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# **INTERNATIONALISATION OF FAMILY FIRMS IN A KNOWLEDGE-BASED VIEW**

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# INTERNATIONALISATION OF FAMILY FIRMS IN A KNOWLEDGE-BASED VIEW

## Introduction

Despite the profusion of research about knowledge-based processes within the firm, rare studies tried to analyze them for the family firm<sup>i</sup>. The family firm can be defined as a firm controlled by one or more families involved in governance or management or at least holding capital stakes in this organization<sup>ii</sup>. Due to its specificities, this entity exhibits a specific behavior as for the creation, development, sharing, protection and transmission of knowledge. Habbershon and Williams (1999) initiated the research aiming at the identification of the specific resources of the family firm. But, more than specific resources and capacities, the family firm uses a collective tacit knowledge needed to integrate, coordinate and mobilize effectively its resources (Cabrera-Suarez et al., 2002). The aim of the present contribution is to analyze the characteristics of the family firm critical to the knowledge-based processes. Due to its founding characteristics, family SME seems to be a closed, hermetic and rigid organization. Although this description can be criticized and challenged, it remains valid for many of these entities. The interaction between the family system and the firm system appears to be the essential element preventing the organization from quickly adapting to the changing conditions (Moloktos, 1991). Moloktos (1991) explains that when the life cycles of these two systems do not evolve at the same speed, the risks of crisis are significant. Thus, conservatism constitutes a first obstacle to knowledge development. Besides, small and medium family enterprise is strongly oriented towards independence which has advantages but also many drawbacks. The impact of this orientation on the system of resources and in particular on knowledge can be crucial. Conversely, the family firm is characterized by social networking which impact on knowledge development is positive. In this article, we will study the influence of these three variables on the knowledge base of the firm in a context of internationalization.

Research which explicitly conceived the internationalization of the firm as a process of organizational learning is infrequent. At most, this phenomenon is deemed as underlying the process of resource commitment abroad. Here, we analyze internationalization in the light of the theoretical developments about learning and knowledge development within the organization. Internationalization can be conceived as a process of learning and accumulation of knowledge (Eriksson et al., 2000). Johanson and Vahlne (1977) took the first steps in considering knowledge within the context of internationalization. The stream of the literature initiated by these authors analyzes the process of international development as a sequence of steps permitting to the firm to gain knowledge of international environment. The move from one stage of commitment to another as well as the move from a given market to another are done incrementally. This incremental dynamics is precisely justified by an underlying process of foreign market knowledge development. Built on the analysis of Carlson (1966), this reasoning suggests more precisely that the firm managers fight against uncertainty through two strategies implying the development of two distinct forms of knowledge. The first mode to reduce uncertainty is based on a process of acquisition of objective information, on a cognitive learning. For instance, Knight and Liesch (2002) emphasize that the process of internalization of information and its translation into relevant knowledge is a fundamental step in order to accomplish an internationalization project whatever its form or its localization. The second way of reducing uncertainty is the engagement of the firm in an

action-based international expansion permitting to develop an international competence incrementally and cumulatively. Johanson and Vahlne (1977) distinguish between objective knowledge and experiential knowledge (Penrose, 1959). The first is a public good and therefore transferable at a weak or null cost. The latter is unique to the firm since it is acquired only through market experience. Recently, Eriksson et al. (1997, 2000) analyzed more thoroughly the different dimensions of knowledge relevant to international operations. In addition to operational and institutional knowledge, internationalization knowledge is of a crucial importance. In sum, two dimensions of knowledge, a resource and a competence, are together necessary and underlie the progression of the firm through the dimensions of internationalization (modes of entry, markets, products, etc). The first is the market knowledge which is constituted of a set of information in relation to a specific market or a number of markets. Johanson and Vahlne (1977) deal with this type of knowledge which requires obviously the activity on the market but could especially be acquired in an explicit form through cognitive learning. The second type of knowledge is synonymous of international competence. Behavioral learning largely contributes to the development of this knowledge whose form is primarily tacit.

This article is structured as follow: after analyzing the main idiosyncratic variables influencing the development of internationalization knowledge, we discuss some theoretical implications. Indeed, the study of these variables raises questions about the efficacy of the organizational memory within the family firm. This organization runs particular risks because of the peculiarity of its knowledge management mechanisms. Intergenerational transmission and transfer of knowledge could be the solution to protect and perpetuate valuable knowledge.

## **1. Idiosyncratic characteristics of small and medium family enterprise and development of internationalization knowledge**

Three variables are distinctive as for the processes of knowledge development within family SME. These are characteristics frequently emphasized by the literature as being specific to this organization. We will study the effects of conservatism (1.1), independence orientation (1.2) and social networking (1.3) on the development of the knowledge base of small and medium family enterprise.

### **1.1. Conservatism**

The conservatism limits the variation and accordingly the extent of knowledge developed by the firm. Indeed, the literature stresses that this variation, i.e. the diversity of environments to which the firm is exposed, is strongly correlated with the amount of knowledge accumulated and developed. Organizations exposed to a variety of business and institutional actors are likely to develop knowledge of an important set of events and thus learn more than poorly exposed ones. They are more able to define problems, errors and opportunities than firms whose horizon of action is more reduced (Eriksson et al., 2000). The weak variation indeed implies a limited number of customers, competitors and other institutional actors. Accordingly, conservative organizations carry out only a simple loop learning which does not reform their theories-in-uses since they accumulate little knowledge.

Conservatism is the attachment to the choices of the past (Timur, 1988). The literature about cultural specificities emphasizes the maintenance of the *status quo* and harmonious relations not only within the group but also within the entire society. The pursuit of security,

conformism and tradition are characteristic of conservative organizations. Particularly with the family firm, Miller et al. (2003) explain that the conservative posture of this entity is reflected on its governance, strategy and organization (mainly culture). We will discuss these three components in order to be able to understand their impact on the family SME knowledge base.

#### 1.1.1. Conservatism and firm governance

The first sphere concerned with conservatism is the governance of the firm<sup>iii</sup>. Conservative organizations and particularly family firms are characterized by the persistence and substantial power of old generations who exert a strong supervision on the owner-manager. Otherwise, conservatism can be due to the owner-manager himself. He plays a significant role in the processes of organizational learning and influences the strategic posture that his firm adopts. A patriarchal family controlling a paternalist organization is the ultimate case of figure (Jenseter and Malone, 1991): being dependent to a high degree on its founder, the organization would be unable to promote change as it is not instigated by the founder. However, the founder or owner-manager may be unwilling to promote change. Hambrick, Geletkanycz and Fredrickson (1993) call this tendency to slow down the change “commitment to the *status quo*” (CSQ). The management believes in the permanent accuracy of current strategies or organizational behaviors (Hambrick et al., 1993). Therefore, personal paradigms which by the past proved their efficacy constitute inhibitors to change. Thus, in spite of the evolution of the environment and performance requirements, the owner-manager could become inflexible and rigid by promoting practices and strategies resulting from past successes and avoiding decisions which can threaten his image or his economic wealth (Ward, 1997). Consequently, he perceives a weak need for adjustment even in case of critical changes in the external environment. In sum, the conservatism of the owner-manager constitutes a significant barrier to organizational learning and knowledge development within family SME.

The efficacy of the board of directors<sup>iv</sup> is an indicator of the struggle against conservatism and strategic inertia. According to theoretical descriptions, this corporate body constitutes a source of strategic initiative and relevant information and also a source of expertise, counsel and control since it must also correct the trajectory in case of unsatisfactory management. However, its role within family SME needs to be moderated. Mustakallio and Autio (2001) argue that the role of the board of directors, measured by its composition and by the intensity of control it exerts, would be more significant as the implication of the family members in the management decreases - suggesting at the opposite that the more the family is involved, the less decisive the role of the board would be. In general, the traditional family firm is known to have a board of directors whose members, selected according to their status and influence within the family and not according to their knowledge of the activity or industry, occupy their positions for long periods and have insufficient or inadequate professional competences. According to this description, they constitute a barrier to any attempt of change potentially threatening the stability of the firm. Ranft and O'Neill (2001), notice that the founders of high-performing firms are even tempted to weaken deliberately the board of directors of their firms in order to maintain the *status quo*. The inward orientation is more corroborated in some family firms who simply do not implement such a body (Melin and Nordqvist, 2000).

However, the role of the board of directors can be crucial since it should increase the amount of information available to the operational management when planning or implementing strategies. This role is accomplished by insiders as well as external administrators<sup>v</sup>. The insiders contribute through their thorough comprehension of the firm.

The outsiders would prevent from the dominance of a single line of thought by challenging the assumptions underlying the firm's strategies and injecting external knowledge. The results obtained by Schwartz and Barnes (1991), based on a sample of 262 family firms, prove the relevance of the incorporation of external administrators. The authors find that they provide unbiased points of view and constitute a precious means for the establishment of networks. As far as the internationalization of the firm is concerned, Sanders and Carpenter (1998) prove the existence of a significant relation between internationalization and the composition of the board. First, it is suggested that the size of the board of directors increases according to the intensity of international activities. Moreover, the authors find that the proportion of outsiders in the board of directors increases with internationalization. In brief, the role of counsel accomplished by the board would have a significant influence on the strategic orientation of the firm by improving the variety and quality of information available for the strategic processes and, consequently, the variation, selection and retention of alternative paths of development (Mustakallio and Autio, 2002). This function of counsel should thus improve the capacity of the firm to innovate and establish new strategic directions such as internationalization.

The study of the conservatism of the family firm governance is necessary because this phenomenon has consequences on firm's strategy selection and implementation. An analysis of the strategic manifestations of this posture will, consequently, be outlined.

#### 1.1.2. Strategic conservatism

Second, the conservatism of the firm is expressed strategically. Generally, the family firm has a tendency to be strongly devoted to a strategy which becomes a source of rigidity. Thus, strategy and pursued business goals constitute factors inhibiting the trigger of internationalization (Gallo and Sveen, 1991). The literature suggests that the family system attempts to create and maintain a cohesiveness that supports the family "paradigm" which is described as the core assumptions, beliefs, and convictions that the family holds in relation to its environment (Gudmundson et al., 1999). Information that is not consistent with this paradigm is resisted or ignored (Davis, 1983). The more the family is conservative the less it works for change. Strategic conservatism implies stagnation and risk of insularity (Miller et al., 2003). The firm carries out few changes in its objectives, business and lines of product or markets (Miller et al., 2003). Generally, family SME is known to maintain its differentiation through the same activities and policies (Gallo and Sveen, 1991) and to privilege a defensive position with protection of its niche. Accordingly, its market shares are likely to be narrowing and its market potential exhausting. However, internationalizing implies the beginning of a new activity (new markets, new customers, new competitors, etc.) weakly connected to the original activity (Gallo and Sveen, 1991). So that internationalization starts, a motivation for change, for strategic revival and adaptation to the new requirements of the environment are necessary. For instance, Ward (1988) stresses that the succeeding family firm renews its business strategy several times as the market and competitive pressures evolve.

In sum, the usual conservative attitude of the family business can inhibit internationalization. In fact, the organizational learning remains weak since the direction focuses primarily on problem solving rather than on the search and pursuit of new opportunities. Indeed, it deals exclusively with internal issues relative to the efficiency of operations or the quality of products and neglects issues pertaining to the evolution of market requirements or consumers needs.

The third dimension where conservatism can appear is the culture of the firm. Instead of nurturing the will of change and development, cultural conservatism implies characteristics of preservation and rigidity.

### 1.1.3. Cultural conservatism

The pursuit of the goal of culture and identity protection constitutes the last element exerting a negative influence on learning orientation within family SME. Many authors emphasize the central role of culture and values in shaping the competitive posture of this organization (Dyer, 1986). For instance, analyzing values in the family firm, Salvato et al. (2002) show that they influence activities and routines of the organization aiming to create a competitive advantage. The family firms show an inclination to be independent from their environment and the external culture (Donckels and Fröhlich, 1991). In addition, they insist on artifacts which generally originate from the firm’s local environment and are the result of the influence of certain members of the family, in particular that of the founder (Gallo and Sveen, 1991). Consequently, cultural conservatism inhibits any will of change and learning.

## 1.2. Independence orientation

The second variable influencing the processes of knowledge development within family SME is independence orientation. The independence orientation is a consequence of the family long-term commitment to the business. Paradoxically, this commitment has two contradictory effects on growth. First, it implies the pursuit of future development and continuity of the firm to make sure that the family heritage is passed on to the following generations. On the other hand, commitment implies a strategy of conservation of the heritage which passes by a strong seek for the independence. Aiming to guarantee its continuity, family SME establishes an independence orientation on three levels (see Figure 1).

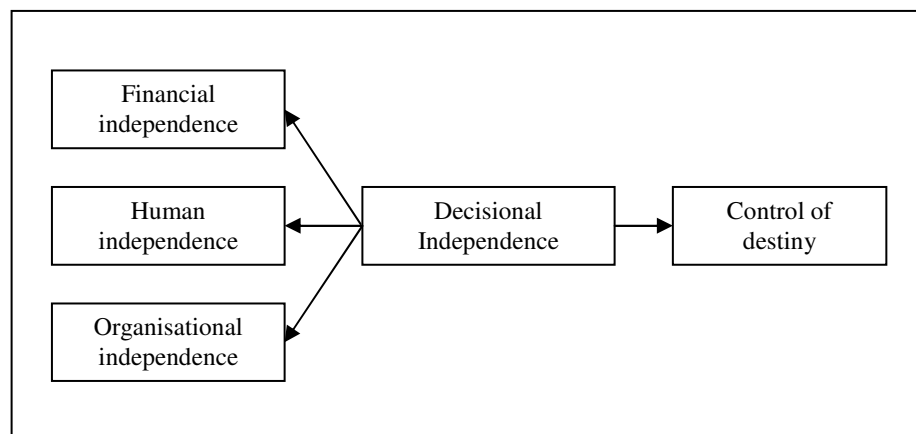


Figure 1 : Dimensions of the independence orientation

First, from the financial point of view, it avoids as much as possible turning to outside partners (Hirigoyen, 1985). Then, on the human plan, it would be favorable to the appointment of family members or individuals belonging to the close relational circle to the posts of direction and would be reluctant to the recruitment of professional directors

(Astrachan and Kolenko, 1996; King et al., 2001). Finally, to maintain the decision-making in hands of the family, the family firm tends to avoid the inter-organizational relations, cooperative investments, and tries to limit the sharing of control of its investments (Donckels and Fröhlich, 1991). The contribution of the outsiders (financiers, directors or partner organizations) can, however, be precious to the company. And the introversion would be a major obstacle to the perpetuity of the firm because it inhibits growth. Independence orientation limits the accumulation of internationalization knowledge because, on one hand, the horizons of the company will be limited and little varied, and on the other hand, the potential valuable knowledge contribution of the outsiders is excluded. As a consequence, the more the direction of the firm wishes the independence the more the internationalization will be slowed down.

### 1.2.1. The financial dimension of independence orientation

Devoted to its goal of continuity, family SME tries to evolve in a more or less hermetic universe. Accordingly, external financial intervention is avoided because it could deteriorate the independence of the firm. The resource dependence theory provides an explanation to this attitude (Davis et al., 2000): the higher the dependence to the (resource) capital, the more the potential financier would have greater power and influence in the decision-making within the firm (Davis et al., 2000). Consequently, family SME seems reluctant to adopt modes of financing other than internal ones. Schematically, it appears strongly predisposed to implement or at least to adhere to the recommendations of the pecking order theory (Myers and Majluf, 1984). It favors generally internal financing by the retention of earnings and the constitution of reserves. Moreover, it avoids opening financially to external sources. First, it tends to avoid debt and relies enormously on costly internal capital. Financing through equity has other specificities that fear family SME. Quotation, for instance, could indeed involve a major change in the ownership structure and governance of the firm due to the entry of external shareholders (Schulze et al., 2003).

Financial independence has significant consequences on the knowledge base of the firm. Initially, in a managerial vision of the firm, internal financing helps to avoid the diffusion of the cognitive map of management and endangering growth opportunities not perceived by competitors (Charreaux, 2002). However, this advantage is compensated by the fact that, at the same time, internal financing implies an inward orientation and a weak development of the knowledge base as it prevents from the penetration of a potentially relevant external cognitive contribution. In addition, debt avoidance, even if it permits to limit the risk of diffusion of information and management cognitive schemas towards bankers implies a lot of disadvantages relatively to the firm's knowledge base. Indeed, the contribution of the bank could be valuable since it can take part in the development of the knowledge base through adhering or enriching the management vision and cognitive map (Charreaux, 2002). Lastly, external shareholders can play a valuable role as for the firm's knowledge base. First, they could exert their influence on the development of the vision of the firm. Then, they can play a significant role in providing proposals for investment opportunities. External ownership thus makes it possible to extend the knowledge base.

Family SME don't recognize these valuable contributions and follow a conservative financial behavior (Hirigoyen, 1985). As a result, financial independence is likely to limit the amount of internationalization knowledge and hence internationalization of small and medium family firms.



### 1.2.2. The human dimension of independence orientation

The pursuit of independence inhibits internationalization from the human point of view. The family firm adhering completely to the principle of managerial independence is limited quantitatively and qualitatively by the lack of human resources. Indeed, trying to avoid loss of control, family management tends to limit external managerial implication even it would be valuable to undertake international activities. To justify the customary recruitment of family directors and managers, the literature speaks about paternalist management and nepotism characteristics of the traditional family firm. Welsch (1996) observes that when the family firm makes a decision relating to its human resources, it is more influenced by family values and personality issues more than by a standardized set of performance and competence indicators. The altruism characterizing the owner-manager, generally the father or head of the family, implies a feeling of natural right among members of family. The owner-manager is thus incited to make use of firm resources to provide employment and other privileges to the family members (Schulze et al., 2001). Dunn (1995) indicates a critical consequence of this behavior. Indeed, the pursuit of the objective of preferential employment of family members may often signify the hiring of sub-optimal employees. Besides, the analysis of Harris et al. (1994) shows that the rigidities of the family firm when it is about change of paradigm are primarily due to the sclerosis to the human element:

- Family firm privileges internal succession, which is one of its main goals, and devotes the principle of loyalty, whereas new paradigms are likely to come from outside employees or management,
- Internally trained successors have weak external experience whereas new paradigms are likely to emerge from the variety of personal experiences,
- Heir of the entrepreneur can suffer from a lack of self-confidence whereas the possibility of emergence of new paradigms generally requires a great confidence in its personal judgment.

Another characteristic of family firms is to be emphasized. Indeed, this type of organization is known to be loyal i.e. seeking to keep the same employees for long periods. According to Miller et al. (2003), the same policies of recruitment and promotion, for example, are implemented at the profit of the same people. The absence of recruitment implies, however, an ageing of human resources and management in particular (Jenseter and Malone, 1991).

Overall, the prerequisite in external competences is explained by the contribution in knowledge resources that outsiders can offer. Particularly with internationalization, they constitute a privileged source of market-specific knowledge. Despite the availability of increasingly powerful means of communication, moreover, delegation of responsibilities remains necessary because of the geographical distance.

In sum, human independence, implying exclusively internal recruitment and responsibility transfer, has a notable negative impact on the knowledge base of internationalizing small and medium family firm.

### 1.2.3. The relational dimension of independence orientation: co-operation and economic networks

Gray (1995) observes that owner-managers of small firms adhere to an organizational culture impregnated by individualism and anti-participation. The potential attenuation of independence constitutes a short or long term threat explaining probably the weak co-operative orientation of family SME. Indeed, the co-operation contains a dynamics which can

make evolve the co-operation to a relation of global dependence. In fact, the attenuation of the independence, initially limited to the only field of agreement, would be extended to the entire firm (Adam-Ledunois and Le Vigoureux, 1998). Another explanation of the weak organizational networking of family SME can be induced from the explanations of the network approach. Belonging to a network implies, indeed, acceptance of the external influence. The position of a firm within its network can influence and is also influenced by expectations of other actors as for the way it should behave and interact with other organizations (Johanson and Mattson, 1988). Consequently, the position occupied by a firm, even if it permits access to new and valuable resources, relations and markets, is constraining because it shapes its role and relations with the other firms.

According to some authors, when they cooperate, family firms would choose their similar i.e. other family firms. Indeed, pursuing the same principles, in particular independence, and having a comparable size, they would not constitute a threat to independence<sup>vi</sup>. In summary, family SME exhibits a weak co-operative orientation and a disinclination to integrate economic networks (Donckels and Fröhlich, 1991). Consequently, it is likely to develop a poor knowledge base since the role of the network can be crucial at least on three levels. First, through its implication in a network, a firm can develop a high awareness of opportunities and threats pertaining to its activities since it is strongly exposed to environment. Second, its decisions and actions (concerning strategies to be adopted, for example) can be founded on an imitation of other more experienced actors of the network. Finally, the network allows a direct transfer of knowledge between participants.

In sum, we can argue that the influence of relational independence on the development of internationalization knowledge is negative.

### **1.3. Social networking**

The network orientation of the owner-manager and his family is the last variable influencing the process of development of internationalization knowledge. This orientation is to be distinguished from organizational networking analyzed in the preceding section. The family firm shows a weak cooperative orientation in the sense of the pursuit of common objectives with an economic partner but a strong orientation toward social networking. It favors social relationships to economic ones that risk alienating its decision-making independence. The role of social networking in development of knowledge is crucial. Overall, networking was defined as an organizational means aiming to strengthen entrepreneurial processes. Yli-Renko, Autio and Tontti (2002) observe, in addition, that internal and external social capital influence acquisition and creation of knowledge guiding the international development of technological-intensive new ventures. The network approach of internationalization (Johanson and Mattson, 1988), even if it concerns organizational networks, stresses the seminal role of network orientation as for the development of knowledge during internationalization. Transposing this reasoning within the framework of social networks, social networking appears to be much important for the initiation and consolidation of international activities of family SME. In total, social networking influences positively the amount of internationalization knowledge of family SME.

Even if a lot of research analyzes the role of personal networks as a support in period of crises, the way in which social network functions and especially with respect to internationalization is still unexplained. We argue that the role of networking is to be stressed at least on two levels. Initially, this orientation plays a valuable role for the trigger of international activities. Then, the network of personal and family relations contributes to the choices taken as regards markets to penetrate and entry modes to adopt.

### 1.3.1. Role of the social networking for the initiation of internationalization

The social network constitutes a competitive advantage for SME during its internationalization. Watkins (2000) find, for example, that Indian firms (up to 99 % under family control) are favored compared to firms belonging to countries where community and family relations values are not significant. The author explains that social network i.e. personal contacts established through family, friends and close relations and also the rooting of the firm in a community, is the main factor pushing the majority of studied firms to internationalize. Likewise, Dibben and Harris (2001) argue that social ties are the key trigger of international operations as the management would generally seek to establish durable relations and assigns a minor importance to short-term transactions. Yeung (2000) illustrates the economic potential allowed through personal and familial relations. He describes the case of a Chinese family firm whose international growth was done in particular through these relations. Social networking was not only the fact of the owner-manager but also of the entire family interacting with another family firm established in another country of the region. These two families, having lived experiences together and having a shared past, decided to initiate a business trans-border relation and found the essential complementarities to live this relation and to make it durable. The trust which exists through purely human relations (at the beginning) is thus used to propel a business relation.

The family firm relies enormously on its family relations in the broad sense of the term during its internationalization. The members of the family either assigned abroad or already present on the foreign markets form “an internationally extended family” (Fan, 1998) able to mobilize resources and especially knowledge of markets to conquer. This knowledge permits to reduce uncertainty (Johanson and Vahlne, 1977) because the social ties established abroad are more capable to evaluate opportunities and risks, and manage and govern effectively the activities. Overall, belonging to an ethnic community constitutes an advantage for internationalizing firms and in particular for family SME. Solberg (2001) evokes Jewish tradesmen established during centuries in various areas of the world as well as Indian or Chinese and Pakistani migrations during the second half of the last century as many factors having allowed the opening of many international trade routes (Solberg, 2001). In fact, the cultural proximity, natural honesty and the confidence shared between people of the same ethnic group reduce uncertainty inherent to commercial transactions.

### 1.3.2. Social networking and international strategic choices

Personal networks (strong and weak ties<sup>vii</sup>) are strategically important to the internationalizing firm. Their number and quality determine the choice capacity of the firm. The importance of these relations must be emphasized at least for two aspects of international strategy: the choice of target country and the choice of entry mode.

#### *Choice of target country*

Social networks play a significant role in the choice of the country where efforts of internationalization will be directed. This choice can be made according to the relations established in this country. Initially, the family firm can target a particular country at the instigation of members of its network present on this market. Sometimes, between two

alternative markets, the firm will choose that where it holds a personal network because of the best knowledge of country these ties permit. In addition, family firm may want to assign its relations established in this country to the management and governance of local operations. Gallo and Sveen (1996) indicate that the existence of individuals belonging to the family, in the broad sense of the term, in foreign countries would facilitate the establishment of business relations with these countries as responsibilities could be assigned to them. A last factor pushing the family firm to choose a specific country reveals the subjective nature of this decision since the owner-family may want simply to invest in his country of origin or "do something for the country". Okoroafo (1999) notes indeed that ethnic and racial relations appear to affect choices of country of location of internationalizing family firms.

Another significant aspect has to be emphasized. The literature pertaining to "the immigrant effect" suggests that immigrants originating from a particular host market constitute a "bridge" between the foreign firm and this market. Immigrants often have a significant knowledge of their country of origin and understand profoundly the market culture. The results of certain studies imply that the immigrant effect could be regarded as a localization endowment for an internationalizing firm.

#### *Choice of entry modes*

The social ties can also influence the choice of entry modes on a specific market. Initially, through the counsel of its relations established on a market and holding an intimate knowledge of its functioning, the firm can choose a specific mode of penetration. On certain markets, these social ties are crucial because they permit to introduce the firm into the local business networks. Without the adequate contacts, this introduction would be difficult and even impossible in some markets (Ellis, 2000). Particularly to the family firm, a supplementary factor needs to be underlined. This organization would be inclined to privilege high control entry modes via direct investment in order to guarantee the implication of its relations in the business (family, friends of childhood). In fact, weak control entry modes require less control, administration and management and therefore do not allow a strong implication of the social ties. Consequently, the role of social ties proves to be more significant in the case of a penetration through direct investment than in case of export operations, since this last procedure implies a less commitment of resources and requires in particular less activity of information search and internalization. Finally, when the family wishes to involve or "do something" with its local partner, it would choose the co-operative modes such as alliances with this partner.

## **2. Implications: specificities of learning and knowledge development within family SME**

The characteristics of conservatism, independence orientation and networking strongly influence the processes of organizational learning and knowledge development within family SME. The justification of this specificity is due to the fact that this entity shows:

- First, the overlapping of "family" and "company" spheres: the family sphere realizes a unique contribution because it constitutes a supplementary source of knowledge inbound to the company compared with a firm without family involvement,
- Then, the frequency of the exchanges within the organization: the processes of exchange of piece of information and knowledge take place not only in the organizational context but also and especially in the family context. The family

meetings constitute, for example, supplementary occasions of exchange and sharing of knowledge.

Two consequences are to be analyzed. In this entity, the activities of learning and development of strategic knowledge are centered on the family encouraging causal ambiguity. The second phenomenon is that within the family, knowledge is preserved and perpetuated through a process of intergenerational transfer.

## **2.1. The family in the heart of the processes of knowledge development**

The analysis of the conservatism and independence orientation raises questions about the efficacy of the organizational memory within the family firm. What are the mechanisms of preservation of knowledge within the family firm? This organization runs specific risks because of the singularity of the mechanisms of knowledge management.

The typical paternalistic management of the family firm which implies a centralization of power and decision allows obviously the flexibility of the organization. But, at the same time, it influences the processes of learning and development of knowledge which are henceforth centered on the family sphere. The family holds the monopoly of the acquisition, sharing and transfer of knowledge within the organization. Taking advantage of its rights of decision and control, the family dominates the management of knowledge. Overall, internalization of strategic knowledge would be primarily the fact of the owner-manager and his family. Then, the family firm shows a weak socialization of strategic knowledge out of the family circle. In spite of the contribution they provide to the development of the knowledge base, outsiders are likely to be excluded. The essence of knowledge, i.e. its tacit component, being mainly acquired by the family members, there is a tendency to limit its diffusion. There would be, consequently, a conscious will of the management of not engaging a process of externalization. Firms whose "familiness" (Habbershon and Williams, 1999) is weak would behave differently and tolerate sharing activities of strategic knowledge management with outsiders. This sharing should have a beneficial effect on the construction and development of the organization's knowledge base because of the variety and richness of externals' contributions.

Therefore, because of its founding natural characteristics, the family firm nurture mechanisms which reinforce the causal ambiguity (Neslon and Winter, 1982) by strengthening the voluntary effort to avoid either a too fast imitation or the loss of knowledge-based resources if the individual or the group holding it leave the organization (Arrégle, 1995). The family firm is quite inclined to privilege mechanisms of protection of knowledge such as:

- Strengthening the tacit aspect and avoiding formalizing,
- Voluntarily maintaining the complexity.

In short, family firms show an inclination to concentrate the processes of knowledge management around its tacit dimension by encouraging its formation contrarily to the explicit element.

However the weak externalization of knowledge coupled with the avoidance of sharing outside the family causes serious risks. First, an obvious risk of deterioration is present because of the weak importance of the organizational protection mechanisms and the strong reliance on individual memory. Particularly to Chinese family firms, Tsang (1999) observes that they can be classified as "the one-man institution" within Shrivastava's (1983) typology. The owner is the man "who is knowledgeable about all aspects of the business, (and) is the key broker of organizational knowledge. He acts as a filter and controls the flow of information to and from every important manager" (Shrivastava, 1983, p. 20). In sum, even

if the family firm exhibits a weak erosion of knowledge because of the weak rotation of directors, an important risk is inherent to the eventuality of a sudden loss of a key member of the family and the company. The organizational memory of the family firm is fragile. Thus, even if operational knowledge gained from the daily activities and profiting to the operational management team is better protected from extinction, the strategic knowledge held primarily by the owner-manager and the members of his family is endangered. Moreover, we suggest a risk of erosion of knowledge due to the fragmentation caused by successions that do not preserve the unity of the firm. There is indeed a risk of "fragmentation" of the strategic knowledge if the company is shared between the potential successors. This risk would be less pronounced if a prior sharing of knowledge with outside directors had been engaged.

In summary, in order to protect experience and knowledge acquired from its activities, which could be lost with the departure of the person or the team holding it, the organization have to set up mechanisms of sharing and diffusion. The solving of the problems of diffusion and transfer of knowledge can, in the case of the family firm, be founded on a specific process: the intergenerational transfer of knowledge.

## **2.2. Intergenerational transfer of knowledge: means of knowledge preservation**

Mechanisms inciting to intergenerational transfer of knowledge must be set up because of the negative impact of conservatism and independence orientation on knowledge and due to the fragility of family firm organizational memory. The process of transfer of knowledge through generations is thus crucial to be able to maintain the competitive advantage of the firm. It is important to operate a distinction between the strategic knowledge on one hand and the operational knowledge, on the other hand. Strategic knowledge is the competence generally held by the management implied in decision-making. Operational knowledge is that used or acquired by employees confronted to daily operational management. In fact, the modes of appropriation of these types of knowledge are different. Ward and Aronoff (1996) make a similar distinction between the acquisition of business knowledge and the acquisition of leadership capacities. Initially, the successor has to be able to acquire and use the operational knowledge which encompasses the founding know-how of the company. But the learning of the successor is more importantly about strategic knowledge stemming from the experience of direction acquired by the predecessors. It is a question of passing on not only the content of knowledge founding the advantage of the firm but the way of operating and of running business. Indeed, the transfer concerns a managerial competence of direction, in our case relative in particular to the international operations of the firm.

Competence being a competence in action (Le Boterf, 1994), the successor has to show competence i.e. that he can act with competence. Not subject to be formalized, the most suitable strategy of transfer of strategic knowledge would be observation that young managers make supplemented by a process of action learning. The predecessor has to delegate to the potential successor increasingly significant missions. Thus, the successor has to learn from his actions, discoveries and interactions and also from his experiences and the observation of his peers (Hugron and Boiteux, 1998). The learning of the successor is grounded mainly on an intense process of socialization. Indeed, strategic knowledge is shared within the family management and communicated to potential successors. In sum, transmission is less about content of knowledge than a methodology of problem solving.

Intergenerational transfer of knowledge within family firms is nevertheless problematic. Cabrera-Suarez et al. (2001) identify four obstacles against knowledge transfer:

- Characteristics of transferred knowledge, its causal ambiguity,
- Characteristics of the source (the predecessor) and especially its lack of motivation,

- Characteristics of the target (the successor): its absence of motivation, limited absorptive and retention capacity,
- Context of the transfer: sterile organizational context or difficult relations between the predecessor and the successor.

## **Conclusion**

Even if conservative behavior can be justified in case of extreme uncertainties or abnormal risks weighing on the economic environment, it is, nevertheless, criticisable. Conservatism establishes an attitude and a thinking hostile to renewal. Yet, the theories of organizational learning stress that the commitment of management team is an essential condition to the trigger and success of internationalization. A strong and committed management is necessary in order to motivate the organization and to help it overcome the difficulties. Since human capital of the family firms shows positive characteristics of strong commitment, cordial, friendly and close ties, and the potential allowing for a deep specific tacit knowledge, we can suppose that this organization can be favored (compared to its counterparts) during organizational learning. A condition is that family SME could draw from its human resources, the necessary commitment to struggle against the forces of conservatism. In order to obtain human resources commitment, it is necessary to involve all levels of direction and management during the reflection and planning of international activities and to sensitize them to the importance of their implication for the success of this orientation. The presence of a strong personality (generally the founder or the owner-manager) who motivates the employees and bring them together to achieve the organizational goals is essential. In particular, the owner-manager should realize the benefits of internationalization, supports and encourages the process. He also could transmit the knowledge accumulated through his personal commitment to other family members (Tsang, 1999). Thus, in spite of a rigid organizational structure, the owner-manager can lead his organization towards flexibility and change. More generally, the organization must change posture and adopt a positive attitude and open-mindedness.

In addition, family SME needs to tolerate an attenuation of its independence on the financial and human plans. The policy of conservation of financial independence can constitute a significant barrier to future growth and internationalization because the internal financing can be insufficient. Indeed, financial needs appear during the phases of commercial prospecting, establishment and become more important with the increase in working capital requirement (Hirigoyen, 1995). Internationalization of the family firm thus depends on its tolerance to external financial intervention as that of local investors or specialized venture capitalists (Gallo et al., 2002). The recourse to venture capital financing would avoid, indeed, the increase in risk normally due to increase in debt level. Either, the firm should not avoid turning to banking debt but should benefit from the various formulas of loans designed for exporting firms. Studying family firms committed in international strategic alliances, Gallo et al. (2002) indicate that they become less reticent to the opening of capital as the need for investing resources in order to accelerate internationalization becomes urgent and the experience of management as for the sharing and conservation of power in alliances accumulate. Opening up, the family firm can facilitate its access to capital by the institutionalization of appropriate governance mechanisms. In order to ensure that aspirations of capital suppliers, on the one hand, and those of the family, on the other hand, are taken into account simultaneously for decision-making and pursuit of organizational goals, Davis et al. (2000) recommend a dual structuring of organizational governance processes. Family SME must, in addition, overcome its human independence and seek outside for these valuable

resources. This can be done through a process of "familisation" i.e. incorporation to the dominant family of certain external elements through alliances and marriages. Justified by the quality of the relations established with those people and by their honesty and value in the eyes of the family, these processes are very interesting. Indeed, they indicate a relative broadmindedness and an attenuation of the independence attitude. Also, family SME can open up through its natural tendency to networking which could allow for an intense exposure to international economic environment.

Schematically, not only small and medium family firms internalize and develop weak knowledge but they also externalize and share a little knowledge. The risks associated with this knowledge strategy are the possible extinction of valuable knowledge. Therefore, the process of knowledge transfer through generations would be crucial to the family SME in order to be able to maintain its competitive advantage. In addition, if know-how is the core resource underlying this competitive advantage then its "transferability" will determine the period during which its holder will obtain returns (Spender, 1996). In sum, small and medium family firms have to implement a deliberate strategy of knowledge preservation through, for instance, externalization of *articulable* tacit knowledge and socialization of non *articulable* knowledge with external managers (Nonaka and Takeuchi, 1998). This strategy is not optional but could be vital to ensure the survival of these firms.



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<sup>i</sup> The recent study of Cabrera-Suarez et al. (2002) seems to initiate a knowledge-based approach for the family firm.

<sup>ii</sup> The recurring problem of family firm definition will not be addressed. On this question, Cf. Astrachan et al. (2002); Litz (1995). Here we choose to adopt a general and common definition.

<sup>iii</sup> In France, Gérard Hirigoyen distinguishes between government and governance, the first pertaining to direction and decision, the second dealing about mechanisms of control.

<sup>iv</sup> For the firms which adopt one.

<sup>v</sup> Nevertheless, the positive role of outsiders is frequently questioned and authors criticize their lack of knowledge of the firm and his environment, their low availability and weak authority.

<sup>vi</sup> According to Adam-Ledunois and Le Vigoureux (1998), when they cooperate, the natural preference of SMEs goes for situations which see emerging a mutual dependence rather than the subservience for one of the parties (Adam-Ledunois and Le Vigoureux, 1998).

<sup>vii</sup> Cf. Granovetter (1973).