

What happens to exports when the family takes over?

Abstract

Does the transition to family-control suffocate firms? We approach this question using 56 firms ('Switchers') which switch to family-owned status in 2002 and 2003, compared to over 300 non-switchers ('Non-Switchers', that is, non family-firms that never became family-firms within the period 2001-2010). Our methodology, Propensity Scoring with Matching (PSM) helps us to deal with selectivity, (are firms transitioning to family control poorer exporters to begin with?) and causality (does the transition to family-management trigger a reduced exporting incidence/intensity?). We find that 'Switchers' are 13 percent less likely to export and 16 percent more likely to reduce their export intensity than 'Non-switchers'.

Keywords: Family firms switchers, export activity, SEW perspective, PSM method

JEL: M10, M16, M19

1. INTRODUCTION

Investors disagree whether family management is generally a good thing for a firm's growth. More specifically, how do issues with risk perceptions play out in terms of export growth? There is some evidence that investors lack appetite for family managed firms, although the evidence is mixed. While firms with a family stakeholding¹ can outperform the market, they may also suffer from underinvestment (Holderness and Sheehan, 1988; Morck et al., 2000). Interestingly, the shares of family managed firms have reportedly traded at a discount of 5-20 percent (Citigroup, 2007).

Our study focuses on a sample of Spanish family firms. Family firms are of great importance within the Spanish economy: according to the Spanish Institute of Statistics, there are a million and a half family firms responsible for 80 percent employment in the private sector, accredited with 60% of total Spanish exports and contributing to over 65% of GDP (INE, 2013). Moreover, the importance for Spanish firms to compete internationally has come to the forefront more recently. As a consequence of the domestic crisis, business risk has increased dramatically, making internationalization one of the few viable ways of ensuring business survival. Thus, given the enormous economic importance of family businesses in the world economies (La Porta et al., 1999), it is imperative that we know more about the international behaviour of family businesses.

A wealth of theoretical work from the Socioemotional Wealth (SEW) perspective (Gomez-Mejia et al., 2007, 2011), as well as those on Stewardship theories, help to shed light on the 'why' questions (Davis et al., 1997; Miller and Le Breton-Miller, 2005). By this we mean: are there theoretical reasons 'why' would family-managed firms tend to eschew export markets? Our analysis refers to these theories. The

¹ Firms where family has at least a 10 percent ownership stake. This finding was cited in the OECD Report on family-owned firms (www.oecd.org/daf/ca/corporategovernanceprinciples/43654301.pdf).

aim of our analysis is focus more on the ‘whether’ question: do family-managed firms report a reduced exporting incidence/intensity once they transition to family-managed status? Up to now, no satisfactory answer has been given to this question. We set out to answer this question through the lens of one aspect of a firm’s performance: its exporting status. Exporting is an activity which only better firms (capitalized, innovative, more productive) are able to do successfully (Hanley and Monreal-Pérez, 2012; Girma, Görg and Hanley, 2008). Exporting therefore represents a litmus test for how a firm is performing overall.

Our thought experiment is this: taking a sample of 56 firms which switch into family-owned status and matching them with a Control sample of over 300 firms which show no such transition to family ownership, we try to answer to the following question: does the switch to family-ownership induce higher/or lower exports?²

Motivated by the SEW and Stewardship models (Gomez-Mejia et al., 2007; Miller et al., 2008) and applying a Propensity Score Matching methodology, we find that firms transitioning to family-controlled status, the ‘Switchers’, are 13 percent less likely to export than their counterparts (firms which never switched during the period 2001 – 2010). In terms of the amount of exports, when we examine the within-industry export share of family-controlled firms (exports to total sales), we see that firms transitioning to family control are 16 percent more likely to report a reduction in export shares (within-industry) following their transition to family control than firms in the Control group.

² Although family-ownership is a loose definition, the consensus is that it is majority family-owned if it has a least a 25 percent family ownership stake and some family representation in the firm’s day-to-day management (The Family Entrepreneurship Working Group Report, 2004; Finnish Ministry of Trade and Industry in 2004). In the case of a listed company, the person who established or acquired the firm (or his/her family) possess 25% of the right to vote through their share capital, and there is at least one family member on the board of the company.

Our paper is structured as follows. We first present a Theoretical Background section where we describe the literature in greater depth. Then follows our Methodology section, in which we describe the data used, the variables measurement and the model specifications. After this, comes our Results section, on which it's explained the main findings obtained. And finally, we close our paper with a Conclusions and Policy Implications section.

2. THEORETICAL FRAMEWORK AND HYPOTHESIS

Some evidence suggests that stock markets react unfavourably to majority-owned family firms where such shares trade a discount (e.g. Citigroup, 2007) but which differences do we expect in the governance approach of family-controlled firms.

A main difference between family-controlled firms and those that are not family-controlled is in terms of how they view value creation. Value creation in the former is not just confined to pure economic value. Family-controlled firms try to optimize, not merely economic value, but at the same time deliver other non-economic objectives (Arregle et al., 2007). These non-economic objectives condition the way in which the family-owned firm operates. One objective is the emphasis on keeping control in family hands. Another one is to preserve family values and good inter-family relationships. There is also the issue of succession. By this we mean that the controlling family works to leave a legacy for future generations. The tight links between family and business mean that the reputation of the business is closely identified with that of the family³. Such objectives have been recently related in the literature to the socio-emotional wealth (SEW) perspective (Gomez-Mejia et al., 2007, 2011), as well as to the stewardship theory principles (Davis et al., 1997; Miller and Le Breton-Miller, 2005).

³ See (Berrone et al., 2010, 2012) for a discussion of these aspects of family-controlled firms.

Let us compare the different predictions of family-control from these two perspectives. The SEW perspective is ambiguous about the effect of management control on the firm's internationalization. Gomez-Mejia et al. (2007, 2011) find that family-controlled firms can increase/decrease their exporting depending on what is critical for the family: retain its grip on control. If the tendency for exporting is to dilute the family's controlling interest, this strategy might be avoided. On the other hand, the Stewardship perspective, while not explicit on this point, does not preclude family-controlled firms from intensifying their exporting activity (Davis et al., 1997; Miller and Le Breton-Miller, 2005; Miller et al., 2008). Specifically, Miller and Le Breton-Miller (2005), in their book on 41 "great" (large and old) family-controlled firms, found that such firms being less fixated on short-term financial gain were generally less risk adverse and more likely to establish enduring relationships with external partners (e.g. potentially foreign customers or suppliers) than their non-family counterparts. Of course, the latter did not explicitly look into partnerships with foreign agents. However, if foreign customers/export partners are comparable to their domestic counterparts, the Stewardship perspective would not rule out *per se* that a transition to family-control should reduce their firm's willingness to export.

What about the empirical evidence generally for how family-controlled firms operate *vis-à-vis* their non family-controlled peers? We might expect higher labour productivity as a result of the tendency for family members to invest time and energy in the business for little reward. Specifically, Lubatkin et al. (2005) and Miller et al. (2008) document such altruism where family members subordinate their own needs to the overall needs of the family unit. Miller et al. (2008), in their study of 676 small Canadian firms, found that family owned-firms exhibit a greater care about the firm continuity and about other stakeholders (e.g. employees, customers). These arguments

lead Gomez-Mejia et al. (2007) to comment that “for family firms, a key criterion, or at least one that has a greater priority, is whether their socio-emotional endowment will be preserved...for non-family firms, financial criteria seem to be most important when it comes to assessing the value of a business decision, as they are less driven by the need to protect their socio-emotional endowment” (Gomez-Mejia et al., 2007: 131).

And so, how should we interpret the behaviour of a family-controlled firm in the context of these stylized facts and theories? While internationalisation allows a family-controlled firm to smooth output shocks by exporting to diverse international markets thereby spreading risk, there are also problems with exporting. What if exporting involves family-managed firms being forced to take decisions they would rather not have to take (e.g. non-family members with knowledge of foreign markets/exporting expertise being appointed to lead the exporting side of the business)? What if the move to export caused family-controlled firms to neglect what they arguably do well in the first place (e.g. cater to domestic customers)? Such scenarios involve a loss in SEW (Gomez-Mejia et al., 2010). The literature is ambiguous about the overall effect of being a family-controlled firms and exporting. While qualitative resources such as trust, altruism, commitment and social capital can be beneficial for the running of a business generally (Miller and Le Breton-Miller, 2005; Miller et al., 2008), the transition to foreign markets may present challenges. The exporting literature describes the sunk, non-recoverable costs of exporting. And if family-owned firms do not have these funds (they might be less likely to raise external capital if this dilutes their control), this works against the decision to export or increase export⁴. Herein lies a dilemma: the necessity for the decision maker/s within a family-controlled firm to exploit international

⁴ Allio (2004), in a review of factors underpinning the relative success of US family firms vs. non-family firms, highlights their focus on core domestic markets and their preference for reinvesting their earnings rather than looking for external funds.

opportunities which maintaining family control and, simultaneously, maintaining a set of low-risk domestic projects (Zahra, 2003; Gallo et al., 2004; Wang, 2006). The greater is the ownership concentration in the family (e.g. family-controlled firms as opposed to firms in which the family has a minority shareholding), the less is the probability of internationalisation. Further, since internationalisation requires high set-up costs (Girma et al., 2008), this means that the firm requires funding. Procuring funding from external equity providers may bring with it a significant dilution of family holdings, thereby transferring power (real or perceived) to outside investors (Gomez-Mejia et al., 2010).

The skills which a firm needs to export comprise a broad palette of managerial and technical know-how. If these skills are not readily available within the family circle, outsiders need to be appointed to these key new positions. Such factors, in addition to conservatism can curtail the amount of internationalization that a family-controlled firm's is willing to undertake (Gomez-Mejia et al., 2010). Indeed, these negative factors might well be summarized under the 'stagnation perspective' where family-owned firms are seen to represent a largely dysfunctional organization type (Miller et al., 2008). Conservatism prevails, an approach which severely constrains a firm's growth (Allio, 2004; Poza et al., 1997). Family firms are viewed alternatively as sentimental and conflict-ridden (Gersick et al., 1997; Schulze et al., 2001), resource-starved (Chandler, 1990), subject to conservatism and cronyism (Morck and Yeung, 2003), and therefore slow-growing, and often short-lived (Sharma, 2004). These characteristics of family-controlled firms are easily aligned with the predictions from the SEW, where such firms tend to reject strategies that may threaten the family's control (Gomez-Mejia et al. 2007; Miller et al., 2013).

From the literature, we can see that a family-controlled firm might be willing to forego the risk advantages of internationalization, if this implies a loss in SEW (Gomez-

Mejia et al., 2010). Such a negative strategy could be valid, even if it undermines the firm's overall economic value. It should not be forgotten, however, that family-controlled firms are rational agencies. If general business risk (e.g. fluctuating sales to domestic customers) increases to such an extent, that exporting offers one of the few only valid ways to assure business continuity, then business risk will influence the firm's decision to export, even if this conflicts with the firm's commitments to its community or the needs of dependent family members (Miller et al., 2008).

There is some empirical work on patterns of internationalization for family owned firms. General evidence indicates that family ownership was seen as a negative indicator of internationalization (Gallo et al., 2004; Wang, 2006). Since the family tries to keep the control of the company preserving the wealth for the future, those firms where ownership is more concentrated will show a smaller probability of internationalization (Gomez-Mejia et al., 2010; Okoroafo, 1999). From a managerial perspective, conservatism, lack of professionalism/expertise, and the inward vision of top management teams that characterize family firms dominated by first generations (Sciascia et al., 2012) suppose a negative influence of management and governance on the internationalization (Fernández and Nieto, 2005, 2006; Graves and Thomas, 2006; Olivares-Mesa and Cabrera-Suárez, 2006). Even after recognizing the flexibility of the family firms' top management team, that allows them to rapidly react to new international opportunities, Naldi and Nordquist (2008) agree that the closeness of the governance to the family (when most of the top managers are family members) influences the firm internationalization in a negative way. These authors argue that external managers enhance firm internationalization, since opening the governance structure to non-family members inserts the firm into a larger network that facilitates

additional contacts, links, and the possibility to obtain the necessary resources to deal with the complexity of internationalization.

As Wang (2006) concludes, family firms have traditionally operated in domestic markets due to the substantial and long-term presence of families the firm's governance and the overriding concern to preserve family control for future generations. These arguments suggest that, in comparison to their non-family counterparts, family firms would prefer to operate domestically rather than internationally. In sum, empirical evidence shows several reasons to suggest that family firms may be less internationalized than non-family firms (Kontinen and Ojala, 2010).

Taking into account that any transition to family-control may erode the controlling family's SEW if it seeks to internationalize, the transition to family-control might be expected to work against exporting. This suggests stating the next hypothesis:

Hypothesis: The switch from being a non-family firm to a family one restrains the firm's level of internationalisation.

3. METHODOLOGY

3.1. Data description

Specifically, our data derives from the Spanish Business Strategy Survey (SBSS), an institutional database that surveys a representative panel of manufacturing firms, during the period from 2001 to 2010. Since 1990, the SBSS has surveyed an average sample of 1,800 firms every year by distributing a questionnaire with 107 questions across 500 fields. The reference population is composed of firms with 10 or more employees in the Spanish manufacturing industry. The SBSS takes a broad sample

of firms each year, among which an average response rate of 90% was gathered. This may be because public authorities have the power and the resources to secure a high level of participation, the survey achieves a high response rate, and the sample is sufficiently large and representative of the population. In conjunction with the quality of the information collected, these characteristics constitute the main advantage of using the secondary data produced by public agencies (Dorling and Simpson, 1999). All of the information contained in the SBSS is subject to strict controls for validity and consistency.

It is clear from our review of the empirical work into this topic, that the influence of family-control on exporting patterns is not very easy to answer empirically. This is because of the lack of a clear-cut contra factual data so far. Accordingly, it may be more optimal to predict whether the exporting decisions taken by firms switching to family control are different from the exporting decisions taken by firms which have never within the same time period been subject to family control (a valid contra factual). This question appropriates itself to a matching methodology. In other words, if family-controlled firms are matched with ‘observationally equivalent’ non family-controlled firms, would their tendency to export be similar? Would the changes in the amount they export (relative to domestic sales), change similarly? From a sample of Spanish firms, we can extract a critical mass of firms that transitioned to family-controlled status over two years. The fact that they transitioned from non to family-controlled status, allows us to observe their exporting behaviour, both before and after the move and put this behaviour context with firms remaining under independent of family control.

Before we move to the method used, to establish the effect of family control on exporting, we should explain how we define the variable ‘family control’ since it is key to our analysis. Two conditions were required to consider a firm as a family one,

according to Fernández and Nieto (2005), who used the same data as us: first, when the firm ownership is controlled by a family group; and secondly, when at least a member of the abovementioned family is actively involved in the management of the firm. Our definition of ‘family control’, therefore, is not contingent on the percentage of capital in the hands of the family but more on the likely involvement of family members in decision making and control (Astrachan et al., 2002, Westhead and Howorth, 2006).

Next, table 1 describes briefly the variables used in the models.

Table 1: Variables description

conn_rel	industry-relative per-worker wages
d_ei_hi	change in export intensity relative to industry
d_lsize	employment growth
d_pri	innovation growth
d_prod	productivity growth
d_rdi	spending growth
ei	export intensity
ep_dummy	firm exports
ep_dummy	firm exports
lnage	firm age
lnsize_rel	industry-relative size
private_switcher2003	firm switched to fam-owned firm status 2002/2003
private0203	is firm family-controlled in this year?(‘fam’=1)
prod_rel	industry-relative productivity
temp_1	% non-fte staff

3.2. Model specifications

As already noted in the Introduction, the question as to what effect family-control has on exporting is relatively complex because of the need for an appropriate contra-factual: what exporting levels/ incidences would these firms have achieved had they not been family controlled? To solve this question, we apply the now relatively standard econometric approach of matching firms that transition to the Treatment effect (family-control) with a set of firms which are observationally equivalent and are

matched using an algorithm similar to Nearest Neighbour matching but which exploits the full distribution of firms from the Control group⁵.

Given that we have 10 years of data available for use in our analysis, we sought to take advantage of the data's time dimension by constructing and using a difference-in-differences (DID) matching estimator. The reason for using the DID variable (measuring year-on-year changes in exporting caused by the transition to family control) is to address arguments raised in some studies that standard matching estimators may not perform well if they suffer from an omitted variable (i.e. selection is based on observables). Blundell and Costa Dias (2000) noted that incorporating DID can help to "improve the quality of non-experimental evaluation results significantly" (p. 438). Moreover, if there are unobserved differences in exporting behaviour between 'Switchers' and 'non-Switchers', which do not change over time, these differences will be purged by use of the DID.

Accordingly, we isolate from our sample those firms which have transitioned to family-control during a given time period. Following Heckman et al. (1997) we can calculate the average effect of exporting as:

$$E\{y_{t+s}^1 - y_{t+s}^0 | FAM_{it} = 1\} = E\{y_{t+s}^1 | FAM_{it} = 1\} - E\{y_{t+s}^0 | FAM_{it} = 1\}$$

where the last expression term is needed in order to infer the export propensity rates for the group of firms that did not switch to the family condition. To get this term, we match each firm that switched to being familiar with a derived counterfactual, constructed over the distribution of non-family firms. We apply the STATA propensity score routine, *pscore*, based on Rosenbaum and Rubin (1983). Specifically, the first-stage Probit captures the likelihood that firms become family ones based on observable pre-switch attributes of the firm.

⁵ Girma and Görg (2007) give an excellent description of the Gaussian kernel matching method, when studying the UK labour market with data from 1980 to 1994.

We now go through these observable characteristics in turn because they should help to identify the switch to family-control (See Appendix 1 for a complete variables list). Lagged export intensity should be a determining factor in any transition to family control. This variable considers exporting persistence; firms which have already exported the previous year are more likely to carry on exporting the following year. There could be a selection effect at work when it comes to lagged export propensity. If firms coming under family-control are biased towards the domestic market (Spain in this case), we would expect lagged exports to negatively affect the switch to family-control. We also control for the firm's size and growth. Generally, we expect smaller firms to come under family control as it is easier for a family to maintain a controlling stake. With respect to labour productivity, higher labour productivity raises a firm's value to outsiders and makes it less likely to come under family control, if family control is seen as a default position when outside shareholdings are not forthcoming. We do not have any priors for the predicted effect of employment growth on the probability that a firm becomes family-controlled, other than to maintain that growth is usually a good barometer of a firm's future potential (attractiveness to outsiders), in which case the same comments that we use in relation to labour productivity should also apply here. The SEW literature points to altruism in family-controlled firms. If this altruism can be evidenced in the way family-controlled firms manage their workforce composition (e.g. more employees on non-standard contracts), then it follows that our variable 'temp_1' should be positively associated with the transition to family-control. This is because family-controlled firms are likely to extensive unconventional contractual arrangements with their 'employees'. As with labour productivity and firm growth, we are agnostic as to the direction of the effect of some other key covariates on the probability that a firm transitions to family control. However, the evolution of a

firm's innovation and R&D investment, is possibly a source of heterogeneity which needs to be controlled for when differentiating between 'Switchers' and 'non-Switchers'.

The first stage selection Probit regression selects 'Switchers' along the criteria described above. Both Control group ('non-Switchers') and Treatment group firms ('Switchers') are simultaneously assigned to blocks, rather like split regressions. These splits are guided by the propensity score (See Appendix 2 for the scores within each block) and the balancing property checked within the blocks.⁶ Figure 2 shows that distribution of the propensity scores generated from the first stage Probit for 'Switchers' and 'Non-Switchers'. Firms which transition to family-control show higher probabilities (red distribution is more skewed to the right) of being predicted a 'Switcher' on the basis of the observable variables than firms which remaining outside family-control. The differences in these two distributions highlight the need to balance the groups using the *pscore* programme. Altogether, the *pscore* programme allocates observations to seven balanced blocks.

Let us now turn to the matching algorithm that we use in our study. In estimating export rates, we opt for the STATA *attk* procedure proposed by Heckman et al. (1998) which builds on traditional pairwise matching by using the full distribution of firms falling under common support in the pre-takeover Probit⁷. The nonparametric matching estimator constructs a match for each newly exporting firm using a kernel-weighted average over multiple non-exporting firms. Assuming that the common support

⁶ We assume that the assumption of conditional independence holds: i.e. that firms in the control and treatment group largely select into the family nature based on these observable pre-switch attributes. Specifically, their differing ability to bear sunk exporting costs. The implication being that such attributes play a role in co-determining the export decision

⁷ We use the Stata default Gaussian kernel with bandwidth 0.06. Smith and Todd (2005) give an excellent summary of this and other matching techniques. An advantage of this matching technique is that it reduces the asymptotic mean squared error found in traditional pairwise matching.

conditions hold, we now have a consistent estimator of the propensity of family switchers to export, had they not decided to become family owned firms:

$$E\{y_{t+s}^0 | FAM_{it} = 1\}$$

Finally, we apply a further correction is to difference out time varying external shocks (e.g. exchange rate movements) by applying Difference-in-Differences to the exporting outcomes.

4. RESULTS

Table 2 shows how we derived our Treatment (‘Switchers’) and Control (‘non Switchers’) sub-samples from the raw data.

Table 2: Sample population

Year	No. firms	Exporters (%)	Non-exporters (%)	Family Firms	Non-Family Firms	Switchers ¹	Non-switchers
2001	4,629	65	35	35	65	NA	366
2002	4,629	64	36	34	66	25	366
2003	4,629	64	36	41	59	31	366
2004	4,629	64	36	42	58	2	366
2005	4,629	63	37	45	55	3	366
2006	4,629	62	38	49	51	11	366
2007	4,629	62	38	52	48	12	366
2008	4,629	64	36	50	50	5	366
2009	4629	65	35	49	51	5	366
2010	4,629	66	34	51	49	NA	366
Total	46,290	64	36	51	49		

Note: Switchers in 2002/2003 remain under family management for the remaining years (2003-2010). Non-switchers are identified in 2001 and are followed through (balanced panel) until 2010 where their status remains unchanged (‘fam’= 0 throughout).

To create the variable ‘private0203’denoting whether a firm in the data changed its status from ‘fam=0’, non-family owned, to ‘fam=1’ in the subsequent period, we had to find a sufficient number of such events happening in any given year. In the years 2002/2003, there were 56 firms which recorded themselves in the data as being a

family-owned firm, where a family member was recorded as having been appointed to an executive role. Specifically, 25 firms recorded themselves for the first time in the statistics as family-owned in 2002 and a further 31 in 2003. In the same period, 306 firms remained non-family owned. Firms switching to family control taking place in either 2002 or 2003 were coded as 1. Otherwise, where no such switches took place, the variable ‘private0203’ remained coded as 0.

We agreed on a rule of thumb when cleaning the data that ‘Switchers’ could safely be recorded as such, if their status remained such in the files for a sufficient number of years thereafter, at least 6 years following the switch (7 years for those firms transitioning to family-control in 2003 and 6 subsequent years for those making the switch in 2002). Accordingly, in defining a ‘Switcher’, we use the full 10 years for which we have data (‘Switchers’ are defined as those firms which changed their status for the remainder of the time period). This left us in total with 56 ‘Switchers’.

Table 3: Export Intensity Pre- and Post-Treatment

2001			
	Frequency	Export/Sales	Std. Dev.
Control Firms	304	30.6	28.4
Treatment Firms	56	12.5	22.3
Diff.			
Ho: diff =0	0.00		
T	4.51		
2005			
Control Firms	306	32.3	29.7
Treatment Firms	56	13.1	24.0
Ho: diff =0	0.00		
T	4.57		

Moreover, such ‘Switchers’ had to have non-family controlled status for at least two years before the switch took place. The switch to family control is therefore regarded as something non-trivial and permanent. If we do not apply this rule of thumb, there is the risk that any switching is due to some more arbitrary influence.

Another way of viewing the simple data and the evolution of exports is to take average values of exports to sales for the Switchers and non-Switchers. Table 3 reports these values. In 2001, we see that non-Switchers exported about one third of their output (30.6%). For non-Switchers the value is significantly less. Rolling forward to 2001, this percentage has growth for firms in both groups, but the gap still remains. It is up to a regression to ascertain whether this gap has narrowed.

Moving to the equations results, showed in Table 4, in the first stage selection equation, firms switching to family control have lower exports to start with (we saw this earlier in Table 3), are smaller and have a higher proportion of staff on non-conventional contracts. None of the other variables (productivity, innovation, skills or age are significant within conventional levels. The regression fit stands at 0.29 denoted by the pseudo- r^2 . All covariates were lagged to at least the 1-year level.

In the second stage PSM, we look, to begin with, at the propensity that a firm from either group is an exporter in the post-test period. Moreover, at whether the transitioning firm also improves its exporting status. This latter test differences out the export levels to allow us concentrate on changes (DID). We see that for both export propensity (model 1) as well as the DID estimator (model 2), the transition to family control is negatively associated with exporting. We bootstrapped the standard errors in the matching procedure to allow us to report significance levels. For both estimation models, the impact of the switch to family control is significantly negative.

Table 4: Effect of becoming family-owned on exporting propensity & intensity

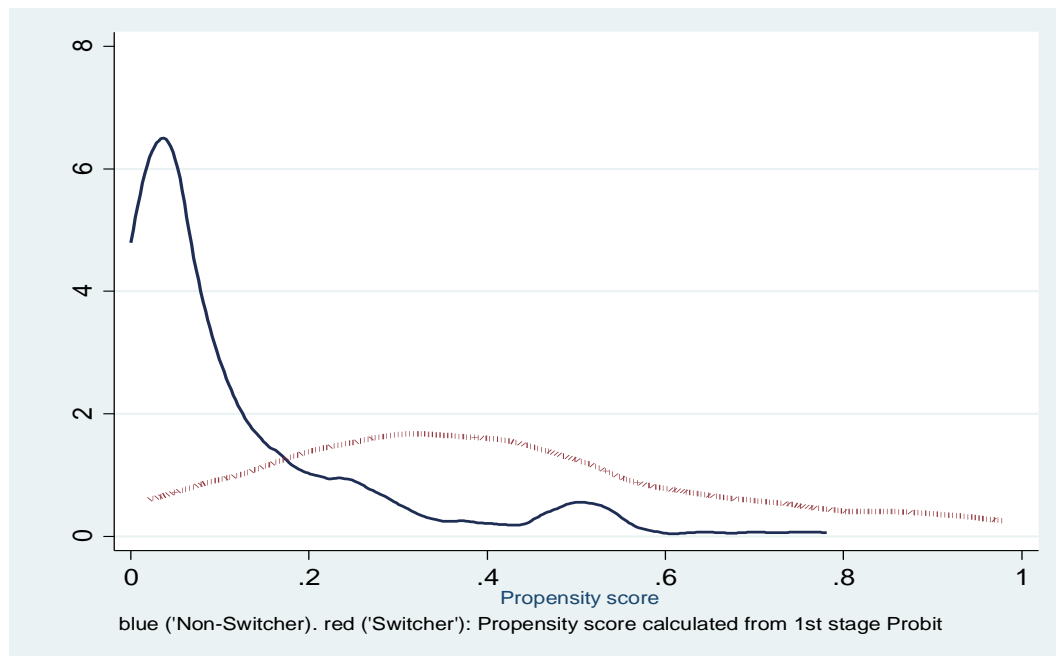
		(1)	(2)
		Second-stage PSM: Effect of switch on:	
	First-stage Probit: Switch to family-ownership	Exporting propensity (EP_dummy)	Change to higher exporting (d_EI_improve2004)
Firm switched to family-ownership/management		-0.136	-0.165
		(-1.702)*	(-1.831) *
Export intensity	-0.007		
	(1.93)*		
Industry-relative size	-38.328		
	(3.94)***		
Employment growth	0.714		
	(1.10)		
% Non-FTE Staff	0.019		
	(3.53)***		
Industry-relative productivity	-0.115		
	(0.13)		
Productivity growth	0.008		
	(0.93)		
Innovation growth	0.247		
	(1.25)		
Industry-relative per-worker wages	-1.067		
	(0.65)		
firm age	-0.108		
	(1.00)		
R&D spending growth	-0.058		
	(0.85)		
Constant	-0.715		
	(2.04)**		
LR chi2(10)	88.10		
Pseudo-r2	0.2872		
Prob > chi2	0.0000		
Observations	347		
Treatment		56	56
Control		220	220

Notes: Absolute value of z-statistics in brackets; * significant at 10%; ** significant at 5%; *** significant at 1%; All covariates measured as 1-year lags & response variable as 1-year lead; Bootstrapped standard errors used in Second-stage PSM.

The results lead us to the validation of the proposed hypothesis: the status of being a family firm, and the switch to family control (both ownership and participation in management) implies exporting less (in terms of both export intensity and export

propensity). This is congruent with both the SEW theory and the stewardship theory (Gomez-Mejia et al., 2007; Miller et al., 2008): firms switching to family status do it because of different reasons (maintaining control of the decisions in the family, a bigger long-term orientation or a greater trust on their member), but their desire not to lose control on the ownership, and therefore taking more conservative decisions will restrain their growth, and therefore their internationalisation, as predicted by both theories.

Figure 1: Balancing ‘Switchers’ and ‘Non-Switchers’



4. CONCLUSIONS AND POLICY IMPLICATIONS

We asked at the outset whether our estimations could shed light on the selectivity aspect of firms switching to family control (the characteristics of firms opting for this strategy) and the causal aspects on the firms’ exports having adopted this strategy.

Based on our estimations, we can conclude that firms transitioning to family control are poorer exporters to begin with. We can add, moreover, that the move to family control is associated with a significantly smaller exporting incidence. Interestingly, the move to family control causes a deterioration in the firm's export to sales ratio (exporting intensity reduces).

Linking these findings back to the theories on Socio-Economic Wealth and Stewardship, family control shows such firms eschewing foreign markets. Whether this tendency is due to a fear that an increased presence on foreign markets would dilute family control, jeopardize the family's wealth endowment or mean overstretching the expertise of the family controlled business is beyond the scope of our analysis but represents an interesting focus for future research.

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Appendix 1: Distribution of firms in balanced blocks (*STATA* 'pscore')

Blocks	Min. obs in block	No. of Control Firms	No. of Treatment Firms	Total firms
1	0	208	6	214
2	.1	42	6	48
3	.2	27	8	35
4	.3	7	14	21
5	.4	18	13	31
6	.6	4	5	9
7	.8	0	4	4
	Total	306	56	362