Spotlight
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How do historical conflicts influence family firms' decision to exit foreign markets?

Historical frictions and family business internationalization

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Family firms are critical to global economies, often expanding internationally to sustain growth. However, their international ventures are frequently fraught with challenges, particularly when they face military or cultural frictions with host countries. This article examines how these historical tensions impact the decision-making process for family firms, specifically in terms of foreign market exits.

WHAT WE STUDIED

The study focuses on Chinese family firms with subsidiaries in various countries between 2009 and 2018, analyzing 1,455 subsidiaries established by 413 family firms. It looks at how historical military conflicts and cultural differences between China and host countries influence these firms' likelihood to exit foreign markets. The researchers used the socioemotional wealth (SEW) perspective and the friction lens to explain these dynamics.

KEY INSIGHTS

1. Historical Military Friction

Family firms are more likely to exit foreign markets when there is historical military conflict between their home and host countries. These tensions create an environment of distrust and increase transaction costs, leading family firms to prioritize preserving their socioemotional wealth over economic gains.

2. Cultural Friction

Cultural differences, rather than being a barrier, often encourage family firms to remain in foreign markets. These differences create opportunities for learning and adaptation, which can enhance the firm's socioemotional wealth and strengthen relationships with host-country stakeholders.

3. Impact of Family Management

The study reveals that family management amplifies the effects of both military and cultural frictions. Family members in leadership roles are more likely to make decisions based on emotional ties and long-term goals, particularly in firms controlled by the first generation, which tend to be more conservative in the face of historical conflicts.

TAKEAWAYS

1. Managing Historical Tensions

Family businesses should be aware of the impact historical military conflicts can have on their foreign market operations. Developing strategies to mitigate these tensions, such as fostering strong local partnerships, can help manage risks and maintain market presence.

2. Leveraging Cultural Friction

Rather than avoiding culturally different markets, family firms can use cultural friction as a tool for growth. Investing in cross-cultural learning and relationship-building with local stakeholders can turn these differences into competitive advantages.

3. The Role of Generational Leadership

Family businesses should carefully consider the role of generational control in international decisions. First-generation family firms may need to adopt more flexible approaches to internationalization, while later generations could benefit from retaining some of the emotional and cultural values that define family firms.

IMPACT

The broader implications of this study underscore the importance of understanding how historical and cultural contexts influence family firms' international strategies. As geopolitical tensions and cultural differences continue to affect global markets, family businesses must develop strategies that balance emotional values with practical business needs.

RECOMMENDATIONS

Family firms should:

1. Explore partnerships and collaborations to navigate historical tensions with host countries.
2. Invest in cultural learning to capitalize on differences and enhance business adaptability.
3. Align generational leadership with the company's long-term internationalization goals, balancing tradition with innovation.

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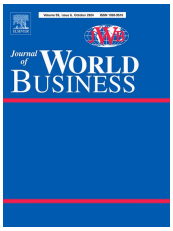
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