The global market scope/export performance relationship in family SMEs: An analysis of external managers and external capital in five European regions.

Abstract. This study aims to contribute to the debate on family SMEs internationalisation, shedding light on the relationship between their global market scope and export performance. We adopt a transaction cost economics (TCE) approach and we hypothesise that family SMEs carry an inverted U-shaped relationship between global geographic scope and export performance. Moreover, we hypothesise that the presence of external managers and outside capital influence this inverted relationship. Using a sample of 446 family SMEs in five European regions the empirical analysis supports our hypotheses. We discuss theoretical contributions and practical implications.

Keywords: Family SMEs; export performance; geographic scope; external managers; external capital.

1. Introduction

Despite the recent crisis of globalisation, the removal of many restrictive investment policies over the last decades (Wright and Dana, 2003) has allowed many firms to go internationally and orient themselves more and more towards global markets (Paul and Gupta, 2014). However, previous studies reported that the greater liability of foreignness between international regions (Rugman et al., 2009; Rugman and Verbeke, 2004, 2007 inter alia) has constrained even large firms, traditionally abundant of resources and competencies for higher-commitment entry modes and international operations, to consistently penetrate and achieve sales on their home regions (i.e. EU for Italian, French and German firms; NAFTA for American; ASEAN for Japanese) rather than globally (i.e. beyond regional markets).

This constraint may be considered to be even stronger for small and medium-sized firms (SMEs), that usually tend to enter into foreign markets via the cheapest, simplest, and quickest mode of exporting (Wolff and Pett, 2000; Majocchi et al., 2005; Leonidou et al., 2010), but that traditionally lack the resources and competencies to support such venture on a global scale (Andersen, 1993; Knight, 2000; Pangarkar, 2008; Acs and Terjesen, 2013). A recent report by OECD (2018) shows that within the industrial sector (manufacturing firms included) the share of SMEs that export is between 10-25%. Another study from the Eurobarometer (2014) shows that 81% of SMEs export within the regional market of Europe.

All arguments provided above about SMEs in general, are also true for the case of family SMEs, where the family controls the business through significant involvement in ownership and management positions (Sciascia and Mazzola, 2008). According to Kontinen and Ojala, (2011b), 85% of all SMEs in the EU and the USA are family firms, and exporting remains their favourite entry mode into foreign markets (Family Firm Institute, 2014). Family SMEs, and more in general family firms, are different from non-family firms because of the compresence of economic and non-economic goals (Ratten et al., 2017). The family's wealth often overlaps with the firm 's wealth,

and family members tend to manage the firm as an extension of the family. Thus, owners shape the firm's strategy according to the family's values and goals. Nevertheless, family firms tend to be more long-term oriented (Fernández and Nieto, 2005) and also more conservative (Gomez-Mejia et al., 2014) than other types of firms because owners are interested to pass the family's wealth to the next generation. The higher level of risk aversion by family SMEs may explain their lower level of internationalization. Generally, they tend to avoid entry modes that require a higher level of commitment (Sestu and Majocchi, 2018) or venturing in markets that show a higher level of risk (Fernández and Nieto, 2005). Thus, besides the classic liability of smallness and resource constraints argument, family SMEs also suffer of dysfunctionalities generated by the asymmetric family treatment of assets (Verbeke and Kano, 2012), where the higher risk adversion (Gomez-Mejia et al., 2014) and the focus on non-economic goals (Kusuma and Indarti, 2017; Gomez-Mejia et al., 2010; Chrisman et al., 2012; Chua et al., 2018) might eventually lead to managerial entrenchment (Gallo and Vilaseca, 1998) that, in turn, might result particularly severe when dealing with a broader geographic scope where bounded rationality is even higher (Rugman and Verbeke, 2005).

Previous SMEs internationalization studies claimed that the determinants of their export performance may differ depending on whether the firm is operating within its home region or across different global regions (D'Angelo et al., 2013). When focussing on the geographic diversification of SMEs (e.g. Cieślik et al., 2012) empirical evidence reported that SMEs operating across global markets differ in their internal attributes (Kuivalainen et al., 2007; Nkongolo-Bakenda et al., 2010). The presence of nonfamily professional managers in family SMEs has been highlighted as an important internal asset to tackle many of the challenges deriving from venturing abroad and achieve a higher level of export performance (D'Angelo et al., 2013; D'Angelo et al., 2016). This strategic decision to hire professional managers from outside the family is a possible remedy to entrenchment and bias dysfunctionality and it has been seen as crucial, recognizing the importance

of managers' talent and skills (e.g. knowledge of customer attitudes, business practices, distribution channels, languages, marketing strategies and exporting documentation and procedures), for success into foreign markets (Graves and Thomas, 2006; Stewart and Hitt, 2012; Benavides-Velasco et al., 2013). Hiring professional managers could be extremely important when internationalising into global markets as family SMEs have often been seen as highly committed to the domestic market and the less likely to adapt to a global context (Segaro et al., 2014). This leads to our first research question: is the presence of external managers alone able to guarantee a higher level of export performance in family SMEs when internationalising into global markets?

Previous studies have also reported that external capital may reduce bifurcation bias in family firms (Verbeke and Kano, 2012) and external shareholders are also likely to be more diversified than family owners, implying more social capital and less loss aversion and opposition to internationalisation; outside owners may be less emotionally attached to local stakeholders and, finally, there may be less hostility towards internationalisation. Moreover, as stated by Fernández and Nieto (2005) family firms that open their ownership base to other shareholders are facilitated to overcome the lack of resources because they can exploit the resources, knowledge, and managerial capabilities of the shareholders external to the family encouraging internationalization. Recently D'Angelo et al. (2016) proved a close relationship between the involvement of external capital and external managers on internationalisation. This lead to our second research question: does the presence of external capital provide external managers with an additional support to guarantee a higher level of export performance in family SMEs when internationalising into global markets?

Building on the transaction cost economics (TCE) and the derived theoretical aspects of bounded rationality, bounded reliability, and bifurcation bias in family firms (Chrisman et al., 2013; Majocchi et al., 2018; Kano and Verbeke, 2015; Rugman and Verbeke, 2005; Verbeke and Kano, 2012), the aim of this paper is threefold. First, to assess the relationship between global market

scope and export performance in family SMEs. Second, to evaluate the moderating role of external managers on the global market scope strategy/export performance relationship in family SMEs. Third, to analyse the moderating role of external managers on the global market scope strategy/export performance relationship when the family ownership is diluted given the presence of other shareholders bringing external capital in the firm.

In doing so, we aim at reaching four main contributions. First, adding additional analysis to the study of determinants of SME's export performance which remains one of the least understood in the literature (Leonidou et al., 2010). We do this in the context of family SMEs internationalisation which has recently attracted attention by many scholars (Kontinen and Ojala, 2010, 2011b, 2011a; Sciascia et al., 2012; Calabrò and Mussolino, 2013; Pukall and Calabrò, 2013; Liang et al., 2014; Segaro et al., 2014) and in the particular case of their geographic diversification strategy (e.g. Cieślik et al., 2012). Moreover, we contribute to the literature providing further evidence that family firms are not a homogenous group (Chrisman et al., 2013; Nordqvist et al., 2014), but their strategies vary on the basis of many aspects. While Hennart et al. (2017) explored the heterogeneity of family firms focusing on their business models, Arregle et al. (2019) highlighted the relevance of family structures differences. This paper focus on another aspect of heterogeneity: the presence of external managers. Thus, our second contribution is to prove the important role played by professionalization as a mechanism to reduce bias when family SMEs deal with a global market scope strategy (Cieślik et al., 2012). The third contribution is to recognize the importance of heterogeneity also in the ownership structure of family SMEs (Chua et al., 2012) as a further element to reduce bias when internationalizing into global markets (D'Angelo et al., 2016). Fourth, using the TCE we contribute to the family business literature providing more evidence on how family firms' idiosyncratic features affect transaction costs determinants. Thus, we contribute to the debate on the application of TCE to family firms (Memili et al., 2011; Verbeke and Kano, 2012; Memili et al., 2017). We believe this study is of secure interest for family SMEs practitioners,

owners, and managers alike who aim at extending their geographic spread in global markets and achieve higher levels of performance.

2. Theoretical Reasoning and Working Hypotheses

The TCE addresses the issue of the firm's boundaries and the choice of the most appropriate governance structure given the associated transaction costs (Williamson, 1988). The main determinants of the transaction costs are asset specificity, frequency, and uncertainty (Williamson, 1985). Besides assets specificity and frequency, uncertainty plays a crucial role in firms' internationalisation (Anderson and Gatignon, 1986). Indeed, higher uncertainty increases the risk perception of firms of doing business in a foreign country. Especially in family SMEs, where strategic decisions (e.g. internationalization) are taken by a single individual or an extremely small group of individuals, their uncertainty perceptions and risk aversion have a great influence on the firm (Clarke and Liesch, 2017). The uncertainty (internal and external to the firm) is related to the bounded rationality (Simon, 1957) of the economic actors. Rugman and Verbeke (2005) extended the behavioural assumptions of the TCE, adding to the bounded rationality the concept of bounded reliability. Thus, firms' decisions are affected, not only by the uncertainty of the transaction but also by their limited ability to be rational and reliable when doing business abroad.

As suggested by Young et al. (2003), the TCE offer useful insights to the internationalization research. Moreover, the recent application of the TCE to family firms (Verbeke and Kano, 2012; Memili et al., 2017) offers a powerful explanation of the family firms' idiosyncratic characteristics which determine different strategies in comparison to non-family firms and to family firms with different degrees of family involvement. There are two important factors which determine an increase of the transaction costs for family firms. First, family firms own specific assets generated by the involvement of family members in ownership and management. The system of relations and interactions between family values and business generates a specific asset which is difficult to transact and impossible to separate from the firm (Gedajlovic and Carney, 2010). Second, the

bounded rationality and reliability in family firms assume more importance. Indeed, Verbeke and Kano (2012) state that family firms manage their assets differently depending on whether these are family related or not. This bifurcation bias affects all type of assets in family firms, including also human assets (e.g. dealing with the presence of external managers), and strengthen the firms' bounded reliability.

A broader firm's geographic scope implies an increase in the transactions costs because the bounded rationality and reliability are more severe (Rugman and Verbeke, 2005), and as a consequence the uncertainty of the transaction. The uncertainty related to internationalisation has different facets, from the country risk and institutional distance with the host market, from the risk of partner opportunistic behaviours to the internal uncertainty due to lack of international experience, and so on. All these forms of uncertainty increase the risk perception of an investment, even in the simplest case of exporting. It is widely accepted that family firms are more risk averse than non-family firms (Naldi et al., 2007). However, the presence of professional managers (instead of family managers alone) and external capital might moderate the importance of family goals (Verbeke and Kano, 2012) and therefore family risk aversion. Moreover, external managers and ownership could also reduce the prominence of non-economic goals.

Given the multifaceted nature of uncertainty, the traditional pattern of a firm's internationalisation, known as the Uppsala model, presents internationalisation as a process in which a firm gradually increases the number and diversity of the markets it serves (Kuivalainen et al., 2012). Thus, the theory postulates that a firm following the traditional internationalisation pattern should have a narrow market scope at the beginning of its international operations. In contrast to the pattern of the Uppsala model, born globals (BGs) or international new ventures (INVs) begin to operate in multiple countries from inception (e.g., Loane et al., 2014; Oviatt and McDougall, 1994), and their favourable export strategy should be market spreading.

Previous literature suggests that increasing the market scope should, at least initially, enhance a firm's export performance since it enables the optimization of the cost/benefit ratio of internationalisation (Chao and Kumar, 2010; Lee, 2010; Li et al., 2012). Furthermore, firms operating in multiple countries may be less vulnerable to individual fluctuations in market demand and therefore may be better able to survive market shocks (Cieślik et al., 2015). However, a firm's rapid increase of export markets might result in a shallow penetration into each market and the possibility of a subsequent decline in export performance since their limited marketing budget would have to serve a larger number of markets (Ruzo et al., 2011). When firms use up their slack resources and exhaust their capabilities during this post-entry phase, they cannot continue their positive international growth and expansion also because of difficulties in absorbing foreign based knowledge (Love and Ganotakis, 2013). This closely follows the traditional incremental approach to internationalisation (Lisboa et al., 2013; Prange and Verdier, 2011; Kahiya and Dean, 2014; Villar et al., 2014). We extend these thoughts to SMEs of family nature as covering a wider geographic scope of activity involves physical and often temporal separation, which can create friction and destabilize the family firm assemblage (Reuber, 2016). As the geographic scope of a firm's activities increase, it is likely that its "community" will shift from a local level to a national or even an international level and therefore family SMEs might experience a positive relationship between geographic scope and export performance, which turns in a negative one when the number of countries penetrated exceeds a certain level. As stated earlier, from a TCE perspective, the geographic scope increases the complexity of the internationalisation. Indeed, the liability of foreignness and the adopted governance solutions to deal with are not the same across all countries (Rugman and Verbeke, 2005). Thus, increasing the geographic scope, it increases also the transactions costs related to different markets.

Because of the bounded rationality, firms face limits regarding the coordination and controlling efficiently their international transactions (Rugman and Verbeke, 2005), and these limits are more

severe for family SMEs which have to find a balance between economic and non-economic goals. Thus, we posit:

H1. In family SMEs, the growth of global market scope and export performance have an inverted U-shaped relationship.

Families typically maintain control of family firms not only through ownership but also by appointing executives on the basis of family connections (Enriques and Volpin, 2007). Family SMEs usually face difficulties when hiring external professional managers (Chrisman et al., 2014). Professional managers' decisions are based upon price-quality considerations rather than personal criteria, thus are more difficult to justify to family owners (Carney, 2005) because often do not consider the family's values and typical non-economic goals. Family SMEs face both cultural and emotional impediments, which make difficult for family firms to recognize the need for professional managers and hiring them (Stewart and Hitt, 2012). However, because the pool of nonfamily managers in the market is much larger than the available family managers, it is also more likely that in the market there are more capable and professional managers (Chrisman et al., 2014), which could lead family SME through growth, high performance, and internationalization. Indeed, as suggested by De Massis et al. (2016) family SMEs hiring qualified external managers get high performances. On the contrary, if managers are mainly selected on the basis of family connections rather than on the basis of proven experience and knowledge, performance may be impaired. This selection bias tends to limit the access of these firms to the specific resources and capabilities that professional managers have and that are needed for the internationalisation process. Hiring external managers could mitigate the effects generated by the family firm' specific asset and bounded reliability, as the bifurcation bias in managing family and non-family related assets (Verbeke and Kano, 2012).

Previous studies have underlined the importance of specialists to successfully manage foreign activities (Katsikeas et al., 2000; George et al., 2005). Internationalisation, even if only in the relatively simple form of exports, requires specialized and professional management (Sciascia et al., 2012; D'Angelo et al., 2016), unless corrective measures are taken in the form of foreign work experience of family managers (Majocchi et al., 2018). In absence of this and other corrective measures, a wider geographic scope might require having nonfamily specialists to manage these markets (Reuber, 2016, p. 1278). Gomez-Mejia et al. (2010), for example, show that family firms wanting to diversify internationally are forced to hire non-family specialists that have specific knowledge of international markets. While a fast growth in the number of markets may help extend a firm's range of marketing and technological learning, it may also lead to difficulties in absorbing external knowledge (Yeoh, 2004). This can be partially caused by managerial capacity and costs as well as information processing difficulties associated with absorbing knowledge at a fast rate (Schmidt and Sofka, 2009; Hilmersson and Johanson, 2016). Greater cultural distance is related to a greater "liability of foreignness" (Zaheer, 1995) and liability of outsidership from relevant business networks in foreign markets (Johanson and Vahlne, 2009).

Cultural differences could also destabilize a family firm assemblage of resources to the extent that there is a need to adapt to local markets. Family businesses tend to replicate the original business when expanding and scaling what they already do (Salvato and Corbetta, 2014), but internationalisation often requires learning how to adapt products/services and marketing practices on a country-by-country basis (Reuber, 2016, p. 1279). This is more likely to happen as the scope of a firm's activities overcome the national or home regional geographic boundaries. Therefore, we argue that the presence of non-family specialists may be helpful to overcome such potential information overload coming from a larger number of global markets so to better manage the learning on how to eventually adapt products/services into foreign markets. This, in turn, should produce positive effects on a firm's export intensity. We, therefore, propose that:

H2. In family SMEs, the presence of external managers moderates the inverted U-shaped relationship between the growth of global market scope and export performance.

While some family SMEs may prefer exclusively and unilaterally to control the company, some other family SMEs also collect capital from external shareholders, i.e. investors that are not part of the family (Wennberg et al., 2011). These external shareholders are external capital providers and support the family business in their investment policies. However, they may remain in a minority position within the firm that maintain all the characteristics of family firms (Sirmon et al., 2008; Arregle et al 2012). The presence of external capital often promotes a greater involvement of external parties in general, and of external managers in particular since external shareholders are more open to hire managers from outside the family circle (Schulze et al., 2003). In family SME studies, the idea that the impact of nonfamily managers on internationalisation may positively interact with a high concentration of external shareholders is increasingly finding empirical support (Sciascia and Mazzola, 2008; Yang, 2010; Calabrò et al., 2013; D'Angelo et al., 2016). In other words, non-family specialists should find support into non-family capital to better tackle internationalisation seen as a risky strategy vs the risk averse approach of family firms often driven by socio-emotional wealth considerations that increase bifurcation bias towards family assets (Verbeke and Kano, 2012). Gomez et al. (2007, p. 106) defined the socioemotional wealth as the "*non-financial aspects of the firm that meet the family's affective needs, such as identity, the ability to exercise family influence, and the perpetuation of the family dynasty*". Firms with high family ownership may be more risk averse in presence of uncertainty, also to preserve the socio-emotional wealth (Kao and Kuo, 2017). Kao and Kuo (2017), using a TCE approach, found that family concentrated ownership behaves differently in presence of internal and external uncertainty, and they call for more research to shed light on the still unclear effect of external uncertainty on family firms' strategies. The external uncertainty increases with a broad geographic scope and thus family firms may react to the uncertainty diminishing their internationalisation exposure or export

performance. However, the presence of external shareholders supporting external managers might act as a corrective mechanism to dilute this risk aversion. Following this line of thought, we propose that:

H3. In family SMEs, the presence of external capital augments the moderating effect of external managers on the inverted U-shaped relationship between the growth of market scope and export performance.

3. Methodology

3.1 Data and Sample

This study uses data from the first edition of the survey "The performances of European firms: A benchmark analysis" published in 2016 by Assolombarda Confindustria[1] Milano Monza e Brianza to find empirical support for our working hypotheses. The survey comprises firm level data from five European regions, namely Lombardia (Italy), Baden-Württemberg and Bayern (Germany), Cataluña (Spain) and Rhône-Alpes (France). The sample is made of 644 companies with more than 10 employees and data refer to manufacturing industry in four technology levels, i.e. high-tech, medium-high tech, medium-low tech and low-tech. The original dataset counts around 120 qualitative variables obtained through the submission of a questionnaire plus additional quantitative data drawn from firms' balance-sheets. The use of both qualitative and quantitative data allows us to better understand the phenomenon. This is especially true in the case of firms coming from five different regions and thus different contexts (Dana and Dana, 2005). Data gathered through the questionnaire cover the following topics: (a) business structure, production, and organization; (b) labour force and training; (c) investments, innovation, and R&D; (d)

[1] Assolombarda (https://www.assolombarda.it) is the largest territorial association of the entire entrepreneurial system in the country, approximately 6.000 firms located in the Provinces of Milan, Lodi and Monza and Brianza are associated to it. Assolombarda is part of Confindustria (Italian Entrepreneurial Association). The associated firms employ more than 330,000 workers locally and several hundred thousand in the whole country.

internationalisation; (e) finance and relationships with banks; (f) market and competition; (f) bureaucracy. Data from the questionnaire cover the period 2011-2013.

Out of the 644 companies in the original dataset – *Italy (Lombardia)*=241; *Spain (Cataluna)*=103; *Germany (Baden-Württemberg)=100; Germany (Bayern)=100; France (Rhône-Alpes)=101* – we selected SMEs only according to their number of employees (>10 and <250), following the EU Recommendation (2003).

Moreover, we focused on firms where the family controls the business through significant involvement in ownership and management positions. The definition of family firms is challenging (De Massis et al., 2014; Feldman et al., 2016). Therefore, we considered family firms those who self-declared themselves as such in the questionnaire and also had a family CEO. This measure is widely accepted in the extant literature (e.g. Majocchi et al., 2018).

The final sample for our empirical analysis counts 446 family SMEs. Descriptive statistics on size class, countries and industries are reported in the Tables 1, 2 and 3 respectively. Table 4 shows some interesting results on the presence of external managers. The presence of external managers increases as the size increases and it is also higher in high-tech industries. A country/region peculiarity also emerged in Table 4 that shows a low percentage of external managers in Italy compared to the other four regions in Europe.

3.2 Variables

The main purpose of this study is to shed light on the relationship between a global market scope strategy and export performance by looking at family SMEs in five European regions. In particular, we aim at evaluating the moderating role played by managerial professionalization and external capital on the global market scope strategy/export performance relationship.

Dependent variable. In line with the objectives of the study, our dependent variable measures export performance as the ratio of foreign to total sales (*Export intensity).* This variable has been

used extensively (e.g. Lu and Beamish, 2001) as a measure of internationalisation. In the case of family SMEs, exporting is by far the most common entry mode into international markets as compared to higher-commitment entry modes such as joint ventures and FDI (Family Firm Institute, 2014).

Independent variables. Our main independent variable measures the *Global market scope* of European family SMEs as the number of export countries outside Europe. The number of export countries is a very popular indicator of the market spreading activities strategy (Mas et al., 2006; Kuivalainen et al., 2012; Gallego and Casillas, 2014; Hilmersson, 2014), and other studies (e.g. D'Angelo et al., 2013) have demonstrated that extra-regional foreign sales might have its own right to study internationalisation strategy.

Our second independent variable measures the presence of external managers in family SMEs. We considered a dummy variable (*External managers*) taking the value of "1" when the family SMEs employed external managers besides family managers, and "0" when the family SMEs employed only family managers. Enriques and Volpin (2007) consider this an appropriate measure of the presence of specialist, independent executives in family firms.

Finally, we distinguished between *Family-controlled* and *Family-influenced* SMEs (Sirmon et al., 2008; Arregle et al., 2012), adopting the widely accepted and more strict definition of family-controlled SMEs (Anderson and Reeb, 2003; Villalonga and Amit, 2010), i.e. firms whose CEO was a member of the family who owned the majority of shares (>50%), *versus* family-influenced, i.e. firms whose CEO was a member of the family who owned less than 50% of shares, implying the presence of external shareholders.

Control variables. As usual in studies on the determinants of internationalisation (e.g. Majocchi et al., 2005), we controlled for firm *Size* (logarithm of number of employees), *Age* (logarithm of firm's years in business), *Age export* (logarithm of firm's years since exporting) and *R&D intensity* (R&D

employees to total employees). We also control for technology levels in four industries (OECD, 2005). In order to control for nation-specific effects, we finally included country dummies.

3.3 Method of analysis

In order to test our hypotheses, we ran a simple OLS regression model with probability weights as provided in the database to account for potential oversampling. The peculiar nature of our dependent variable showing a high percentage of observations at the lower limit would suggest adopting a Tobit regression methodology (Greene, 2002; Bowen and Wiersema, 2004). However, the results obtained with a Tobit regression did not present substantial changes. Therefore We rely on the classic OLS model and our estimating equation took the following form:

$$Foreign\_sales\_intensity = a_0 + \beta_1\, Num\_exp\_countries\_out\_EU + \beta_2\, Num\_exp\_countries\_out\_EU^2 + \beta_3\, External\_mng + \beta_4\, External\_mng{*}Num\_exp\_countries\_out\_EU + \beta_5\, External\_mng{*}Num\_exp\_countries\_out\_EU^2 + \beta_6\, Size + \beta_7\, Age + \beta_8\, Age\ export + \beta_9\, R\&D\ intensity + \beta_{10}\, Dummies\_industries + \beta_{11}\, Dummies\_countries + \varepsilon$$

4. Results

Table 5 reports the correlations matrix and descriptive statistics for our untransformed variables. The low level of correlation in the matrix indicates that multicollinearity was not a significant concern. Other diagnostic tests for multicollinearity such as the VIF has been executed and no multicollinearity problems were found being all the VIF values (average 3.66 for Model 3 and average 3.51 for Model 4 Table 8) significantly lower than the standard threshold of 10 reported in the literature (Studenmund, 1992).

Tables 6 and 7 report t-test both statistically significant ($p<0.01$). Therefore, we can conclude at 99% confidence level that family SMEs employing external managers beside family managers have a higher level of export performance (37% in average) and a higher level of global scope strategy

(in terms of number of export countries outside Europe, 7.8% in average) suggesting that a positive relationship does exist between the presence of external manages and export performance (Table 6), and global scope strategy (Table 7) respectively.

Table 8 reporting the results of the OLS regression[2] shows that a global market scope strategy has a positive relationship with export performance (Model 2). However, it presents an inverted U-shape (Model 3), confirming our first working hypothesis claiming that an increase of global market scope might result in a shallow penetration into each market and the possibility of a subsequent decline in export performance since the limited resources to serve a larger number of markets (Ruzo et al., 2011), the greater liability of foreignness (Rugman and Verbeke, 2004), and the higher bounded rationality (Rugman and Verbeke, 2005). Bounded rationality and bounded reliability of family firms inhibit their ability to economize on their dysfunctional priority related to noneconomic goals (Kano and Verbeke, 2018). Therefore, the greater is the geographic scope is, the more difficult it is for family firms to manage both the family goals and the international activity with a consequent negative impact on export performance. Table 8 also shows that the presence of external managers has a positive relationship on export performance in family SMEs (Model 4) and positively moderates the inverted U-shaped relationship between global market scope strategy and export performance (Model 5). Results confirm that managerial professionalization in family SMEs provides the right knowledge and competencies to overcome the dual bias, internal as well as external, that family SMEs might encounter when dealing with a global market scope strategy (Cieślik et al., 2012). However, when we distinguished family SMEs into family-controlled and family-influenced SMEs (Model 6 and 7), with the main idea of recognizing the heterogeneous nature family SMEs, we reported interesting results. The graphical representation of the interaction term (Figure 1 referred to both Model 5 and 6) clearly shows that the role of external managers (dotted line) on export performance is always higher compared to SMEs employing only family

[2] All the continuous variables are mean-centered.

managers as the global market scope increases but only up to a point as the relationship between global market scope strategy and export performance will still present an inverted U-shaped even when external managers are hired. The turning point is 24.85 countries. Also, we calculate this turning point for different sub-samples on the basis of the number of employees using the percentiles. The results show that the turning point is -0.69, 9.10, 23.71 and 29.23 respectively for the four percentiles. This result goes along previous convictions by Chrisman et al. (2013, p. 3) who stated that "family owners are more likely to maximize their utility by hiring family managers even though hiring nonfamily managers might lead to higher economic performance". However, once the ownership structure is also opened (Figure 2 referred to Model 7), the role of external managers (dotted line) on export performance remains higher compared to SMEs employing only family managers. This is so also when the global market scope increases, confirming and extending D'Angelo et al. (2016), who demonstrated that when family SMEs open their ownership structure external, managers might benefit from the presence of external capital as they both reinforce each other when it comes to increase their geographic diversification in the global markets.

5. Discussion and Conclusions

We adopted a TCE framework to discuss first, how the behavioural uncertainty (bounded rationality and reliability, and bifurcation bias) in family SMEs may affect the relationship between the global geographic scope and export performance; and second, whether hiring professional managers and open the ownership base to outsider capital could mitigate the effect of such behavioural features on the relationship above.

Previous studies on SMEs export performance focused more on internal variables, such as firm-level characteristics (Katsikeas et al., 2000). We argue here that SMEs export performance can be also dependent on firms international strategy. This is in line with Hennart's al. (2017) argument that international strategies are a critical factor in export performance. Our results show that family SMEs that sell in many global countries present a higher level of export performance. However, this

strategy works if firms sell their products in a limited number of countries. The inverted U-shape relationship between global market scope and export performance confirm this hypothesis, i.e. when the number of global markets is large, family SMEs suffer and tend to have problems in managing complexity lowering their export performance.

Furthermore, we show that the presence of professional managers mitigates this inverted U-shaped relationship, and this positive effect is reflected also when outside external capital is present. Thus, our findings confirm the arguments of other studies (George et al., 2005; Arregle et al., 2007; Arregle et al., 2012) that show that the presence of external parties in corporate governance foster internationalization.

This study claims to make four main contributions. First, our paper contributes to the literature answering to the call for more research on SMEs' export performance (Leonidou et al., 2010). Focusing on family SMEs our paper adds knowledge to the determinants of their export performance by focussing on the case of geographic diversification strategy (e.g. Cieślik et al., 2012).

Second, we contribute to the literature on family business shedding light on the role of professional managers (D'Angelo et al., 2016; Majocchi et al., 2018). Recognizing the importance of external managers as a heterogeneous element in family SMEs management structure (Chrisman et al., 2013; Nordqvist et al., 2014) allowed us to recognize and claim their ability to mitigate the negative relationship between a global market scope and export performance.

As claimed by different scholars (Chua et al., 2012; D'Angelo et al., 2016; Drago et al., 2017) studying whether and to what extent family firms' strategies differ from those of non-family firms is important. However, it is also important to acknowledge that not all family firms are the same. Heterogeneity between family firms, not only in terms of management structure (e.g. presence of professional managers versus only family managers), but also in their ownership structure (i.e.,

outside ownership versus 100 per cent family owned), should be considered because it might affect the results. Thus, our third contribution to the research on family businesses refers to the ability of external capital when aligned with the presence of external managers to further mitigate the negative relationship between a global market scope and export performance.

Fourth, we contribute to the development of the TCE application to family firms (Verbeke and Kano, 2012; Kao and Kuo, 2017; Memili et al., 2017). We demonstrated that family firms' strategies, and specifically their global geographic scope, are affected by the bounded rationality and reliability, and bifurcation bias according to the behavioural assumptions of the TCE. We provided evidence that external managers and outside ownership mitigate this behavioural uncertainty allowing higher level of export performance.

Our research is not free from limitations. First, the data at our disposal are of a cross-sectional nature. Although cross-sectional data are standard practice, claims about causality cannot be substantiated with such a method. Although our research design is focused on exploring relationships, further studies should try to employ longitudinal databases to depict causation. Second, the relationships tested could benefit from a larger sample.

Nevertheless, our research provides some important implications for practitioners. The requirements of internationalization for firms are complex and demanding. Family SMEs that want to growth internationally need to open their governance structure to external capital and also their management team to external professionals. Leveraging on the benefits deriving from openness is timely in the light of the current debate on the best management practice of family firms. According to PricewaterhouseCoopers (2018), the percentage of family firms available to be open to external capital grew by 18% in 2011, to 61% by 2013 and 83% by 2017 and they are more inclined to hire professional managers too. We show why this is the case. Following previous research (D'Angelo

et al., 2016; Majocchi et at., 2018) family SMEs that hire external managers and are, at the same time, supported by external capital tend to be more effective in their internationalization. Indeed, we show that these firms that open to the use of external resources are able to leverage on experience, capabilities and so on from both external ownership and external management to mitigates the inverted U-shape relationship between global market scope and export performance. Our results theoretically explain the findings of the PricewaterhouseCoopers (2018) report when it states that: "family businesses and private equity are reaching a moment of convergence of interests – on goals, and even values and purpose – at a time when there is an increasing focus on long-term value-generation, succession and professionalization at family businesses".

Finally, our analysis highlights the presence of heterogeneity also at the country level. Our data show that in Italian family SMEs there is a low percentage of external managers when compared to other countries. While we do not investigate why this is the case, future studies could explore further family firms heterogeneity, considering country specific differences and also family structures as suggested by Arregle et al. (2019). Furthermore, Clarke and Liesch (2017) stated that contextual factors influence decision makers such as family firms managers. Future studies could investigate this and other context specific effects on the global market scope/export performance relationship.

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Table 1 – Distribution of the sample by Size class

Size class	Frequency	Per cent	Cum.	Mean	Std. Dev.	Min	Max
10-49	387	86.77	86.77	21.44	9.93	10	49
50-250	59	13.23	100	91.25	39.99	50	220
Total	446	100		30.68	29.23	10	220

Table 2 – Distribution of the sample by Country

Country	Frequency	Per cent	Cum.
Italy (Lombardia)	179	40.13	40.13
Spain (Cataluna)	69	15.47	55.61
Germany (Baden-Württemberg)	74	16.59	72.20
Germany (Bayern)	77	17.26	89.46
France (Rhône-Alpes)	47	10.54	100
Total	446	100	

Table 3 – Distribution of the sample by Industry

Industry	Frequency	Per cent	Cum.
High technology	13	2.91	2.91
Medium - high technology	120	26.91	29.82
Medium - low technology	172	38.57	68.39
Low technology	141	31.61	100
Total	446	100	

Table 4 – Distribution of External managers by Size class, Industry and Country

External managers		Frequency	Per cent
Size class	10-49	183	47
	50-250	44	75
Industry	*High technology*	11	84
	Medium-high technology	65	54
	Medium-low technology	90	52
	Low technology	61	43
Country	*Italy (Lombardia)*	68	38
	Spain (Cataluna)	39	56
	Germany (Baden-Württemberg)	38	51
	Germany (Bayern)	43	56
	France (Rhône-Alpes)	39	83

Table 5 - Correlation matrix

	Export propensity	*Export intensity*	*Global market scope*	*Age*	*Age export*	*Size*	*R&D intensity*
Obs.	446	276	271	446	290	446	446
Mean	.6502	32.75	6.05	42.43	24.45	30.68	7.78
Std. Dev	.4774	27.79	10.57	31.70	17.87	29.23	12.94
Min	0	1	0	5	4	10	0
Max	1	99	90	367	118	220	100
Export intensity		1					
Global market scope		0.4408* 0.0000	1				
Age		-0.1008 0.0946	-0.0592 0.3314	1			
Age export		0.1345* 0.0255	0.0642 0.2921	0.5883* 0.0000	1		
Size		0.1276* 0.0341	0.1846* 0.0023	0.2824* 0.0000	0.1767* 0.0025	1	
R&D intensity		0.2088* 0.0005	0.1811* 0.0028	-0.0819 0.0840	0.0451 0.4446	-0.0571 0.2291	1

*Note: * p<0.05*

Table 6 - Two-sample t test with equal variances for Export intensity

Group	Obs	Mean	Std. Err.	Std. Dev.	[95% Conf. Interval]	
No externals (only family mng)	123	27.47	2.33	25.90	22.84	32.09
External managers	153	37.00	2.31	28.60	32.43	41.57
Combined	276	32.75	1.67	27.79	29.46	36.05
DOF	274					
t	-2.8701					
Pr(T < t)	0.0022					

Table 7 - Two-sample t test with equal variances for Global market scope

Group	Obs	Mean	Std. Err.	Std. Dev.	[95% Conf. Interval]	
No externals (only family mng)	119	3.83	.50	5.53	2.82	4.83
External managers	152	7.80	1.05	13.00	5.71	9.88
Combined	271	6.05	.64	10.57	4.79	7.32
DOF	269					
t	-3.1153					
Pr(T < t)	0.0010					

Table 8 – OLS regression results

	Model 1	*Model 2*	*Model 3*	*Model 4*	*Model 5*	*Model 6 Family-controlled*	*Model 7 Family-influenced*
Constant	15.717**	10.864*	1.622	-4.013	-7.698	-10.360	-29.369
	(7.259)	(6.558)	(6.239)	(6.318)	(5.736)	(7.368)	(24.698)
Spain (Cataluna)	-9.383*	-6.897	-5.794	-7.723	-8.486*	-1.818	-16.527*
	(5.607)	(5.297)	(5.225)	(5.147)	(5.021)	(4.776)	(9.612)
Germany (Baden-Württemberg)	-6.865	-5.130	-1.666	-2.668	-2.375	2.666	-39.108***
	(5.488)	(4.907)	(4.682)	(4.702)	(4.491)	(4.870)	(9.956)
Germany (Bayern)	-10.995**	-8.952**	-7.742*	-8.855**	-8.466**	-3.140	-33.784***
	(4.510)	(4.161)	(4.126)	(4.165)	(3.871)	(4.094)	(10.873)
France (Rhône-Alpes)	-6.818	-7.650	-9.104*	-12.249**	-11.427**	-3.657	-7.448
	(6.340)	(5.802)	(5.478)	(5.683)	(5.452)	(6.816)	(16.302)
Medium - high technology	-7.743	-3.661	3.081	4.172	5.073	7.099	-19.846**
	(7.196)	(6.630)	(6.137)	(6.326)	(5.586)	(7.651)	(9.340)
Medium - low technology	-15.973**	-10.725*	-0.525	0.824	1.470	2.763	-15.544
	(6.854)	(6.302)	(6.021)	(6.267)	(5.466)	(7.512)	(14.650)
Low technology	-19.035**	-13.652**	-2.149	0.334	1.442	0.838	-18.082
	(7.491)	(6.823)	(6.379)	(6.727)	(6.095)	(7.727)	(13.988)
R&D intensity	0.331**	0.231*	0.257**	0.253**	0.235*	0.202	0.612*
	(0.147)	(0.128)	(0.126)	(0.124)	(0.125)	(0.142)	(0.347)
Size	4.029	1.209	-2.575	-3.761*	-4.302**	-3.117	-12.649**
	(2.469)	(2.265)	(1.967)	(1.951)	(1.950)	(2.394)	(5.827)
Age	-13.401***	-9.483***	-8.283***	-8.216***	-8.508***	-7.684**	-15.179**
	(3.033)	(2.489)	(2.403)	(2.315)	(2.332)	(3.101)	(7.149)
Age export	11.874***	8.353***	5.395*	5.615**	5.142**	5.451*	7.914
	(3.073)	(2.843)	(2.776)	(2.503)	(2.495)	(2.869)	(7.868)
Global market scope		0.873***	2.516***	2.440***	4.600***	4.733***	7.424**
		(0.232)	(0.336)	(0.337)	(0.860)	(1.033)	(3.091)
Global market scope²			-0.024***	-0.023***	-0.093***	-0.095***	-0.364*
			(0.004)	(0.004)	(0.030)	(0.036)	(0.200)
External managers				8.732**	11.146***	7.415**	68.165***
				(3.652)	(3.579)	(3.643)	(22.713)
External managers Global market scope*					-2.583***	-2.079*	-7.381**
					(0.932)	(1.059)	(3.422)
External managers Global market scope²*					0.074**	0.071*	0.391*
					(0.031)	(0.036)	(0.206)
Number of valid obs	272	268	268	268	268	190	46
R-squared value	0.233	0.335	0.405	0.428	0.448	0.494	0.602
Incremental F test	7.76***	9.57***	15.87***	16.34***	22.17***		

*Note 1: *** p<0.01, ** p<0.05, * p<0.1 - Robust standard errors in parenthesis.*

Note 2: The number of observations in Model 6 and 7 sum up to 236 as there were 32 observations without indication of the ownership share.

Figure 1 – Graphical representation of the interaction effect (Model 5 and 6)

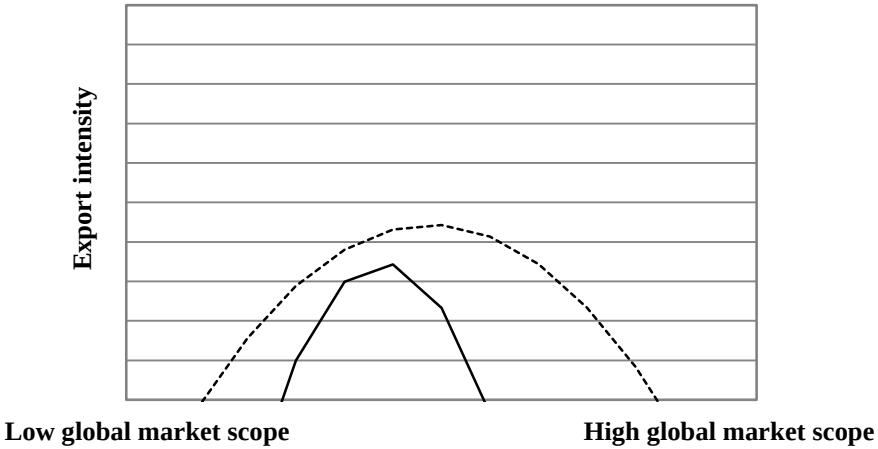

Figure 2 – Graphical representation of the interaction effect (Model 7)