

Going Global: Internationalization Pathways for Family Firms during the Nineteenth and Twentieth Centuries

Veranstalter: German Historical Institute Washington

Datum, Ort: 18.02.2011-19.02.2011,

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For decades, the international expansion of corporations and their contribution to the globalization process has attracted scholarly attention. However, their motivations and courses of action are still not fully understood. This conference aimed to reappraise the role of a subset of these, specifically, family firms as international actors. While the global impact of giant managerial enterprises is universally accepted, the role of family firms has been broadly considered of minimal importance.¹ As CHRISTINA LUBINSKI (Boston, MA) stated in her introduction, earlier research regarded the conflict family firms experienced between their wish for independence and the capital requirements of cross-border expansion to be an insurmountable dilemma. Yet, nonetheless, numerous family firms of various sizes have enjoyed long-term international success—how did they manage this? Business historians have begun increasingly to investigate this question while challenging the dichotomy between large managerial and small- or medium-sized enterprises (SMEs) with family involvement. This conference was the first to present substantial results to four key questions this research trend pursues: What competitive advantages did family businesses have in their international ventures? Which structures and strategies did they choose for going global? How did they react to the capital needs of internationalization? What role did local learning processes as well as regional and national communities play?

The first panel already shook up the current perspectives with its discussion of theory and methodology. Stefano Agnoletto (London) suggested that we need to rethink the sequential stage model wherein cross-border expansion is viewed as an intermediate stage

in a firm's life cycle. His research on the Italian metal products distributor Gerli that operated internationally from the outset illustrates that growth within national borders is not a necessary prerequisite for going global. He therefore recommended applying „born global“ firms—a concept that has mainly been used in other contexts—to family business history, too. Vipin Gupta (San Bernardino, CA) contributed by widening the scope to business networks. He traced the findings of a low degree of internationalization in family firms back to limited research designs ignoring ventures that are not coordinated by equity stake. Blending economic and migration history, Gupta's study on Indian overseas family businesses revealed ample international trade activity within ethnic networks. The fusion of knowledge of overseas migrants and India-based network-extenders gave them a competitive advantage. RAFFAELLA MONTERA and GIUSEPPE GENTILE's (Salerno) talk raised awareness of another research bias. Challenging the underlying assumption that kin and ownership play a fundamental role in family firms, they looked at a sample of Italian companies that displayed varying degrees of internationalization but no remarkable difference in family involvement as measured by the F-PEC scale (power, experience, culture). This points to familism having no exclusive impact on internationalization pathways. Commitment and the openness to outside resources and skills are equally important.

The second panel focused on family firms crossing the border for the first time. HAROLD JAMES (Princeton, NJ) emphasized the significance of pioneer marketing in foreign environments during Continental European industrialization. He highlighted global branding tied to family ownership and national origin as part of the steel producer's internationalization strategy starting in mid-nineteenth century. According to James, a major competitive advantage was Alfred Krupp's ability to turn the family name into a German icon („hard as Krupp steel“). The branding strategy heavily determined the

¹ See the influential study of Chris Graves / Jill Thomas, *Determinants of the Internationalization Pathways of Family Firms: An Examination of Family Influence*, in: *Family Business Review* 21 (2008), No. 2, pp. 151-167.

international expansion as export to the leading economic and military powers was expected to prove Krupp's industrial superiority. While Krupp is an example of a first mover in an infant industry, PALOMA FERNÁNDEZ PÉREZ's (Barcelona) talk—which María Fernández Moya and Hui Li wrote with her but were unable to attend—concentrated on the challenges market newcomers face when entering into the highly globalized economy. Taking up China's contemporary economic backwardness, she emphasized the bright side of coming into the market late. Benefiting from knowledge transfer through joint ventures with and the acquisition of Western businesses, some large family groups were able to avoid mistakes these Western predecessors had made. In addition, they were able to instantly reach notable world market positions. Li Ka-shing, owner of Hutchison Whampoa, is a prominent example. However, the impact of Chinese family entrepreneurs blends together with that of further stakeholders: the state and collective business angles. HARTMUT BERGHOFF (Washington, DC) then provided insight into how small-cap family entrepreneurs can stay involved and expand their firms despite delegating responsibility in light of the postwar globalization wave. In his paper on Bertelsmann he identified a permeable corporate culture as an umbrella under which Reinhard Mohn turned a German provincial publisher into a multinational media company. For his first cross-border venture in 1962, Mohn chose the Spanish developing market where a minor greenfield investment sufficed. To establish distribution in line with country-specific parameters, he acquiesced to hiring non-family executives who were familiar with local conditions. Since, for different reasons, neither relatives nor long-serving employees were available to set up foreign establishments, Mohn promoted ambitious and talented individuals. Go-betweens ensured communication between subsidiaries and world headquarters. As Bertelsmann leapfrogged the export stage, this study once more demonstrated the limitations of evolutionary internationalization models. Moreover, family entrepreneurship neither inhibited nor fueled the company's going global.

Different settings not only require different modes of entry but also different adaptive strategies. Panel three, „Managing Internationalization: Strategies for Global Markets,” showed how family businesses changed their pathways over time to adapt to current conditions. LIZA LOMBARDI (Geneva) delivered details on DuPont's decision-making and risk management practices. Examining the chemical giant's foreign direct investment (FDI) in Mexico following World War I, she identified its connections to influential non-family bankers as an informational edge. Additionally, comparing interwar and postwar FDI, Lombardi discovered a shifting readiness to assume risk. In the 1920s, the three Du Pont brothers then in charge relied on the market intelligence of only a small circle of middlemen—running the risk of limiting them to bounded rationality. During the European expansion after 1945, the company's management, which had ever fewer family members, based the information flow on numerous local experts to avoid such concentrated risk. MIGUEL LÓPEZ-MORELL's (Murcia) talk on the Rothschilds revealed that a dissimilar strategy can accomplish similar sustainability. The family of merchant bankers refrained from hiring outsiders until the 1960s, thus avoiding the principal-agent problem. They gained a second competitive edge with their pro-cyclical momentum strategy. The Rothschilds flexibly sought out profitable business areas and dropped declining segments—no matter what industry or region they were in. Next, SUSANNE HILGER (Düsseldorf) showed that Geoffrey Jones's concept of „the disintegration of the first global economy”² is in need of an adjustment. While Jones's idea conceptualizes the decrease of internationalization after 1930, Hilger's paper gave a counter example—an account of the Czech company Bat'a's enormous anti-cyclical FDI in the 1930s. The company set up manufacturing facilities, company towns, and sales subsidiaries worldwide. With high productivity in a small domestic market, Bat'a's growth was inevitably tied to internationalization—providing evidence that there is no

² Geoffrey Jones, *Multinationals and Global Capitalism from the Nineteenth to the Twenty-first Century*, New York 2005, p. 20, 29-31.

constitutive contradiction between family entrepreneurship and industrial expansion.

The fourth panel looked at how intermediaries helped family entrepreneurs gain knowledge for building and managing international organizations. NURIA PUIG (Madrid) linked the cross-border expansion of the Spanish companies Salvat, Puig, and Lladró to the rise of the IESE Business School, which taught the family entrepreneurs how to implement standardized growth strategies from the 1960s onwards. In contrast, SUSANNA FELLMAN (Helsinki) argued that, although Finland likewise saw a growing interest in special management training, their contribution to the rise of big business is overstated. She pointed out that Finnish large-cap family entrepreneurs had already received excellent academic training from early industrialization and that the breakthrough of additional MBA programs in the 1970s did not significantly raise their educational level. Rather, what has changed is the amount of foreign work experience the postwar generation has amassed; the interwar generation, by contrast, was more domestically oriented.

Panel five drew particular attention to the role of familism as a safeguard against all odds. MARGRIT SCHULTE BEERBÜHL (Düsseldorf) underlined how trust within entrepreneurial families was more important than arms during the naval blockades in the Napoleonic wars. To revive the flow of capital and goods within Europe and overseas territories, several merchant clans sent family members to leading entrepôts worldwide. From there, they built intelligence and trade communities of trustworthy, influential business partners who were able to successfully undermine the restrictions. Instead of causing a logjam in commerce, the Napoleonic wars hence marked a new step towards a global economy in which family businesses actively participated, Schulte Beerbühl argued. ANNE OVERBECK (Münster) illuminated how cultural cohesion fostered the establishment of an ice cream parlor oligopoly and the creation of „Italian ice cream“ as a generic term. Her talk disclosed that most such parlors in Germany are run by inhabitants of two valleys in Northern Italy. Many of them only spend the summer in this host country and

the remainder of the year in their Italian home villages, where they also raise their children. This lack of connection to the „country of work“ strengthens the emotional bonds to their culture of origin and to their own kin against all outsiders. When family cohesion is lacking, by contrast, the coevolution of a family and its joint business is often disrupted. LUCIANO SEGRETO (Florence) depicted the rise and fall of the timber trade business of the Feltrinelli family whose solidarity could withstand multiple personal tragedies but not the offspring's need to find other forms of self-fulfillment. Nonetheless, Segreto proved the proverbial „Buddenbrooks syndrome“ wrong by showing that individual third-generation family members may resume commercial success. For instance, Giangiacome Feltrinelli, who was too young to save the timber firm in the 1940s, became a prosperous entrepreneur when he founded a publishing house years later.

Finding the right path was likewise the subject of the last panel. It concentrated on the „hidden champions“ concept which refers to provincially headquartered firms that reach dominant positions by focusing on small market subsets without the public noticing their role. This is clearly supported by the findings of MIQUEL GUTIÉRREZ-POCH's (Barcelona) aggregative study on family SMEs that supply the global demand of paper for special purposes. He pinpointed flexibility and customer proximity to be among the competitive advantages these firms utilize as small-scale production enables them to respond to individual requests. By contrast, in examining a set of Central European tool and security components manufacturers, JEFFREY FEAR (Redlands, CA) questioned the „hidden champions“ idea altogether. In his paper he dismantled the general perception of these firms as regionally rooted, socially responsible, traditional family firms. Fear demonstrated that many of these companies, having relocated manufacturing to foreign countries to be closer to target markets and to exploit cost advantages, and with decreasing familism, have become in many regards akin to „ordinary“ managerial multinationals.

Bridging public reception, older research concepts, and fresh findings, the closing

round table with MATTHIAS KIPPING (Toronto) as commentator, summarized four fundamental results of the conference. First, there is no single archetype but a diversity of strategies, advantages, sizes, and organizational models in the internationalization pathways of family firms. Secondly, though many SMEs may not be that visible, they have still been drivers of globalization. Cautious management of resources did not at all inhibit the companies presented here from taking the risk and shouldering the cost of going global; yet it goes without saying that, historically, there must have been divestments, too. Third, it is clear that, regarding the expansion motives, some trading and banking businesses exhibited defensive behavior in reaction to external impulses. On the other hand, multiple family manufacturing businesses pursued the same aggressive growth strategies as managerial multinationals do. In fact, these case studies showed that difference between the secondary and tertiary sector is bigger than between family and managerial firms. Fourth, participants agreed that there are different means of risk management. Trust and social control within families appear to be equivalent to the institutional dependability of managerial firms whereas large conglomerates seem to have a combination of these. Thus, Kipping recommended creating a model that includes similarities between family and other types of firms, as well as the particular qualities of family firms, to provide a more precise research framework. Future studies on family firms will achieve better results when they do not „exceptionalize“ but link arms with international business history.

Conference Overview:

Welcome: Hartmut Berghoff (German Historical Institute Washington, DC)

Introduction: Christina Lubinski (Harvard Business School Boston, MA/GHI Washington, DC)

Panel 1: Concepts of Family Business and Internationalization

Chair: Jeffrey Fear (University of Redlands)

Stefano Agnoletto (Kingston University London): „A Case Study in Italian Family Business History: The Small ‘Born Global’ Firm

Gerli of Milan, 1867-2010“

Vipin Gupta (California State University San Bernardino): „Are Family Firms ‘Reluctant Internationalizers’?“

Giuseppe Gentile / Raffaella Montera (University of Salerno): „Internationalization Pathways for Long-Lasting Family Business: Between Familism and Determinants of the of the Expansion Abroad“

Panel 2: Reaching Out into the World: Internationalization Pathways in Historical Perspective

Chair: Jan Logemann (GHI Washington, DC)

Harold James (Princeton University): „Globalization and Business History: Krupp as an Exemplary Story“

Paloma Fernández Pérez / María Fernández Moya / Hui Li (University of Barcelona): „Is the Future Going Back? Family-Owned Multinationals in China“

Hartmut Berghoff (GHI Washington, DC): „Becoming Global, Staying Local: The Internationalization of Bertelsmann, 1962-2010“

Panel 3: Managing Internationalization: Strategies for Global Markets

Chair: Christina Lubinski (Harvard Business School)

Liza Lombardi (University of Geneva): „When DuPont Entered Mexico, 1902-1928“

Susanne Hilger (University of Düsseldorf): „Shoes for the World: Internationalization Strategies of European Family Firms in the Shoe Industry before World War II (with Particular Reference to the Czech Bat’a Company)“

Miguel López-Morell (University of Murcia): „From Pioneers to Last Mohicans: The Rothschild Family at the Forefront of International Investment Banking“

Panel 4: Global Expertise: Knowledge, Training, and Education

Chair: Berti Kolbow (University of Göttingen)

Nuria Puig (Complutense University of Madrid): „Learning to Go Global: Business Education and the Internationalization of Spanish Family Firms“

Susanna Fellman (University of Helsinki):

„Preparing for Internationalization: Transforming Education and Recruitment Patterns in Finnish Family Firms, 1970-2005“

Panel 5: The F-Factor: Family Dynamics and Family Ruptures in International Business
Chair: Paloma Fernández Pérez (University of Barcelona)

Margrit Schulte Beerbühl (University of Düsseldorf): „The Commercial War against Napoleon: The Spread of International Trading Networks during the Early Years of the Blockades“

Luciano Segreto (University of Florence): „Creating a Fortune with the Timber Trade: Business, Family Strategy, and Family Unity. The Feltrinelli Case, 1854-1942“

Anne Overbeck (University of Münster): „Two Countries, One Home, One Occupation: The Success of Italian Ice Cream Makers as a Family Business in Germany, 1900-2011“

Panel 6: Big Fish in Small Ponds: Family Businesses in International Market Niches
Chair: Jessica Csoma (GHI Washington, DC)

Jeffrey Fear (University of Redlands): „Globalization from a ‘22mm Diameter Cylinder Perspective’: How Mittelstand (medium-sized firms) became ‘Pocket Multinationals’“

Miquel Gutiérrez-Poch (University of Barcelona): „Looking for a Place in the International Market. Success and Failure in European Papermaking Family Firms, 1800-2010“

Round table: Internationalization Pathways in Comparative Perspective
Comment: Matthias Kipping (York University Toronto)

References:

Tagungsbericht *Going Global: Internationalization Pathways for Family Firms during the Nineteenth and Twentieth Centuries*. 18.02.2011-19.02.2011, in: H-Soz-Kult 29.05.2011.