of the company; and 5) family international characteristics. Similarly, Swinth and Vinton (1993) pointed out that the strategic advantage of FBs in international joint ventures (IJVs) that is their commonalities extend across several key areas of business: strategy, control, management and culture. Table 2 shows the focus of previous studies.

Table 2. Focus of past studies on the internationalization of FSMEs

Focus of Previous Studies		Sources
Internationalization Behavior and Internationalization Strategies	Facilitating/Constraining factors; motivation/propensity/intensity to internationalize	Gallo & Sveen 1991; Swinth & Vinton 1993; Okoroafo 1999; Graves & Thomas 2004;Crick, Bradshaw & Chaudhry 2006; Larimo 2011
	International entrepreneurship (risk perception and opportunity recognition and role of internet)	Davis & Harveston 2000; Thomas & Graves 2005; Casillas & Acedo, 2005; Claver, Rienda & Quer (2008); Sciascia et al. 2012; Kontinen & Ojala 2011b
	International pathways, entry modes, psychic distance, and international commitment	Pinho 2007;Claver, Rienda & Quer 2007; 2008; 2009; Graves & Thomas (2008); Kontinen & Ojala(2010b Kontinen & Ojala 2011a,b
Resources and Capabilities	Organizational culture	Gallo & Sveen 1991; Swinth & Vinton 1993; Segaro 2012
	Managerial capabilities and organizational knowledge	Casillas & Acedo 2005;Graves & Thomas 2006; Basly 2007; Segaro 2012
	Survivability capital, patient capital	Graves & Thomas 2008; Segaro 2012
	Networks and social capital	Yeung 1999; Kontinen & Ojala 2011a,b,c; Segaro 2012
Ownership and Management	Ownership (family ownership, types of ownership, levels of ownership)	Gallo & Sveen 1991; Swinth & Vinton 1993; Zahra 2003; Casillas & Acedo 2005; Fernández & Nieto 2005; 2006; George, Wiklund & Zahra 2005; Sciascia et al. 2012; Segaro 2012
	Generational Stages	Gallo & Pont (1996); Okoroafo 1999; Yeung 2000; Menéndez-Requejo 2005; Claver, Rienda & Quer 2007; Segaro 2012
	Socio-emotional wealth	Gomez-Mejia, Makri & Kintana (2010)
	Governance, Strategic leadership/top management	Swinth & Vinton ; Zahra (2003);George et al. (2005); Graves & Thomas 2008; Calabro, Mussolino & Huse 2009; Segaro 2012

On strategy, Gallo and Sveen (1991: 183) pointed out that on one hand, it could become a source of rigidity when FBs often follow strategies that are narrowly focused on customer needs in local markets. On the other hand, as a facilitating factor, strategy can become a long-term character to a typical FB. Furthermore Gallo and Sveen (1991) argued that FBs are more likely to pursue opportunities

with potential for long-term stable outcomes because they value stability over dynamic growth risk strategies. In a theoretical paper, Segaro (2012) also explores the role of strategic flexibility in the internationalization of FSMEs. In their comparison of the managerial capability of FB with non-FB, Graves and Thomas (2006) find that FBs internationalize with smaller top management team. Graves and Thomas (2006) further point out that despite having less managerial capabilities when compared to non-FBs, FBs were still able to achieve a high degree of internationalization. One possible reason they provide is that FBs might utilize their limited managerial capabilities more effectively in managing and leveraging their resources compared to their nonfamily counterparts. Larimo (2011), in his study regarding the export behavior, growth and performance of SMEs when comparing FBs with non-FBs, finds that both family and non-FBs motivation for expansion abroad emanated from management's interest in international expansion.

Empirical studies have not yet examined what types of top management team facilitate or constrain internationalization of FSMEs. To date, there seems to be little attention paid to the role of strategic flexibility of top management team in FSMEs. To my knowledge, this is one of the first studies to quantitatively explore the role of strategic flexibility of TMT that is top management team composed of heterogeneous functional background on internationalization in FSME context.

On ownership, FB literature on internationalization has increasingly looked at the role of family ownership (e.g. Zahra 2003), types of ownership (e.g. Fernández & Nieto 2006), levels of ownership (e.g. Sciascia et al. 2012). So far, the role of the "softer dimension" of ownership namely organizational culture and internationalization in FBs has not received enough attention. Although, the role of organizational culture has been explored theoretically in FB internationalization literature (e.g. Gallo & Sveen 1991; Kets de Vries 1993; Swinth & Vinton 1993; Segaro 2012) as one of the key facilitating/restricting factors, it has not been adequately explored empirically.

Regarding organizational culture, Gallo and Sven (1991: 186) point out that if a family places excessive emphasis on certain part of the culture, it could become a restraining force on internationalization. Similarly, Swinth and Vinton (1993) point out that FBs can gain strategic advantage by building management systems based on trust and loyalty, a potential inherent characteristics in many (though not all families). In one of the first empirical study, Gallo and Pont (1996) point out that the strategic orientation of FB's in targeting their product for the local market, when coupled with inadequate level of technology seems to be the principal cause of the perception of rigidity towards internationalization. Kets de Vries

(1993: 61) points out some of the advantages of family controlled firms as long-term orientation, greater independence of action such as less or no pressure from stock market, family culture with strong identification/commitment/motivation, greater resilience in hard times, and greater flexibility with quicker decision making.

Though Gallo and Pont's (1996) study examines the strategies of FBs in choosing to be domestic oriented or not, the role of the underlying the organizational culture that may contribute to domestic orientation in FBs has not yet been examined. Zahra et al. (2008) finds a positive relationship between family commitment culture and strategic flexibility in general. But in the international business context, would family commitment culture be a facilitating or an inhibiting factor? In other words, does it contribute to FB's domestic orientation or international orientation? Though these earlier theoretical works (e.g. Gallo & Sven 1991; Swinth & Vinton 1993) with an exception of one empirical study (e.g. Gallo & Pont 1996) explored the role of strategy and culture, later empirical studies seem not to pay enough attention to these issues. The role of organizational culture and more specifically the role of family commitment culture in the internationalization of FSMEs has not been empirically investigated.

In internationalization of FSMEs, stewardship perspective has been used to explain why family ownership is associated positively to internationalization (e.g. Zahra 2003), or why moderate level of family ownership can be associated positively to internationalization (e.g. Sciascia 2010). To date, however, stewardship orientation as a construct has not been explored in internationalization of FSMEs literature, to my knowledge, at least quantitatively. This study makes an effort to measure stewardship orientation by relying on Miller et al. (2008: 53-57) conceptualization of the three pillars of stewardship where there is unusual devotion to the continuity of the business. Secondly, there is more emphasis placed in nurturing of a community of employees. Thirdly, there is a seeking out of closer connections with customers to sustain the business. This study labels the three pillars as customer orientation, employee orientation, and long-term orientation. Thus, this study makes a contribution, in enhancing our knowledge regarding the role of stewardship orientation in internationalization of FSMEs.

Gallo and Pont (1996) find that FBs tend to internationalize when generations following the founder have been incorporated. According to Gallo and Pont (1996), this is because later generations tend to be better trained in international matters and they look for responsibilities such as internationalization which were not covered in the previous FB structure. Similarly, Okoroafo (1999) finds that if FBs do not internationalize by the first or second generation, they are unlikely to

internationalize their businesses. Yeung 's(2000) study on the limits to the growth of FBs based on the case of Chinese Transnational corporations from Hong Kong, emphasizes the role of successor qualities in the internationalization of FBs from Hong Kong. More specifically, Yeung (2000) points out the impact of pre-succession grooming of future successors on internationalization. Yeung (2000) finds that as part of their grooming future heirs, FBs may expand their business abroad. Expansion abroad provides their heirs with a place away from home country, whereby successors are able to develop their decision-making abilities while not compromising their reputation and trust. Thus incorporating successors in top management team (TMT) and more specifically in the decision-making process early on in FSMEs (e.g. Royer et al. 2008) will increase the level of their industry experience for the time when successors takeover the business from the previous generation. Thus, to find out what aspects typical to FSMEs in relation to ownership, TMT and governance determine FSME internationalization, we may need to look at the industry experience of their top management team.

On networks, Yeung's (2000) finding illustrates how transnational networks of personal and business relationships are activated to ensure sustainable growth of Chinese FB. All operations with only some exceptions were established through joint ventures with reputable local business people or families. The study further shows how complex ethnic relationships facilitate internationalization. According to Yeung (2000), Chinese FBs' capabilities and competitiveness is their transnational networks of personal and business relationships. To date even though, there has been studies that have examined the role of social capital (e.g. Kontinen & Ojala 2011a; Segaro 2012) or networks (Kontinen & Ojala 2011b; 2011c) that may contribute to internationalization, as mentioned earlier, the role of industry experience of top management team among FBs, has not yet been explored empirically, except Graves and Thomas's (2008) study.

Graves and Thomas's (2008) study compared the managerial capability of FBs and non-FBs. Thus, Graves & Thomas's (2006) study did not particularly examine the differences in internationalization among FSMEs in relation to industry experience of TMT. Casillas and Acedo's (2005) study empirically tested for a direct negative relationship between CEO's training and experience and perception of risk. Their study did not confirm the predicted negative relationship. Early studies in international business (IB) have indicated the role of international experience of top management team on internationalization (e.g. Reuber & Fisher 1997; Nielson & Nielson 2011).

Thus, industry experience of top management team in FB may help us understand the variation in internationalization in FSMEs. Industry experience of TMT may

not only be limited to developing relationships and networks in a given industry, but the more TMT members have industry experience, it is more likely that they may accumulate knowledge on what works and what does not. In addition, with more industry experience, they may accumulate slack resource (e.g. Lin & Liu 2012) that allows them to be engaged in a greater experimentation with new strategies and involvement in innovative projects (Nohria & Gulati 1996) that they may utilize in foreign markets. Slack is potentially utilizable resources that can be diverted or deployed for the achievement of organizational goals. These resources vary in type (e.g. social or financial capital) and form (e.g. discretionary or non-discretionary) (George 2005: 661).

Organizational slack serves as a buffer that allows the firm to adjust to dramatic shifts or discontinuities in the environment with minimal trauma and also as a catalyst that enables the firm to initiate new strategic postures in response to environmental changes (Tseng et al. 2007: 964–965). Thus, industry experience of top management team may free up organizational resources that can be deployed for strategic renewal activities such as internationalization (see Figure 2).

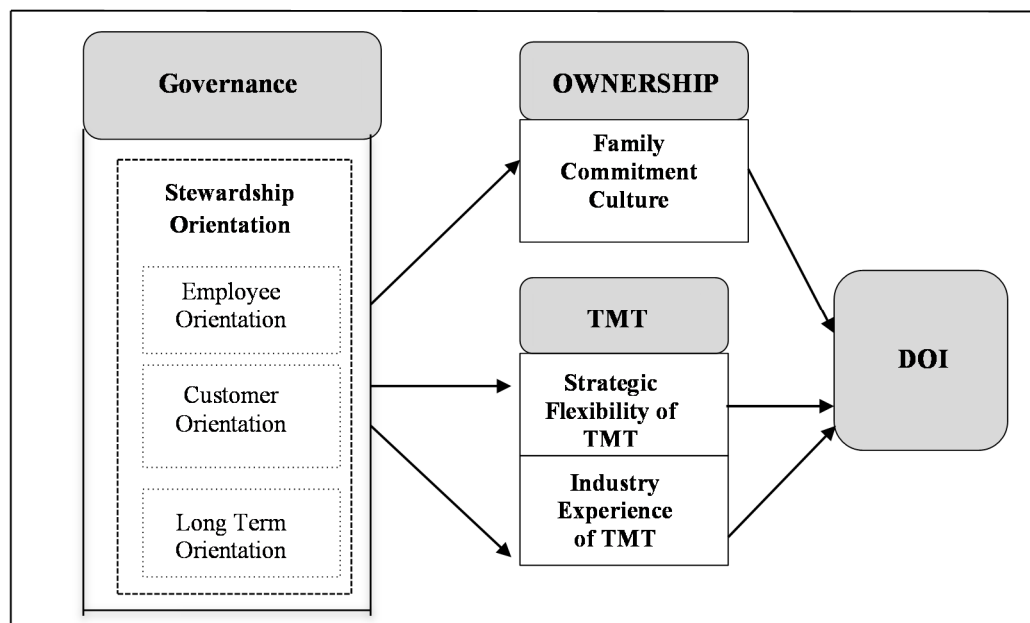


Figure 2. The focus of the current study

If we take the stewardship perspective, in a stewardship oriented FSME, slack resource may contribute greater flexibility to be parsimonious in decision-making, resulting in experimentation by the founder or previous generation with industry

experience in TMT, which may in turn, result in increased expansion abroad. Alternatively, successors in FBs with industry experience, when they become part of TMT, through time, the FB may develop slack resource. Putting all these together, in stewardship oriented FSMEs, founders, previous generation, or successors, may experiment with new strategies including implementing strategic change (e.g. Hall 2003), which may result in internationalization of the FB. Thus, the focus of this study is to explore the relationship between ownership (family commitment culture), governance (stewardship orientation), and top management team (TMT industry experience and strategic flexibility of TMT) and internationalization.

The main contribution of this study is to both academicians and practitioners. As mentioned earlier, as FSMEs are heterogeneous (Sharma 2003: 2; Westhead & Howorth 2007: 407), the different “types” of FSMEs in relation to their difference in their ownership, governance, and TMT, is expected to open up our understanding of what determines the degree of internationalization in FSMEs. First, this study advances and tests the relationships among the main constructs that articulate the influence of ownership, governance, TMT on the degree of internationalization.

This study contributes to the theory of internationalization of SMEs in general and FSME internationalization in particular. Secondly, as it examines the interrelationship among the key constructs of this study, it contributes to governance literature and strategic management literature. Thirdly, this study contributes to RBT and more specifically to RBT in the FB context known as “familiness” of the FB in FSMEs literature. To my knowledge this is the first study that looks at these constructs together quantitatively and their interrelationship amongst them and their potential link to the degree of internationalization in FSMEs. Finally, in general, it can also be seen as contributing to the study of the growth of SMEs literature. Thus the main contribution of this study is to both academicians and practitioners. As mentioned earlier, as FSMEs are heterogeneous (e.g. Sharma 2003: 2; Westhead & Howorth 2007: 407), the different “types” of FSMEs in relation to their difference in their ownership, governance, and TMT, is expected to open up our understanding of what determines the degree of internationalization in FSMEs.

1.6 Scope of the Study

In terms of the scope for this study, the triggers, pathways, pace of internationalization for FSMEs is not directly included in this study in the empirical section though there is a discussion on these topics in the theoretical section of the dissertation. Related to ownership, it emphasizes, the need to look at the softer dimen-

sion of ownership “family commitment culture”, instead of examining the types of ownership (Fernández & Nieto 2006) or levels of ownership (e.g. Sciascia et al. 2012). In addition, the inward internationalization (e.g. import activities) is not the focus of this study. The empirical section mainly deals outward internationalization.

In this study, the main focus will be on the determinant factors of FSME internationalization. More specifically by focusing on ownership, governance and TMT, this study focuses on issues such as family commitment culture, stewardship orientation, strategic flexibility of TMT and industry experience of TMT. Thus, marketing, technological and other related issues are not tested directly or are not directly addressed in this study. However, the stewardship orientation construct is reflected by three dimensions namely employee orientation, customer orientation, and long-term orientation, which is tested empirically as a prerequisite for entrepreneurial activity such as internationalization. This study also recognizes that there are potential agency relationships in FBs. However, the focus is on those FSMEs, which may exhibit stewardship orientation and how their stewardship orientation may determine the internationalization of FSMEs.

1.7 Structure of the Dissertation

This dissertation is structured into six main chapters. The structure of this dissertation is presented in the Figure 3. The first chapter provides the introduction to the topic of internationalization of FSMEs with the focus on ownership, governance and TMT issues. The second chapter presents the theoretical review of this study. The third chapter provides the theoretical framework of this study including hypotheses and a model for this study. The fourth chapter presents the methodology of this study data collection details, type of quantitative study conducted with operationalization of the construct, and reliability and validity. The fifth chapter provides the empirical results for this study. This chapter mainly discusses the descriptive statistics of the sample firms, validation of the measurement model and the structural model, the overall results this study. The six chapters provide the discussion and conclusion of this study. This chapter mainly provides summary and findings of the study. Limitations of this study, managerial implications and policy implications are provided in this section. Finally, direction for future studies are indicated.

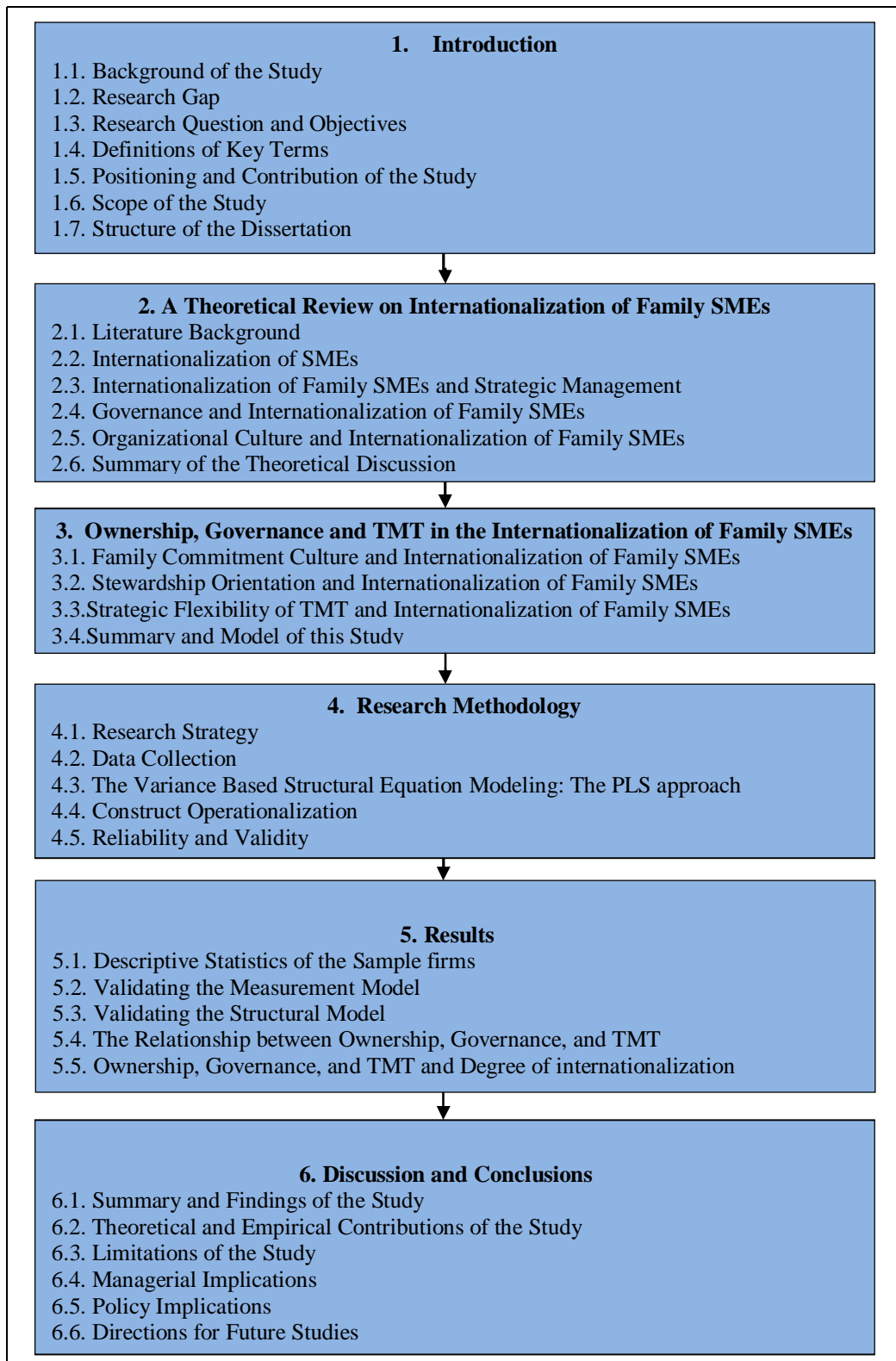


Figure 3. Structure of the dissertation

2 THEORETICAL REVIEW ON INTERNATIONALIZATION OF FAMILY SMALL AND MEDIUM SIZED ENTERPRICES

This study draws its theoretical underpinnings from several internationalization theories/approaches, resource based theory, stewardship perspective, and the upper echelon theory. First, the theoretical review on internationalization of family SMEs (FSMEs) will provide a brief literature review. Secondly, internationalization of SMEs in general will be discussed. In this section, internationalization theories/approaches will be covered. More emphasis is paid to theories or approaches, which have been utilized by internationalization of FSMEs literature. As a continuation of the discussion on the internationalization of the firm in general, critique to the theories/approaches in internationalization will be covered. Finally, in this chapter, internationalization of FSMEs will be discussed by taking strategic management, governance, and organizational culture perspective.

2.1 Literature Background

From the outset, it would be important for us to ask the question: what do we mean when we refer to a business as a FB? A number of scholars have provided different definitions for FB (Litz 1995; Sharma, Chrisman & Chua 1997; Westhead & Cowling 1998; Sharma 2004). However, there is no concise, measurable, and widely accepted definition of FB (Littunen & Hyrsky 2000: 41; Astrachan & Shanker 2003: 211). Nevertheless, what makes a FB different is considered to be the family involvement in ownership and management (Chua, Chrisman & Sharma 1999: 20). Consequently, by adopting Fernández and Nieto's (2006) definition of a FSME, a FB can be conceptualized as a small and medium-sized enterprise that belongs to a family with one or more members in managerial positions. In addition, the firm must view itself as a FB (e.g. Casillas, Moreno & Barbero, 2010: 9). Earlier studies emphasized the interface between the family and the business (e.g. Ward 1988). The first study to introduce the systems theory utilized by FBs was Taguiri and Davis (1982/1996). The most widely used conceptual model of the FB is the systemic view of FB depicted by three circle model (see figure 4). The three circle model describes FB systems as three independent but overlapping subsystems: ownership, business, and family (e.g. Gersick et al. 1997; Distelberg & Sorenson 2009).

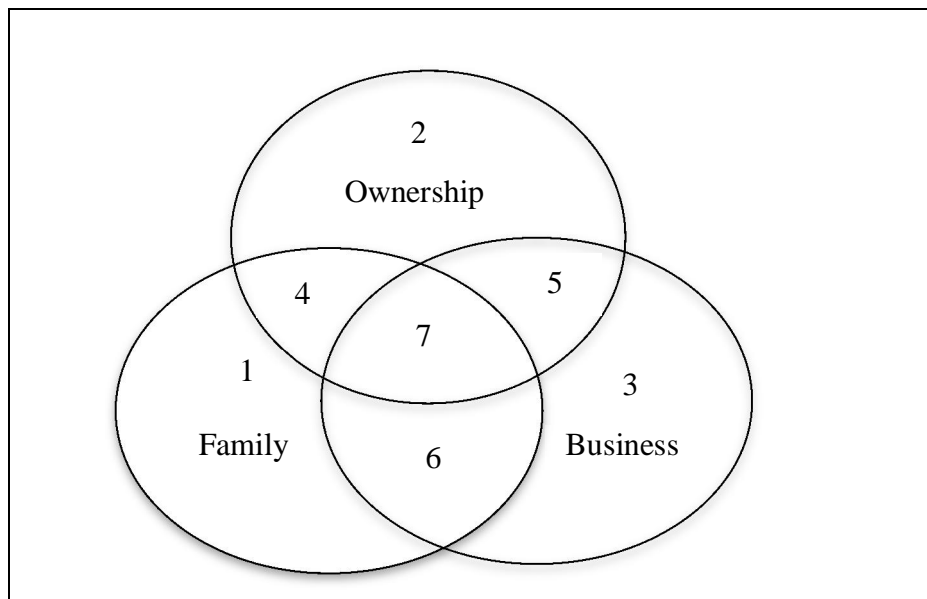


Figure 4. The three-circle model of family business (Source: Gersick, Davis, McCollom & Lansberg 1997: 6)

According to the three circle model of family business (FB), any individual in a FB can be placed in one of the seven sectors that are formed by the overlapping circles of the systems. A family member who is not working in the business and is not part of the ownership is represented by number one. A family member who is an owner but is not an employee is represented by number four. A family member who works in the business but is not part of ownership is represented by number six. A family member who works in the business and is part of ownership is represented by number seven. A shareholder who is not a family member and who is not an employee is represented by number two. A shareholder who is working in the business but is not part of the family is represented by number five. An employee who is not a shareholder and is not member of the family is represented by number three. Gersick et al. (1997) argue that the three-circle model of FB is a useful tool not only for theory but for practice. They suggest that as it makes it easier to conceptualize the source of interpersonal conflicts, role dilemmas, priorities, and boundaries in FBs by enabling the depiction of each participant's position in the three circles model.

A more recent study by Distelberg and Sorenson (2009) suggests the need to update the systems concepts in FBs. Distelberg and Sorenson (2009) argue that a focus on values, resource transfers, goals, and adaptation in systems theory of FBs has many advantages. First, this lens provides a broad definition of FBs un-

like earlier studies focus on typologies based on solely on roles and ownership structure. Second, this conceptualization of FBs adds the interactions of individuals by accounting for interactions between group-level systems and the surrounding environment. Finally, it allows the FBs to define themselves.

Taking all these together, this study takes the view that the family in family business, not only in ownership but also in leadership may have implications for the internationalization of FSMEs. As FSMEs are heterogeneous (Sharma 2003: 2; Westhead & Howorth 2007: 407), TMT may not only be composed of family members but also non-family members as also depicted in Gersick et al.'s (1997) three-circle model of family business. Furthermore, FBs define themselves whether they consider the business as a FB or not (Casillas, Moreno & Barbero, 2010: 9). As suggested by Distelberg and Sorenson (2009), this study also emphasizes the role of FB culture. FB culture has as its core the FB values, which can be viewed as the interface of both the values of the business and the family. In relation to resources, this study also takes the resource based theory of FB. It explores the role of "family commitment culture" and stewardship orientation, and the industry experience of top management team, taken as resources of the firm, in the internationalization of FSMEs. It also explores the strategic flexibility of top management team on the internationalization of FSMEs.

As FBs are heterogeneous (Sharma 2003: 2; Westhead & Howorth 2007: 407), they can be organized in terms of ownership as a cousin consortium, sibling partnership or controlling ownership (see figure 5). They may begin with controlling owner as in founding/first generation and move on to sibling partnership in the second generation and then finally may be organized as cousin consortium. However, the order can be vice versa or in any form. But depending on how they are organized, FBs may face different governance challenges that may have not only performance implications but also expansion abroad. On the one hand, the more actors are involved in the business venture; it is more likely that they will bring in their own set of skills, experience, and capabilities to the FB (Danes et al. 2009). On the other hand, when more actors are involved, it is more likely that top management team integration challenges pertaining to cohesion vs. conflict may be prevalent (Ensley & Pearson 2005). It is argued in this study, conflict by itself may not be a sign of dysfunctional FB relationship. It is important to distinguish between relational conflict vs. task conflict (Ensley & Pearson 2005, Nodqvist 2005). Due to a constant pull towards cohesion (Ensley & Pearson 2005; Nodqvist 2005) and a push for strategic confrontation in TMTs (Kellermanns & Floyd 2005), FBs may need to make choices to either be committed to their current business practice (Zahra et al. 2008) or to adapt their strategy to their environment (Calof & Beamish 1995). Strategic confrontation that may result in stra-

tegic change (Hall 2003), for instance, from domestic orientation to international orientation may, may require different sets of skills, experience, and capabilities in top management.

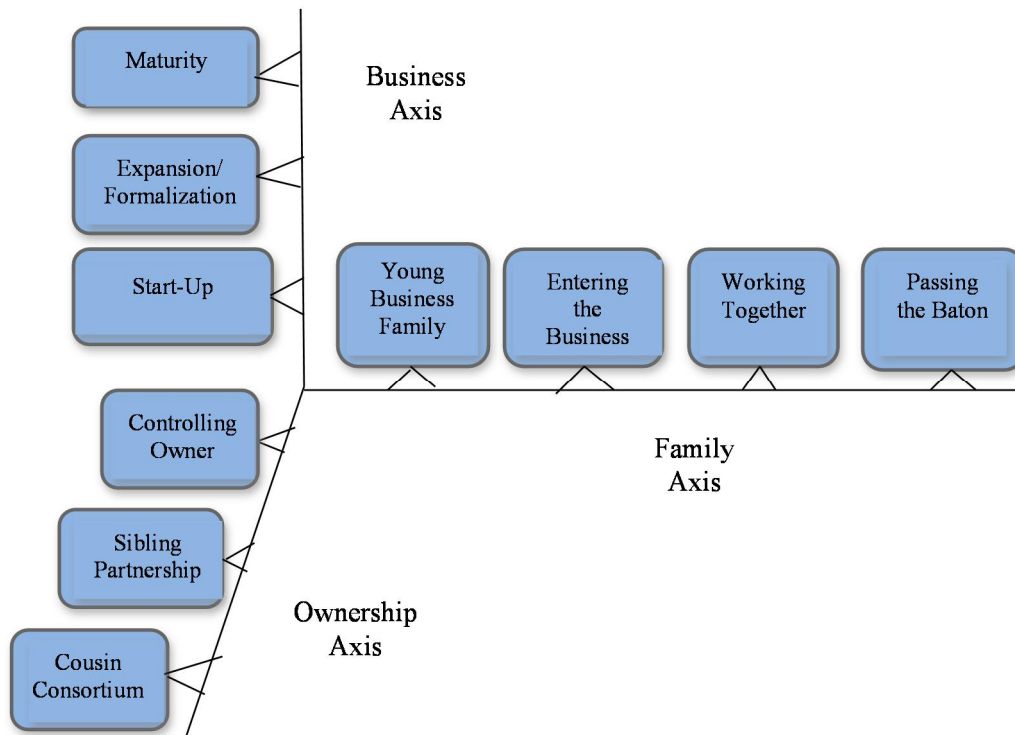


Figure 5. The three-dimensional development model (Source: Gersick, Davis, McCollom & Lansberg 1997: 17)

In relation to their business development, FBs can be at a start-up phase, expansion/formalization, and maturity phase. In relation to the family development, they can be a young business family or have just entered the business. Alternatively, they can also be in the working together phase or they may transfer the business to the next generation phase (see figure 5) (Gersick et al. 1997: 17). Consequently, when studying FBs and their internationalization their heterogeneity needs to be taken into account (e.g. Sharma 2003: 2; Westhead & Howorth 2007: 407). Taking the view of human capital, the more managerial experience, skills, and knowledge, they acquire that is they are in maturity phase, it is more likely that they will consider expansion abroad (Kamakura, Ramón-Jerónimo & Gravel 2011).

Internationalization of FBs is increasingly receiving attention in FB internationalization literature (e.g. Gallo & Sveen 1991; Swinth & Vinton 1993; Gallo & Pont 1996; Okoroafo 1999; Yeung 1999; 2000; Davis & Harveston 2000; Zahra 2003; Graves & Thomas 2004; 2006; 2008; Casillas & Acedo 2005; Fernández &

Nieto 2005; 2006; George, Wiklund & Zahra 2005; Menéndez-Requejo 2005; Thomas & Graves 2005; Crick et al. 2006; Basly 2007; Pinho 2007; Claver et al. 2007; 2008; 2009; Calabró et al. 2009; Sciascia et al. 2012; Gomez-Mejia, Makri & Kintana 2010; Kontinen & Ojala 2010a,b; Kontinen & Ojala 2011a,b,c; Segaro 2012). FB internationalization studies have examined the process of internationalization in FBs. These studies have found an incremental process of internationalization, supporting the Uppsala's incremental/stage's model of internationalization (Graves & Thomas 2008), the role of psychic distance (Kontinen & Ojala 2010b) and born-again internationalization (Graves & Thomas 2008). The network approach (Basly 2007; Kontinen & Ojala 2011 b, 2011c) has also been utilized to explain the internationalization of FSMEs. The role of resources and capabilities in the internationalization of FBs has been studied (e.g. Menéndez-Requejo 2005). The role of social capital has also been explored theoretically (Segaro 2012) and empirically (Kontinen & Ojala 2011a).

Other studies have also looked at what determines the internationalization of FSMEs and have looked at the relationship between ownership and degree of internationalization (Zahra 2008; Graves and Thomas 2008; Sciascia et al. 2012). But before discussing the internationalization of FSMEs in more detail, the next section will present internationalization theories and approaches in the extant literature. It will then discuss the critique on the theory of the internationalization of SMEs. As indicated earlier in the introduction section, FSMEs were found to be different from non-FSMEs. Thus, this study will discuss internationalization of FSMEs and identify the factors that differentiate among FSMEs in their internationalization.

2.2 Internationalization of SMEs

Internationalization theories endeavor to explain how and why firms engage in overseas activities and more specifically how the dynamic nature of such behavior can be conceptualized (Morgan & Katsikeas 1997: 71). There are different theories and approaches on the factors influencing internationalization. The two main streams of theories in internationalization process are based on the economic school and the behavioral school (Coviello & McAuley 1999; Andersson 2004: 851-875). From the economic school, eclectic theory is the dominant theory, which combines economic theories of monopolistic competition, location, and transaction costs (Johanson & Vahlne 1990:11). According to the eclectic paradigm, the main determinants of FDI are ownership advantages, location advantages, and internalization advantages (OLI) (Dunning 1980; 1988; 1995; 2001; 2002). The behavioral school consisted of Aharoni's foreign investment decision

processes in multinational firms, incremental stage models (e.g. Uppsala's model) of internationalization, and innovation related models (Aharoni 1966; Johanson & Wiedersheim-Paul 1975; Bilkey & Tesar 1977; Johanson & Vahlne 1977; Reid 1981, Welch & Luostarinen 1988). More recently, international entrepreneurship theory is increasingly utilized to explain the behavior of firms that internationalize their business not incrementally but within a short time period from inception (usually within three years) and proceed to utilize higher commitment entry modes from the outset (McDougal & Oviatt 1994; 2000; 2005; Jones et al. 2011).

Previous research on internationalization of SMEs indicates that internationalization decision is affected by a range of factors related to the entry decision, such as entry mode, entry timing, product/service adaptation, and network partners (Cavusgil & Zou 1994; Zahra, Ireland & Hitt 2000; Autio, Sapienza & Almeida, 2000; Lu & Beamish, 2001; Reuber & Fischer 2002). In addition, there are also contextual factors such as environment and firm-specific resources and capabilities (Reuber & Fischer, 1999; McDougal, Oviatt & Shrader 2003). Internationalization strategy of firm's requires different theories to explain internationalization of firm's behavior in different situations. Those who are in the early stage of internationalization differ from those who are more experienced international firms. In addition, what firms in mature industries face is much more different than what firms in growing industries experience (Andersson 2004). Thus, it would be pertinent to incorporate different theories and approaches in the internationalization of the firm relevant to our understanding of the internationalization of FSMEs.

Consequently, this study draws from different internationalization theories and approaches pertinent to the study of the internationalization of FSMEs by considering the incremental approach, innovation model of internationalization, eclectic theory, international entrepreneurship and the networking approach. The next section will discuss the different internationalization theories and approaches pertinent to the internationalization of FSMEs. Then, it will provide a critique on the theory of the internationalization of SMEs. Finally it will also cover the internationalization of FSMEs.

2.2.1 Internationalization theories and approaches

As described earlier in the beginning part of this chapter, there are different theories and approaches that attempt to describe and explain the internationalization process of firms. In this study it would be important to identify these theories and approaches that may explain the internationalization of firms in general. In this section, first, a discussion on one of the economic school's theories, the FDI theory is provided. The main emphasis in discussing the FDI theory will be on the

eclectic paradigm as it has received support in the FB internationalization literature (e.g. Zahra 2003). It then moves on to cover the incremental stage models (e.g. Uppsala model), which is also more commonly known as the establishment chain/stage models of internationalization (Coviello & McAuley 1999). In addition, it discusses the innovation model of internationalization (I Models). The role of knowledge and experience before venturing abroad is the emphasis. As an extension of the incremental theory, the network approach of internationalization is covered. Finally, the international entrepreneurship literature is discussed. The emphasis in international entrepreneurship will be on what aspect typical to family SMEs may determine their expansion abroad.

Foreign Direct Investment (FDI) Theory

The importance of international trade to a nation's economic welfare and development has been extensively documented by several studies (e.g. Morgan & Katsikeas 1997). However, a number of scholars have attempted to address limitations of international trade theories under FDI theory and have focused on the firm (Morgan & Katsikeas 1997; Andersson 2004). Some of the widely utilized theories on FDI are market imperfection theory (e.g. Hymer 1960/1976), international production theory (e.g. Dunning 1980; Cantwell 2000); and internalization theory (e.g. Buckley & Casson 1976). The general theory of FDI has developed from neoclassical and industrial trade theory which supports internalization of a firm's activities in international expansion (Coviello & McAuley 1994). For more than two decades, the eclectic paradigm (OLI) has remained the dominant analytical framework for testing determinants of FDI and foreign activities of multinational enterprises (MNEs) (Dunning 2002). Dunning's eclectic paradigm argues that there are three advantages, namely the ownership (O) advantages, the internalization (I) advantages, and the location (L) advantages, which together determine the level and structure of the firm's value added activities (Dunning 1993).

These three conditions need to be fulfilled, first, the extent to which the enterprise has sustainable ownership specific (O) advantage compared to foreign firms in a particular market it already serves or plans to serve. These (O) advantages could be intangible assets such as property rights (production innovations, production management, organizational and marketing systems and others) or common governance advantages (economies of scope and specialization, synergistic economies in production, purchasing, marketing, finance and others). These advantages are known as (O) advantages (condition 1). Secondly, if condition (1) is satisfied, the extent to which the enterprise considers to add value on its (O) advantages instead of selling or giving the right to use these advantages to foreign firms (li-

censing), is known as the internalization (I) advantages (condition 2). Thirdly, if condition 1 and 2 are satisfied, the extent to which the firm is served by creating, or utilizing its (O) advantages in a foreign location. The distribution of these uneven resources and capabilities is deemed to give location (L) advantage on the countries which have them than those which do not have them (Dunning 1993: 79–81.). Based on economic theory, the main assumption of the eclectic paradigm is rational decision-making in firms involved in FDI. The main explanatory variables of the eclectic paradigm are considered to be transaction cost and factor costs (Melin 1997: 77–78; Segaro 2007).

Incremental Stage Models of Internationalization

Incremental internationalization of the firm is most closely associated with the Uppsala model (Andersen 1993). The Uppsala model of internationalization draws its theoretical base from earlier works on behavioral theory of the firm such as Aharoni's work on the foreign investment decision process (Aharoni 1966: 3–26) and the theory of the growth of the firm (Penrose 1959). According to the Uppsala model of internationalization, firms gradually acquire, integrate and use knowledge about foreign markets and operations. Firms are expected to incrementally increase commitments to foreign markets (Johansson & Weidersheim-Paul 1975: 27; Johanson & Vahlne 1977: 43). The incremental stage models of internationalization views internationalization as occurring in stages and incrementally that is after exhausting domestic opportunities. The pace of internationalization is slow and gradual. Internationalization is taken as an interplay whereby firms incrementally build on their international market information and concurrently there is increasing commitment of resources to foreign markets.

Among the incremental stage models of internationalization, Johnson and Weidersheim-Paul (1975: 306–307) identified four different stages of entering the international market. In terms of entry modes, firms may begin from having no regular export activity. But move on to having export through independent representative (agent). Subsequently, they may set up foreign sales subsidiary. Finally, they may increase their commitment to foreign market by setting up foreign production/manufacturing. Compared to innovation models, which will be described later in this section, the Uppsala model is considered to be more general because it can be applicable to a wider variety of business sizes and foreign activities (Oviatt & McDougall 1997: 87). The basic assumption of the model is that the lack of knowledge about foreign markets constrains the development of international operations. Necessary knowledge can be acquired mainly through operations abroad (e.g. Johanson & Vahlne 1977, 2009, 2011).

Thus, firms are assumed to begin internationalization incrementally from low risk and low resource commitment entry modes by utilizing indirect methods (e.g. export agent) to utilizing high risk and high resource commitment entry modes (e.g. manufacturing in foreign markets). To begin their involvement from psychically close foreign markets to psychically far away foreign markets (e.g. Johanson & Wiedersheim-Paul 1975; Johanson & Vahlne 1977; Welch & Luostarinen 1988). Psychic distance can be described as the sum of factors preventing the flow of information from and to the home market. Perceived uncertainty pertaining to the outcome of a given action is expected to increase with physic distance (Johanson & Wiedersheim-Paul 1975: 307–308). Examples of psychic distance are different in language, culture, political systems, level of education, level of industrial development and others (Johanson & Wiedersheim-Paul 1975). The basic mechanism of internationalization for Uppsala model is shown in Figure 6. The incremental stage models of internationalization also includes the Nordic approach to internationalization besides the Uppsala model (e.g. Luostarinen's 1979/1980; Welch & Luostarinen 1988; Segaro 2007).

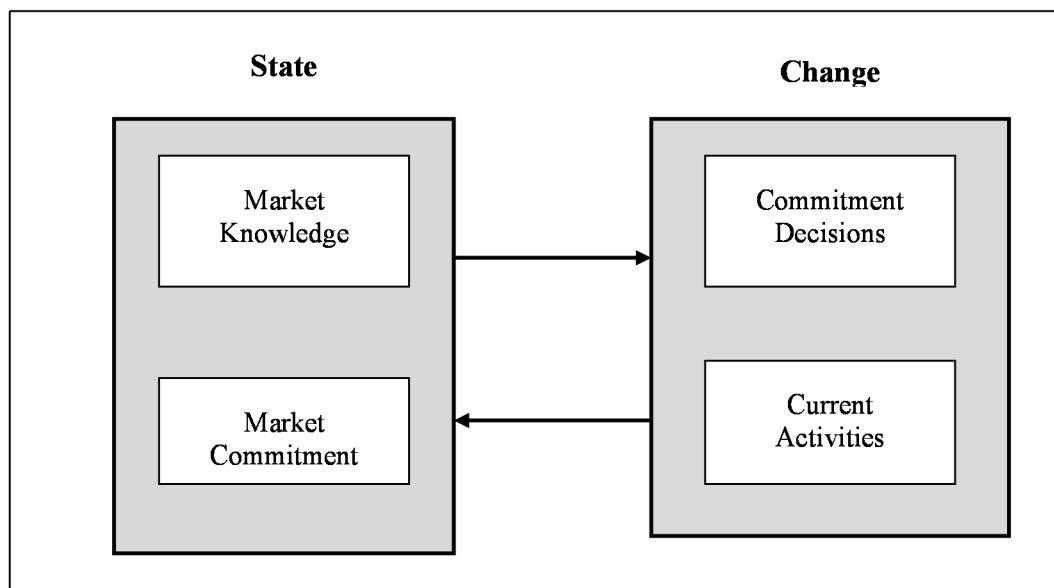


Figure 6. The basic mechanism of internationalization: State and change aspects (source: Johanson & Vahlne 1977: 26).

In the Nordic approach to internationalization, regarding motivation of firms to internationalize their operations, Welch and Luostarinen (1988: 92–95) argue that the ability to undertake any form of international operations is clearly limited by the resources that are accessible to the firm. In particular, resource availability for smaller firms is the main reason why lower commitment entry modes may be

used in the beginning and higher commitment entry modes may be used later on. They suggest that resource availability (physical and financial capacity of the firm) is the critical factor in the ability of the firm to conduct its international activities. Another critical factor that they identify for internationalization of the firm is the process of acquiring appropriate knowledge. Appropriate knowledge includes knowledge about foreign markets, techniques of foreign operation, ways of doing business and about key people in business organizations. Similarly, the Uppsala model depicts the process of internationalization as a consequence of the acquisition of experiential knowledge such as market specific knowledge (Clark, Pugh, and Mallory 1997: 165; Segaro 2007).

Consequently, Zuckerman and Biederman (1998: 2–3) suggest that there are a number of reasons why companies have not ventured abroad: lack of market demand, fear of the unknown, unfamiliarity with foreign cultures, cost factors, lack of knowledge on how to break into foreign markets and misinformation in regards to foreign markets. In contrast, Bonaccorsi (1991: 605) argues that empirical evidences challenge the widely held assumption in export marketing literature that firm size is positively related to export intensity (Bonaccorsi 1992). His study supports other findings, which claim that firm size has little or no influence on export intensity (export/total sales ratio). Bonaccorsi (1992: 128) argues that social capital of firms plays an important role in firm internationalization and thus their size may not have an adverse effect in their degree of internationalization (Segaro 2007).

In support of the incremental stage models of internationalization, Peterson and Pedersen (1997: 131) argue that the Uppsala model remains empirically unchallenged, and the fundamental ideal of incremental internationalization theory seems quite robust. Moreover, the authors contend that even though a number of studies have refuted or questioned the model in regards to its operational level, these studies have not taken enough attention to the inherent limitations of the model. On the other hand, besides the strategic organizational factors, contextual factors such as the industry and environmental factors may influence internationalization of a firm (e.g. Boter & Holmquist 1996). The term industry is used in most cases to categorize individual companies on the basis of a set of common characteristics mainly related to types of products, production technology, or market attributes (Boter & Holmquist 1996: 474). Conventional companies are in most cases production oriented and their business is based on an established technology that can be purchased through well-known market channels. Innovative companies, however, develop new products or serve as intermediary between research organizations and end users. Hence, such firms need close contact with people and organizations close to the technological core of the industry (Boter &

Holmquist 1996). In regards to the life cycle of industry, Andersson (2004) suggests that firms in early stage of internationalization in a mature industry can succeed by means of a slow, incremental, internationalization strategy (Segaro 2007).

In conclusion, though the environmental and industrial context besides strategic organizational context may influence the level of internationalization of SMEs. However, the focus of this study pertains to strategic factors than to environmental and industrial factors. This study relies on the resource-based theory of the firm as suggested earlier and thus mainly focuses on firm-specific factors. While Welch and Luostarinen (1988: 89) view internationalization as an evolutionary process of increasing involvement in international operations, Calof and Beamish (1995) suggest the use of a broader definition accounting for the decrease in involvement in international activities in the form of de-investment. Thus, *internationalization in this study is defined as “the process of adapting firms’ operations (strategy, structure, resource, etc.) to international environments* (Calof & Beamish 1995: 116).

Innovation model of internationalization (I Models)

In their study of the export behavior of smaller-sized Wisconsin manufacturing firms, Bilkey and Tesar (1977: 93) identified several stages for the export development processes of firms: Stage one consisted of a stage whereby management is not interested in exporting from the outset and hence, would not fill an unsolicited export order. Stage two consisted of management whereby would fill an unsolicited export order, but is not proactively exploring the feasibility of exporting (reactive exporter). Stage three consisted of management whereby is proactive and explores the feasibility of exporting (this stage can be skipped if unsolicited export orders are received). Stage four consisted of the firm whereby exports on an experimental basis to some psychologically close country. Stage five consisted of the firm whereby is an experienced exporter to the country it was exporting in experimental basis. Stage six consisted of management explores whereby the feasibility of exporting to additional countries, which are psychologically further away. However, predicting the time frame for transition from one stage to the next was difficult (Gankema, Snuif & Zwart 2000: 25). To mention some of the other innovation models, Czinkota (1982) identified six stages namely completely uninterested, partially interested, exploring firm, experimental firm, experienced small exporter, and experienced large exporter. Similarly, Reid (1981: 102–104) identified five stage export expansion of firms consisting of export awareness, export intention, export trail, export evaluation, and export acceptance (Segaro 2007).

In one of the previous studies on the internationalization of the firm, Rao and Naidu (1992: 166) finding confirms that there are identifiable stages in a firm's internationalization. *Non exporters* appear to be restricted by resource limitations and the lack of management's commitment to export market development. *Export intenders* require additional operational knowledge and assistance in entering into export markets. *Sporadic exporters* seem to vacillate about the balance of effort that should be put into export market compared to domestic market development. Finally, *regular exporters* seem to be well underway toward internationalization, allocating substantial resources to international marketing activity (Segaro 2007).

In their review of existing empirical models on export development process, Leonidas and Katsikeas (1996: 517–524) claim that no integrative review of empirical work exists regarding export development models in the extant literature. Leonidou and Katsikeas (1996: 518) argue that despite considerable research on export behavior, there is no comprehensive or widely accepted theory. Export development process can be divided into three broad phases such as pre-engagement, initial and advanced stage (Leonidou & Katsikeas (1996: 524). The pre-engagement phase consists three types of firms such as those selling their goods only in the domestic market and not interested in exporting; those involved in domestic market but are seriously considering export activity; and those that used to export in the past but do not export any more. In the initial phase, the firm is involved in intermittent export activity and considers various options. In this particular phase, companies can be classified as having the potential to increase their involvement in foreign market but unable to cope with the demands of exporting, which in turn could lead to marginal export behavior or even withdrawal from selling abroad. In the advanced phase, companies are regular exporters with extensive foreign market experience, and hence frequently consider more committed forms of foreign market involvement (Leonidas & Katsikeas 1996: 517-524). Export is defined “*as the transfer of goods and services across national boundaries using direct or indirect methods*” (Leonidou & Katsikeas 1996: 519). According to them, exporting is considered to be the most common foreign market entry mode for SMEs as they seek to avoid business risks, have limited resources, need high flexibility of action.

In a more recent study, Kamakura et al. (2011: 243–245) identified four states of internationalization as domestic state of pre-internationalization, early exporter (exporting exclusively to EU), advanced (exporting between two to three major regional markets) and global (engaged in exports in all four regions considered in the study).

International Entrepreneurship

The international entrepreneurship research stream has challenged many of the traditional theories on international business (Andersson 2004). International entrepreneurship (IE) is a research area at the intersection of international business (IB) and entrepreneurship theory with many important implications for international management, entrepreneurship, entrepreneurship and strategic management (Keupp & Gassmann 2009). It is, however, a young field with only a little more than two decades of development (Jones et al. 2011). While many established firms continue to internationalize incrementally (Johanson & Vahlne 1977/1990), other more dynamic and newly established firms are becoming international at founding or very shortly thereafter (Rialp et al. 2005: 148). Although the economic and the process view provide useful knowledge of the behavior of international firms, they do not, however, provide full explanations. Based on prior studies, firms' entrepreneurs were quite different and hence, they were found to influence the firm's international processes in different ways (Andersson 2000: 64).

In contrast to what the incremental/Uppsala model of internationalization predicts, there are firms that do not internationalize their business incrementally to psychically close markets after gaining increasing knowledge and experience. These firms have been referred to as international new venture (Oviatt & McDougal 1994) or born global (Rennie 1993). According to Oviatt and McDougal (1994: 49) international new venture is defined as a business organization, which from the inception seeks to gain significant competitive advantage by the use of resources and selling outputs in multiple countries. International entrepreneurship, however, is not only limited to international new ventures (INVs), as a recent review in the extant literature in IE indicates (e.g. Jones et al. 2011). In the recent review of the IE field, Jones et al. (2011), identify earlier studies focus to be on: a) venture type (international new venture and global start-up, other types), b) internationalization in general (e.g. patterns and process, influences); c) networks and social capital (networks and relationships, network processes, social capital); d) organizational issues (performance, knowledge and capabilities); and e) entrepreneurship (entrepreneurship, opportunity).

International entrepreneurship is defined as the discovery, enactment, evaluation, and exploitation of opportunities-across national borders-to create future goods and services (Oviatt & McDougall 2005 :540). Several studies have used different terms to explore IE in SMEs (e.g. Rialp et al. 2005), for example international new ventures (Oviatt & McDougal 1994); born global firms (e.g. Knight & Cavusgil 1996; Knight, Madsen & Servais 2004); early internationalizing firms(e.g. Zucchella & Denicolai 2007). "Born globals" are synonymous with "international

new ventures” and “global start-ups”. It refers to business organizations that from inception, seek to derive significant competitive advantages from the sale of outputs in multiple countries (e.g. Knight & Cavusgil 2005: 16). Madsen and Servais (2004) find that in born-global firms, management’s emphasis is on foreign customer focus and marketing competence. They also find that product quality and differentiation strategy play an important role particularly in US firms. Crick and Spense (2005), in their in-depth case study, find that management teams anticipate and react into internal and external factors in various ways, which affects the way in which opportunity recognition and exploitation takes place. As mentioned earlier, IE is not limited to small and young firms but is increasingly emphasizing opportunity recognition in cross-border business (e.g. Oviatt & McDougal 2005). The next section will discuss the network perspective, which in several IE studies has been taken as part of IE (e.g. Jones et al. 2011).

Network Perspective/Social capital

The network approach has been increasingly utilized to explain the internationalization of SMEs in general and international entrepreneurship in particular (Johanson & Mattsson 1988; Bell 1995; Coviello & Munro 1995, 1997; Johanson & Vahlne 2003, 2006, 2009; Chetty & Stangl 2010). The network perspective focuses on non-hierarchical systems where firms invest to strengthen and monitor their position in international networks (Johanson & Mattson 1988; Coviello & McAuley 1999: 227). In their later development of the Uppsala model Johanson and Vahlne (2009), incorporate the network approach (see figure 1) to explain the internationalization process of the firm. According to the network perspective, the internationalization of the firm means that the firm establishes and develops its position in relation to counterparts in foreign networks (Johanson & Mattson 1988: 293–296). Network perspective draws on theories of social exchange and resource dependency. It focuses on firm behavior in the context of a network of inter-organizational interpersonal relationships. These relations can involve customers, suppliers, competitors, private and public supplier agencies, family, friends and others (Coviello & McAuley 1999). Thus, firms, who seek opportunities abroad, may utilize their business network to internationalize their business.

Network ties of firms are firm specific and difficult to imitate and have consequences along three dimensions: a) information that is available to the firm that is networks as source of information; b) its timing that is the timing that network ties influence the timing of when a particular piece of information will reach a particular firm; c) referrals that is firm’s interests are represented in a positive light at the right time and in the right place (Sharma & Blomstermo 2003).

Strength of ties is defined as a (probably a linear) combination of amount to time, the emotion intensity, intimacy (mutual confiding), and the reciprocal services which characterize ties (Granovetter 1973: 1361). Cohesive or strong ties aggregate to form a homogenous cluster (Sorenson & Stewart 2008) while weak ties connect distant and otherwise disconnected firms (Sharma & Blomstermo 2003). Several studies suggest that firms engaged in weak ties are in a better position to search for new knowledge and have greater autonomy to be flexible (Sharma & Blomstermo 2003). Networks come in many forms including alliances, board interlock, and equity investment between organizations (Hallen 2008). Through the various types of network ties organizations' exchange industry information (Burt 1992), acquire financial capital (Katila, Rosenberger & Eisenhardt 2008), benefit from trust and cooperation among network partners (Ahuja 2000), share resources and capabilities (Gulati 1995; Ahuja 2000; Katila, Rosenberger & Eisenhardt 2008), and inter-organizational collaboration to facilitate organizational learning (Powel, Kogut & Smith-Doerr 1996).

It is however important to note that some network ties are more important than other network ties as some network partners can provide better resources that will enable them to achieve their organizational goals (Hallen 2008). It is argued that network relationships provide with a diversity of knowledge that may facilitate opportunity recognition and exploitation in international markets (Johansson & Vahlne 2006). Empirical evidences suggest that from the opportunities created through the network relationships, foreign market selection and entry can emanate (Coviello & Munro 1995). Martin, Saminathan and Michell (1998) found that international expansion pattern was influenced by inter-organizational network of the firm. Chen and Chen (1998) revealed that network is an important determinant of location choice of foreign direct investment by Taiwanese firms. Most of the firms preferred to have external (inter-firm relationships) network linkages. They, however, were indifferent or incapable of making internal (intra-firm) networks. While external (inter-firm) relational network linkages formed by small firms selected South East Asia, those with external (inter-firm) strategic network linkages selected USA for their FDI activities.

Ellis (2000) found that foreign market opportunities are commonly identified through existing social network (personal links) than systematically collected marketing research. Crick and Spense (2005) find that market entry decisions of high performing UK high-tech SMEs was made through their international networks. The international network of these SMEs was developed through the international business experience of the founding or current management team in previous employment of the founding or current management team. Chetty and Wilson (2003) suggest that firms may leverage their resources to expand abroad

by collaborating with their competitors. Chetty and Agndal (2007) reveal that that networks influence mode change in the internationalization process. Thus, in this study, the role of stewardship orientation will help us explain the potential influence of long-term relationship of FSMEs on internationalization.

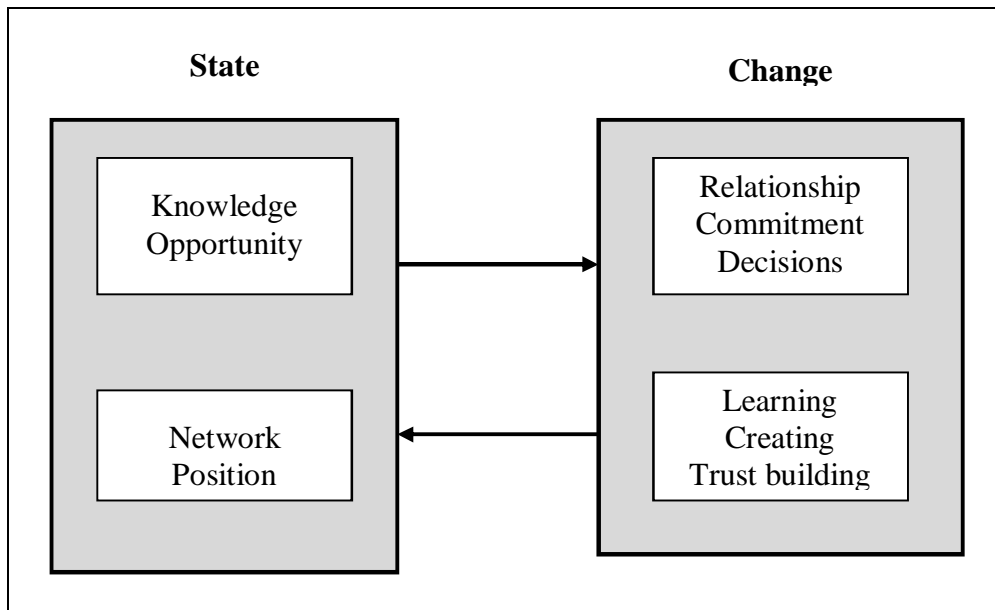


Figure 7. The business network internationalization process model (the 2009 version) (Source: Johanson & Vahlne 2009: 1424)

The recently adapted model of business network internationalization process model by Johanson and Vahlne 2009 (see figure 7) is an updated version of the Uppsala model of 1977 by the authors. The prior mode (see figure 5) had “market knowledge” and “market commitment” as state variables. In the latest 2009 version model, Johanson and Vahlne (2009) emphasize the most important aspect of knowledge to be opportunity recognition.

The second state variable in the latest 2009 version model is network position, which used to be “market commitment” in the 1977 model. This is because internationalization is recognized to be pursued within a network. The change variables for the 1977 Uppsala model were “commitment decision” and “current activities”. In the current 2009 version model Johanson and Vahlne (2009) emphasize the importance of speed, intensity and efficiency of the process of learning, creating knowledge, and of building trust in partners’ pursuing opportunities abroad, depending on existing body of knowledge, trust, and commitment. Regarding “current activities” part of the former Uppsala model, in the current model emphasizes that commitment is to relationships or networks of relationships. Thus,

the focal firm decides either to increase/decrease the level of commitment to one/several relationships in its network.

In the extant network approach literature, firms may internationalize because of their membership or relationship in a network. In terms of relationship, the possession of social capital and its relationship with internationalization has also been extensively studied in IB literature (e.g. Chetty & Agndal 2007). Thus, there are several ways that firms may internationalize their business (Coviello & McAuley 1999). There are several definitions of social capital utilized in business literatures. Nahapiet and Ghoshal (1998: 243), views social capital as “the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit. Social capital comprises both the network and the assets that may be mobilized through the network.” This current definition of social capital traces its origin from Bourdieu’s (1986) work on the forms of capital and Burt’s (1992) work on structural holes concerning the social structure of competition. Social capital also poses some risks such as over-embeddedness and negative externalities (Coleman 1988).

The bridging social capital which is more open in its structure and is characterized by weak ties between focal actor and other actors (Granovetter 1973), could be the type of social capital that may facilitate the internationalization of SMEs (Coleman 1988; Putnam 2000). Nevertheless, besides the bridging social capital, the bonding type of social capital (Bourdieu 1986; Coleman 1988; Nahapiet & Ghoshal 1998; Adler and Kwon 2002; Arregle et al. 2007; Segaro 2012) depending on the context, for example in the case of transnational SMEs, may play an important role in internationalization of SMEs (e.g. Prashantham 2011).

2.2.2 *Critique on the theory of the internationalization of SMEs*

The next section will discuss criticism in the extant IB literature on FDI theory and stages model, one of the incremental approaches to internationalization. The selection of the two approaches pertains to the importance of both the FDI theory and incremental theory in IB literature.

Criticism on FDI Theory

Cantwell (2000) points out that the eclectic paradigm is an overall organizing framework rather than a theory as it does not have a definite view of competition incorporated in it nor does it depend a priori on a particular theory of the firm. Furthermore, Buckley and Hashai (2005: 655) explain that the economic school

of thought focuses on the advantages gained from internalizing the firm's foreign activities during its international expansion. Hence, internalization advantages are viewed to enable the firm to minimize the cost of economic transactions by better exploiting underutilized firm-specific capabilities (managerial skills and technology).

Firm specific capabilities are considered to be superior to indigenous competitors. However, Buckley and Hashai (2005: 656) point out that the economic school has neglected to distinguish between motivations to internationalize different value adding activities of the firm. To this end, in this study, what may facilitate/hinder the internationalization of FSMEs is identified and discussed. Secondly, it has focused on static analysis of the choice between alternative foreign market servicing modes, hence neglecting the dynamic dimension of firm internationalization. By taking the organizational culture perspective, this study examines the underlying factors, which contribute to FSMEs choice to either increase or decrease their involvement in international market. Finally, in many cases, scholars from this school (e.g. Anderson & Gatignon 1986; Buckley & Casson 1976; Dunning 1980, 1988; Hennart 1993; Hirsch 1976; Rugman 1981) have directly or indirectly assumed that the internationalizing firm possesses some kind of "home-based" competitive advantage, hence neglecting the potential impact that "host country" knowledge resources may have on the competitiveness of internationalizing firms (Cantwell, 1995; Dunning & Narula, 1995; Kuemmerele, 1997; Buckley & Hashai 2005: 655). This is why this study set out to examine the role of stewardship orientation, whereby FSMEs increasingly may look out for long-term relationship with their partners. Stewardship orientation, for instance, may allow them to incorporate their foreign partner's knowledge (Swinth and Vinton 1993) that may in turn contribute to their gaining "host country" knowledge resources and if adapted to their firm strategy, structure, resources (Caloaf & Beamish 1995; Zahra et al. 2008), may result in their achieving competitive advantage and expansion abroad.

Criticism on the Incremental Stage Models of Internationalization

The incremental stage model (i.e. Uppsala model) of internationalization has received criticism from other studies in the field (e.g. Reid 1981; Melin 1992; Andersen 1993; Benito & Welch 1997; Forsgren 2002; Li, Li & Dalgic 2004). Peterson and Pedersen (1997: 131) question the incremental stage models of internationalization that it seems difficult to justify why accumulation of market knowledge should be the sole explanation of incremental entry mode behavior. Peterson and Pedersen (1997: 132) further claim that the prescribed linear relationship between market knowledge and market commitment is questionable.

Relatedly, Reid (1981) suggests that the model is deterministic. According to him, the characteristics of the market, firm resources, and available organizational responses explain export expansion (Reid 1983: 44). Similarly, Turnbull (1987: 37) points out that firm's stage of internationalization is largely determined by the operating environment, industry structure, and its own marketing. International entrepreneurship studies seem to contradict the generally accepted description of the incremental (slow and sequential) theory of the internationalization process (e.g. Jones, Coviello & Tang 2011). The incremental stage model of internationalization of the firm is described as an incremental, risk-averse and reluctant adjustment to changes in a firm or its environment (Oviatt & McDougall 1994: 50). However, some of the findings indicate that there is a tendency for firms to skip some of the steps and become involved in high commitment modes and psychologically distant market (Vahlne & Nordström 1993: 530). Based on the seminal study by Oviatt and McDougall (1994), several studies have commenced to explore international entrepreneurship and more specifically international new ventures, which is covered in the prior section (2.2.1) on internationalization theories and approaches. On the other hand, Benito & Welch (1997) suggest that firms not only increasingly are committed to international markets, but reversely could experience de-escalation of commitment for foreign markets.

Though, these criticisms can be valid in some situations as FSMEs are described as an incremental, risk-averse and reluctant to adjust to changes in a firm or its environment (e.g. Kets de Vries 1993, Oviatt & McDougall 1994: 50; Miller et al. 2008). However other studies point out that stewardship orientation differentiates between those who are entrepreneurial or not (Eddleston et al. 2012), thus, it will be important to identify, test and explain what behaviors of FSMEs may contribute to their risk-averse, reluctant and incremental behavior towards international business activities while other behaviors prompt their international expansion. The next section will briefly discuss the internationalization of FSMEs in general. Then it moves on to discuss the internationalization of FSMEs and strategic management.

2.2.3 *Internationalization of FSMEs*

The growing economic globalization provides new opportunities for FBs to internationalize (Menéndez-Requejo, 2005: 123). The different factors that influence FSMEs internationalization decisions have been studied by a number of scholars (e.g. Casillas & Acedo, 2005; George, Wiklund and Zahra, 2005; Fernández & Nieto, 2005, 2006; Zahra, Neubaum & Naldi 2007). There are studies that have identified possible motivations for firms to internationalize (Leonidou, Katsikeas,

Palihawadana & Spyropoulou 2007). Thus, it would be important to investigate what aspects typical to FSMEs determine the internationalization of FSMEs.

In the extant FB literature, FSMEs are found to be not homogenous (Sharma 2002: 2; Westhead & Howorth 2007: 407). In different “types” of FSMEs, different factors seem to contribute either positively or negatively on their internationalization (Zahra 2003; Fernández & Nieto 2006). How do these not so homogenous FSMEs differ in their internationalization? It seems that different factors are associated positively or negatively with internationalization. This could be due to the variance emanating from the differences in the level of involvement of the family in ownership and management and how this aspect plays out in hindering or facilitating international business activities in FSME. The stewardship theory (Miller et al. 2007; Zahra et al. 2008) is expected to provide the explanation as to why SMEs may reap the benefits of high stewardship orientation in one type of FSME and not in another type of FSMEs with low stewardship orientation. I argue in this paper that the result of long-term orientation, a sense of community pervading throughout the organization, the presence of consistent customer orientation, when coupled with adapting strategies to the environment (Zahra et al. 2008), may drive internationalization of FSMEs.

Stewardship oriented FSMEs are expected to internationalize late but once they internationalize might be committed to internationalization. In regards to ownership, there are different levels of ownership in FSMEs. For instance some FSMEs might be controlled fully by the controlling family and hence are closely held company and others might have a minority private equity investment and may have dispersed family ownership. FB internationalization literature also points out that closely held FBs internationalize less than widely held FSMEs (Fernández & Nieto 2006). This could be due to the different kinds of resources that a widely held FSME has at its disposal. As different owners could have different experiences (Dow and Larimo 2009). In addition, the social network and other business networks of different owners could be at the disposal of the widely held FSME, which may become useful resources (Graves & Thomas 2008). Thus when family firms have different levels of ownership, one might expect that different levels of ownership, whether one is closely held or widely held may influence internationalization.

On the other hand, if most of FSMEs are closely held, then there is a need to move from purely looking at ownership level to move to a deeper “softer dimension” of ownership and take the organizational culture perspective. It is thus with this view that the “softer dimension” of ownership in this study’s case and how it plays out in the strategic decision-making in FSMEs and its effect on internation-

alization is examined. A closely held FSME with high stewardship orientation (Davis et al. 1997) may incorporate the next generation. The incorporation of the next generation may result in strategic renewal (Hall 2003) of the SME. The strategic change may not only be limited to ownership or management but also governance. Those FSMEs that have board of directors not only composed of family members but also non-family members, may also experience strategic change. These non-family members may also have varied experience set which might include international experience.

The next section will discuss the internationalization of SMEs in general. In this section, internationalization of SMEs and strategic management will be discussed. As part of the strategic management literature, the resource based theory (RBT) of the firm for achieving competitive advantage will be covered. More specifically, RBT in the field of FB, known as familiness and its' potential relationship with internationalization of FSMEs will be discussed. Furthermore, the role of top management team (TMT) will be covered by utilizing the upper echelon theory.

2.3 Internationalization of SMEs and Strategic Management

Strategic management has developed from a study that was more application oriented, commonly known as “business policy”, to a scientific field by the inclusion of industrial organization (IO) economics. The incorporation of IO brought econometric tools to research on strategic management (Hoskisson et al. 1999: 417–418). To mention some of the early studies that have left a mark in the field of strategic management, a study on administrative behavior (Simon 1945/1979), the theory of the growth of the firm (Penrose 1959), strategy and structure (Chandler's 1962), behavioral theory of the firm (Cyert & March's 1963), external control of organization emphasizing the resource dependence perspective (Pfeffer & Salancik 1978), competitive strategy (Porter 1980), and competitive advantage (1985). Building on the industrial economics framework, organizational economics perspective contributed to the transaction cost economics (TCA) (e.g. Williamson 1975) and the agency theory (e.g. Alchain & Demsetz 1972; Jensen & Meckling 1976; Fama & Jensen 1983). TCA seeks to explain why organizations exist (Hoskisson et al. 1999). TCA's basic assumption is that transaction between two firms is characterized by bounded rationality and uncertainty, opportunism and small numbers, and asset specificity (Williamson 1975; Williamson 1991). The agency theory emphasized “nexus of contracts” focused on issues that emanate from the separation of ownership and control (e.g. Alchain & Demsetz 1972; Jensen & Meckling 1976; Fama & Jensen 1983).

From earlier studies on strategic management, while Chandler's (1962) study took a contingency perspective and focused on the fit between strategy and structure, emphasizing internal strengths and weaknesses, Porter (1980, 1985), emphasized the link between structure-conduct-performance, by relying more on the industrial organization (IO) economics. Later on, the resource-based theory (RBT) of the firm was introduced in the early 1980s (Wernerfelt's 1984; Rumelt's 1984). In the 1991, the landmark article by Barney (1991) on firm's resources and sustained competitive advantage, presented the core tenants of RBT and provided a detailed definition of resources, and articulated the characteristics (i.e. valuable, rare, inimitable, and no substitutable) that make resources a potential source of competitive advantage (Barney, Ketchen & Wright 2011: 1301).

Resources based theory (RBT) can be viewed as giving rise to two closely related areas, knowledge based view (e.g. Kogut & Zander 1993; Grant 1996) and strategic leadership literature (e.g. Hambrick & Mason 1984; Finkelstein & Hambrick 2000; Carpenter, Geletkanycz & Sanders 2004). The next section will discuss first the resource based theory in general and then it will cover the resource based theory in internationalization of SMEs.

2.3.1 Resource based theory of the firm and internationalization of SMEs

This section first will discuss the resource-based theory in general. Then it will move on to discuss the application of the resource-based theory in the internationalization of SMEs context. The resource based theory of the firm and internationalization of SMEs has extensively been studied since the beginning of 1980s (e.g. Wernerfelt's 1984; Rumelt's 1984; Barney 1991). Before discussing the intersection of these two strands of research fields in this study, there is a need to look at the resource-based theory of the firm. More specifically, how the resource-based theory has developed throughout the years would be briefly covered. The overview on resource based theory is not exhaustive. Mainly, studies deemed to be related to the research objective of this current study are included.

The main question of strategy is "why do some firms perform better than other firms" (Nelson 1991: 64). In its current form, Wernerfelt's (1984) study on "A resource-based view of the firm", and by Rumelt's (1984) study on "Towards a strategic theory of the firm" were earlier seminal studies in RBT. However, both studies drew from earlier classical work of Selznick, Penrose, and Chandler (Foss 1997: 7). In the early 1980s, the focus solely rested on the five competitive forces driving industry competition and relied on industry analysis (Porter 1980: 4, 1985, Foss 1997). Among the early studies, Wernerfelt's (1984) study suggested the need to shift our focus from solely looking at firms in terms of their product to

their resources. Wernerfelt (1984) maintained that looking at diversified firms as portfolios of resources rather than portfolios of products gives a different and perhaps richer perspective on their growth prospects.

However, among the classical studies, Penrose's (1959) study is attributed to be one of the first seminal studies, which looked at firms as composed of resources. In general, resources can be defined as anything, which could be thought as strengths that firms can use to conceive of and implement their strategies (Wernerfelt 1984: 172; Barney 1991: 101). In particular, firm resources can be defined as those assets both tangible and intangible, capabilities, organizational processes, firm attributes, information, knowledge and related others controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness (Wernerfelt 1984: 172; Barney 1991: 101). Examples of resources are brand names, in-house knowledge of technology, employment of skilled personnel, trade contacts, machinery, efficient procedures, capital and related others. The most commonly cited four indicators of the potential of firm resources to generate sustainable competitive advantage are value, rareness, imitability, and sustainability (Barney 1991).

The economic literature focuses mainly on industries and assumes that firms in an industry are homogenous. However, the resource-based theory (RBT) provides a model of how firms compete in the field of strategic management (Peteraf 1993: 179). It mainly makes two assumptions in analyzing sources of sustainable competitive advantage. First, RBT assumes that firms within an industry (or group) may be heterogeneous with respect to the strategic resources they control (Barney 1991: 101; Peteraf 1993). Second, this model assumes that these resources may not be perfectly mobile (imperfect mobility) across firms thus heterogeneity can be long lasting (Barney 1991: 101). Thus, the main idea of resource-based theory is that firms are heterogeneous in terms of their productive resource endowments. Heterogeneity implies that firms of varying capabilities are able to compete in the market place and at least break-even. RBT suggests that supply inelasticity can be a source of competitive advantage (Barney 1991). Barney's (1991) resource based framework suggests that firms obtain sustained competitive advantage by implementing strategies that exploit their internal strengths by responding to environmental opportunities while neutralizing external threats and avoiding internal weakness (see Figure 8).

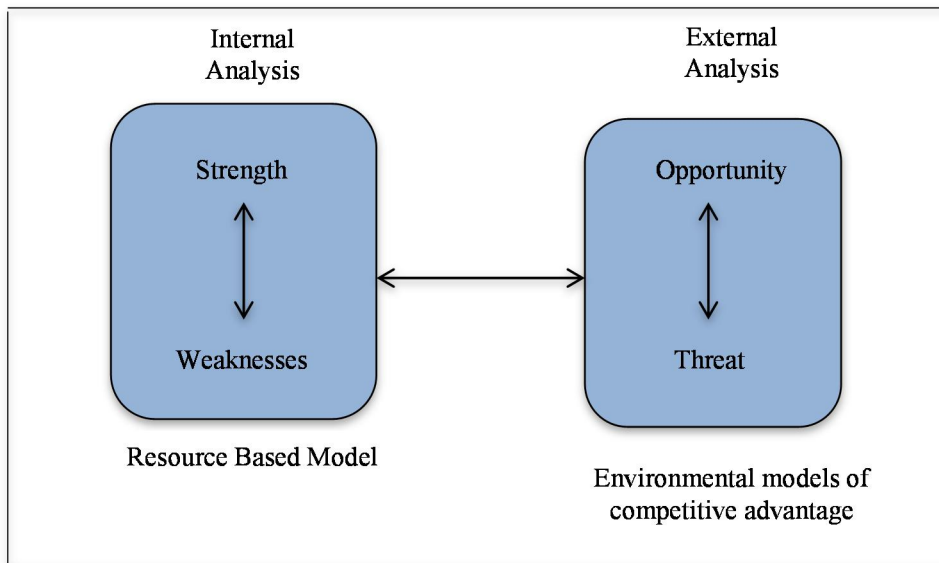


Figure 8. The relationship between traditional “strength-weakness-opportunity-threats” analysis, the resource based model, and model of industry attractiveness (Barney 1991: 100).

Peteraf (1993) suggests four conditions that need to be present for resources to provide competitive advantage. She argues that superior resources (heterogeneity of resources in the industry), ex-ante limits to competition, ex-post limits to competition, and imperfect mobility of resources (resources that are specific to the firm) are the necessary conditions that are required for firms to achieve competitive advantage. Rumelt (1984) further argues that isolating mechanisms in business strategy is that they are the phenomena that make competitive positions stable and defensible. Rumelt (1984) cautions that exogenous events and impersonal isolating mechanism do not solely determine the profitability of the firm. Firm’s stability and profitability depend upon the entrepreneurial activity. Dierickx and Cool (1989) point out that to implement a given strategy, firms require highly firm specific assets. Firm-specific skills, knowledge and values are accumulated through on the job learning and training. Some examples of these are firm-specific R& D capability and human capital and more specifically skill, knowledge and experience shared by top management of the firm. Asset stocks are accumulated or developed through a consistent time pattern of expenditures or flows (Caves 1980: 165; Dierickx & Cool 1989: 162–163).

Attributes that enable a firm to conceive and implement strategies that improve firm’s efficiency and effectiveness are considered as firm’s resources (Barney 1991). As firms continue to operate in their ordinary business activity, they will develop routines. When routines are implemented regularly, efficiency of con-

ducting a particular activity increases. Due to efficiency, firms begin to accumulate excess resources. Due to transaction costs involved, they will not trade it in the market (Foss 1998). In refining our understanding pertaining to resources of the firm for competitive advantage, Amit and Schoemaker (1993) split the construct of resource into resource and capability. They define capabilities as referring to a firm's capacity to deploy resources, usually in combination, using organizational processes, to affect a direct end. It can be information-based, tangible or intangible processes that are firm-specific and developed over time through complex interactions among their firm's resources (Amit & Schoemaker 1993: 35). Emphasizing the role of knowledge, Grant (1996) articulated the knowledge-based theory of the firm as an extension of resource based theory.

In regards to resource based theory and entrepreneurship, Alvarez and Busenitz (2001) examine the relationship between resource based theory and entrepreneurship. Their study includes the cognitive ability of the individual entrepreneurs. The main emphasis of their theoretical paper is the identification of distinctive domain of entrepreneurship by using the resource based theory. Alvarez and Buseinitz (2001) articulate the founder's unique awareness of opportunity, ability to acquire the resources needed to exploit the opportunity and the organizational ability to recombine homogeneous inputs into heterogeneous output.

In his theoretical review of resource based theory (RBT), (at the time of his review, it was known as resource based view), in international business (IB), Peng (2001) suggests that RBT has benefited IB literature by contributing to our understanding of multinational management, strategic alliances, market entries, international entrepreneurship, and emerging market strategies using the RBT lens. Similarly, RBT has benefited from IB, as IB has contributed to RBT by its extensive study on international knowledge and experience (e.g. Johanson & Vahlne 1977, 2009) as a valuable, unique and hard to imitate resources that differentiate the winners from mere survivors and the losers in global competition.

In regards to the internationalization of new and small firms, by utilizing the resource based theory of the firm, Westhead, Wright and Ucbasaran (2001), utilize original sample of 621 diverse firms from several business sectors such as manufacturing, construction, and services businesses in Great Britain in 199/91 and later in 1997 with a sample of 116 (86 non-exporters and 30 exporters). Their study aimed to identify the range of factors, which encourage some owner-managed SMEs to enter export markets. They examine four categories of human and financial capital resources: the principal founder's management know-how, the principal founder's specific industry know-how, and the principal founder's ability to obtain financial resources that can act as a buffer against random

shocks. Westhead et al. (2001) find that businesses with older principal founders, with more resources, denser information and contact networks, and considerable management know-how are significantly more likely to be exporters. They also find that businesses with principal founders that had considerable industry-specific knowledge, as reflected in starting their businesses in the same industry as their last employers, are markedly more likely to be exporters. Specifically, industry experience was a strong predictor of the ability of a firm to be an exporter in 1997. In addition, businesses mainly engaged in the service sector and those located in urban areas are significantly less likely to be exporters.

On entry mode choice, Ekeledo and Sivakumar (2004) develop and test a resource based framework for entry mode choice and attempts to identify the extent to which the determinants of foreign market entry mode choice in the manufacturing sector apply to foreign market entry mode choice in the non-separable service sector. They utilized a sample of 130 US firms. The two main findings of their study are first, the resource based theory has good explanatory abilities for entry mode strategies. Secondly, the resource-based framework explained entry mode choice for manufacturing firms and non-separable service firms. However, entry mode concepts and practices in manufacturing sector are not always generalizable to non-separable service firms.

Similarly, Camisón and Villar (2009) focus on the internal characteristics of a firm and more specifically they sought to examine how a firm's internal characteristic influence managers' inclination to enter into cooperative internationalization operation. By utilizing 401 Spanish firms, they examine the direct and indirect effects of ability to internationalize on propensity for cooperative internationalization. They find that capabilities are a positive predictor of propensity for cooperative internationalization and this relationship is mediated by the adoption of a differentiating competitive strategy. However, the propensity for international growth through alliances decreases as the firm's degree of involvement abroad increases. This may indicate that the accumulation of internationally transferable capabilities does not alone determine a firm's international growth through cooperative internationalization but that a strategy of competitive differentiation is important.

On the role of location and export performance of SMEs, Freeman, Styles and Lawleu (2012) examined how location (regional vs. metropolitan) impacts SME's access to firm resources and capabilities and in turn its export performance. The key finding of their study is that location impacts SME exporters' access to networks and export related infrastructure/services, which in turn affects export performance. Firms in metropolitan areas were found to have an advantage over

those in regional areas. However, the lower level of competition in the regional areas was not found to have a negative impact on export performance of firms in regional areas. Exploring the resource based theory and its application in Hungary, a transitional economy (TE), Wilson and Amine (2009) find that past historical asymmetries in resource endowments contributed to a division between global and local agencies based on market sector. Reputation, access to global resources, and use of Western-style business practices, were found to be beneficial to global firms, while interpersonal relationships emerged as a valuable resource in both contexts.

In conclusion, the role of heterogeneous resources, human capital, physical capital, and organizational capital (Barney 1999), seems to factor in the internationalization of SMEs showing the relevance of RBT to explain the internationalization of SMEs. The next section will discuss RBT in FB context, which is commonly referred to as “familiness”.

2.3.2 *Familiness and internationalization of FSMEs*

The resource-based theory (RBT) of competitive advantages in the FB context provides a theoretical framework to assess the competitive advantages of FBs (Habbershon & Williams 1999). The bundle of resources that are distinctive to a firm as a result of family involvement are identified as the “familiness” of the firm (Habbershon & Williams 1999: 1). Research in FB, has shown that FBs are different from non-FBs not only in their organizational composition but also in their performance capabilities (Habbershon & Williams 1999). Habbershon and Williams (1999) identifies several process components leading to capabilities, which in turn may lead to competitive advantage and then to performance in FBs. To mention some of the processes components that they identified, managing employees, getting goal agreement, increase trust, encouraging participation, socializing new employees, enhancing reputation, unify the belief structure of the group, increase commitment, gain flexibility, build global alliances, and share culture across international borders. Furthermore, Habbershon, Williams and MacMillan (2003) developed the unified systems performance model for enterprising families. Their model explored the critical issues for exploring the nature of family influence on business and wealth creation. Habbershon et al. (2003: 462) point out the character that defines enterprising families system as a systemic vision of the familial coalition to pursue distinctive familiness for the purpose of trans-generation wealth creation.

Zahra, Hayton and Salvato (2004) point out that organizational culture is an important strategic resource that FBs can use to gain competitive advantage. Their

study examined the relationship between four dimensions of organizational culture in family vis. Non-FBs and entrepreneurship. By utilizing a sample of 536 US companies from the manufacturing sector, their finding shows that a nonlinear association between cultural dimension of individualism and entrepreneurship. The finding suggests that FBs with individual orientation may find it easier to initiate entrepreneurial activity. They also find positive linear relationships between entrepreneurship and an external orientation. This finding may suggest that entrepreneurship in FBs is supported by a culture that values new knowledge acquired from customers, suppliers and competitors. Furthermore, organizational cultural orientation toward decentralization of control and coordination was found to be positively associated with entrepreneurship. Zahra et al. (2004) also find that long-term orientation, which was reflected by the use of strategic controls, was found to be positively related to entrepreneurship.

Klein, Astrachan and Smyrnios (2005) propose the family influence on power, experience, and culture (F-PEC) scale, to sort out the dilemma faced by FB researchers on how to define the FB. Klein et al. (2005) point out that the F-PEC scale contributes to theory development particularly in term of the impact of family influence on distinct resources and as a source of competitive advantage. Rutherford, Kuratko and Holt (2008) examine the relationship between familiness and performance by utilizing the family influence scale (the familiness-power, experience, and culture scale – F-PEC) presented by Klein et al. (2005) in 831 FBs. They find that familiness showed association with revenue, capital structure, growth, and perceived performance. But the relationships were both positive and negative. Rutherford et al. (2008) findings suggest that F-PEC adequately captures the involvement (or lack) of familiness in a given firm, but it does not capture the essence of the firm. Involvement is a necessary but not a sufficient condition of familiness. Thus, they suggest that when the relationship between familiness and performance are examined, the essence of familiness must be assessed not only the involvement.

Ensley and Pearson (2005) argue that the social system of the family creates a synergy in the top management team that is not present in TMTs with less “familiness.” They further argue that the unique dynamics created by the social aspects of the family owned firm will result in higher cohesion, potency, task conflict, and shared strategic consensus than those TMTs with less “familiness.” Eddleston, Kellermanns and Sarathy (2008), utilize the resource based theory of the firm to examine family specific resource (reciprocal altruism) and a firm specific resource (innovative capacity) contribute to FB performance. They further examine the potential moderating role of strategic planning and technological opportunities. Their findings suggest that FBs can benefit from emphasizing the positive

aspects of kinship and from developing innovative capacities. Their findings lend support to the view that firm specific resources contribute to FB performance but also family relationships can be a source of competitive advantage for a FB (Segaro 2012).

In conclusion, the resource-based theory of the firm in the FB context provides a nuanced understanding of what aspect of familiness is related positively to performance. Thus, it would be important to examine which family specific and firm specific resources impact positively/negatively not only performance but also international expansion.

2.3.3 *Top Management Team and Internationalization of FSMEs*

We know little of “group resources”. What is it that makes one group of people better at executing something than others? This class of resources might contain the critical part that we may not yet sufficiently understand (Wernerfelt 1997: xviii). In regards to the top management team (TMT) involvement in the FSME internationalization, even though the size of the FSMEs might be considered to be a hindering factor, however, there are studies that contradict these findings. (e.g. Bonaccorsi 1992; Calof 1994). According to Reuber and Fisher (1997), small and young firms are not necessarily disadvantaged in expanding their business internationally. But rather they could develop mechanisms to acquire the needed knowledge and resources.

One such mechanism pointed out by the study was the role of management team’s international experience in developing foreign strategic partnerships to shorten the time it takes to internationalize their business. In an exploratory comparison of the behavioral dynamics of TMTs in family and nonfamily new ventures, Ensley and Pearson (2005), argue that the social system of the family creates a synergy in the top management team (TMT) that is not present in TMT’s with less “familiness”. But for those firms that may not have international experience, other types of experience in their domestic market such as industry experience (Westhead et al. 2001) could be one of the variables that we may need to examine in the context of FSME internationalization.

Drawing from social psychology theory, Ensley and Pearson (2005) further argue that the unique dynamics created by the social aspects of the family owned firm will result in higher cohesion, potency, task conflict, and shared strategic cognition than those TMTs with less “familiness” (Nordqvist, 2005). Ensley and Pearson (2005, p. 269) also distinguish between parental TMTs and familial TMTs. Parental TMTs as teams consisting of parents as well as other family members

and familial TMTs as teams consisting of family members but without parental ties (i.e. siblings, cousins, etc.). Ensley and Pearson (2005: 268) extend, the upper echelon perspective (Hambrick and Mason, 1984) that views the firm performance as a reflection of the characteristics and actions of the team of managers central to the firm, to FB. They argue that the FB, like other organizations, is often managed by a group or team of individuals whose collective dynamics has a direct impact on the direction and performance of the firm.

Similarly, Reuber and Fisher (2002) point out that the role of TMT behavioral integration results in increased foreign sales. Reuber and Fisher's (2002) argument for TMT behavioral integration, relates to foreign sales growth. In this study, however, the behavioral integration of TMT is looked at from its possible contribution to the internationalization decision-making itself. Behavioral integration of TMT is defined as the degree to which the group engages in mutual and collective interaction (Hambrick, 1994: 188). Those FSMEs with strategic flexible TMTs (Zahra et al. 2008) are expected to have a level of TMT behavioral integration that may facilitate their expansion abroad. As they will be able to pool in their resources and capabilities including international experience and adapt their strategies to their business environment (e.g. Reuber & Fisher 1997).

Weterings and Koster (2007: 322) suggest that experience of managers can be taken as a human capital. They distinguish between industry specific experience and entrepreneur-specific experience. Industry specific experiences are viewed as specific for certain technologies and industries that is how to develop a product. On the other hand, entrepreneur-specific experiences pertain to the organizational part of the business that is how to run the business. Thus those family TMTs which have industry experience can have competitive advantage. Therefore, due to their industry specific social capital, access to information, FSMEs are more likely to expand abroad.

2.4 Governance and Internationalization of Family SMEs

2.4.1 *Governance in SME context*

Drawing upon the resource based theory, Chrisman, Chua and Steier (2005) discuss the sources and consequences of distinctive familiness based on Carney (2005) study on corporate governance and competitive advantage in family controlled firms. They suggest that FB governance provides the foundation for the

study of familiness. Carney (2005) argues that family-controlled firms' competitive advantage arises from their system of corporate governance. According to him, family governance is distinguished not by the separation but by the unification of ownership and control. Thus, the degree and nature of ownership required to establish effective control will depend upon the institutional context in which a firm is located. This means that the effect of governance on internationalization of firms could vary from country to country.

Governance is usually considered to be an issue pertaining only to corporations. However, it is argued in this study that governance could be an issue also in SMEs. Relatively little is known regarding the nature of the relationship between SME's ownership and their governance systems. Governance mechanisms in SMEs are found to influence the ability of SMEs to introduce strategic change. (Huse 2000; Zahra, Nebaum & Naldi 2007: 309; Brunningem et al. 2007). Brunningem et al. (2007) building on agency theory, point out that governance variables related to ownership, board of directors, and top management team affect strategic change. Their finding indicates that closely held firms exhibit less strategic change than do SMEs relying on more widespread ownership structures.

On the other hand, Carney (2005) drawing upon the resource based theory mainly and partly from the agency theory, argues that family governance system generates three dominant propensities that may be labeled as parsimony, personalism, and particularism. Parsimony propensity is perceived to arise from the FBs making strategic decisions with the family's personal wealth. In parsimony propensity, it is viewed that people are more prudent with their own money as opposed with other people's money. Parsimony can be defined here as the alignment of incentives that simultaneously reduces agency costs and motivates efficiency. (Carney 2005; Durand & Vargas 2003).

Personalism deals with the issue that the unification of ownership and control concentrates and incorporates organizational authority in the hands of an owner-manager or family. Thus, these agents operate under fewer internal constraints as they may exempt themselves from internal bureaucratic constraints that limit managerial authority in other modes of governance such as managerial governance. Particularism follows from personalization of authority and arises from the tendency of the owner-managers to view the firm as "our business". The family control rights permit the family to intervene in the affairs of the firm to substitute other, particularistic criteria of their choosing. Thus, this liberty results in greater variability in the exercise of authority. Families may employ decision criteria based upon altruism, nepotism and improving social status and also pursuit of noneconomic goals (Carney 2005).

In the contrary, families can also pursue parsimony that indicates the tendency toward careful resource conservation and allocation relative to other governance modes such as managerial governance. Carney (2005) suggests that the combination of personalism and particularism provides two potential sources of competitive advantage for FBs. First, the fact that business and family are intimately intertwined gives FB an edge in building social capital. Relationships can be initiated, developed, and ended more easily and with more discretion. Secondly, personalism and particularism are important in making opportunistic investments. FBs are better able to make rapid resource allocation decisions based on hunches or heuristics than firms operating under other governance structures, wherein the potential profitability of the opportunity usually needs to be formally documented before resources are committed (Carney 2005).

This aspect gives FBs an advantage in markets where being the first mover or pursuing opportunities for innovation with focus is of critical importance. (Chrisman et al. 2005: 249). Recent research has begun to show that major publicly traded family-controlled businesses actually out-perform other types of businesses (Miller & Breton-Miller 2006). However, study on governance in SME context is limited. Carney's (2005) study did not deal with the potential implications of these attributes of family governance on internationalization. In this study, however, considering family governance as a resource and capability is considered to be important in FSME internationalization. Internationalization can be considered as one type of strategic change for the firm. It would be important, thus, to take in to account the governance of the SME. What then was the original purpose of stewardship theory and how has it been adopted in the FB literature?

2.4.2 *Stewardship Perspective*

The origin of stewardship theory is from psychology and sociology and the purpose of the theory was designed in order to examine situations in which executives as stewards are motivated to act in the best interests of their principals. (Donaldson & Davis, 1991; Davis et al. 1997). Early studies debated whether the organizational man is rational or self-actualizing (Argyris 1973; Simon 1973). Furthermore, in stewardship theory the model of a man is based on a steward whose behavior is ordered such that pro-organizational, collectivistic behaviors have higher utility than individualistic, self-serving behaviors. According to this theory, the steward believes that by working toward organizational, collective ends, personal needs are met. In stewardship theory, managers are not motivated by individual goals, but rather are stewards whose motives are aligned with the objectives of their principals. There are psychological and situational factors that

are deemed to explain manager-principal interest alignment. The psychological factors are motivation, identification, and use of power. The situational factors are management philosophy (risk orientation, time frame, and objective) and cultural difference (individualism and power distance) (Donaldson & Davis 1991; Davis et al. 1997; Segaro 2012).

Stewardship perspective in FB implies that the family owners intrinsically care deeply for the welfare of the business and its longevity as they consider themselves stewards of the business. Stewardship can be manifested in three ways. Firstly, there is unusual devotion to the continuity of the business. Secondly, there is more assiduous nurturing of a community of employees. Thirdly, there is a seeking out of closer connections with customers to sustain the business. Proponents of this view also argue that a participative strategy process may contribute to FB performance. Altruistic family relationships may diminish relationship conflict while facilitating a participative strategy process (Eddleston & Kellermanns 2007; Davis, Frankforter & Volrath 2007; Miller et al. 2008; Davis, Allen & Hayes 2010). In FB, some studies have emphasized the three dimensions of stewardship, may have positive performance implications. (Miller et al. 2008; Sciascia et al. 2012; Segaro 2012). Hence, this study attempts to investigate the implication of high stewardship orientation on internationalization of FSMEs.

2.4.3 *Stewardship Orientation and FSMEs*

Stewardship behavior has been explored in previous FB literature (Eddleston & Kellerman 2007; Miller et al. 2008). Miller et al. (2008) differentiate between stewardship behavior and stagnation behavior. They suggest that FBs may either exhibit stagnation behavior or stewardship behavior. According to their conceptualization of stewardship behavior, Lumpkin, Brigham and Moss (2010) focus on the long-term dimension of stewardship behavior in relation to entrepreneurial orientation and performance in FBs. This study mainly relies on Miller et al.'s (2008) conceptualization, as mentioned earlier, and labels the three dimensions as employee orientation, long-term orientation, and customer orientation. In employee orientation, the emphasis is on empowered employees with a potential to network on behalf of the company. In long-term orientation, the main emphasis is on survival and growth of the business. Figure 9 depicts the three stewardship orientation dimensions, which are reflected by employee orientation, customer orientation and long-term orientation.

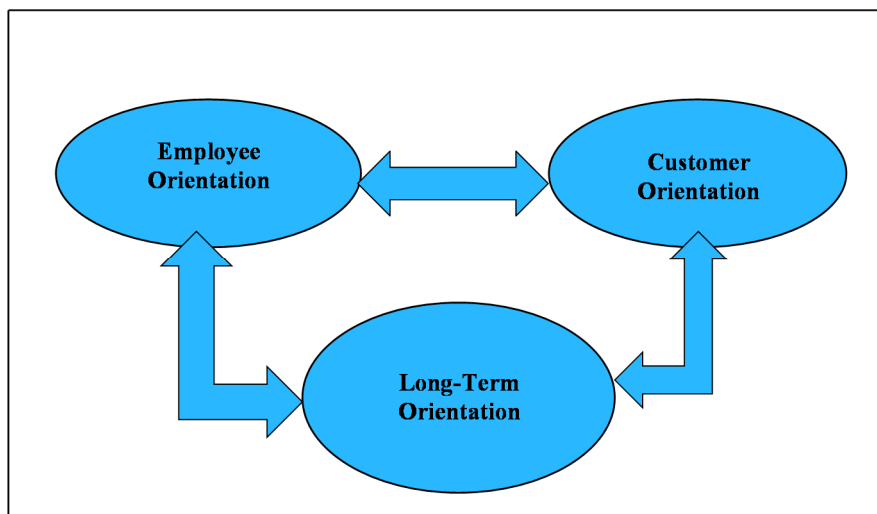


Figure 9. Stewardship Orientation in FSMEs

Thus, it may not necessarily be limited to generational outlook but it is a more encompassing conceptualization that aims to have a long-term perspective regarding the family in business, employees at work and even different communities that the FB finds itself in. The customer orientation pertains to maintenance of the customer relationship (Miller et al. 2008). In having a customer relationship that is long lasting, FBs will be able to compensate their lack of managerial capability (e.g. Graves & Thomas 2006).

2.4.4 *Stewardship orientation and internationalization of FSMEs*

Stewardship perspective has been used to explain result in FB internationalization research (e.g. Zahra 2003; Sciascia et al. 2012). However, it has not been empirically assessed as a construct, with an exception of Miller et al. (2008) and Eddleston et al. (2012), whereby different dimensions of stewardship behavior were found to differentiate entrepreneurship behavior among FBs. This indicates for us that this is a fertile ground for research that needs to be explored, which will increase our understanding of the variables that serve as resources that lead to competitive advantage and hence international expansion in FSMEs. Miller et al. (2008) find that stewardship behavior exists in successful FBs. If successful FBs tend to have as Miller et al. (2008) conceptualize stewardship behavior, we may explore it if it extends to their expansion abroad. Does it contribute to entrepreneurial behavior in FSMEs?

This study, based on Miller et al. (2008) conceptualization, proposes three dimensions of stewardship orientation namely employee orientation, customer orientation and long-term orientation. If FSMEs are employee orientated and empower their employees, even utilize their social capital to network on behalf of the FSME (e.g. Segaro 2012), they may broaden the concept of the family to be inclusive of their employees. Thus, the limitation, which they usually are purported to have such as less managerial capability (e.g. Graves & Thomas 2006), they may be able to compensate through their on-going professionalization of their TMT (e.g. Hall & Nordqvist 2008).

By including non-family members in their top management, they may be able to increase the level of industry experience of their overall top management (e.g. Westhead et al. 2001), which may increase their international involvement in foreign markets. As the stewardship orientation construct is a construct in the process of development that will help us to understand why some FSMEs may internationalize while other do not, by taking into account the “family variable” as suggested by Dyer and Dyer (2009), it will help us understand under what conditions it can be inhibiting/facilitating for international expansion. The coupling of family commitment culture with stewardship behavior has been found to contribute strategic flexibility (e.g. Zahra et al. 2008). However, in the internal context, how does stewardship orientation when coupled with family commitment culture affect international expansion?

2.5 Organization Culture and Internationalization of FSMEs

In early studies relying on resource based theory (e.g. Barney 1986), organizational culture was taken as a resource of the firm that may become as a source of competitive advantage. Organizational culture provides the glue (Smircich 1983: 343) that keeps different elements together in the firm both people and processes. By providing the value system for the firm of what is to be perceived as important/wholesome/good or not, it provides a sense of an overall roadmap in how activities are organized and performed. . It also provides participants in the firm with a sense of purpose and direction to engage in firm activities. Ireland and Hitt (1999: 51) argue that the challenges that firms face is not of rational or technical but rather cultural. According to them, culture provides the context within which firms formulate and implement their strategy, for instance, on how to lead their organization, create and nurture knowledge and continue to learn. It is with this view that the next section will provide a brief discussion on organizational culture and FBs with emphasis on SMEs.

2.5.1 *Organizational culture and FSMEs*

Organizational culture refers to a pattern of basic assumptions that a given group has invented, discovered, or developed in learning to cope with its problems of external adaptation and internal integration, a pattern of assumptions that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems (Schein 1995: 222). On studying organizational culture, in terms of the forms of culture, Pettigrew (1979) points out symbol, language, ideology, belief, ritual, and myth. Among these, he emphasizes the role of symbols. Symbols can be defined as objects, acts, relationships or linguistic formations that stand ambiguously for multiplicity of meanings, evoke emotions, and impel men to action (Pettigrew 1979: 574). In his earlier study, Schein (1983/1995) emphasizes the role of the founder in creating organizational culture. Gray, Bougon and Donnellon (1985) emphasize the role of organizations as constructions and deconstructions of meaning. Smircich and Mogan (1982) stress the role of leadership in setting the management of meaning.

Kets de Vries and Miller (1986) point out the relationship between personality, culture, and organization. More specifically, they point out the link between executive personality and strategic and organizational orientation. They provide typologies of neurotic styles and corporate pathology. Among the typologies, suspicious depressive (avoidant/dependent), dramatic (histrionic/narcissistic), compulsive and detached (schizoid/avoidant). Thus in FBs, as the “family” is one entity that could potentially build the organizational culture, as a source of organizational culture, it may build the organization vocabulary (Pettigrew 1979), which then makes it possible to set the tone and provides a framework on how to perceive and act in different situations in the firm.

Organizational culture is an important strategic resource that FBs can use to gain competitive advantage (Barney 1986). Organizational culture is a strategic resource, which can be difficult to be imitated by competitors (Dierickx & Cool 1989; Barney 1991). As FBs are socially embedded (Ensley & Pearson 2005), the family leadership (Dyer & Dyer 2009) may play an important role in shaping the FB culture. Organizational culture develops through time and it cannot be developed instantly or changed. It is a tightly connected system of artifacts, espoused values, and underlying assumptions. Thus the interconnectedness of FBs’ intangible and tangible assets inhibits the imitation of the FBs’ cultures (Zahra, Hayton & Salvato 2004: 364).

Hall, Melin and Nordqvist (2001) argue that while some cultural patterns tend to preserve the traditional way of doing business, others tend to facilitate entrepre-

neurial change. Their model is built around dominant family member or several family members, the degree of cultural explicitness, and the degree of cultural openness. Thus, we can expect that when firms are smaller in size, it is more likely that the organizational culture would reflect founders/leadership culture as it is easier to transmit values and assumption in smaller sized firm. The next section will provide a brief discussion on organizational commitment in general and FSME in particular.

2.5.2 *Organizational commitment and FSMEs*

This section will first discuss organizational commitment and later on move to discuss organizational commitment in the context of FSMEs. Within organizational behavior (OB) and industrial/organizational (I/O) psychology, the relationship of employees with the organization and their desire, need, and/or obligation to maintain membership in the organization has been extensively studied (e.g. Becker 1960; Steers 1977; Meyer & Allen 1991; Meyer, Allen & Smith 1993; Rikketta 2002; Wasti 2003). Buchanan (1974: 533) defines commitment as an affective attachment to the goals and values of an organization, to one's role in relation to goals and to organization for its own sake. According to Buchanan (1974) commitment can consist of: a) identification - adoption as one's own the goals and values of the organization; b) involvement- psychological involvement in the activities of one's work role; c) loyalty- a feeling of affection for and attachment to the organization.

In empirical studies, satisfaction with work and promotion were found to be primary determinants of affective and normative commitment for employees in individualistic cultures; satisfaction with supervisor was found to be an important commitment antecedent in collectivistic cultures (Wasti 2003). According to Goulder (1960), employees commitment itself, is not limited only to work-related commitments of employees towards the organization that employees them. Employees could have commitments to other organizations, individuals within or outside the organization, groups and various ideas and initiatives (e.g., values, goals, decisions, policies, and change programs). However, regardless of target of commitment, commitments can be experienced differently and that how one experiences a given commitment has implications for the individual's reactions and responses to that commitment in terms of affective, cognitive, and behavioral outcomes (Becker, Klein & Meyer 2009: 420).

While leadership pertains to all levels of leadership, strategic leadership focuses on top management (Hambrick & Pettigrew 2001). In the FB literature, the family commitment to the business has been used to examine its effect on strategic out-

come (Zahra et al. 2008). When the strategic leadership exhibits organizational commitment, in a FSME context, employees likewise may, due to partly contagious effect (Barsade 2002), and the development of esprit de corps (Jaworski & Koholi 1993) may exhibit commitment to organizational goals such as long term orientation, increasing profit, growth, international expansion or other organizational goals. The esprit de corps was also operationalized by assessing the extent to which a team spirit prevailed in the organization (Jaworski & Koholi 1993).

Zahra et al. (2008) suggest that identification with the organization is considered to be one of the aspects of family commitment culture. Due to family commitment culture, firms may reduce their reliance on formal control (Zahra et al. 2008; Segaro 2012). As the family leadership is committed to the FB, employees likewise can be committed to the FB due to the potential contagious effect and as a result of “leading by example”, which is also considered to be one of the attributes of transformational leadership (Fu, Tsui, Liu & Li 2010). Fu, Tsui, Liu and Li (2010) find that transformational leadership behaviors, which motivate followers to do more than expected and act for the good of the collective, influence followers’ commitment. As a result of these commitments that is of both the strategic leadership and the family employees, commitment between them could also escalate (Whyte, Saks & Hook 1997), increasing the bond of commitment between them.

This aspect perhaps may contribute to escalating organizational commitment to a successful course of action. By shedding off the course of action that has failed (Brockner 1992), while maintaining that which has been tested through time as successful, FBs with a higher level of strategic flexibility may choose to expand abroad and increase their level of internationalization. Escalating commitment, for instance, for a certain organizational goal, in the absence of strategic flexibility, may even engender failure and rigidity (Brockner 1992; Whyte, Saks & Hook 1997). As depicted in figure 10, when the strategic leadership commits to organizational goal such as increasing sales or expanding abroad, employees likewise may commit to the organizational goal. As a result, commitment between the leadership and employees may increase. Family commitment prompted by the family leadership at first will permeate throughout the organization, to non-family managers in leadership, and then to employees. Through time, this aspect will develop into family commitment culture, whereby there will be a dynamic relationship between family commitment culture and organizational commitment.

2.5.3 *Family commitment culture and degree of internationalization*

Long-term positive family relationships are believed to build trust, which reduces the amount of monitoring and incentives needed to solve agency problems (Edlestone et al. 2010; Chrisman et al. 2007). Family commitment culture can be taken as one of those unique characteristics that make a FB different from a non-FB. According to Sirmon and Hitt (2003), FB's uniqueness arises from the integration of family and business life.

The integration of the family and the business life creates several salient and unique characteristics. Among these unique characteristics, in this study, the human capital perspective of taking the softer dimensions "culture" and "commitment" and stewardship orientation in FSME context is emphasized (Segaro 2012). In the FB literature, the family commitment to the business has been used to examine its effect on strategic outcome (Zahra et al. 2008). Thus, we may ask ourselves, how the family strategic leadership's commitment, might, for instance, translate into employees' commitment to organizational goals. When the strategic leadership exhibits organizational commitment, in a FSME context, employees likewise may, due to contagious effect (Barsade 2002), exhibit commitment to organizational goals such as increasing profit, growth or other related organizational goals. Due to contagious effect, the commitment to existing organizational goal may escalate. Through time, family commitment in the FSME may develop into an organizational culture (Zahra et al. 2008) extending from the family to the leadership, then from the leadership throughout its entire business (Segaro 2012). Thus, FCC can be defined as the extent to which the values of the business and family overlap, as well as the family's commitment to their business (Astrachan, Klein, & Smyrnios, 2002; Klein, Astrachan, & Smyrnios, 2005; Zahra et al. 2008: 1042). Figure 10 depicts how organizational commitment embraced throughout the organization may develop into family commitment culture overtime.

It needs to be emphasized that family commitment culture can be a source of competitive advantage/disadvantage due to a level of cohesion and purpose it provides to the family members working in the business and also to non-family employees. Alternatively, it can develop into commitment entrapment (Chirco 2007) of staying in the domestic market.

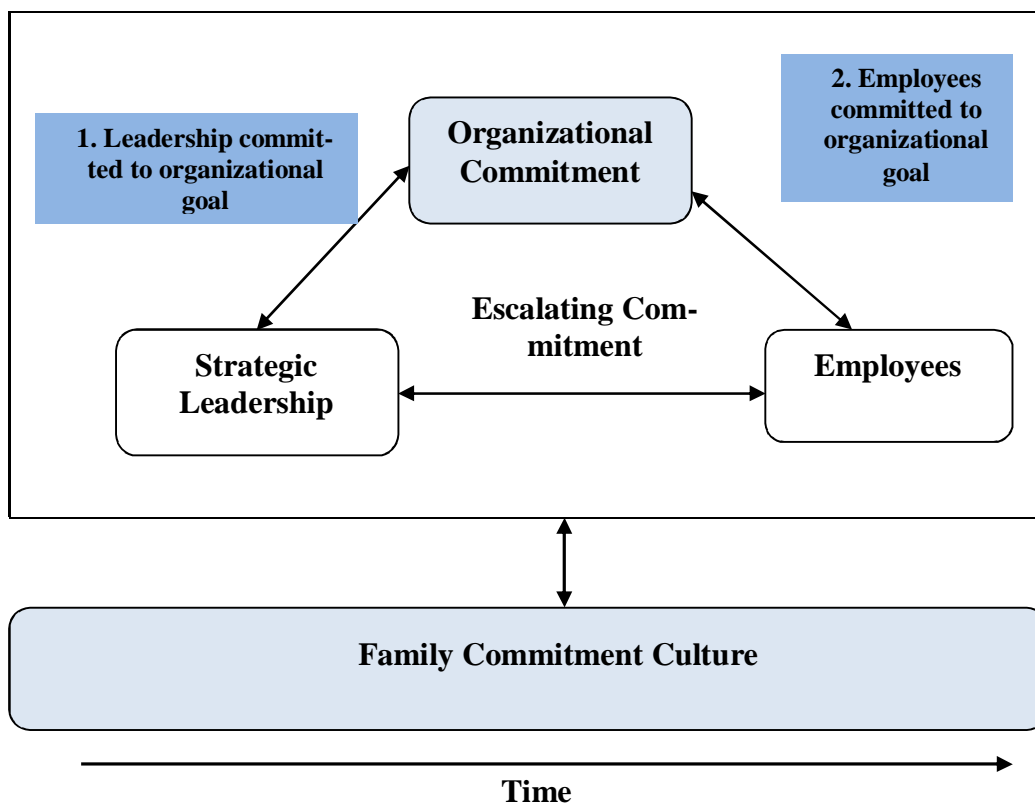


Figure 10. Organizational commitment in the FSME context – Family Commitment Culture

Taking all these together, the family commitment culture can be taken as a form of familiness that contributes to the competitive advantage/disadvantage of FSMEs and potentially influencing their level of internationalization.

2.6 Summary of Theoretical Discussion

This study in this chapter set out to discuss the theoretical underpinnings utilized for this study from several internationalization theories, resource based theory, stewardship perspective and the upper echelon theory. The FB internationalization was also discussed in this chapter, which is the main focus of this study. Related to this, the different theories based on the research question and the focus of the study with particular emphasis on ownership, governance, and top management and internationalization were emphasized. The chapter introduced the literature review by discussing the most widely used conceptual model of the FB is the systemic view of family business (FB) depicted by three circle model (see figure 4). The three circle model describes FB systems as three independent but over-

lapping subsystems: ownership, business, and family (e.g. Gersick et al. 1997; Distelberg & Sorenson 2009).

In the literature review, as FBs are not homogeneous (Sharma 2003: 2; Westhead & Howorth 2007: 407), to better depict this assertion, the developmental model of FBs, in figure five (Gersick et al. 1997: 17) was provided. It shows that FBs could be at different stages in on the ownership axis, family axis, and business axis. Internationalization of SMEs was discussed in this chapter. Internationalization theories in general seek to explain why firms engage in overseas activities and how the dynamic nature of internationalization behavior can be conceptualized (e.g. Morgan & Katsikeas 1997: 71). From the internationalization theories and approaches, pertinent approaches/theories, both from the economic and behavioral schools were discussed. To have a better understanding of the boundaries regarding the theories and approaches utilized in this study, it also incorporated the criticism on the two most widely used theories namely foreign direct investment (FDI) and incremental approach to internationalization. Consequently, internationalization of FSME literature was covered.

As the main emphasis in this study is on the resource-based theory besides governance and TMT theories, its emphasis is on firm-specific resources. Thus, environmental factors were not the focus of this study. Consequently, the resourced based theory was discussed from its historical origins to the current intellectual and empirical state of the field. Relatedly more emphasis was paid to resource-based theory in the FB context "familiness". To this end, intangible resources such as organizational culture and commitment were later on discussed to better shed light into what may contribute to internationalization of FSMEs or not. By emphasizing the softer dimension of family ownership "family commitment culture", this study conjointly analyzed both organizational culture and commitment. To this end, the author of this dissertation developed a model of how family commitment culture may develop in FSME context (see figure 10).

In governance, stewardship behavior in the extant governance literature was discussed. This study, based on Miller et al.'s (2008) conceptualization of stewardship develops stewardship orientation concept to included employee orientation, customer orientation and long-term orientation. To this end, this study provides a depiction of stewardship orientation (see figure 9). Consequently, this study explores the role of top management team in FSME context. Mainly strategic flexibility of TMT of their particular propensity to scan their environment for opportunities and threats and act on them is explored theoretically. Strategic flexibility of TMT can also be reflected by the functional diversity of the top management team. In conclusion, the role of ownership, governance and top management team

(TMT) in FSME internationalization was theoretically examined and previous empirical findings in the field were assessed. Based on the theoretical review, the next section will provide the theoretical framework of this study and also the conceptual model of this study?

3 OWNERSHIP, GOVERNANCE AND TMT IN INTERNATIONALIZATION OF FAMILY SMES

This chapter will provide the theoretical framework of this dissertation. Hypotheses are proposed, and a model for this study is presented. The first section in this chapter deals with family commitment culture and internationalization of FSMEs. The second section in this chapter presents stewardship orientation and internationalization in FSMEs. Third section discusses the relationship between top management team (TMT) and internationalization. Finally, summary and model of this study is provided.

3.1 Family Commitment Culture and Internationalization of FSMEs

Family commitment culture (FCC) is a distinguishing characteristic that makes a FB different from a non-FB. Most FSMEs consolidate their positions in their domestic market and later on may choose to expand to foreign markets incrementally (e.g. Graves & Thomas, 2008) depending on their propensity to adapt to their external environment. Long-term positive family relationships are believed to build trust, which reduces the amount of monitoring and incentives needed to solve agency problems (Eddleston et al. 2010; Chrisman et al. 2007).

Within organizational behavior (OB) and industrial/organizational (I/O) psychology, the relationship of employees with their organization and their desire, need, and/or obligation to maintain membership in the organization has been extensively studied (Becker 1960; Steers 1977; Meyer & Allen 1991; Meyer, Allen & Smith 1993; Rikketta 2002; Wasti 2003). While leadership pertains to all levels of leadership, strategic leadership focuses on top management (Hambrick & Pettigrew 2001). Commitment as a concept has been used to explain “consistent behavior” (Becker 1960: 33). Meyer and Allen (1991: 67) conceptualize commitment with three components as “affective, continuance, and normative commitment”.

In FB literature, drawing on the organizational commitment literatures, Sharma and Irving (2005) propose four bases of FB successor commitment. The four bases of successor commitment of FB proposed are affective (perceived desire), normative (perceived sense of obligation), calculative (perceived opportunity costs involved), and imperative (perceived need). Labaki (2007) argues for the need to look at commitment in its integrity not only emphasizing the commitment of the family owners to their family but also family's commitment to the business.

By using theories of social identity and organizational behavior, Labaki (2007) conceptualizes commitment as two-dimensional. The first dimension pertains to "commitment to family". The second dimension of commitment pertains to "commitment to business". Labaki (2007) stresses the need to maintain a balance between the commitment to the family and commitment to the business.

According to Sirmon and Hitt (2003), FB's uniqueness arises from the integration of family and business life. The integration of the family and the business life creates several salient and unique characteristics. More specifically, in this study, the human capital perspective of taking the softer dimensions "culture" and "commitment" in FSME context is emphasized (Segaro 2012). Prior studies point out that FBs can be risk averse, less growth oriented, less innovative and conservative (e.g. Kets de Vries, 1993, Miller et al., 2008) for instance, in order to preserve their family wealth (e.g. Gomez et al. 2007; Zahra, 2012). Due to the fear of losing all their family wealth, which is usually held in their business, family businesses (FBs) may resist change and may have a strong tendency to keep to the status quo (Berent-Braun & Uhlener, 2012). FBs can become more committed to their business as not only their financial but also their social resources such as social capital and reputation are tied up and are dependent upon the success of the business much more directly than non-FBs (e.g. Labaki 2007).

Commitment in the FB and thus FCC can have a negative effect on strategic outcomes, for example, being entrapped by commitment (Chirco, 2007) to the domestic market. This is because the culture of commitment to the FB may trigger a risk aversion (Kets de Vries, 1993) leading to a lower propensity to expand abroad if it is perceived that expanding abroad threatens FSMEs objective of preserving their wealth (e.g. Zahra, 2012).

The roles of organizational culture present conflicting evidence in internationalization research. Swinth and Vinton (1993) suggest culture as a strategic advantage for FBs in international joint ventures. Similarly, Gallo and Pont (1996) emphasize the importance of top management attitudes in developing foreign business including the owners' long term commitment to international business. Tsang (2001) reports a founder who spent about 70 percent of his time in China, visiting nearly every operation there, making every effort to fully transplant the family culture. Gallo and Sven (1991) conceptualize that company culture can be both a facilitating and inhibiting factor in the internationalization of family business. Sundaramuthy and Dean (2008) point out that FBs tend to be inwardly oriented and less growth oriented. In addition, FCC may provide cohesiveness that could prevent outsider influence in governance leading to conformity in FSMEs (Zahra, 2012). Thus, the more a family business exhibits a culture of commitment

to the domestic business, the more likely that it can be committed to the domestic environment, and the less likely it will be able to adapt to an international context. Therefore:

Hypothesis 1: Family commitment culture is negatively related to the degree of internationalization.

3.2 Stewardship Orientation, Family Commitment and Top Management Team

Organizational culture is a factor identified as potentially influencing the internationalization of FSMEs. Stewardship theory provides a means to understand culture, comprising organizational culture, and relationships within FB (e.g. Davis, Allen & Hayes 2010). Stewardship theory explains situations in which top managers as stewards are motivated to act in the best interests of the organization. In stewardship theory, the leadership decision is ordered such that pro-organizational, collectivistic decisions have higher utility than individualistic, self-serving behaviors (Donaldson & Davis 1991; Davis et al. 1997). Stewardship behavior is characterized more by collaborative relationships and trustworthy behavior, than in self-serving, short-term opportunistic behavior among employees and managers (Davis et al. 1997; Hernandez 2012). Though, stewardship theory can be utilized to explain leadership in FBs, it is recognized that in some types of FBs, agency problems may exist in FBs requiring the minimization of costs related to agency problems (Corbetta & Salvato 2004; Chrisman, Chua & Litz 2004; Segaro 2012).

In FBs, the family is usually involved not only in ownership but also in management. Thus, not only their financial but also other types of capital such as their reputation and social capital are tied up to their business. Pearson and Marler (2010) examined reciprocal stewardship in FBs by using the leadership perspective. They argue that stewardship most likely will not be an effective competitive advantage unless it is embraced and institutionalized as an implicit way of functioning. They further contend that this aspect of stewardship behavior provides competitive advantage for FBs, which cannot be easily imitated. Eddleston et al. (2012) explore whether stewardship perspective explains the difference in the entrepreneurial behavior of FBs.

Empirical findings suggest that stewardship behavior differentiates on entrepreneurial behavior among FBs (e.g. Eddleston et al. 2012). According to Miller et al. (2008) stewardship orientation can be manifested in three ways. The three pil-

lars of stewardship proposed to be utilized in this study are adopted from Miller et al. (2008: 53-57) study on stewardship. Firstly, there is unusual devotion to the continuity of the business. Secondly, there is more emphasis placed in nurturing of a community of employees. Thirdly, there is a seeking out of closer connections with customers to sustain the business. Similarly, stewardship in this study also relies on three pillars namely long-term orientation, employee orientation, and customer orientation.

Ensley and Pearson (2005) argue that within the complex web of social involvement and interactions embedded in the social structure of the family that the advantages of the family form of organization can be identified. (eg. Donaldson 1990; Donaldson & Davis 1991; Davis et al. 1997; Miller et al. 2008; Zahra et al. 2008). Eddleston et al. (2012) finding suggests that comprehensive decision-making and long-term orientation are positively related to corporate entrepreneurship. Based on these findings, it is argued in this dissertation that stewardship orientation can be taken as a unique intangible resource with a potential to create competitive advantage for the FB. In other words, stewardship orientation underpins competitive strategy in FBs and is more likely to be associated and work together with FCC in the creation and sustainability of competitive advantage (Davis et al. 1997; Miller et al. 2008; Zahra et al. 2008).

Hypothesis 2: Stewardship orientation is positively related to family commitment culture.

Stewardship theory suggests that the leadership may serve as a steward, motivated to act in the best interest of the organization (Zahra et al. 2008). Stewardship theory is important for explaining strategic leadership and more specifically top management behavior in FB context. Several empirical studies, which examined the link between stewardship and performance, have found positive relationships (e.g. Eddleston & Kellermanns 2007; Miller et al. 2008). Eddleston et al. (2012) find that family to firm unity also enhanced the positive effects of participative governance and long-term orientation on corporate entrepreneurship.

Due to the intertwining of ownership and control in FBs resulting in interest alignment, family firms can have a strong tendency to make strategic decisions carefully and prudently by taking the long-term perspective (Carney 2005: 253; Chrisman, Chua & Steier 2005: 240). As authority is usually concentrated in the hands of TMTs, top managers have fewer internal constraints as they are exempt from internal bureaucratic constraints relative to their non-family counterparts (Carney 2004: 254; Chrisman, Chua & Steier 2005: 240). Family control rights allow the family top management members not to be encumbered by authority fragmentation and thus to intervene in the activities of the family firm with "par-

ticularistic", more flexible criteria (Carney 2005: 255; Chrisman, Chua & Steier 2005: 240). The pursuit of opportunities abroad by adapting FSME's business strategy can thus be seen to be contingent on the consideration of paying attention to the continuity of business for the long-term.

Successful strategic leadership in privately held small FB may result when family business leaders are independent and have the discretion and flexibility to make quick decisions, aligned to organizational goals (Miller et al. 2008) although Pearson and Marler (2010) argue that stewardship is less likely to be effective unless embraced and institutionalized. Employee orientation of FSMEs will allow FSME TMTs to have the discretion to be flexible to make quick decisions while at the same time they can become inclusive of diverse ideas from employees.

Stewardship orientation is also likely to be associated with the capabilities of the TMT including its family members. Graves and Thomas (2006) report that despite FBs' having less managerial capabilities when compared to non-FBs they can still achieve a high degree of internationalization due speculatively to more effective management and leveraging of resources compared to their non-family counterparts (Graves 2006; Graves & Thomas 2006; 2008). Hall, Melin and Nordqvist (2001: 193) argue that internationalization puts pressure on firms to constantly reflect and change how they do their business. Thomas (2008) states that there is a need to find out, how a firm can encourage strategic change that would result in its expansion abroad.

Due to the rapid changes in technology and new product introduction to markets, Bettis and Hitt (1995: 14) argue that the new managerial mindset emphasizes that firms may need strategic flexibility to respond to their competitors actions. According to them, dynamic efficiency (innovation and entrepreneurial behavior) and concurrent learning and unlearning are part of the new managerial mindset. Hall et al. (2001) argue that managers need to foster a process of learning in which old cultural patterns are continuously questioned and changed. When FSME TMTs are open and explicitly in their organizational culture, TMT members and other employees will be forthcoming with their criticisms to question and state their ideas and bring their proposals for expansion abroad. In addition, explicitness in organizational culture will allow TMT members and other employees to reinforce some values while change others that may not contribute positively to internationalization of FSMEs (Hall et al. 2001). Thomas and Graves (2005) argue that a radical change involving a change from domestic orientation to an international orientation and it can only occur if the culture of the firm that attaches meaning to the environment changes. Hall et al. (2001) argue that strategy of an organization has its origin in organization. They further suggest that or-

ganizational culture acts as filter in how a firm interprets different signals and responds to environments in which it operates. Thus, FSMEs who are stewardship oriented with TMTs that are strategically flexible in managing and leveraging their resources are more likely to internationalize their businesses. In such businesses stewardship orientation will have a positive relationship with strategic flexibility of TMTs. Therefore:

Hypothesis 3: Stewardship orientation is positively related to strategic flexibility of top management team.

Experience in industry shapes firm's knowledge resource and therefore influences performance (Agarwal et al. 2004). TMTs with industry experience can have industry related social capital. They have access to industry related information and can also conduct active and fruitful searches for opportunities (ibid). Due to their industry experience, they may acquire knowledge regarding business opportunities (Shane 2000). Industry experience of founders and TMT members allows for establishing their reputation, which in turn could help them attract investors for expansion (Stuart & Sorenson 2003: 232).

Industry experience also provides the possibility to hire capable employees (Sorenson 2003). If FSMEs professionalize their business, they were found to select individuals with both business and interpersonal competencies (Blumentritt, Keyt & Astrachan 2007) and more likely recruit non-family managers, when talent is not available in the FB. Non-family managers, who have industry experience, may already have built up the necessary social capital (e.g. Jehn 1995; Chang et al. 2009; Segaro 2012), which allows them to explore expanding abroad.

Next generation family managers may already have the prerequisite industry experience as they may have been already involved informally in strategic decision-making process by the time they join up the top management team in their FB (Hall, Melin & Nordqvist 2001; Hall & Nordqvist 2008). Alternatively, they may already have outside work experience prior to their joining their FB (Barach et al. 1988; Morris et al. 1997; Lambrecht 2005; Segaro 2012). Managerial experience was found to lead to global mindset (Nummela et al. 2004). Eddleston et al. (2012) find that employee human capital was contingent on the organizational level of family to firm unity. Employee or top management's skill, experience and knowledge will be important in understanding how to navigate in different contexts. In addition, the long-term orientation of FSMEs allows them to develop or acquire the requisite industry specific experience in their TMTs.

Westhead et al. (2001) argue that entrepreneurs with diverse levels of human capital (experience and knowledge) are purported to have the ability to develop rele-

vant skills and contacts. Taking all this together, industry experience of top management team may be positively related to internationalization. This leads us to the following hypothesis:

Hypothesis 4: Stewardship orientation is positively related to top management team's industry experience

3.3 TMT and Internationalization of FSMEs

Firms around the world must manage economic crisis (Grewal & Tansuhaj 2001). The issue of strategic flexibility or rigidity is often linked with environmental turbulence. Dynamic business markets and changing economic conditions, call for a new marketing approach and increasing strategic flexibility in business organizations (Matthyssens, Pauwels & Vandenbempt 2005: 547). Strategic flexibility can be defined as the ability to pursue new opportunities and respond to threats in the competitive environment (Zahra et al. 2008: 1). Evans (1992: 74) states that the concept of flexibility is polymorphous in that it has a number of different meanings in various contexts.

Different scholars use strategic resilience, strategic change, or strategic adaptation, agility, versatility and other related terms to refer to similar ideas though each term may mean different things and may have different sense of the flexibility concept depending on the focus of the study (Evans 1992). Despite these differences, however, these studies address a similar problem of that of adjusting available means to better achieve current and anticipated future ends (Evans 1992: 73). However, in this study, strategic flexibility is used, as it seems to be a broader concept. In strategic flexibility, the ability to recognize a threat and opportunity loosely can be seen to be prior to a crisis, during the crisis or even after the crisis. As FSMEs can be involved in both the traditional and high-tech manufacturing industry, the choice of strategic flexibility can be seen as a valid choice.

A strategically flexible FSME, may be driving the market in charting new territories in terms of developing new technology or shaping customer preferences. Flexible decisions involve identifying environmental changes, evaluating the potential environmental changes, considering the flexibility option, and analyzing other methods of coping with uncertainty (Aaker & Mascarenhas 1984: 80–81). Family involvement in management may become a source of competitive advantage. The interaction between individual family members including family managers, the family unit, and the business may lead to systemic synergies with a potential to create competitive advantage for the firm. Managerial capability of

TMT can be defined as composed of skill, experience, knowledge in TMT including functional experience and team diversity (Stamp 1981; Boeker and Wiltbank 2005; Graves and Thomas 2006, 2008).

In this study, the main focus is on the TMT diversity/heterogeneity, which has been identified as one of the dimensions of managerial capability. We can expect that TMTs, which are heterogeneous in relation to their functional diversity, will bring in different skill sets. Thus, this study attempts to examine how TMT heterogeneity can be taken as one of the indicators of a strategic flexible TMT. The more heterogeneous they are and identify the opportunities and threats in the environment the more likely that they will pursue opportunities abroad.

This study, to my knowledge, is one of the first to combine team heterogeneity to strategic flexibility construct and propose a strategic flexible TMT construct. In this study the emphasis is in having a top management team composed of varied functional background such as marketing, manufacturing, R&D, finance and other related functional background categories. FSMEs that are stewardship oriented may have a strategic flexible TMT, which in turn may allow them to pursue opportunities in the internal and external environment of the firm. Internally, they may be better positioned to utilize the social capital of their employees (Jehn 1995; Chang et al. 2009; Segaro 2012) and externally they may be able to utilize the social capital of their partners and customers due to their employee orientation, customer and long-term orientation (e.g. Miller et al. 2008). This is expected to result in strategic decisions that may enhance their competitiveness such as the pursuit of international expansion.

In FSMEs context, the global market environment is constantly changing, the domestic market is not anymore immune to competitive pressures from both local and international firms. Therefore, their ability to assess environmental change for their firm might be one of the crucial differentiating factors even among FSMEs. In terms of the flexibility option that FSMEs may pursue, one outcome could be international expansion and the ongoing optimal increase of their level of internationalization (Riahi-Belkaoui 1998). Whereby the administrative costs incurred and the increasing complexity of handling foreign sales (particularly export in this study's case), does not outweigh the benefits of export in relation to its contribution to firm performance (Riahi-Belkaoui 1998). Westhead et al. (2001) confirm that specific industry know-how was a strong predictor of the ability of the firm to be an exporter. Industry experience of TMT is expected to be positively associated to degree of internationalization. FSMEs may increase their level of internationalization perhaps as part of their strategic renewal endeavor. This leads us to the following hypotheses:

Hypothesis 5: Strategic flexibility of top management team is positively related to degree of internationalization

Hypothesis 6: Industry experience of TMT is positively related to degree of internationalization.

3.4 Summary and Model of this Study

This chapter presented the theoretical framework of this study. This study sought to explore the relationship between family commitment culture and degree of internationalization. There has not been a previous study conducted in the context of internationalization on how this construct would be related to internationalization. Though, there has been studies on how organizational culture may/may not contribute to entrepreneurship (e.g. Hall et al. 2001). However, it has been examined in FB performance studies.

Thus, adapting the construct to internationalization study was done by taking into account the context that is a developed country context. If family commitment culture would be examined under ethnic international entrepreneurs context, due to transnational ethnic ties (Prashantham & Dhanaraj 2010; Prashantham 2011), the relationship between family commitment culture and internationalization can be expected to not negative. Though, family commitment culture is expected to contribute negatively in a developed country context due to the potential domestic orientation that ensues from family commitment cultures, in transnational ethnic family enterprise, the relationship may be reverse. Thus, we can expect the relationship to change depending on the context. In stewardship orientation, the main emphasis is on whether FBs are employee oriented, customer oriented and long-term oriented. This aspect may differentiate among FBs that are entrepreneurial or not (e.g. Eddleston, Kellermanns & Zellweger 2012).

Though, when it comes to international entrepreneurship, the relationship between family commitment culture and stewardship orientation, may contribute to domestic orientation due to the inward orientation that a strong family commitment culture may bring to the FB. Strategic flexibility of top management team and industry experience of TMT can be expected to be positively related to internationalization. In relation to strategic flexibility of top management team, when top management team members from diverse functional background pursue opportunities and identify threats in their environment, they are more likely to pursue internationalization than those who do not have functionally diverse and strategically flexible top management team. The model in figure 11 depicts that proposed

relationships in this dissertation. The next section will present the methodology of this dissertation.

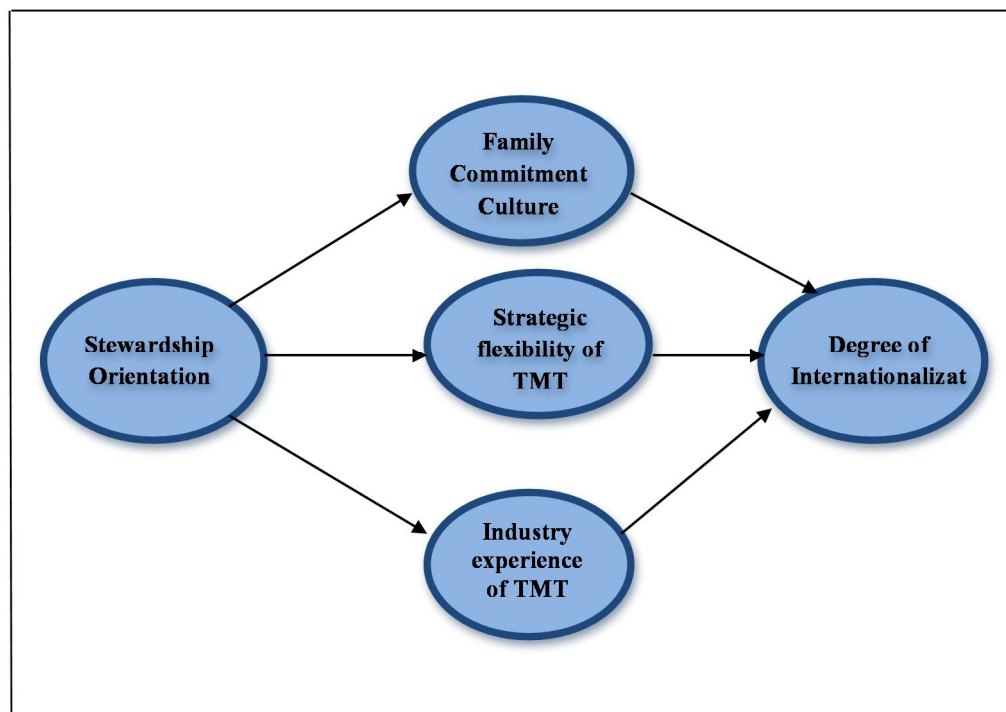


Figure 11. Conceptual model of the study: The role of ownership, governance and TMT on the internationalization of family

4 RESEARCH METHODOLOGY

This chapter first covers the research design for this dissertation. Secondly, it discusses the data collection procedure including the population, sample, questionnaire development and response pattern for the survey research. Thirdly, it covers the variance based structural equation modeling using the PLS approach by giving emphasis to the description of the PLS path modeling and provides the basis on how the structural model will be assessed. Fourthly, it provides construct operationalization of this study. Finally, it will discuss the reliability and validity for this study.

4.1 Research Strategy

The current dissertation is a quantitative study. Survey research was conducted. The survey approach is usually associated with deductive approach (Saunders, Lewis & Thornhill 2003; Bryman & Bell 2007). The emphasis in quantitative methods is to have objective “outsider view” and a distance from data. It is considered to be particularistic, analytic and providing the possibility for generalization by population membership (Ghuri & Gronhaug 2010: 105). One of the advantages of using survey research is that it allows the collection of a large amount of data from a sizeable population in a highly economical way. In addition, survey research gives more control for the research process (Saunders et al. 2003: 92). The main purpose among other reasons for conducting survey is to have probability sampling (Saunders et al. 2003). A questionnaire was developed drawing upon mainly existing research instruments. Suitable sampling frame based on the research question(s) or objectives was identified. Effort was made to make the sample more representative of the population of the study (Fowler 1984: 11–12; Saunders et al. 2003: 92; 153). The next section covers the data collection for this dissertation.

4.2 Data collection

The collection was conducted between August 2010 and February 2011. The first phase was during August–September 2010. The second phase was during November 2010. After excluding companies that did not meet the criteria set for this study and removing those companies that did not respond on the variable of interest for this study, the sample for this study comprised 80 family exporting SMEs from the manufacturing sector in Finland. As the companies were unable to fill the longer version of the questionnaire, they were asked if they are willing to fill

in a shorter version of the same questionnaire over the phone or to fill in the shorter version and send it to the researcher by email. Based on criteria set by this study a) firms must identify themselves as FBs; b) firms must be small and medium sized enterprises by using EU's definition of SME (number of employees: less or equal to 250 in 2005/2008/2009; Turnover: less than or equal to Euro 50 Million in 2008/2009). There were two boundary cases that were included in the sample.

4.2.1 *Population and sample*

In terms of data sources, this study has utilized both a primary source and to some extent secondary sources. The list of exporting FSMEs included the manufacturing sector. To describe in some detail the process and procedure followed to make the list of target population: the list of manufacturing exporting SMEs, which might potentially be FSMEs was drawn from different databases. Firstly, the national business register (Fonecta), which is a Finnish database, consisting of exporting Finnish SMEs, was utilized (1994 companies in general). As there was no official national database identifying FBs, there was no way of identifying directly these firms. Different methods were used to arrive at the final target population. Firstly, the website of each of the 1994 exporting Finnish manufacturing and high-tech SEMs was investigated to check if they define themselves as a FB (237 FSMEs).

Secondly, as other studies in other countries, which do not have national databases on FBs, have used surnames as one of the methods to potentially identify FBs (e.g. Arosa, Iturralde & Maseda 2010), this study also utilized the same procedure. Similarly, in this study, the surname of the key decision-makers of a given firm in the national business register was checked to identify if more than one person in the firm's top management has the same surname. If two or more of the decision-makers have the same surname, they were included in the list (278 SMEs). Though this procedure does not guarantee whether the business is actually a FB or not, but effort was made to include potentially all exporting (manufacturing and high tech) FSMEs in Finland. Thirdly, the internal University of Vaasa database on family exporting SMEs from the manufacturing sector was utilized (135 FSMEs). Thus the total number of potentially FSMEs was 650. Table 3 provides the target population and sample size. Thus the sampling framework for this study is potentially 650 FSMEs. The next section will describe the questionnaire development process.

Table 3. Target population and sample size

	Fonecta database	Internal Database	Total
Target population	1994	135	
Same surname Identification	278		
Website Identification	237		
Sample Size	515	135	650

4.2.2 Questionnaire Development

The questionnaire was developed based on previous literature in FB and internationalization and other related fields. The questionnaire, besides incorporating previous studies on internationalization of FSMEs by (Graves (2006), and governance in FBs by Mustakallio (2005), it also relied upon, questionnaire from existing department of marketing internationalization of SMEs studies. In addition, for specific constructs such as family commitment culture (Klein et al. 2005; Zahra et al. 2008) stewardship orientation (e.g. Miller et al. 2008); strategic flexibility (Zahra et al. 2008) and others, literature on these constructs was examined and thus most of the scales have been tested by other studies and have been validated.

Thus the questionnaire predominantly has been validated in other countries and for the internationalization part it has been validated in Finland. Translation from English to Finnish involved three persons who are all fluent in Finnish and English, of whom two were native Finnish speakers. One professor was involved in checking the questionnaire and another English-Finnish language professional also checked the content of the questionnaire in both English and Finnish. Pre-test of the questionnaire involved three individuals, of whom one was a FB manager, another person was a business owner, and the third person was a professional in another field. Two more FSME owners were contacted for pre-test, but it was not possible to receive their responses in time due to their business related tight schedule. After filling out the questionnaire, all three were interviewed regarding the questionnaire. Based on their feedback, the questionnaire was further refined. The preliminary questionnaire sent to the exporting SMEs (potentially FBs) in Finland was around four pages. The questionnaire is provided in the appendix 2.

Maximum likelihood and particularly multiple imputations were used to impute the missing values for all missing values of the variable of interest for this study by using the Amelia software developed by Honaker, J. King, G. & Blackwell, M. (2011). One item, regarding employees that spend 50% of their time had missing values of (13%); TMT industry experience had a missing value of 17%. The other missing item is for a scale of strategic flexibility, which is measured as a sum of 9

items, only one of the items had a missing value of 28% the rest had only a maximum of 3.5% missing values). These items were imputed using maximum likelihood and more specifically multiple imputations.

4.2.3 *Response pattern*

The target population was reduced to 650 small and medium sized manufacturing and high technology enterprises. A survey questionnaire was sent to these 650 companies. One of the criteria of this study is that they have to identify themselves as FB (e.g. by answering in the questionnaire whether they are a FB or not). The second criteria, is that they can be categorized as a small and medium sized enterprise by using the definition of EU for SMEs (250 employees and not more than 50 million turnover). For all the sample companies, family members were part of ownership and management.

The initial response before taking into account the criteria of this study was 120 firms, with a *response rate of 19%*. By selecting only those who self-identified themselves as FB and met the second criteria of being an SME, 102 companies were selected from the initial respondents. From 102 companies, for around 20 companies, respondents did not fill in their responses for all the key constructs of this study. As a result, the final sample of this study consisted of 80 FSMEs in the manufacturing sector. Thus, the *effective response rate for this study is 12.3%*. The response rate can be considered satisfactory and is comparable with other studies regarding FBs and also the survey-based data (Eddleston, Kellermanns & Zellweger, 2012; Chrisman, Chua, Chang & Kellermanns 2007: 1033). Table 4 provides the response rate.

Table 4. Effective response rate

	Number of Respondents	Response Rate
Sample Size	650	
Received Response	120	18.46%
After implementing the criteria	102	15.69%
After deducting due to missing variables	80	12.3%

T-tests were conducted to check if there is any significant difference between first wave and second wave questionnaires. For demographic variables, there was no significant difference. In terms short and long-version questionnaire sent out, for demographic variables, there were no significant difference.

4.3 The Variance Based Structural Equation Modeling: The PLS Approach

In this study, structural equation modeling (SEM) is utilized. More specifically, this study utilized the variance based structural equation modeling, the PLS approach. Structural equation modeling is a statistical model that seeks to explain the relationships among multiple variables. It examines the structure of the interrelationships expressed in a series of equations, as in a series of multiple regression equation. Constructs are unobservable or latent factors represented by multiple variables (Hair et al. 2010). For example, in this study's case, one example of a latent construct (LV) is the family commitment culture among other latent variables.

All structural equation models are distinguished in three ways. First, SEM allows the estimation of multiple and interrelated dependence relationships. Secondly, SEM provides an ability to represent unobserved concepts in these relationships and account for measurement error in the estimation process. Thirdly, SEM defines a model to explain the entire set of relationships (Hair et al. 2010). There are two approaches to structural equation modeling (SEM). The first one is the covariance-based approach, software such as LISREL, EQS, AMOST, and MPLUS utilize this approach. The second approach is the component-based (variance based) estimation procedure, which is called partial least squares (PLS) (Vinzi, Trinchera & Amato 2010; Hair et al. 2010), software such as smartPLS, Warp-PLS utilize this approach.

Partial structural equation modeling-structural equation modeling (PLS-SEM) can be a powerful method of analysis because of the method of analysis and because of the minimal dependence on measurement scales, sample size, residual distribution. In addition, PLS-SEM can be used for theory confirmation; it can also be used to suggest where relationships might or might not exist and to suggest propositions for testing later (Chin 1998: 295). PLS-SEM has been increasingly applied in marketing and other business disciplines (Hair, Ringle & Sarstedt 2011).

In relation to sample size, Chin (1998: 311) suggests that we need to look at the arrow scheme and find the larger of two possibilities. The first option is to look at the block with the largest number of formative indicators that is the largest measurement equation. The second option is to look at the dependent LV with the largest number of independent LVs impacting it that is the largest structural equation. Using the regression heuristic of 5–10 cases per predictor, the sample size requirement would be 10 times either (option one) or (option two). If we take option two, it would be 50–100. The sample size of 80 for this study is between

required numbers of 50–100. PLS-SEM provides the sample size flexibility that SEM covariance does not (Chin & Newsted 1999: 326–327). Due to the above mentioned reasons, PLS-SEM was chosen to analyze the data for this study. The next section will describe the PLS path modeling.

4.3.1 *Description PLS path modeling*

A structural equation model with latent constructs has two components. The first component is the *structural model* known as the inner model. In PLS-SEM, the structural model depicts the relationships (paths) between the latent constructs. In structural model, exogenous and endogenous constructs are distinguished. Exogenous is used to refer to latent constructs that do not have any structural path relationships pointing at them. Whereas endogenous refers to latent constructs in the structural model that are explained by other constructs via structural model relationships (an arrow will be pointing at them) (Hair et al. 2010: 141). The second component is the *measurement model*, referred to as outer models in PLS-SEM. The measurement models include the unidirectional predictive relationships between each latent construct and its associated observed indicators (Hair et al. 2010: 141). Another important benefit of using PLS-SEM is that it allows the use of formative and reflective measurements. Reflective indicators are seen as functions of the latent construct and this means that changes in the latent construct are reflected in changes in the indicator (manifest) variables.

An alternative measurement perspective to reflective is based on the use of formative (cause, causal) indicators. It involves the creation of an index rather than a scale. Indicators are assumed to cause a latent construct. Changes in the indicators determine changes in the value of the latent construct (Bollen & Lennox 1991: 306; Diamantopoulos & Winklhofer 2001: 269). With latent variables (LVs) composed of formative indicators, omitting an indicator is omitting a part of the construct (Bollen & Lennox 1991: 308). Secondly, the correlations among formative indicators are not explained by the measurement model. This is because indicators are being exogenously determined. Thus, it becomes more challenging to assess their validity. Thirdly, a specific pattern of signs (i.e. positive versus negative) or magnitude (i.e. high versus moderate versus low) does not characterize the correlations among formative indicators. Fourthly, formative indicators do not have error terms; error variance is represented only in the disturbance term. Thus, for formative indicators, the variance in true scores is higher than variance in observed scores. Fifthly, the formative indicator measurement model can be estimated only if it is placed within a larger model that incorporates consequences (i.e. effects) of the latent variable in question (Diamantopoulos & Winklhofer

2001: 271). Thus, to assess the validity and reliability of scales composed of reflective indicators are not appropriate for composite variables (i.e. indexes) with formative indicators (Diamantopoulos & Winklhofer 2001: 271). The basic PLS-SEM algorithm has a two stage approach. In first stage, the latent constructs' scores are estimated through four-step process. In step one, outer approximation of latent construct scores (the scores for all the latent constructs are computed based on the manifest variables' scores and the outer coefficients from step four). In step two, estimation of proxies for structural model relationships between latent constructs. In step three, inner approximation of latent construct scores (based on the scores of all the latent constructs from step one and proxies for structural model relationships, from step two). In step four, estimation of proxies for coefficients in the measurement models (the relationships between indicator variables and latent constructs with scores from step three. In the second stage, final estimates of coefficients (outer weight and loadings, structural model relationships) are determined using the ordinary least squares method for each partial regression in the PLS-SEM model (Hair et al. 2011: 141–142). In the case of this study, Figure 12 provides the inner (structural) model.

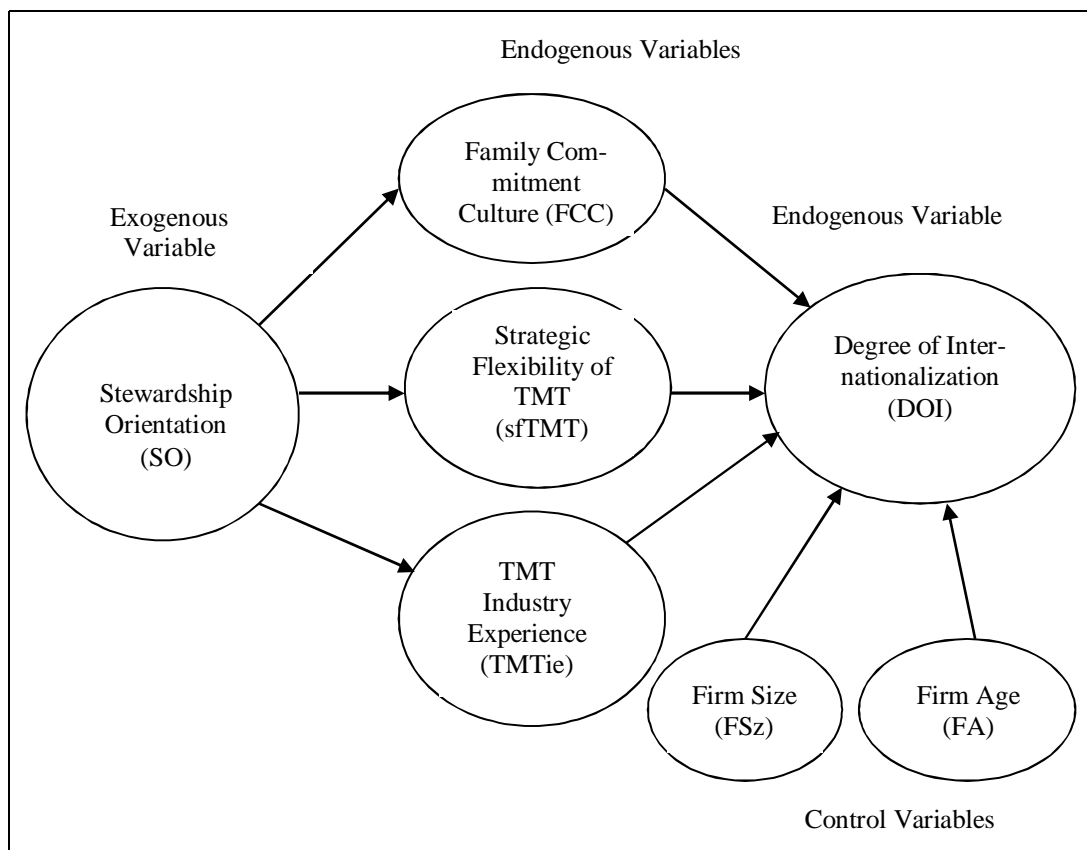


Figure 12. Structural (inner) model of this study

In this model, it is possible to see the LVs of this study stewardship orientation is an exogenous latent variable. Family commitment and strategic flexibility of TMT, TMT industry experience and degree of internationalization are all endogenous latent variables while firm size and firm age are control variables. In appendix one, the combined loadings and cross loadings of the prior model before one item (FCC1) was removed, is presented in table two. In appendix one, in table three, the R-square, composite reliability, and VIF are provided. TMT industry experience (TMTie) is a one item variable as also the control variables firm age and firm size.

Strategic flexibility of TMT (sfTMT) is a reflective variable, which is reflected by strategic flexibility (Tsf) and top management heterogeneity (TMThe) in relation to their functional background. The strategic flexibility construct is the sum of eight items. The final construct, as mentioned earlier, strategic flexibility of TMT is a reflective variable. Degree of internationalization (DOI) is a reflective variable with three indicators namely geographic scope (GSR), foreign sales intensity (FSTSR), and employees that spend 50% of their time in internationalization (EIA50). Figure 13 provides the measurement model of this study.

4.3.2 *Assessment of the Structural Model*

One of the advantages of PLS-SEM for non-normal data and small sample size is that it does not make distributional assumption (Chin 1998). To evaluate a PLS-SEM model, instead of evaluating a model on covariance fit, evaluation on PLS-SEM model should apply prediction-oriented measures that are nonparametric (ibid). R-square for dependent LVs, Fornell and Larcker's (1981) average variance extracted (AVE) can be used to assess predictiveness. In terms of re-sampling procedures, jackknifing and bootstrapping can be used. In this study, R-square for LVs, Fornell and Larcker's (1981) average variance extracted (AVE) and jackknifing for re-sampling are used.

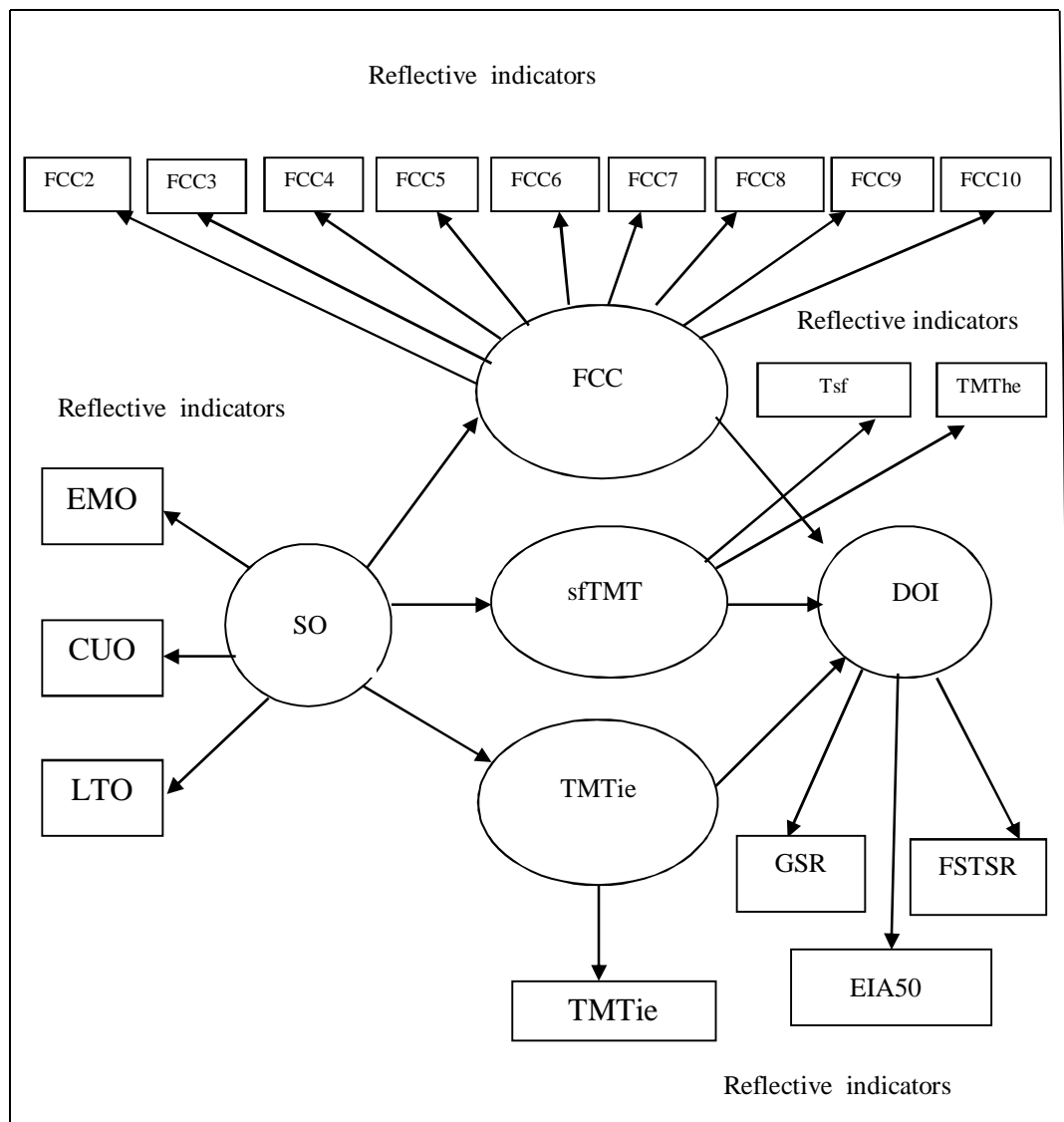


Figure 13. Measurement (outer) model of this study (including the latent variables)

Composite reliability, assess the internal consistency for a given block of indicators. When compared to Cronbach's alpha, composite reliability, however, do not assume tau equivalency among the measures with its assumption that all indicators are equally weighted. Therefore, alpha tends to be a lower bound estimate of reliability whereas composite reliability is a closer approximation under assumption that the parameter estimates are accurate. It is important to note that composite reliability is only applicable for reflective indicators (Chin 1998: 320). In terms of AVE, it attempts to measure the amount due to measurement error. As composite reliability measure, AVE is only applicable for outward directed

blocks. Fornell and Larcker (1981) suggested that AVE can be used as a measure of reliability for the LV component score. It is recommended that AVE should be greater than .50 meaning that 50% or more variance of the indicators should be accounted for (Chin 1998: 321).

Jackknife was originally a computer-based method for estimating biases and standard errors of an estimate. The jackknife predates the bootstrap and bears close similarities with bootstrap (Efron & Tibshirani 1993: 133; 141). Jackknifing creates a number of re-samples that equals the original sample size, and each resample has one row removed. Sample size of each resample is the original sample size minus 1. Thus, the choice of number of resamples has no effect on jackknifing. The default number of resamples is 100, which is a recommended level. Jackknifing is considered to do a better job at addressing problems associated with the presence of outliers due to errors in data collection. In general jackknifing tends to generate more stable resample path coefficients (and thus more reliable P values) with small sample sizes (lower than 100) and with samples containing outliers (Chiquoine & Hjalmarsson 2009: 795). Thus, in the empirical analysis section, this study will use the model evaluation to gauge predictability, reliability and validity of the structural model and measurement.

4.4 Construct Operationalization

This section provides the construct operationalization. For most of the constructs, the Likert scale (1–5) was used. For DOI, as the scale was not a Likert scale, the indicators were first converted into a ratio variable. For functional diversity, one of the indicators of sfTMT, as the variable is a dummy variable (e.g. marketing and sales: 0–1), the total functional diversity had a score ranging from 1–4, representing the four different functional diversity indicators: R&D; manufacturing and operations; marketing and sales; finance, accounting, legal and administration.

4.4.1 *Measures of the Independent variable*

Family Commitment Culture

In this study, family commitment culture (FCC) was measured by using the F-PEC Scale of family influence (Astrachan, Klein & Smyrniotis 2002; Klein, Astrachan & Smyrniotis 2005). Similarly, Zahra et al. (2008) have also used dimension of culture of F-PEC scale for family commitment culture. The F-PEC scale measures the extent to which the family influences the business and its impact on

strategy related outcomes (Zahra et al., 2008). Family influence, in turn, can be measured by assessing power, experience, and culture in FB and their impact on strategy related outcomes. Table 5 lists the items for family commitment culture and it also provides the source of the items. According to Zahra et al. (2008), the family culture dimension in F-PEC reflects the extent to which the values of the business and family overlap, as well as the family's commitment to their business, thus it is consistent with the concept of family culture of commitment to the firm. Hence, the culture dimension in F-PEC is consistent with family commitment culture examined in this study. However, from the original F-PEC scale of culture, two items, which were found to be on the individual level, and did not focus on the family culture, were removed. Similarly, in Zahra et al.'s (2008) study, these items have also been removed. In addition, the items are modified to be more neutral. Because the first item "the family has influence on the business" did not load together with the others, it was removed (Hair et al. 2010).

Strategic Flexibility of TMT

The measure of strategic flexibility of TMT (sfTMT) comprised two indicators. The first indicator measured strategic flexibility in general which was taken from the work of Barringer and Bluedorn (1999) and the second indicator is Boeker and Wiltbank's (2005) TMT heterogeneity. This study combined the TMT heterogeneity indicator with strategic flexibility indicator to construct "strategic flexibility of TMT". TMT heterogeneity is expected to increase the level of strategic flexibility in the TMT. To describe the strategic flexibility construct it included scales ranging from 1 "not at all flexible" to 5 "Very flexible." The stem for this scale is "Please indicate your evaluation of how flexible your business's strategic planning process could be in response to the following events." For example, the following items were included "emergence of a new technology", "shifts in economic conditions", and "market entry of new competition" and also other items were used to operationalize strategic flexibility. The items for strategic flexibility were summed up and divided by the number of items. Thus, strategic flexibility has one indicator.

Table 5. Measurement of family commitment culture

Stem Question: To what extent do you agree with the following:		
Items	Scale	Source
Family members share similar values	On the scale of (1–5); (1) Not at all (5) To an extreme extent	Klein et 2005; Zahra et al. 2008
The family and business share similar values	On the scale of (1–5); (1) Not at all (5) To an extreme extent	Klein et 2005; Zahra et al. 2008
We support the family business in discussions with friends, employees and other family members	On the scale of (1–5); (1) Not at all (5) To an extreme extent	Klein et 2005; Zahra et al. 2008
Family members are willing to put in a great deal of effort beyond the normally expected, to help the family business be successful	On the scale of (1–5); (1) Not at all (5) To an extreme extent	Klein et 2005; Zahra et al. 2008
We feel loyalty to the family business	On the scale of (1–5); (1) Not at all (5) To an extreme extent	Klein et 2005; Zahra et al. 2008
We are proud to tell others that we are part of the family business	On the scale of (1–5); (1) Not at all (5) To an extreme extent	Klein et 2005; Zahra et al. 2008
There is so much to be gained by participating with the family business on a long-term basis	On the scale of (1–5); (1) Not at all (5) To an extreme extent	Klein et 2005; Zahra et al. 2008
We agree with the family business goals, plans, and policies	On the scale of (1–5); (1) Not at all (5) To an extreme extent	Klein et 2005; Zahra et al. 2008
We really care about the fate of the family business	On the scale of (1–5); (1) Not at all (5) To an extreme extent	Klein et 2005; Zahra et al. 2008

To measure TMT heterogeneity, this study utilized Boeker and Wiltbank's (2005: 128) categorization. Respondents were asked, "How diverse is the functional background of the top management? Please indicate top management functional background." The choice for selection provided were a) Research and development b) Manufacturing and operations; c) Marketing and sales and d) Finance, accounting, legal and administrative. This variable was taken as a dummy variable (e.g. marketing and sales 0–1) and the total functional diversity has a score ranging from 1–4, representing the four different functional background categories. In study, as mentioned above, the two indicators used to reflect strategic flexibility of TMT are "strategic flexibility" and "TMT heterogeneity". This is because theoretically, in FB literature, it is indicated that FSMEs lack the managerial capability (Graves & Thomas 2006).

Thus, if they have heterogeneous TMT, it is more likely that they will be able to compensate their limitations by pooling in their knowledge and experience in-

cluding international experience (Johanson & Valhne 1977; 2006; 2009; Reuber & Fisher 1997). In addition, the risk avoidance characterization of FBs (e.g. Kets de Vries 1993), could be compensated when TMT members from different functional background with their own set of network relationships (Johanson & Valhne 2009) are incorporated in TMT. Thus, having TMT with diverse functional background may allow the accumulation of knowledge potentially international experiential knowledge (Eriksson, Johanson, Majkgård & Sharma 2000). For missing data, maximum likelihood method and mainly multiple imputations were used. The strategic flexibility of TMT is a reflective variable. Table 6 shows the items used for strategic flexibility construct.

Table 6. Measurement of strategic flexibility

Stem Question: Please indicate your evaluation of how flexible your business's strategic planning process could be in response to the following events.		
Items	Scale	Source
The emergence of a new technology	On the scale of (1–5); (1) Not at all flexible (5) Very flexible	Barringer and Bluedorn 1999; Zahra et al. 2008
Shifts in economic conditions	On the scale of (1–5); (1) Not at all flexible (5) Very flexible	Barringer and Bluedorn 1999; Zahra et al. 2008
The market entry of new competition	On the scale of (1–5); (1) Not at all flexible (5) Very flexible	Barringer and Bluedorn 1999; Zahra et al. 2008
Changes in government regulations	On the scale of (1–5); (1) Not at all flexible (5) Very flexible	Barringer and Bluedorn 1999; Zahra et al. 2008
Shifts in customer needs and preferences, modifications in supplier strategies	On the scale of (1–5); (1) Not at all flexible (5) Very flexible	Barringer and Bluedorn 1999; Zahra et al. 2008
The emergence of an unexpected opportunity	On the scale of (1–5); (1) Not at all flexible (5) Very flexible	Barringer and Bluedorn 1999; Zahra et al. 2008
The emergence of an unexpected threat	On the scale of (1–5); (1) Not at all flexible (5) Very flexible	Barringer and Bluedorn 1999; Zahra et al. 2008
Political developments that affect your industry	On the scale of (1–5); (1) Not at all flexible (5) Very flexible	Barringer and Bluedorn 1999; Zahra et al. 2008

Stewardship Orientation

Miller et al. (2008) suggest that stewardship orientation can be manifested in three ways. The first aspect deals with the care for the continuity of the company (long term orientation). The second aspect relates to continuous development of a community of employees (employee orientation). The third aspect concerns the maintaining of customer relationship (in the sense that closer relationship is developed with them (Customer orientation). Similarly, stewardship in this study also relies on three pillars namely long-term orientation, employee orientation, and customer orientation. Three dimensions SO comprised of EMO, CMO and

LTO, and thus were used as three indicators reflect stewardship orientation. Stewardship orientation is a reflective variable.

Stewardship Orientation: Employee Orientation

Employee orientation (EMO) dimension is adopted from Zahra et al.'s (2008) study pertaining to stewardship orientation, which seems to deal with employees in a stewardship oriented organization context. For example, the following items were included "To what extent does your business allow employees to reach their full potential", and "To what extent does your business foster a professionally oriented workplace" among other EMO items included to measure the construct. As one of the items "to what extent does your business encourage a collectivistic rather than an individualist culture" did not load with other items, thus it was removed from the original scale. Table 7 lists EMO items and a source.

Table 7. Measurement of stewardship orientation – Employee orientation

Stem Question: Please indicate your evaluation for the following:		
Items	Scale	Source
To what extent does your business allow employees to reach their full potential	On the scale of (1–5); (1) Not at all (5) To a large extent	Zahra et al. 2008
To what extent does your business foster a professionally oriented workplace	On the scale of (1–5); (1) Not at all (5) To a large extent	Zahra et al. 2008
To what extent does your business inspire employees care, and loyalty	On the scale of (1–5); (1) Not at all (5) To a large extent	Zahra et al. 2008
To what extent does your business use employees in networking on behalf of the firm and representing the business	On the scale of (1–5); (1) Not at all (5) To a large extent	Miller et al. 2008

Stewardship Orientation: Customer Orientation

Customer orientation dimension (CMO) dimension is adopted from the study of Reinartz, Krafft and Hoyer (2004) on customer relationship management process. Though, their study deals with the whole process and thus focuses on relationship initiation, relationship maintenance, and relationship termination. This study mainly relies on the relationship maintenance dimension.

Table 8. Measurement of stewardship orientation-Customer orientation

Stem Question: To what extent do you agree to the following statements::		
Items	Scale	Source
We have a formal system for determining which of our current customers are of the highest value	On the scale of (1–5); (1) Not at all (5) To a large extent	Reinartz et al. 2004
We continuously track customer information in order to assess customer value	On the scale of (1–5); (1) Not at all (5) To a large extent	Reinartz et al. 2004
We actively attempt to determine the costs of retaining customers	On the scale of (1–5); (1) Not at all (5) To a large extent	Reinartz et al. 2004
We track the status of the relationship during the entire customer life cycle (relationship maturity)	On the scale of (1–5); (1) Not at all (5) To a large extent	Reinartz et al. 2004

Some items deemed relevant to the CMO dimension of stewardship are selected for this study, which are seen as more applicable to the FSME context. Table 8 provides the list of items for customer orientation and a source.

Stewardship Orientation: Long-term orientation

Long-term orientation (LTO) is conceptually derived from Miller et al. (2008) but their variables were scored on categorical, interval, and percentage scales. Thus items were developed to capture the construct of long-term orientation into a Likert-type of scale (1–5). For example “we attempt to build long-term relationships with our key suppliers” and two other related items were developed to capture the how well FBs develop their relationship with their customers and partners in the long-term basis. Table 9 provides the list of long-term orientation items derived from FB literature (e.g. Miller et al. 2008).

Table 9. Measurement of stewardship orientation-Long-term orientation

Stem Question: Please rate the extent to which:	
Items	Scale
We attempt to build long-term relationships with our key suppliers	On the scale of (1–5); (1) Strongly disagree; (5) Strongly agree
We attempt to build long-term relationship with key customers	On the scale of (1–5); (1) Strongly disagree; (5) Strongly agree
We attempt to build long-term relationships with our key partners	On the scale of (1–5); (1) Strongly disagree; (5) Strongly agree

Top management team's (TMT) industrial experience

TMT industrial experience (TMTie) was measured by asking, “for how many years, on average have the top management worked in the firm’s particular industry or in other firms in the same field in 2009”. TMT industrial experience is a one item representing the construct.

4.4.2 Measures of the dependent variable

The respondents were asked to provide information on level of internationalization. Self-report figures were mainly used for number of employees, total sales, and foreign sales figures. When not reported by the respondents, secondary sources such Fonecta or kauppalehti’s company figures have also been utilized. Degree of internationalization in this study was operationalized as: (1) The proportion of foreign sales to total sales (FSTSR) mainly in 2009 but in few occasions sales for 2008 were used to calculate foreign sales to total sales ratio (figures on foreign sales and total sales). (2) Percentage of employees that spend over 50% of their time in international activity (EIA50) for 2009. To account for geographic diversity (GSR): (3) The division of export areas of the respondent company was asked whether it was a) all exports to Europe, b) outside Europe 1–24%; c) outside Europe 25–49%, d) outside Europe 50% or more. For the last dimension, it was calculated as a single, weighted score for each respondent by assigning 1 for all exports to Europe, 2 for outside Europe 1–24%, 3 for outside Europe 25–49%, and 4 for outside Europe 50% or more. Reuber and Fisher (1997) also use the three indicators and they standardized the variables and sum up the standardized scores for DOI. In this study, the three indicators are converted (each dimension of DOI) into a ratio variable but are separately used as three reflective indicators of DOI (Reuber & Fisher 1997).

4.4.3 Control variables

The control variables for this study comprised of firm demographics (firm size and firm age). Previous studies in internationalization of the firm have controlled for firm size (e.g. Claver et al. 2009; Fernández & Nieto 2005, 2006; Gomez-Meija et al. 2010; Sciascia et al. 2012). Firm size (Fsz) is measured by the number of employees.

Previous studies in family firm internationalization also controlled for firm age (FA) (e.g. Claver et al. 2009; Fernández & Nieto 2005, 2006; Gomez-Meija et al.

2010; Sciascia et al. 2012). More specifically, firm age is measured by establishment year of the firm (e.g. Reuber & Fischer 1997).

4.5 Reliability and Validity

Reliability

Reliability is the agreement between two efforts to measure the same trait through maximally similar methods (Campbell & Fiske 1959). Reliability concerns the extent to which these measurements are repeatable, when different persons make the measurements, on different occasions (Nunnally 1978: 191). In other words, a measure can be considered to be reliable to the extent to which measurement error is repeatable (Nunnally 1978). Carmines and Zeller (1979) pointed out that there are four basic methods for estimating the reliability of empirical measures. These reliability measures are retest method, the alternative-form method, the split-halves method, and the internal consistency method. The most popular of these reliability estimates is given by Cronbach's alpha (e.g. Carmines & Zeller 1979). To assess reliability, internal consistency method is usually used. As indicated in Carmines and Zeller (1979), coefficient alpha should be computed for any multiple-item scale. It is considered to be a very general reliability coefficient, encompassing both the Spearman-Brown prediction formula and also the Kuder-Richardson formula 20. Following the general rule, this study will assess whether the reliability is below 0.07 for widely used scales.

In relation reliability assessment for family commitment culture, the Cronbach's alpha with nine items (one item removed from original scale), is 0.929, well above from the threshold of 0.7 for established scales. In regards to TMT variables, strategic flexibility of TMT, it is a reflective measure. In relation to TMT industry experience, it is one item measuring the average industry experience in years as mentioned earlier. Regarding stewardship orientation, as mentioned earlier, factor analysis was conducted to check if stewardship orientation is composed of three factors. Factor analysis was conducted to check if stewardship orientation (SO) is composed of three factors. By using extraction method of principal component analysis with Varimax rotation, three factors were extracted. The MSA was found to be above the threshold of 0.5 (MSA=0.7). The Eigen values and the scree plot also suggest three factors. Cronbach's alpha for employee orientation was calculated and was accepted (acceptable at alpha > 0.6). Cronbach's alpha for customer orientation was calculated and was accepted (acceptable at alpha > 0.7). Cronbach's alpha for long term orientation was calculated and was accepted (acceptable at alpha > 0.7). Regarding the dependent variable, degree of

internationalization, Cronbach's alpha for the three measures of DOI was calculated and was accepted (acceptable at $\alpha > 0.5$).

Validity

A measuring instrument is valid if it does what it is intended to do (Nunnally 1978: 86). There are four types of validity in quantitative studies. First, the statistical conclusion validity, which refers to whether or not statistical inference of co-variation between variables is justified. Second, internal validity, which addresses whether or not an observed co-variation should be considered a causal relationship. Third, construct validity, which considers whether or not the operational variables used to observe co-variation can be interpreted in terms of theoretical constructs. Finally, external validity, which examines whether or not an observed causal relationship should be generalized to and across different measures, persons, settings, and times (Calder, Phillips & Tybouts 1983).

Statistical conclusion validity refers to inferences about whether it is reasonable to presume co-variation given a specified α level and the obtained variances (Cook & Campbell 1979: 39–50). Threats to statistical conclusion validity pertain to threats of drawing valid inferences about whether two variables co-vary (Cook & Campbell 1979: 39–50). In this study, though the sample size ($n=80$) might be considered to be relatively small, by using PLS-SEM, this study attempts to rectify the issue of sample size. In *internal validity*, the main issue deals with how to decide whether there is any causal relationship between two variables that is once two variables are found to co-vary. The issue here is that any two variables could be related to each other, as a result of a third variable, which might lead to false positive findings, is something that needs to be investigated (Cook and Campbell 1979). Hence in this study, to reduce this threat widely used control variables are incorporated to the study (firm size and firm age).

Construct validity is concerned with the extent to which a particular measure relates to other measures consistent with theoretically derived hypotheses concerning the concepts (or constructs) that are being measured and it is a necessary condition for theory development and testing. In other words, construct validity considers whether or not the operational variables used to observe co-variation can be interpreted in terms of theoretical constructs (Carmines & Zeller 1979; Jarvis, Mackenzie & Podsakoff 2003; Calder, Phillips & Tybout 1983). Peter (1983: 134) provides a less precise (but a more realistic) definition of construct validity. He defines construct validity as a degree to which a measure assesses the construct it is purported to assess. In this context, a measure has construct validity (1)

to the degree that it assesses the magnitude and direction of a representative sample of the characteristics of the construct and (2) to the degree that the measure is not contaminated with elements from the domain of other constructs or error. Further, the construct validity of a measure is inferred if the measure's scores (variance) perform as substantive (and psychometric) theory postulates they should perform. To ensure construct validity, existing instruments from literature were used. For constructs that did not have existing measures, items were conceptually driven from theory. Empirical evidence needs to be interpreted in terms of how it clarifies the construct validity of the particular measure (Carmines & Zeller 1979: 23). Effort has been put to interpret empirical evidence in terms of how it clarifies the construct validity of the particular measure.

External validity pertains to whether the results of behavioral study would hold for other persons, settings, times, and places. In other words, it examines whether or not an observed causal relationship should be generalized to and across different measures, persons, settings and times (Calder, Phillis, & Tybout 1983). Calder & Tybout (1999: 259) distinguish between two broad types of research, studies that are dedicated to development and testing of theoretical explanations and studies that seek to generalize observed effects to settings of interest. In this study, the main purpose would be to generalize in terms of theoretical application, which entails the application of general scientific theory. Hence, effects obtained in the research are used to assess the status of the theory (Calder, Phillips & Tybout 1981). The justification for this can be drawn from Calder, Phillips & Tybouts (981), who argue that theories are stated at universal level. As long as a sample is relevant to the universe of theory, it constitutes a test of that theory. Furthermore, according to Calder, Phillips and Tybouts (1983) external validity is relatively less important than other forms of validity when the objective of research is to test theory. Their position is that external validity is a matter of the applicability of behavioral research. It is perceived to arise primarily through rigorous tests of theory rather than by attempts to incorporate "real world" variables into individual studies designed to test theory. Even though, in this study the objective is not only to test but to develop theory, the limitation in terms of generalizing the findings to other settings, persons, time, and places, still remains. Figure 14 depicts the hypotheses of this study.

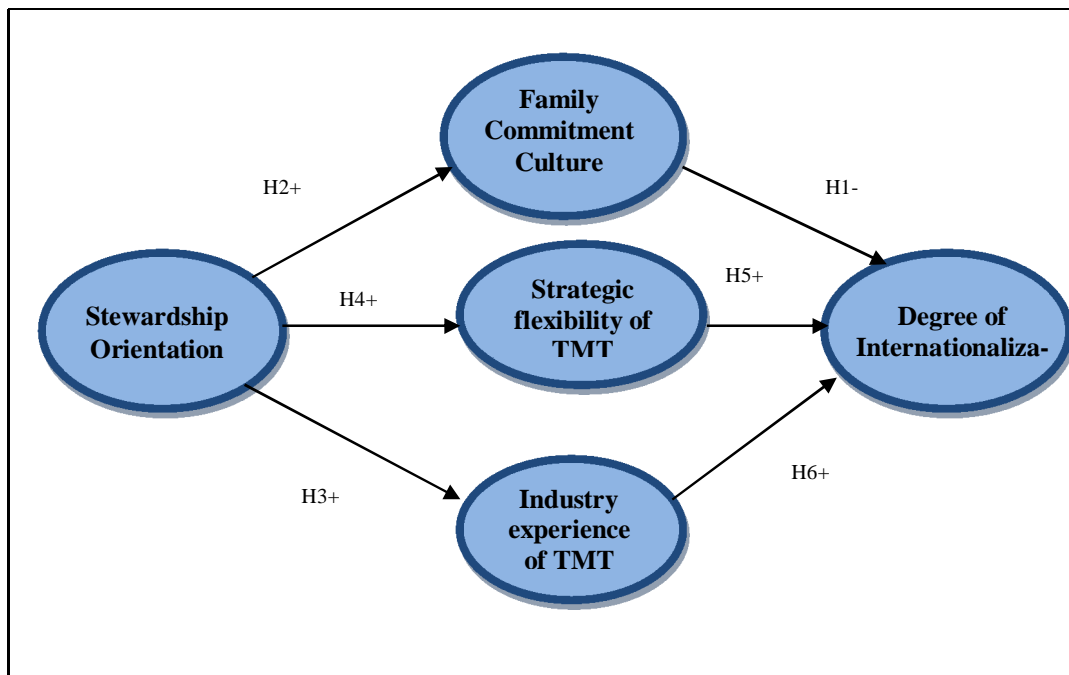


Figure 14. Hypotheses of this study

Finally, as Lynch (1999) argues that enriched theory and not method confer confidence in our understanding of whether effects will be robust or highly contingent, this study can claim that though it has used PLS-SEM to have a better understanding on a systematic way, it has also drawn from different theories/perspectives to build the model for this study and make argumentation for the framework of this study. Thus, it has attempted to explore prior mixed findings regarding internationalization of FSMEs by taking the “softer dimension” into account and relying on resource based theory and building up on organizational culture perspective besides utilizing relevant internationalization theories. The list of hypotheses and the expected relationship is shown on Table 10.

Table 10. List of hypotheses

Hypotheses		Expected relationship
Hypothesis 1:	Family commitment culture is negatively related to the degree of internationalization.	Negative
Hypothesis 2:	Stewardship orientation is positively related to family commitment culture.	Positive
Hypothesis 3:	Stewardship orientation is positively related to strategic flexibility of top management team.	Positive
Hypothesis 4:	Stewardship orientation is positively related to top management team's industry experience	Positive
Hypothesis 5:	Strategic flexibility of top management team is positively related to internationalization	Positive
Hypothesis 6:	Industry experience of TMT is positively related to degree of internationalization	Positive

5 RESULTS

For data analysis, this study utilized structural equation modeling (SEM). More specifically, it utilized variance based structural equation modeling using WarpPLS (Kock 2011). The software used to analyze the data is WarpPLS, which allows the testing of both linear and nonlinear relationships. In data analysis while using WarpPLS, jackknifing inferential technique was used instead of bootstrapping. Jack-knifing is an inferential technique that assess the variability of statistics by examining the variability of the sample data rather than using parametric assumptions. It also can be used to provide both estimates and it can compensate for bias in statistical estimates by developing robust confidence intervals (Chin 1998: 319; Efron 1982). The next section will provide the descriptive statistics of the sample firms of this study.

5.1 Descriptive Statistics of the Sample firms

The general characteristics of the data are provided in the next section. Based on the criteria of the study, the number of employees should not exceed 250 and the turnover should not exceed EUR 50 Million on the surveyed period¹. The mean of the sample for turnover was Euro 8.38 million and for number of employees, it was 51. The FSMEs in the sample (n=80), were established from 1910 – 2003. The next section discusses the general characteristics and foreign operation characteristics of the sample.

5.1.1 *General Characteristics*

To mention the most frequent cases in the sample, 13 cases were established between 1973–1983, three sets of 12 cases between 1910–1949, 1963–1972, and 1984–1990. Thus relatively, most of the firms can be taken as relatively established firms. In the sample, to mention the most frequent cases, 28 cases were second generation family owners, 18 cases were first generation, 15 cases were first and second generation together owning the firm. The sample comprised first generation, second generation, third generation and fourth generation working in the company. In the sample to mention the most frequent cases, 33 cases were first generation; another 33 cases were second-generation family members working in the FSME.

¹ Two borderline cases, which fulfilled the criteria for one of the surveyed years were included.

5.1.2 Characteristics of Foreign Operation of the Firm

In the sample of the study, to mention the most frequent cases, 11 cases began sales to foreign markets between 1955–1970, four sets of 8 cases began their sales to foreign markets between 1970–1988, 1989–1992, 1995–1997, and 1998–2008. The most important country for the firm's foreign sales in 2009 was Sweden for 24 cases. Russia was the most important country for firm's foreign sales in 2009 for 14 cases. Germany was the most important country for firm's foreign sales in 2009 for 10 cases. In terms of division of export area of the company in 2009, 38 cases had all exports to Europe, 28 cases had export outside Europe 1–24%. In terms of operation mode utilized in 2009, direct export was the highest (49 cases), followed by foreign agent (22 cases), Importer/distributor (22 cases), and sales office (12 cases). In terms of export experience, more than half of those who reported their export experience (52.6%) had begun their export prior to 1992. More than 75% of those who reported their export experience (78.9%) had begun their export prior to 1996. Only for around 2 percent (1.8%) of those who reported their export experience, their export began within the last five years.

5.2 Validating the Measurement model

The measurement model or the outer model defines how each block of indicators relates to its latent variables (Chin & Newsted 1999: 322). In general, in order to evaluate the PLS-SEM model, p value and p coefficients are used for significance testing. To assess the measurement model, internal consistency, convergent validity and discriminant validity are utilized. Internal consistency is assessed by using loading values of indicators (≥ 0.5) (Hair et al. 2010: 118) and construct reliability estimate by using the composite reliability estimate (≥ 0.7 – good reliability) (Hair et al. 2010: 710). Table 11 provides the combined loadings and cross-loadings of the modified model. The original model consisted of one item in family commitment culture, which did not meet the loading requirement (FCC1) (see Appendix 1: Table 2). By using the Average Variance Extracted (AVE), convergent validity is assessed. AVE attempts to measure the amount of variance that a latent variable (LV) component captures from its indicators relative to the amount due to measurement error. It is recommended that the AVE should be greater than .50 that is 50% or more variance of the indicators should be accounted for (Fornell & Larcker 1981: 47; Chin 1998: 321). Table 12 provides the composite reliability and AVE.

Table 11. Combined loadings and cross-loadings of the modified measurement model

	FCC	sfTMT	DOI	SO	FA	TMTie	FSz	P value
FCC2	0.807	-0.260	0.143	0.232	0.187	-0.090	0.200	<0.001
FCC3	0.754	-0.254	0.010	0.181	0.119	-0.191	0.296	<0.001
FCC4	0.731	-0.084	-0.006	0.194	-0.126	-0.172	0.130	<0.001
FCC5	0.834	-0.145	0.044	0.175	-0.009	-0.326	0.149	<0.001
FCC6	0.842	0.171	0.013	-0.312	-0.044	0.186	-0.142	<0.001
FCC7	0.854	0.223	-0.080	-0.192	-0.047	0.250	-0.151	<0.001
FCC8	0.823	0.113	0.152	-0.104	-0.059	0.002	-0.272	<0.001
FCC9	0.818	-0.020	-0.029	0.130	-0.052	0.044	-0.126	<0.001
FCC10	0.749	0.229	-0.265	-0.273	0.037	0.276	-0.039	<0.001
TMTie	-0.188	0.754	-0.265	0.019	0.011	-0.132	0.318	0.003
Tsf	0.188	0.754	0.265	-0.019	-0.011	0.132	-0.318	0.004
EMPIA50	0.078	-0.175	0.803	0.184	-0.197	-0.115	-0.072	0.004
GESCPR	-0.017	0.256	0.596	-0.268	-0.007	-0.031	-0.73	<0.001
FSTSR	-0.069	-0.017	0.760	0.016	0.213	0.145	0.133	<0.001
TEMO	0.399	0.098	0.046	0.528	0.132	-0.107	0.046	0.035
TLTO	-0.152	0.113	-0.083	0.853	0.134	0.186	0.016	<0.001
TCUO	-0.106	-0.193	0.060	0.769	-0.239	-0.132	-0.049	<0.001
FA	-0.000	0.000	-0.000	-0.000	1	0.000	-0.000	<0.001
TMTie	-0.000	-0.000	0.000	-0.000	-0.000	1	0.000	<0.001
FSz	-0.000	0.000	0.000	0.000	-0.000	-0.000	1	<0.001

Fornell and Larcker's (1981) Average Variance Extracted (AVE) can be used to examine discriminant validity. For each latent variable the square root of the average variance extracted should be higher than any of the correlations involving the latent variable, which indicates that more variance is shared between latent variable component and its block of indicators than with another component representing a different block of indicators (Fornel & Larcker 1981; Chin 1998: 321). Cross-loading can also be assessed for discriminant validity (<0.5) (Hair et al. 2010: 119). The AVE extracted for family commitment culture (FCC) is 0.644; strategic flexibility of TMT (sfTMT) is 0.568; stewardship orientation (SO) is 0.533; and degree of internationalization (DOI) is 0.526. Thus all the AVE scores are above the threshold of 0.50. For discriminant validity, as suggested by Fornel and Larcker (1981), the square root of AVE is used and it is shown on the diagonal of the output for FCC were 0.802; sfTMT is 0.754; SO is 0.730.

The Cronbach's alpha coefficient for the reflective variables such as FCC was 0.930; DOI was 0.544 and SO was 0.544. The composite reliability coefficient for FCC is 0.942; degree of internationalization is 0.766; SO is 0.767. Composite reliability is indicated in table 11. When the Cronbach's alpha for instance for SO and DOI is above 0.5 instead composite reliability coefficients can be used to assess the reliability of the constructs (Kock 2011). Therefore all the constructs can be deemed to have reliable Cronbach's alpha level or composite reliability.

Table 12. Composite reliability and Average Variance Extracted (AVE)

	FCC	sfTMT	DOI	SO	FA	TMTie	FSz
Composite Reliability	0.942	0.725	0.766	0.767	1.000	1.000	1.000
AVE	0.644	0.568	0.526	0.533	1.000	1.000	1.000

To decide whether indicators should be modeled in a formative mode depends on three considerations namely theory/substantive knowledge, research objective and empirical conditions (Chin 1998: 306).

5.3 Validating the Structural Model

To assess the predictive relevance of the model, R-squared for dependent LVs, Fornell and Larcker's (1981) average variance extracted measures as suggested by Chin and Newsted (1999: 328) are utilized. The R-Squared for the endogenous variable, strategic flexibility of TMT (sfTMT) is 0.147; TMT industrial experience (TMTie) is 0.049; family commitment culture (FCC) is 0.155 and the dependent variable degree of internationalization (DOI) is 0.320. The p value and p coefficients are presented in table 13. Average variance extracted (AVE) can be used to examine discriminant validity. It attempts to measure the amount of variance that a latent variable (LV) component captures from its indicators relative to the amount due to measurement error. It is recommended that the AVE should be greater than .50 that is 50% or more variance of the indicators should be accounted for (Fornell & Larcker 1981: 47; Chin 1998: 321).

Table 13. P coefficients and p values

	1	2	3	4	5	6	7
1. FCC				0.393* (0.017)			
2. sfTMT				0.383*** (<0.001)			
3. DOI	-0.349*** (<0.001)	0.201*** (<0.001)			0.127 (0.462)	0.292*** (<0.001)	0.283* (0.020)
4. SO							
5. FA							
6. TMTie				0.222* (0.035)			
7. FSz							

*p=0.05; **p=0.01; ***p=0.001

5.4 The Relationship between Ownership, Governance, and TMT

The items for almost all were measured in Likert scale (1–5) except top management heterogeneity (functional diversity) measure, which was coded as a dummy variable (e.g. marketing and sales 0–1) and TMT heterogeneity measure (TMThe) has a score ranging from 1–4, representing the four different functional background categories. Table 13 provides the β coefficients and p values. The path coefficient for stewardship orientation (SO) and family commitment culture (FCC) is positive ($\beta= 0.393$). This relationship is significant ($p=0.017$). Hypothesis 2 is accepted. The path coefficient for stewardship orientation (SO) and strategic flexibility of TMT (sfTMT) is positive ($\beta= 0.383$). This relationship is significant ($p<0.001$). Hypothesis 3 is accepted. The relationship between stewardship orientation and TMT's industrial experience (TMTEXP) is positive ($\beta=0.222$). This relationship is significant ($p=0.035$). Hypothesis 4 is accepted.

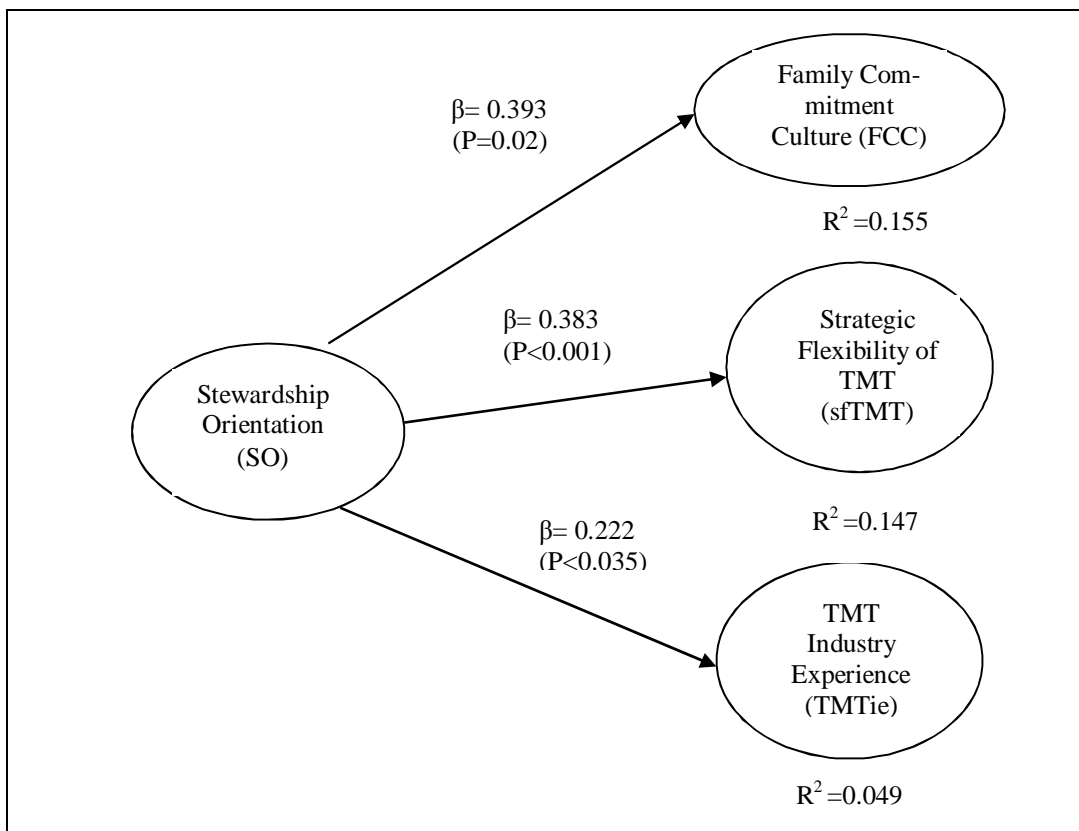


Figure 15. Findings on stewardship orientation, family commitment culture and TMT strategic flexibility and TMT industry experience

The findings suggest that stewardship orientation, which was found to differentiate on entrepreneurial behavior among FBs (e.g. Eddleston et al. 2012), contributes positively to family commitment culture, strategic flexibility of TMT and TMT industry experience. Figure 15 depicts the relationship between stewardship orientation, family commitment culture, strategic flexibility and TMT industrial experience.

5.5 Ownership, TMT and Degree of internationalization

The path coefficients and p values are listed in table 13. The path coefficient for family commitment culture (FCC) and degree of internationalization (DOI) is negative ($\beta = -0.349$). This relationship is significant ($p < 0.001$). Hypothesis 1 is accepted. The relationship between strategic flexibility of TMT (sfTMT) and degree of internationalization (DOI) is positive ($\beta = 0.201$). This relationship is significant ($p < 0.001$). Hypothesis 5 is accepted. The relationship between TMT's industrial experience (TMTie) and degree of internationalization (DOI) is positive ($\beta = 0.291$) and the relationship is significant ($p < 0.001$). Hypothesis 6 is accepted.

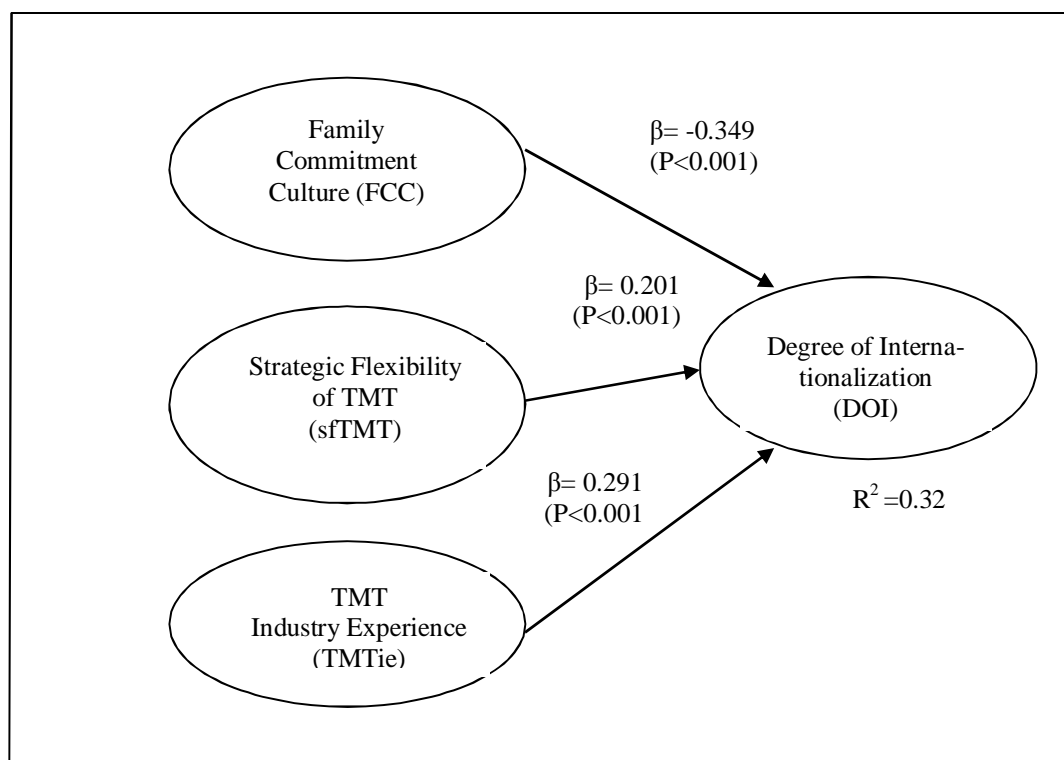


Figure 16. Findings on ownership and TMT on the degree of internationalization

Figure 16 shows the findings on family commitment culture, strategic flexibility of TMT, TMT industrial experience and degree of internationalization. The mean, standard deviation, the LV correlation and Square roots of Average Variances Extracted (AVE's) shown on diagonal is shown in table 1 in Appendix 1.

The empirical model of this study's findings is depicted by figure 17. The empirical finding of this study confirms that stewardship orientation when coupled with strategic flexibility of TMT and TMT industry experience, contributes positively to internationalization while family commitment culture is related negatively to internationalization in FSMEs.

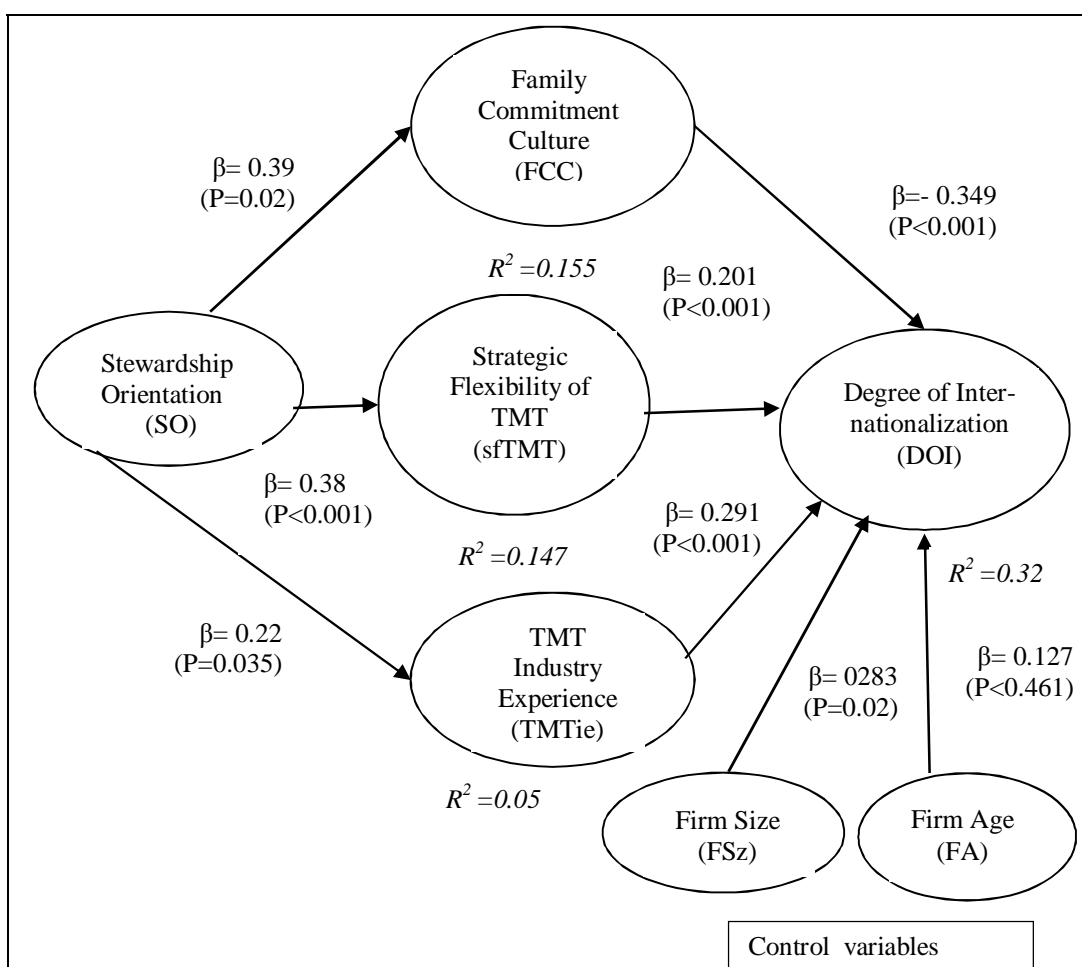


Figure 17. The empirical model of the internationalization of FSMEs

In regards to the findings of this study, though, the direct relationship between stewardship orientation (governance) is not hypothesized, but stewardship is positively related to ownership (family commitment culture) and TMT (TMT indus-

trial experience and strategic flexibility of TMT). Regarding organizational culture, this study finds that family commitment culture is negatively related to internationalization. Thus, this study confirms Gallo and Sven's (1991) assertion. Gallo and Sven (1991: 186) point out that if a family places excessive emphasis on certain part of the culture, it could become a restraining force on internationalization. Thus, the family commitment culture may place a lot of emphasis on what is good for the family instead of what is good for both the family and the long-term survival of the business. Even though, arguably what is good for the family may at times can also be good for the business, however, as internationalization is considered to be a risky undertaking (Jones & Coviello, 2005), FSMEs who exhibit higher FCC may have a tendency to stay in their domestic market.

In one of the earlier studies, Gallo and Sveen (1991: 183) pointed out that on one hand, FB strategy could become a source of rigidity when FBs often follow strategies that are narrowly focused on customer needs in local markets. In addition, in one of the earlier empirical studies, Gallo and Pont (1996) pointed out that the strategic orientation of FB's in targeting their product for the local market, when coupled with inadequate level of technology seems to be the principal cause of the perception of rigidity towards internationalization. Furthermore, Kets de Vries (1993: 61) points out some of the advantages of family controlled firms greater independence of action such as less or no pressure from stock market, family culture with strong identification/commitment/motivation. Though Gallo and Pont's (1996) study examines the strategies of FBs in choosing to be domestic oriented or not, the role of the underlying the organizational culture that may contribute to domestic orientation in FBs has not yet been empirically assessed. Zahra et al. (2008) finds a positive relationship between family commitment culture and strategic flexibility in general.

Based on the finding of this study, commitment may have a dual nature. More specifically, even if commitment to a business may seem to increase cohesiveness, it can also bring lateral rigidity (Luostarinen 1979/1980) and commitment entrapment (Chirco 2007) for FSMEs. Thus, the finding of this study that family commitment culture is related negatively to internationalization has increased our understanding regarding family commitment culture that it contributes to domestic or inward orientation and not to outward or international orientation.

In addition, Zahra, Hayton and Salvato (2004) point out that organizational culture is an important strategic resource that FBs can use to gain competitive advantage. Their study finds that positive linear relationships between entrepreneurship and an external orientation. They suggest that this finding may suggest that entrepreneurship in FBs is supported by a culture that values new knowledge ac-

quired from customers, suppliers and competitors. Their finding suggests that FBs with individual orientation may find it easier to initiate entrepreneurial activity. Thus, this study also indirectly confirms that that family commitment culture might be more “family oriented” and not “both family and others” oriented. As internationalization requires an external orientation, family commitment culture may not contribute positively to internationalization

Furthermore, Zahra et al. (2004) suggest that their finding may suggest that entrepreneurship in FBs is supported by a culture that values new knowledge acquired from customers, suppliers and competitors. This study has set out to investigate stewardship orientation reflected in three dimensions, employee orientation, customer orientation and long-term orientation. In the long-term orientation, one of the indicators deals with having a long-term relationship with suppliers. Thus, this study’s finding also supports their empirical assertions that a culture which values new knowledge acquired from customers, suppliers, competitors, even its own employees and adapts its strategy will be able to internationalize its business than others.

Furthermore, Zahra et al. (2004) find that organizational cultural orientation toward decentralization of control and coordination was found to be positively associated with entrepreneurship. Thus, the finding of this study regarding strategic flexibility of TMT also confirms their finding that strategic flexibility in general provides a sense of decentralization and empowerment of each employee throughout the organization. In particular, strategic flexibility of TMT provides the potential for benefiting from outsider’s view point, for instance, if non-family managers are included in the top management team. This will allow the configuration and deployment of resources more judiciously. As it will allow the freeing-up of resources, which in turn, may give the impetus for pursuing expansion abroad. In relation to stewardship orientation, prior studies have used the concept to explain behaviors of successful firms with top managers not pursuing their self-interest (Miller & Breton-Miller 2005; Miller et al. 2008; Eddleston & Kellermanns 2007; Zahra et al. 2008) but behaving pro-organizationally (Davis et al. 1997; Eddleston & Kellermanns 2007; Miller et al. 2008). This study also supports that stewardship orientation seems to impact not only strategic flexibility of TMT but also stewardship oriented FSMEs seem to have industry experience in their top management. We can speculate that they may recruit non-family members that have specific industry experience. This study supports Westhead et al. (2001) finding on industry experience. Westhead et al. (2001) find that businesses with older principal founders, with more resources, denser information and contact networks, and considerable management know-how are significantly more likely to be exporters. They also find that businesses with principal founders

that had considerable industry-specific knowledge, as reflected in starting their businesses in the same industry as their last employers, are markedly more likely to be exporters. Specifically, industry experience was a strong predictor of the ability of a firm to be an exporter in 1997. In addition, businesses mainly engaged in the service sector and those located in urban areas are significantly less likely to be exporters.

In relation to strategic flexibility of top management team, though prior studies have not tested the construct directly. Earlier studies by Swinth and Vinton (1993) point out that FBs can gain strategic advantage by building management systems based on trust and loyalty, a potential inherent characteristics in many (though not all families). Thus, as this study finds that stewardship orientation is positively related to strategic flexibility of TMTs, which in turn, is positively related to internationalization. Stewardship orientation allows the building up trustful relationship not only among family members but non-family members. Those FBs, which succeed in becoming strategically flexible in their top management's decision-making process in relation to opportunity recognition, may more likely internationalize their business. This is because they are open for trial and error, though they may not have the necessary requisite knowledge or experience regarding foreign markets. The next section provides further discussion of the results for this study. Table 14 provides the list of hypotheses and the results obtained in this study.

Table 14. Hypotheses and Results

	Hypotheses	B-Coefficient	P-Value	Accept/Reject
H1	Family commitment culture is negatively related to the degree of internationalization.	-0.35	<0.01	Accepted
H2	Stewardship orientation is positively related to family commitment culture.	0.39	0.02	Accepted
H3	Stewardship orientation is positively related to strategic flexibility of top management team.	0.22	0.03	Accepted
H4	Stewardship orientation is positively related to top management team's industry experience	0.38	<0.01	Accepted
H5	Strategic flexibility of top management team is positively related to internationalization	0.20	<0.01	Accepted
H6	Industry experience of TMT is positively related to degree of internationalization	0.29	<0.01	Accepted

6 DISCUSSION AND CONCLUSIONS

In this chapter the discussion and conclusion of this study will be covered. First the summary and findings of the study will be offered. Secondly, the theoretical and empirical contributions of the study will be provided. Thirdly, the limitations of the study will be pointed out. Fourthly, managerial implications will be offered. Fifthly, policy implications will be provided. Finally, the directions for future studies will be put forward.

6.1 Summary and Findings of the Study

The dissertation set out to investigate what aspect typical to FBs determine the internationalization of FSMEs in relation to their ownership, TMT, and governance. Based on previous literature, this study identified and then tested the relationship between stewardship orientation (SO), family commitment culture (FCC), strategic flexibility of TMT (sfTMT), industry experience of TMT (TMTie) and internationalization. Taken together, the results seem to suggest that FCC and SO may operate against internationalization because of their inward orientation, however when coupled with the sfTMT, SO positively impacts internationalization potentially because it evokes a more outward orientation.

Stewardship behavior, when it has been tested in performance studies, it was tested by using the altruism construct (e.g. Eddleston & Kellermanns 2008). Thus, this study, drawing from prior studies (Miller et al. 2008; Zahra et al. 2008) has adapted prior measures or concepts that depict stewardship behavior in FBs in the context of their internationalities. Furthermore, though, organizational culture (e.g. Swinth & Vinton 1993) has been theoretically explored, it has not been empirically assessed. As there is a need to have a much nuanced understanding of what aspects of organizational culture contributes positively and what aspects of organizational culture may contribute negatively to internationalization of FSMEs; this study, besides exploring the role of stewardship orientation, it set out to explore the role of family commitment culture. It also examined what propensities or experience, when coupled with stewardship orientation in FSMEs contribute to their internationalization.

Zahra et al. (2008) found a positive relationship between stewardship culture and family commitment culture and also between stewardship culture and strategic flexibility in FBs. As internationalization can be a risk prone business activity (Jones & Coviello, 2005), FSMEs who exhibit higher FCC may have a tendency to stay in their domestic market. This study lends support to Gomez-Mejia et al.'s

(2010) finding that FBs may stay in their domestic market if they perceive expansion abroad threatens the loss of their socio-emotional wealth (SEW). The threat of loss of SEW endowment to the FSMEs can be in terms of family values, emblems, and the legacy of the founder (*ibid*, p. 225). If internationalization is taken as growth activity (Reuber & Fisher 2002), these results also lend partial support to Casillas and Moreno's (2010) finding that family involvement in management reduces the influence of risk-taking on growth. This is because the more that the family is involved in management the more likely they are able to shape FCC in FSMEs.

By utilizing Miller et al. (2008) conceptualization and further adapting it to the international expansion context, three dimensions of stewardship were proposed namely employee orientation, customer orientation, and long-term orientation. When employees are empowered and can network on behalf of the firm, this aspect can be one of the ways they can use to overcome the limitations that FBs are purported to have (e.g. Donckels & Fröhlich 1991; Kets de Vries 1993; Miller et al. 2008). However, if there is too much focus on the family orientation in this case represented by family commitment culture, it inhibits internationalization of FSMEs.

In relation to customer orientation, the more that family firms are willing and able to maintain relationships that they have created with their, where buyers are large companies, client followership into the international market (Bell 1995) may take place. As their large multinational domestic buyer with whom they have developed customer relationship takes on similar projects in foreign markets, the supplier-buyer relationship may continue not only in the domestic market but may ensue in foreign expansion for the FSME. In FBs, client following in turn may minimize risk exposure (Casillas & Moreno 2010). Thus, the level of risk (Lumpkin & Dess 1996) may not be as high as if the FSME had expanded abroad on its own. If we take entrepreneurial orientation as conceptualized as autonomy, risk taking, innovative, proactive, and competitive aggressiveness (Lumpkin & Dess 1996: 137) on the dimension of risk-taking, may not be as high due to client followership which minimizes risk exposure for FBs. However, when we take the network perspective (Johanson & Matsson 1988; Bell 1995; G & H 1996; Coviello & Munro 1995, 1997; Johanson & Vahlne 2003, 2006, 2009; Chetty & Stangl 2010), customer orientation may help us explain why stewardship oriented FBs with a customer orientation could actually internationalize their business than others who are not customer oriented when this aspect is coupled with flexibility pursuing opportunities abroad.

FBs have been described as long-term oriented in family business literature (e.g. Lumpkin & Brigham, 2011). This character has been used to explain performance variation between FBs (e.g. Sciascia & Mazzola 2008), however, the long-term orientation, which is one of the dimensions of stewardship orientation, has not yet received empirical assessment to my knowledge. Based on Miller et al. (2008) conceptualization of stewardship behavior, this study has included, for instance, the long-term orientation as one of the three dimensions of stewardship orientation. When firms become long-term oriented, it is expected that they plan ahead regarding the survival and growth of the business in this competitive environment that requires strategic flexibility (e.g. Zahra et al. 2008) to anticipate environmental change and to act accordingly. In addition, they may tend to build long-term relationships with their key customers, suppliers, and partners; however, if coupled with FCC, it can have a negative effect on internationalization as FCC will anchor them to those relationships in the domestic market. However when SO with long-term orientation (for instance) is coupled with sTMT (e.g. Zahra et al. 2008), it allows FSMEs to look beyond the boundaries of their domestic market for opportunities in the international market.

This study highlights the significant role of sTMT with diverse functional backgrounds contributing positively to internationalization. The role of the strategic leadership in FBs and mainly TMT's type of strategic undertaking (strategic flexibility) ensuing from stewardship orientation has also been explored. To perhaps compensate for their managerial capability (e.g. Graves & Thomas 2006), this study confirms prior findings that FSMEs that have heterogeneous TMTs in relation to having diverse functional background (Rivas 2012), are more likely to internationalize than others (Rivas 2012).

Furthermore, this study confirms that FSMEs with TMT industry experience internationalize their business more than others (e.g. Westhead et al. 2001). This seems to indicate that the more industry experience the TMTs have the more likely they will internationalize their business. Nummela et al. (2004) also find that managerial experience is one of the key drivers of global mindset. This study confirms that TMT members' industry experience is one of the key drivers of internationalization in FSMEs. TMT's industry experience was also related positively to stewardship orientation. This may seem to indicate that stewardship orientation is something that firms develop through time as one of its' dimension is long-term orientation (Lumpkin et al. 2010) their TMT's gain more experience or recruit TMT that already has industry experience. Those FBs that are successful might be more aware of the need to be more customer oriented, employee oriented and long-term oriented.

Putting all these together, in empirical findings of previous studies, stewardship behavior has been given as a potential reason why FBs with family ownership may internationalize their business. More specifically positive results between ownership such as family ownership (e.g. Zahra 2003) and moderate level of family ownership (e.g. Sciascia et al. 2012) and degree of internationalization. When FBs are more inclusive of their non-FBs and are able to utilize the resources that being an FB can provide, their collectivistic behavior may provide a level of cohesiveness (e.g. Ensley & Pearson 2005) but cohesiveness may result in commitment entrapment (Chrico 2008) and this is why that FSMEs may need to look out for changing their existing strategy (Hall 2003) and thus the role of strategic flexibility of TMT becomes important. Figure 18 depicts outward orientation in FSMEs that may in turn be related positively to internationalization.

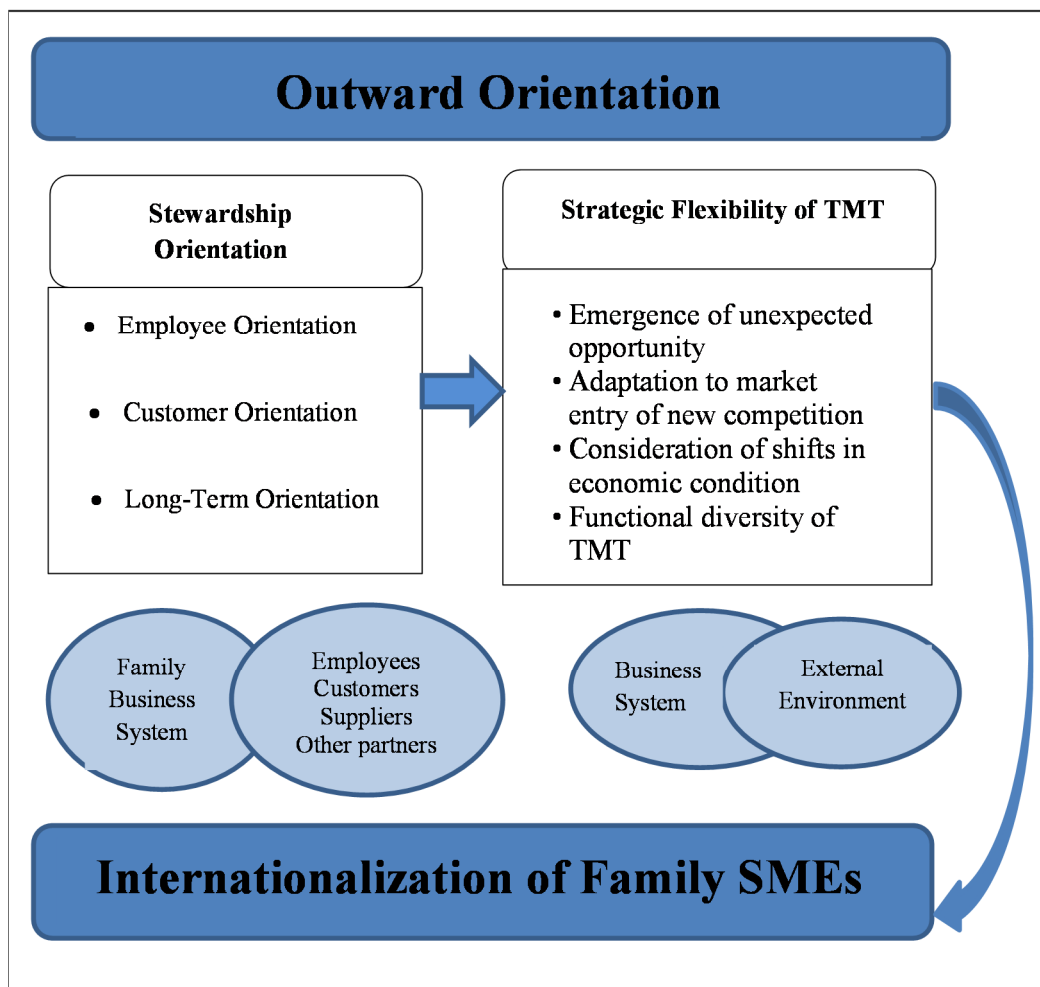


Figure 18. Outward orientation in FSME internationalization

This study found that family commitment culture is negatively related to degree of internationalization perhaps showing that FSMEs with family commitment culture are more inward oriented and focus on their domestic market. Gomez-Mejia, Makri & Kintana (2010) find that FBs will tend to stay closer to their domestic market if it means the loss of their socio-emotional wealth (SEW). Socio emotional wealth of FBs can come in different forms, including the ability to exercise authority, the enjoyment of personal control, a sense of belonging, affect and intimacy, perpetuation of family values through the business, the preservation of the family dynasty, and the conservation of the family social capital (Gomez-Mejia, Haynes, Núñez-Nickel, Jacobson & Moyano-Fuentes 2007: 108). This study supports Gomez-Mejia, Makari & Kintana's (2010) finding that FSMEs may stay in their domestic market if they perceive expansion abroad as a threat to the loss of their socio-emotional wealth (Gomez-Mejia, Makari & Kintana 2010). Figure 18 depicts the relationship between stewardship orientation- family commitment culture. In other words, family commitment culture can be taken as one of the factors, which may provide the FB with socio-emotional wealth.

Thus, if FBs perceive that they may lose their SEW in the pursuit of internationalization, they may opt out from expansion abroad and be more committed to their domestic market instead. This means that family will be more domestically oriented when they have a higher level of family commitment culture. This does not mean that they will not be domestically successful. Stewardship orientation has been in previous studies found to be positively associated with performance and successful FBs (Miller et al. 2008).

Stewardship oriented FSMEs with family commitment culture, FCC seems to prompt to be domestic oriented in that they increase their commitment to their business and the domestic environment. However, for ethnic or transnational FBs due to their social capital (Prashantham 2011) and ability to work in different economic systems (Prashantham & Dhanaraj 2010) that is in both domestic and international, family commitment culture could have a positive relationship with degree of internationalization as their families might be spread out throughout the world so also their businesses might follow suit. Industry experience of TMT was positively related to degree of internationalization.

Thus, stewardship oriented FSMEs with family commitment culture tend to be domestic oriented while stewardship oriented FSMEs with strategic flexible TMT and TMT with industrial experience, are outward oriented and internationalize more than the others. Figure 19 depicts the relationship between stewardship orientation-strategic flexibility of TMT, industry experience of TMT and degree of internationalization.

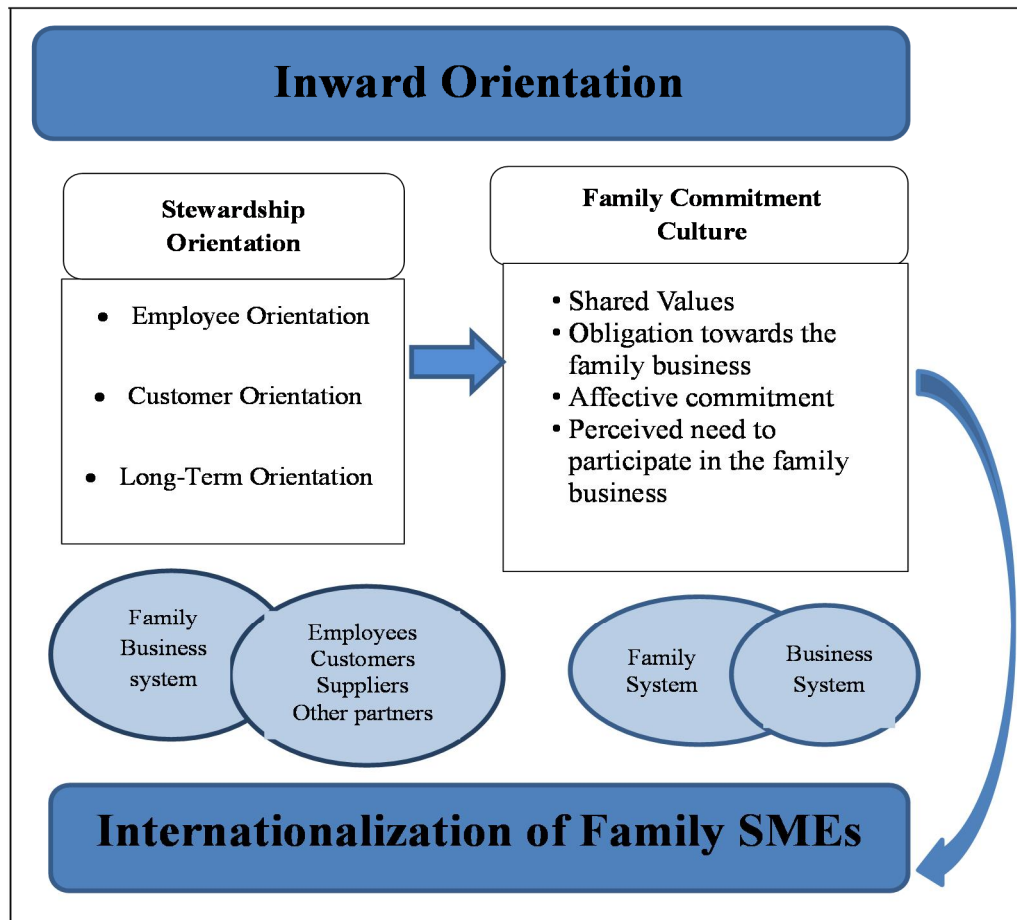


Figure 19. Inward orientation in FSME Internationalization

6.2 Theoretical and Empirical Contributions of the Study

The main contribution of this study is to both academicians and practitioners. By identifying that family as an organizational culture (FCC) may inhibit or facilitate internationalization, this study is able to clarify what aspects of organizational culture contribute to internationalization and what do not, e.g. SO coupled with sTMT and TMTie has a positive impact on internationalization of FSMEs.

As mentioned earlier, as FSMEs are heterogeneous (Sharma 2003: 2; Westhead & Howorth 2007: 407), the different “types” of FSMEs in relation to their difference in their ownership, governance, and TMT, is expected to open up our understanding of what aspects typical to FSMEs determine the degree of internationalization in FSMEs. By identifying the structural relationship besides contributing to the

measurement of stewardship orientation, it shows that the relationship between stewardship orientation, strategic flexibility of TMT and degree of internationalization is positive. This shows the important role that stewardship orientation plays together with strategic flexible and a functionally diverse TMT in internationalization of FSMEs. In addition, it also shows how a stewardship oriented FB, due to perhaps its long-term orientation, may have top management team industry experience.

This study identifies FCC as consistent in keeping firms in the domestic market however the extent to which that is due to specific motivations such as the need to maintain family legacy and a fear of loss of family wealth (Gomez-Meija et al. 2010), is a potential focus for future research. Consequently, this study attempts to open up our understanding what happens internal to the firm. Earlier FB internationalization literature (e.g. Gallo & Pont 1996) has pointed out inhibiting and facilitating factors for internationalization. By examining the role of family commitment culture, stewardship orientation, strategic flexibility of TMT and industry experience of TMT, this study contributes to our understanding of what aspects of the resources that FBs possess contribute positively and what aspect contributes negatively. This study contributes to RBT and more specifically to RBT in the FB context known as “familiness” of the FB in FSMEs literature. By identifying an organizational culture that may inhibit internationalization (e.g. family commitment culture) or facilitate internationalization (e.g. stewardship orientation) when coupled with strategic flexibility of TMT and industry experience of TMT, it clarifies for us what aspects of organizational culture contribute to internationalization and what does not.

In relation to the role of TMT, based on prior study’s findings, this study highlights the role of the strategic flexibility and industry experience of the TMT in the internationalization of FSMEs. The main decision makers are TMT members, and this study shows that their strategic flexibility in pursuing opportunities in foreign markets serves as a facilitating factor in the international expansion of FSMEs. In relation to TMT industry experience this study also lends support to previous empirical work associating experience with internationalization e.g. accumulated industry experience (e.g. Westhead et al. 2001) and highlights the role of slack resources (e.g. Lin & Liu, 2012) that may contribute to internationalization of FSMEs. The findings of this study show that as TMTs accumulate industry experience in FSMEs, the more likely that they will pursue opportunities not only in the domestic market but also abroad. Thus, we can conclude that the more industry know-how that FBs may have (e.g. Westhead et al. 2001), the more likely that they will pursue opportunities not only in the domestic market but also in international market. This can be attributed to firm’s developing their confidence

to venturing abroad. In other words, this study contributes to our understanding of how inward and outward orientations are balanced in FBs.

In the context of FSMEs internationalization, by adapting Miller et al.'s (2008) three pillars of stewardship behavior, this study contributes to the further conceptualization and measurement of stewardship orientation, as employee orientation, customer orientation and the long-term orientation of FSMEs. Lumpkin and Brigham (2011), state that long-term orientation (LTO) is usually associated with FBs. Development of long-term orientation (LTO) is particularly useful given Lumpkin and Brigham's (2011), observation that the construct is under developed despite its frequent association with FBs. Lumpkin and Brigham (2011) suggest a framework for studying LTO with three dimensions: futurity, continuity, and perseverance. The measure developed in this study pertaining to internationalization deals with the long-term relationship building with suppliers, customers, and other partners. Thus, under internationalization context, the futurity, continuity and perseverance of FBs can be seen through the lens of relationship building and maintenance with suppliers, customers, and other partners. This study helps increase our understanding of the type of conditions under which SO can be positively or negatively related to internationalization.

To my knowledge this is the first study that looks at these constructs together quantitatively and their interrelationship amongst them and their potential link to the degree of internationalization in FSMEs. Finally, in general, it can also be seen as contributing to the study of the growth of SMEs literature.

6.3 Limitations of the Study

First, as this study is based on cross-sectional data, it is not possible to derive strong claims about the direction of the effects. However, the current model lends support to theoretical considerations and empirical findings from previous studies (e.g. Zahra et al. 2008). The findings of this study are potentially generalizable to other similar contexts such as other small and open economies. Different results might be expected for FBs characterized by ethnic ties or transnational entrepreneurship due to the international reach of their social capital (Prashantham, 2011), international experience, and ability to work in different economic systems (Prashantham & Dhanaraj, 2010). In such firms family commitment culture could have a positive relationship with degree of internationalization as their families might be spread out throughout the world so also their businesses might follow suit.

The influence of generational stages and involvement is not directly tested in this study to avoid tautology because as SO has a long-term dimension it may partly incorporate generational involvement. The sample size (n=80) for this study is recognized to be relatively small which limits generalizability although the main purpose of this research was to explore rather than test the feasibility of hypothesized relationships for future research. As such, it is comparable in design and method to other exploratory studies in this field with similar sample sizes (e.g. Crick et al. 2006; Gallo & Pont 1996; Pinho 2007).

Other limitations are that it is conducted in one small and open economy, Finland where family businesses are important but the overall population of SMEs reflects the small size of the economy. A useful extension of this work would be to do a comparative survey across Nordic countries or in small and open economies (SMOPEC). Furthermore, comparison across other countries that are bigger in size and have larger domestic markets would be fruitful. In relation to the turbulence of economic times the findings of this study, conducted during a period of recession in the developed world, can be considered in relation to how FSMEs direct their stewardship orientation, TMT flexibility and industry experience to navigate the troubled waters of internationalization.

Even though this study is amongst the first in the context of FSME internationalization to test these constructs together, future studies should explore the relationships both qualitatively and quantitatively. It would for example be interesting to compare FSMEs and non-FSMEs (e.g. Larimo, 2011), on their level of stewardship orientation. Future studies can examine whether a moderate level of family commitment culture contributes to internationalization of FSMEs. In other words, would there be a curvilinear relationship between family commitment culture and internationalization. Stewardship orientation as a construct in FSMEs could be examined in different industry contexts as well as country contexts. Recent efforts to develop the long-term orientation (LTO) dimension of stewardship (e.g. Lumpkin, Brigham, & Moss 2010) can be taken as a fertile ground for exploring the conditions under which stewardship orientation in FSMEs might contribute positively to internationalization. Future studies could also examine the role of TMT composition and TMT demography in internationalization of FSMEs. In conclusion, the study of internationalization of FSMEs will benefit from exploring the role of stewardship orientation and TMT related factors on internationalization under different conditions.

6.4 Managerial Implications

The findings of this study suggest that when stewardship is coupled with sTMT and TMTie, FSMEs internationalize their business. Strategic flexibility pertains to identifying opportunity and threat in the firm's environment (Zahra et al. 2008). International opportunity recognition (e.g. as suggested in Jones, Coviello, & Tang's, 2011 review) can be enhanced when they are composed of TMT members coming from different functional backgrounds (R&D; manufacturing and operations; marketing and sales; or finance, accounting, legal and administrative functions) and this study suggests that this is the case for the TMTs in FBs. This result can be attributed to an enhanced potential to combine heterogeneous stocks of experiential knowledge where TMT members bring diversity to the strategic decision making process. Thus it is suggested that if FSMEs aim to expand abroad, they need to develop their stewardship orientation, and encourage strategic flexibility of TMT. This means that they should be looking out for changing economic conditions and adjusting their business strategy accordingly but anchored with a long-term view. Subsequently, FBs can develop employee orientation and customer orientation and can utilize it as their engine for foreign business expansion strategy for FSMEs.

In the long run, to expand abroad and increase the longevity of FSMEs, it would be important to incorporate diverse ideas. Further to the inclusion of a widely experienced TMT, another way could be to promote industry and diverse functional experience by including the next generation early in the strategic decision-making process. FBs can benefit from broadening their knowledge, skills and sources of advice to improve both their basic and support activities. In the absence of family talent or adverse effects due to the cohesion-entrapment effect from FCC, FBs may benefit by setting up a governance system that allows the inclusion of outsiders' view points, and in that way countering their limitations (Carney, 2005; Nordqvist 2005). FSMEs may decide to increase their involvement in international business activities, for instance, by creating a joint venture. In this situation, enhancing their stewardship orientation by incorporating their foreign partner's view point will enhance their success in foreign markets. (Swinth & Vinton 1993).

The finding of this dissertation suggests that FBs who are stewardship oriented tend to internationalize their business than those who are not. More specifically, when stewardship is coupled with strategic flexible top management team (TMT), the finding suggests that FSMEs internationalize their business. This could be due to the strategically flexible top management composed of different functional background (R&D; manufacturing and operations; marketing and sales; or fi-

nance, accounting, legal and administrative), are more likely to internationalize their business than others. As mentioned earlier, strategic flexibility pertains to identifying opportunity and threat in the firm's environment (Zahra et al. 2008). Thus, the opportunity recognition of FSME TMTs can be enhanced when they are composed of TMT members coming from different functional background. This result can be attributed to a potential differential experiential knowledge that top management team composed of heterogeneous TMT members could bring to the strategic decision making table, which may result in more expansion abroad.

In one of the classical studies regarding culture and FB, Dyer (1988: 46) categorizes FB culture as paternalistic, laissez-fair, participative, or professional. His study finds that most commonly the paternalistic family culture was predominantly found in FBs especially in the founder/first generation FBs (Dyer 1988: 44–46). Dyer (1988: 46) suggests most leaders in FBs are faced with the question of “how do I change the culture of my business?”

If the objective of a FB is to expand abroad, then what are the aspects that need to be fostered while what are the aspects that need to be de-emphasized? The FB culture that contributes to outward orientation in FBs is stewardship when coupled with strategic flexibility of TMT and with industry experience of TMT. For strategic renewal (Hall 2003) to occur, FBs may need to pursue a cultural change that may require taking time to have an effect, but can be implemented, for instance, by professionalization the business. The inclusion of non-family members in top management team can be one of the ways to begin the process of cultural change resulting in strategic renewal and the pursuit of growth or expansion abroad. In order to increase the strategic flexibility of top management, as the study tested and found a positive relationship with degree of internationalization, the inclusion of top managers from diverse functional background will increase the likelihood that new ideas are incorporated in the strategic decision-making process of a FB.

For FBs that have a strong business culture, though this aspect may provide cohesiveness and even result in improved firm performance, in the long-run, to increase the longevity of the business, it would be important to incorporate diverse ideas. One another way could be to include the next generation already in the strategic decision-making process. As studies in FB literature suggest, the next generation at least for a short time have been educated abroad, worked abroad or have lived abroad. Thus, the inclusion of the next generation may bring a global mindset, though not yet operationally skilled but may have the necessary knowledge and experience that could be useful for the FBs. As with much counsel, there is a better outcome, FBs can benefit from trying to find the means of broadening up

the set of information, skill set, advice to improve their basic and support activities.

By setting up governance systems (Carney 2005) that allow the inclusion of “outsiders” view point, they may be able to counter the limitations they may have due to the limited resources that is in their hand. One way could be to look out for completely independent outsider with the relevant skills, capabilities and connections (social capital) to be included in the board of directors of FSMEs. Another way could be to utilize those affiliates (not part of family but with social/economic ties).

6.5 Policy Implications

In terms of policy implications, policy studies can be conducted on how to foster stewardship orientation in FSMEs. The long-term economic development of any country depends on small and medium sized firms and FBs make a significant portion of small and medium sized enterprises (e.g. Shanker & Astrachan 1996, 2003; Gersick et al. 1997; IFERA 2003; OECD 2005; Casillas et al. 2007). Thus, it would be important to understand how long-term orientation in FBs can be encouraged. As succession seems to be a challenging phase for FBs, as almost one third of FBs are purported to cease to exist by the third generation (e.g. Ward 1987). Thus, the long-term orientation in FBs is an important dimension that needs to be encouraged.

Those family SMEs who are long term oriented will more likely pay attention to the longevity of their business. One aspect of ensuring the longevity of FBs is to plan the succession process early on. Even though, passing the baton of leadership can happen after a long time, beginning the process by including potential heirs into the strategic decision-making process by putting the right governance systems would be important considerations. Relatedly, for those who may seek advice, providing services by offering workshops, expert advice, and educational outreaches on how to handle succession issues and expansion abroad can be the way forward. In line with this view, to promote stewardship orientation of responsible entrepreneurial future owners and business leaders, international entrepreneurship courses, for instance at a University level can be offered. For instance, this can be done by having FB entrepreneurial directed approach to entrepreneurial education, entrepreneurial skills and behavior among FB executives and students, who may become future FB owners or leaders (Heinonen & Poikkijoki 2006). As Heinonen and Poikkijoki (2006) suggest, entrepreneurial process, experiential-learning process, and entrepreneurial directed approach can be utilized.

Main emphasis can be given to co-learning between executives and trainers (executive courses) and students and teachers. International entrepreneurship courses including the FB with its advantages and disadvantages, could allow the next generation to also think of the FB as one potential option to exercise one's entrepreneurial skills. This aspect may allow the building up of long-lasting entrepreneurial behavior in students (successors and non-successors) in a university context (Heinonen & Poikkijoki 2006: 88).

For those who also may seek to divest/sell out their business, providing services that will facilitate this process can be considered. As options that FBs can have is not only to transfer their business to the next generation, but in the long-run, alternatively they can aspire to remain business families by divesting from existing business ventures and entering in other new ventures. Thus, increasing the awareness of FBs regarding the various options that can be available to them will be important. Each option has issues involved and thus, strategic planning may be required regarding succession. Long-term orientation may not only be limited to succession, but one of the aspects of long-term orientation could be developing a system that would stand through time embedded with the general concept of perseverance. Thus, perseverance can be anchored by building on stable relationships. Increasing the stock of social capital for FSMEs could be one area that can be taken into account (e.g. Danes et al. 2009).

The resilience capacity of FBs can be enhanced by increasing their awareness of the different options available for them (Danes et al. 2009). The role of action research can also be advanced as a means of identifying potential issues in FB international expansion endeavor. First, identification of what determines FSMEs internationalization can be increased. Secondly, for research findings that seem to converge, action research or applied research can be conducted to create the bridge between research and practice. As FBs may benefit from "outsiders" view point, for those who are interested, through different types of engagements available and accessible for them, they may pursue their firm growth and foreign expansion objectives.

For those FSMEs who manage to create a stewardship orientation and have strategically flexible TMT, they are more likely to recognize and exploit opportunities both in their domestic and international market. They will be able to mobilize not only their tangible resources but also the softer dimension pertaining to organizational culture in FSMEs. Depending on the type of industry, this in turn will allow them to dedicate, redeploy or divert their effort and time in expanding into foreign markets.

The ongoing globalization of markets (Levitt 1984), may suggest to us that if there was no international competition thus far for FSMEs, which were selling a particular product in a niche domestic market, they may need to anticipate increasing competition in their domestic market if not now but surely in the foreseeable future. Thus, they may need to consider on how to develop stewardship orientation in their firms. Increasing the level of employee orientation by empowering employees, may allow them to increasingly utilize and efficiently manage their existing resources in the form of their employee's knowledge, skills and capabilities.

The level of their customer orientation of paying attention to maintaining customer relationship goes hand in hand with their commitment to the business (Zahra et al. 2008). FBs can also avoid commitment entrapment, which manifests in having consistent behavior resulting in escalation of commitment to a course of action, which can be important for the presently while ignoring the need to build up relationship with key customers, suppliers, and partners in the long-term basis. Long-term orientation can be more prominent in those FSMEs, who may aim to efficiently increase their family wealth (e.g. Miller et al. 2008). Those who aim to increase their family wealth may range from those who aim to increase the value of the firm by divesting the firm in order to move to another more profitable business sector in the future, to those who aim to transfer the business to the next generation. Thus, stewardship orientation is a necessary and sufficient condition for FSMEs who have a higher level of strategic flexibility of TMT to also exhibit a higher level of internationalization.

6.6 Directions for Future Studies

The finding in this study revealed that stewardship orientation in FSMEs together with strategic flexibility of TMT and TMT industry experience, contributes positively to internationalization of FSMEs. However, when stewardship orientation is coupled with family commitment culture, FSMEs may become successful in their domestic market as previous literature suggest (e.g. Eddleston & Kellermanns 2007) but it was related negatively to internationalization. Future studies can examine whether moderate level of family commitment culture contributes to internationalization of FSMEs. In other words, would there be a curvilinear relationship between family commitment culture and internationalization.

Future studies can examine stewardship orientation as a construct in FSMEs both qualitatively and quantitatively. The measurement for stewardship orientation was developed based on prior literature by using existing scales and in the absence for

existing scale, items were developed derived from literature on stewardship behavior (e.g. Miller et al. 2008). Recent effort to develop the long-term dimension of stewardship (e.g. Lumpkin et al. 2010) can be taken as a fertile ground for exploring under what conditions stewardship orientation in FSMEs contributes positively to internationalization.

When FSMEs are employee oriented, customer oriented and long-term oriented, when do they utilize the social capital of their employees or when do they become too paternalistic, stifling innovation and entrepreneurial activities? When does strategic flexibility become too flexible without a sense of direction given to all kinds of change? As strategic flexibility, if not undergirded with long-term orientation, the same pendulum that brought strategic change and pushed the FB to foreign markets, with a small sign of risk, can easily swing back. This may result in FBs' withdrawal from foreign market back to the domestic market. Though, expansion abroad by itself may not have a merit if it does not result in enhancing perceived/objective firm performance, the increasing competition in domestic market may necessitate the need for FBs' to sustainably expand abroad.

In relation to top management team, future research can explore the role of parental TMTs or familial TMTs (e.g. Eddleston & Pearson 2005). Would there be a difference in internationalization if TMT's are composed of parental TMTs or familial TMTs? Parental TMTs are TMTs where by parents are member of the top management team. Familial TMTs are TMTs with no parental involvement, for example, FSMEs with sibling partnership (Eddleston & Pearson 2005). Future studies can look into the role of TMT composition and TMT demography in internationalization of FSMEs. More specifically, the role of TMT behavioral integration (e.g. Reuber & Fischer 2002), can be assessed in future studies. Future studies can also explore the role of succession in TMT on internationalization by taking into account that FSMEs are different (Westhead & Howorth 2007). Qualitative studies can be conducted to identify different types of FSMEs who have internationalized their business post-succession in their TMT. The role of successor qualities on internationalization (Segaro 2010) may shed some light in our understanding of the role of the next generation on FSME internationalization. In governance, stewardship orientation can be further investigated in different contexts. The role and process of stewardship orientation and how it develops in FSMEs can be explored qualitatively.

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APPENDICES

APPENDIX 1.

Table 1. Mean, Standard Deviation, Latent variable (LV) correlation and AVE

	<i>M</i>	<i>SD</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>
1. FCC			0.802						
-FCC2	3.90	0.97							
-FCC3	4.10	0.87							
-FCC4	4.10	0.89							
-FCC5	4.30	0.93							
-FCC6	4.10	0.81							
-FCC7	4.47	0.78							
-FCC8	4.46	0.74							
-FCC9	4.20	0.82							
-FCC10	4.60	0.69							
2. sfTMT			0.27*	0.75					
-tsf	3.71	0.48							
-TMThe	2.93	0.90							
3. DOI			-0.25*	0.001	0.73				
-GSR	0.45	0.24							
-EIA50	0.09	0.17							
-FSTSR	0.32	0.29							
4. SO			0.37***	0.37***	-0.17	0.73			
-EMO	3.70	0.51							
-CUO	3.53	0.83							
-LTO	4.54	0.51							
5. FA	197	21.7	0.15	0.07	0.14	0.08	1.00		
3									
6. TMTie	18.2	10.93	0.03	-0.14	0.14	0.01	-0.18	1.00	.
7. FSz	51.2	56.02	-0.04	0.10	0.13	0.09	-0.26*	0.29**	1.00

*p<0.05, **p<0.01, ***p<0.001

Note: Square roots of average variances extracted (AVE's) shown on diagonal

Table 2. Combined loadings and cross loadings

	DOI	FCC	sfTMT	SO	TMTie	FSz	FA	P VALUE
FSTSR	0.76	-0.069	-0.015	0.016	0.145	0.133	0.213	<0.001
EIA50	0.803	0.093	-0.168	0.185	-0.11	-0.095	-0.228	0.004
GSR	0.596	-0.037	0.246	-0.27	-0.037	-0.041	0.036	<0.001
FCC1	0.076	0.375	0.137	0.108	0.135	-0.284	-0.405	0.026
FCC2	0.138	0.801	-0.268	0.227	-0.097	0.218	0.212	<0.001
FCC3	0.01	0.752	-0.258	0.178	-0.195	0.302	0.129	<0.001
FCC4	-0.014	0.727	-0.093	0.189	-0.181	0.152	-0.096	<0.001
FCC5	0.041	0.83	-0.153	0.17	-0.334	0.164	0.012	<0.001
FCC6	0.007	0.841	0.16	-0.318	0.175	-0.12	-0.014	<0.001
FCC7	-0.088	0.852	0.212	-0.198	0.239	-0.126	-0.013	<0.001
FCC8	0.146	0.822	0.104	-0.11	-0.007	-0.251	-0.03	<0.001
FCC9	-0.034	0.817	-0.029	0.125	0.035	-0.109	-0.028	<0.001
FCC10	-0.255	0.759	0.231	-0.276	0.275	-0.051	0.022	<0.001
Tsf	0.256	0.179	0.754	-0.02	0.128	-0.301	0.012	0.004
TMThe	-0.256	-0.179	0.754	0.02	-0.128	0.301	-0.012	0.003
TLTO	-0.076	-0.145	0.118	0.853	0.19	0.001	0.115	<0.001
TCUO	0.066	-0.099	-0.19	0.769	-0.13	-0.059	-0.254	<0.001
TEMO	0.026	0.379	0.085	0.528	-0.117	0.084	0.184	0.035
TMTie	0	0	0	0	1	0	0	<0.001
FSz	0	0	0	0	0	1	0	<0.001
FA	0	0	0	0	0	0	1	<0.001

Table 3. R-squared, composite reliability and VIF


	DOI	FCC	sfTMT	SO	TMTie	FSz	FA
R-squared	0.321	0.152	0.147		0.049		
Composite reliability	0.766	0.933	0.725	0.767	1	1	1
VIF		1.011	1.150		1.111	1.016	1.060

Table 4. Correlations among latent variables and average variance extracted (AVE) shown on diagonal

	DOI	FCC	sfTMT	SO	TMTie	FIRMSZ	FIRIMAGE
DOI	0.725						
FCC	-0.248	0.769					
sfTMT	0.001	0.274	0.754				
SO	-0.171	0.371	0.371	0.730			
TMTie	0.158	0.038	-0.140	0.014	1.00		
FIRMSZ	0.125	0.034	0.098	0.085	0.292	1.00	
FIRIMAGE	0.136	0.142	0.070	0.079	-0.177	-0.263	1.000

APPENDIX 2.

Table 1. Questionnaire of this study

	UNIVERSITY of VAASA	DEPARTMENT OF MARKETING
INTERNATIONALIZATION OF FAMILY SMALL AND MEDIUM SIZED ENTERPRISES		
I. BACKGROUND INFORMATION		
1. The name of the company _____ 2. Year of establishment _____ 3. Industry/NACE code _____		
4. Is your firm a family firm? (e.g. owned and managed by family members) a) Yes _____ b) No, but it was before _____ Year of change _____ of ownership c) No _____		
5. Do you belong to the owners family Yes _____ No _____		
6. If you are a family firm, what type of family firm are you?: a) Local family firm _____ b) Immigrant family firm _____ c) If immigrant family firm, please state the country of origin of the owner family _____		
7. Position(s) a) Owner _____ b) Top management _____ c) Board of director _____ d) Other, please specify _____		
8. What generation (G) owns the firm? a) 1 st G _____ b) 2 nd G _____ c) 3 rd G _____ d) 4 th G _____ e) 5 th G or later _____		
9. Number of generations working in this firm in 2009 _____ a) In charge (management) in 2009 b) If there are two generations in charge, which one is secondary? _____ c) Other, please specify? _____		
II. FOREIGN SALES		
10. In what year did the business begin sales to foreign markets? Year _____		
11 Which were the first three export countries of your company and when did the export start to these countries? a) First country _____ b) year _____ c) Second country _____ d) year _____ e) Third country _____ f) year _____ g) Not known _____		
12. Did your company have export activities within three years after foundation and what was the share of export from total sales at that time? a) No export _____ b) Share of export 1-24% _____ c) 25-49 % _____ d) 50-74% _____ e) 75-100% _____		
13. If your company had export activities within three years after foundation, what was the division of export areas? a) All exports to European countries _____ b) Exports outside of Europe 1-24% _____ c) Export outside of Europe 25-49% _____ d) Export outside of Europe 50% or more _____ e) Not known _____		
14. To how many countries did your company have sales in years 2005 and 2009 (Not including Finland)? a) Year 2005 _____ b) Year 2009 _____		
15. What was the share of exports from total sales in years 2005 and 2009? a) Year 2005 _____ % b) Year 2009 _____ %		
16. Which were the three most important countries of your foreign sales in 2009 and what was the share of the countries from total sales of the company? a) The most important country _____ b) share _____ % and/or c) value _____ mill. euros d) The second most important country _____ e) share _____ % and/or f) value _____ mill. Euros g) The third most important country _____ h) share _____ % i) value _____ mill. Euros		
17-18. What was the division of export areas of your company in 2005 and 2009 17. In 2005 a) All exports to Europe _____ b) Outside Europe 1-24% _____ c) Outside Europe 25-49% _____ d) Outside of Europe 50% or more _____		
18. In 2009 a) All exports to Europe _____ b) Outside Europe 1-24% _____ c) Outside Europe 25-49% _____ d) Outside of Europe 50% or more _____		
19. What operation mode has your company used in the three most important countries in 2005? a) Direct export to customers _____ b) Domestic agent/distributor _____ c) Foreign agent _____ d) Importer/distributor _____ e) Sales office _____ f) Export group/consortium _____ g) Manufacturing Joint Venture _____		

20. What operation mode has your company used in the three most important countries in 2009?
a) Direct export to customers _____ b) Domestic agent/distributor _____ c) Foreign agent _____ d) Importer/distributor _____
e) Sales office _____ f) Export group/consortium _____ g) Manufacturing Joint Venture _____ h) Other, what _____

21. How many customer(s) does your company have in the three most important export countries in 2009?
a) One important customer _____
b) 2-5 customers _____ c) 6-10 customers _____ d) 11-19 customers _____ e) Over 20 customers _____
f) Variation between countries _____

22. Is/Are your customer(s) in the three most important export countries?
a) Same important customer(s) as in Finland _____ b) Mainly Finnish companies _____ c) Mainly multinational companies _____
d) Mainly local companies _____ e) Different types of customers _____

23. Is/Are your customer(s) in your three most important export countries: _____ Only public _____ Only private _____
Sector customers 1 2 3 4 5 sector customers

24. Percentage of employees that spend over 50% of their time in international activity in (2009) _____ %

25. Estimate how important the following factors have been to internationalization of your company.

	<u>Not important at all</u>			<u>Very important</u>	
a) Growth and profit goals of the company	1	2	3	4	5
b) Managerial urge to internationalization	1	2	3	4	5
c) International experience of managers	1	2	3	4	5
d) Success of competitors in foreign markets	1	2	3	4	5
e) Internationalization of the customer	1	2	3	4	5
f) Unique product/service	1	2	3	4	5
g) Economies of scale	1	2	3	4	5
h) Tax benefits	1	2	3	4	5
i) Competitive pressure in domestic markets	1	2	3	4	5
j) Company has never considered Finland as the only market area	1	2	3	4	5
k) Small size of domestic market	1	2	3	4	5
l) Overproduction and/or excess capacity of your company	1	2	3	4	5
m) Unsolicited foreign order	1	2	3	4	5
n) Proximity to international customers	1	2	3	4	5
o) Others, what? _____					

26. Organization of exports/international business in your company. Does your company have?
a) Export department/division _____
b) International department/division _____ c) No separate export or international business _____
d) Some other organizational arrangement, which one? _____

27. Are the following marketing-mix factors standardized in all countries or adapted on the basis of local culture and/or other local features in each country.

	<u>Fully standardized</u>			<u>Fully adapted</u>	
a) Marketing mix strategy in general (e.g. product, pricing, communication, and distribution strategy)	1	2	3	4	5
b) Product/Service Strategy (e.g. label/brand, design, changes in product line, packaging and others)	1	2	3	4	5
c) Pricing Strategy (pricing, payment terms, discounts, target profit and others)	1	2	3	4	5
d) Communication Strategy (e.g. theme of advertising, advertising channels, promotion budget and promotion target)	1	2	3	4	5
e) Distribution Strategy (e.g. transportation, distribution budget, distribution channels and others)	1	2	3	4	5

28. What has been the importance of the following motives for adaptation

	<u>Not important at all</u>			<u>Very important</u>	
a) Local legislation	1	2	3	4	5
b) Local differences of customers/buyer due to cultural idiosyncrasy	1	2	3	4	5
c) Local competition situation	1	2	3	4	5

29. Kindly indicate whether management had international experience before the company started to operate in international markets:

	No one	One of the management team member	Several of the management team members
a) Management has lived abroad	_____	_____	_____
b) Management has studied abroad	_____	_____	_____
c) Management has worked in another Finnish company in international assignments	_____	_____	_____
d) Management has worked in a foreign company in international assignments	_____	_____	_____
e) Other kind of experience, What? _____			

III. BOARD, TOP MANAGEMENT TEAM (TMT), OWNERSHIP AND SUCCESSION

30. What is the size of the board of directors? _____ members a) Average board tenure _____ years
- b Family members _____ persons
- c) Independent members (outside the family and management) _____ persons
- d) Affiliated outside members (linked to organization by business or social ties). E.g. legal counsel, investment bankers, former employees _____ persons
- e) Number of family members who are both part of the board and management is _____ persons
31. Chairman of the board and the CEO is the same person: a) Yes _____ b) No _____
32. How many board meetings? a) Once a month _____ b) 6-10 times in a year _____ c) 3-5 times in a year _____
- d) More or Less, how many? _____
33. Please rate the extent to which:
- | | Strongly disagree | | | | | Strongly agree |
|---|-------------------|---|---|---|---|----------------|
| a) Written rules and procedures are followed when this board addresses a strategic issue | 1 | 2 | 3 | 4 | 5 | 5 |
| b) Decision making by this board can be characterized as participative | 1 | 2 | 3 | 4 | 5 | 5 |
| c) Individuals in this board interact with each other on an informal basis | 1 | 2 | 3 | 4 | 5 | 5 |
| d) Decision making by this board can be characterized as rule oriented. | 1 | 2 | 3 | 4 | 5 | 5 |
| e) All members of the board participate in strategic decision making on a regular basis | 1 | 2 | 3 | 4 | 5 | 5 |
| f) Decision making by this board can be characterized as interactive | 1 | 2 | 3 | 4 | 5 | 5 |
| g) There is a free and open exchange of ideas among group members about any strategic issues. | 1 | 2 | 3 | 4 | 5 | 5 |
| h) The board is able to employ idiosyncratic criteria and set goals to make opportunistic investments | 1 | 2 | 3 | 4 | 5 | 5 |
| i) The board is able to deviate from focusing on short-term profit-maximization concerns and focus on long-term goals | 1 | 2 | 3 | 4 | 5 | 5 |
34. The *owner family members* occupy the following positions: a) CEO is a family member Yes _____ No _____
- b) Management positions in 2009: Total _____ persons Top management _____ persons
- Middle management _____ Persons c) The number of years the CEO in 2009 has held the position _____
- d) Previous CEO (how many years was the previous CEO in CEO position?) _____
- e) Non-management positions in 2009 (e.g. family employees): total _____ Persons
35. If you have top management team, how many TMT members report directly to the CEO? _____ persons
36. The number of years TMT have worked together on average _____ years
- a) If non-family employees are in TMT, how many are they _____ persons
- b) How often, per year, does the TMT meet together as whole? _____ times
37. How many top management team members had an influence on the following three types of decisions:
- a) Entering or exiting a new geographic market: _____ persons b) Adding or dropping a major product _____ Persons
- c) Adding or dropping a distribution channel _____ persons
38. For how many years, on average have the top management worked in the firm's particular industry or in other firms in the same field in 2009? _____ years
39. How diverse is the functional background of the top management? Please indicate top management functional background:
- a) Research and development _____ b) Manufacturing and operations _____ c) Marketing and sales _____
- d) Finance, accounting, legal and administrative _____ e) Other, what? _____
40. How would you describe the business objective of the firm (1=most important, 2 = second important, etc.) a) To grow the business _____
- b) To employ family members and provide them with careers _____ c) To pass the business to the next generation _____
- d) To sell the business _____ e) To accumulate family wealth _____ f) To increase profitability _____
- g) To increase the value of the business _____ h) Other, what? _____
41. Please indicate the life cycle stage of your firm: a) start-up _____ b) growth _____ c) mature _____ d) decline _____
42. What are the top three sources of capital for the business (please rank each source 1= main source, 2= next main source, etc)
- a) Shareholder's funds _____ b) Cash flow _____ c) Family loans _____ d) Retained profits _____ e) Bank loans _____
- f) Equity finance _____ g) Family office (other investment management family firms) _____ h) Other, please specify _____
43. If you have family members involved in top management team (TMT), please indicate the composition in numbers:
- a) Grandfathers _____ b) familial ties (siblings, cousins, other relatives) _____ c) Other, what? _____
44. Owner family: a) What is the percentage of the firm's equity held by the owner family in 2009? _____ %
- b) What is the size of the owner family? _____ persons (only shareholding family members)

45. How is the ownership distributed among the following owners? (1=Most important, 2 = Second important, etc.)
 a) family directly or through holding _____ b) Outside small investors _____ c) Non-family management _____
 d) Institutional investor (banks, venture capitalist, etc. _____ e) Others, what? _____
46. What is the approximate percentage of ownership by the firm's directors or managers who are also family members? _____ % of ownership
47. When did the latest succession of the CEO take place? a) Has not yet taken place _____ b) It took place in year _____
 c) From the year _____ the CEO has been outside the family members
49. What type of succession occurred in your business (transfer of leadership)?
 a) Father to son _____ b) Father to daughter _____ c) To nieces and nephews _____ d) Other type? what?
50. If the firm has undergone succession in top management team (e.g. transfer of leadership from preceding generation to the next), the succeeding generation:
- a) Has had prior outside work experience (e.g. outside the family business) before taking managerial position in this firm. Yes _____ No _____
- b) Has had managerial position in another company (e.g. outside the family business) before taking managerial position in this firm. Yes _____ No _____
- c) Has had prior international experience (e.g. working, studying, living abroad) before taking a managerial position in this firm. Yes _____ No _____
- d) Makes effective use of their relevant education and experience (i.e. formal competence) in this firm. Yes _____ No _____
- e) Shares similar values, norms, relationships as the preceding generation. Yes _____ No _____
51. Is generational transition planned within a) 5 years _____ b) 10 years _____ c) 15 years _____
 d) Not planned _____ e) Other, what? _____

IV. STRATEGIC FLEXIBILITY, SOCIAL CAPITAL AND STEWARDSHIP ORIENTATION

52. Please indicate your evaluation of how flexible your business's strategic planning process could be in response to the following events.
- | | <u>Not at all flexible</u> | | | <u>Very flexible</u> | | |
|---|----------------------------|---|---|----------------------|---|---|
| a) The emergence of a new technology | 1 | 2 | 3 | 4 | 5 | 5 |
| b) Shifts in economic conditions | 1 | 2 | 3 | 4 | 5 | 5 |
| c) The market entry of new competition | 1 | 2 | 3 | 4 | 5 | 5 |
| d) Changes in government regulations | 1 | 2 | 3 | 4 | 5 | 5 |
| e) Shifts in customer needs and preferences | 1 | 2 | 3 | 4 | 5 | 5 |
| f) Modifications in supplier strategies | 1 | 2 | 3 | 4 | 5 | 5 |
| g) The emergence of an unexpected opportunity | 1 | 2 | 3 | 4 | 5 | 5 |
| h) The emergence of an unexpected threat | 1 | 2 | 3 | 4 | 5 | 5 |
| i) Political developments that affect your industry | 1 | 2 | 3 | 4 | 5 | 5 |
53. Please rate the extent to which you agree to the following statement:
- | | <u>Not at all</u> | | <u>To a large extent</u> | | | | |
|--|-------------------|---|--------------------------|---|---|---|--|
| a) The family has influence on the business | 1 | 2 | 3 | 4 | 5 | 5 | |
| b) Family members share similar values | 1 | 2 | 3 | 4 | 5 | 5 | |
| c) The family and business share similar values | 1 | 2 | 3 | 4 | 5 | 5 | |
| d) We support the family business in discussions with friends, employees and other family members | 1 | 2 | 3 | 4 | 5 | 5 | |
| e) Family members are willing to put in a great deal of effort beyond the normally expected, to help the family business be successful | 1 | 2 | 3 | 4 | 5 | 5 | |
| f) We feel loyalty to the family business | 1 | 2 | 3 | 4 | 5 | 5 | |
| g) We are proud to tell others that we are part of the family business | 1 | 2 | 3 | 4 | 5 | 5 | |
| h) There is so much to be gained by participating with the family business on a long-term basis | 1 | 2 | 3 | 4 | 5 | 5 | |
| i) We agree with the family business goals, plans, and policies | 1 | 2 | 3 | 4 | 5 | 5 | |
| j) We really care about the fate of the family business | 1 | 2 | 3 | 4 | 5 | 5 | |
54. Estimate how well the following statement describes your company:
- | | <u>Strongly disagree</u> | | | <u>Strongly agree</u> | | |
|---|--------------------------|---|---|-----------------------|---|---|
| a) Family members supported us while we tried to grow our business | 1 | 2 | 3 | 4 | 5 | 5 |
| b) Family members often volunteered to do things for us so that we had more time to do work on our business | 1 | 2 | 3 | 4 | 5 | 5 |
| c) We had a strong network of support among extended family or kin in our effort to expand our business abroad | 1 | 2 | 3 | 4 | 5 | 5 |
| d) We often discussed ideas about the possibility of expanding our business abroad with people outside our family | 1 | 2 | 3 | 4 | 5 | 5 |
| e) We often talked about expanding our business abroad with many people outside our family | 1 | 2 | 3 | 4 | 5 | 5 |

- f) We often tried to get as much feedback on our ideas regarding expansion of our business abroad from people outside our family 1 2 3 4 5
- g) We often asked many people outside our family for advice on how to improve our existing presence in foreign markets 1 2 3 4 5
- h) Family members make long-term financial investments in our business 1 2 3 4 5
- i) We have a social standing in the community 1 2 3 4 5
- j) We have goodwill in business community 1 2 3 4 5

55. Please indicate, if there were any cross-border ties between firms in different countries that has contributed positively to your expansion abroad.

- a) Marriage ties (between two family firms) Yes _____ No _____
- b) Marriage ties (with non-family firm abroad) Yes _____ No _____
- c) Business ties Yes _____ No _____
- d) Any other ties, what? _____

56. Please indicate your evaluation for the following:
- | | Not at all | | | To a large extent |
|--|------------|---|---|-------------------|
| a) To what extent does your business allow employees to reach their full potential | 1 | 2 | 3 | 4 5 |
| b) To what extent does your business foster a professionally oriented workplace | 1 | 2 | 3 | 4 5 |
| c) To what extent does your business inspire employees care, and loyalty | 1 | 2 | 3 | 4 5 |
| d) To what extent does your business encourage a collectivist rather than an individualistic culture | 1 | 2 | 3 | 4 5 |
| e) To what extent does your business use employees in networking on behalf of the firm and representing the business | 1 | 2 | 3 | 4 5 |
| f) To what extent does your business use research and development to develop the product offering of your business | 1 | 2 | 3 | 4 5 |
| g) To what extent does your business use detailed communication in trade journal | 1 | 2 | 3 | 4 5 |
| h) To what extent does your business use mass communication marketing (e.g. radio, television, magazine) | 1 | 2 | 3 | 4 5 |
| i) To what extent does your business use different types of individual and mass marketing promotional tools | 1 | 2 | 3 | 4 5 |

57. To what extent do you agree to the following statements:
- | | Not at all | | | To a large extent |
|--|------------|---|---|-------------------|
| a) We have a formal system for determining which of our current customers are of the highest value | 1 | 2 | 3 | 4 5 |
| b) We continuously track customer information in order to assess customer value | 1 | 2 | 3 | 4 5 |
| c) We attempt to build long-term relationships with our high value customers | 1 | 2 | 3 | 4 5 |
| d) We track the status of the relationship during the entire customer life cycle (relationship maturity) | 1 | 2 | 3 | 4 5 |
| e) We attempt to build long-term relationships with our key suppliers | 1 | 2 | 3 | 4 5 |
| f) We attempt to build long-term relationships with our key partners | 1 | 2 | 3 | 4 5 |

V. GOALS, PERFORMANCE, AND FUTURE PLANS IN INTERNATIONAL MARKETS

58-59. How important were the following aspects in your export performance and how satisfied are you about them from 2005-2009?

58. Importance

	Not important at all					Very important					59. Satisfaction				
	1	2	3	4	5	1	2	3	4	5	Very dissatisfied			Very satisfied	
a) Expansion to the new markets	1	2	3	4	5	1	2	3	4	5	1	2	3	4 5	
b) Profitability of foreign operations	1	2	3	4	5	1	2	3	4	5	1	2	3	4 5	
c) Performance of the main product in total	1	2	3	4	5	1	2	3	4	5	1	2	3	4 5	
d) Performance of the main product in main markets	1	2	3	4	5	1	2	3	4	5	1	2	3	4 5	
e) Foreign sales growth in total	1	2	3	4	5	1	2	3	4	5	1	2	3	4 5	
f) Foreign sales growth in main markets	1	2	3	4	5	1	2	3	4	5	1	2	3	4 5	
g) Market share abroad in total	1	2	3	4	5	1	2	3	4	5	1	2	3	4 5	
h) Market share in main markets	1	2	3	4	5	1	2	3	4	5	1	2	3	4 5	
i) Performance compared to main competitors	1	2	3	4	5	1	2	3	4	5	1	2	3	4 5	
j) Performance in the main markets compared to main competitors	1	2	3	4	5	1	2	3	4	5	1	2	3	4 5	
k) Reaching of the goals set for exports	1	2	3	4	5	1	2	3	4	5	1	2	3	4 5	
l) Total performance in foreign markets on average from 2005-2009	1	2	3	4	5	1	2	3	4	5	1	2	3	4 5	
m) Total performance in foreign markets in 2009	1	2	3	4	5	1	2	3	4	5	1	2	3	4 5	

60. Has your company made a withdrawal from some foreign market(s) from 2000-2009? a) No withdrawals
- b) Yes, from _____ countries (the number of countries) c) Name the most important country _____

61. Have you returned back to any of them? Name the most important country? _____

62. How important following reasons were in your withdrawals?

	Not important at all			Very important	
a) Increase in demand in Finland	1	2	3	4	5
b) Insufficient demand of target market	1	2	3	4	5
c) Misfit of product and/or insufficient adaptation to the market	1	2	3	4	5
d) Focusing on core markets and/or core activities	1	2	3	4	5
e) Constraints of manufacturing capacity, scarcity of resources and qualified personnel	1	2	3	4	5
f) Increase in transportations costs and/ or tariffs	1	2	3	4	5
g) Increase in competition in target country	1	2	3	4	5
h) Poor performance in target country	1	2	3	4	5
i) Increase in growth in other markets	1	2	3	4	5
j) Other reason, what? _____	1	2	3	4	5

63. Estimate the role of foreign sales in 2012:

- a) the share of foreign business from the total revenue in 2012: _____ %
 b) three most important export countries in 2012: 1st important _____ 2nd important _____ 3rd important _____
 c) number of export countries in 2012 _____

64-67. Financial figures of your company?	a) 2005	b) 2008	c) 2009
64. Total amount of employees			
65. The number of employees abroad			
66. Turnover million (euro)			
67. Foreign turnover million (euro)			

68. Your name: _____ 69. Positions: _____

70. Email: _____ 71. Telephone: _____

Do you want to have via email a summary of the research results? Yes _____ No _____

THANK YOU FOR YOUR COOPERATION

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