Spotlight
by CeFEO

How do family businesses choose the right path for international expansion?

Navigating international growth: family firms and equity-based entry modes

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Family-owned businesses play an essential role in global economies and increasingly look beyond their domestic borders. For these companies, internationalization involves significant decisions, especially regarding entry modes. Equity-based entry strategies such as joint ventures (JVs) or wholly-owned subsidiaries (WOS) demand substantial resource commitments, making them more complex than export-based approaches. This review explores how family firms differ from non-family businesses in these high-stakes decisions, focusing on the specific challenges and advantages they encounter due to family involvement.

WHAT WE STUDIED

This study conducted a systematic literature review of 93 scholarly articles from 1993 to 2021 to understand better how family firms approach equity-based entry modes in foreign markets. The research used the Pan and Tse (2000) framework, examining equity-based, subsidiary ownership, and establishment modes to systematize findings from diverse studies and identify patterns, gaps, and potential areas for future exploration.

KEY INSIGHTS

1. Family Influence on Equity-Based Modes

Family firms display unique decision-making processes when choosing equity-based internationalization. Unlike non-family businesses, they prioritize socioemotional wealth, often resulting in conservative choices to minimize external risks.

2. The Challenge of Joint Ventures

Many family firms are wary of JVs due to concerns over potential conflicts with external partners, preferring wholly-owned subsidiaries that ensure more control and preservation of family values. However, in unfamiliar or high-risk markets, family firms may overcome this resistance, finding JVs a viable path.

3. Establishment Mode Preferences

Family businesses often prefer greenfield investments over acquisitions to maintain greater control and preserve their socioemotional wealth. However, when acquisitions align with family firms' strategic goals, they may pursue this path, highlighting the flexible but risk-averse nature of family-led decision-making.

TAKEAWAYS

For Family Businesses

- **Prioritize Control in High-Risk Markets:** Family firms should consider fully-owned subsidiaries in stable markets and joint ventures in complex, unfamiliar territories to manage risk while ensuring growth.
- **Weigh Socioemotional Wealth Against Strategic Needs:** Understanding when to prioritize family interests over external growth opportunities can aid in balancing risk and reward.

For Researchers and Policymakers

- **Explore Heterogeneity Among Family Firms:** Not all family businesses behave similarly, making it essential to consider factors such as family structure and involvement.
- **Focus on De-Internationalization and Recovery:** The “new normal” context offers a vital opportunity to study how family firms respond to global disruptions, such as the COVID-19 pandemic and geopolitical tensions.

IMPACT

This literature review bridges the knowledge gap between family business research and international business studies, offering a nuanced understanding of how family-driven goals affect international equity investments. Recognizing the uniqueness of family firms in this context provides a foundation for advising these companies on strategic decisions and helps refine future research directions.

RECOMMENDATIONS

Family firms looking to expand internationally should consider a phased approach to equity-based entry modes, starting with joint ventures in high-risk regions and gradually moving to wholly-owned subsidiaries as familiarity with the market grows.

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